

IMPORTANT NOTICE
NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES

IMPORTANT: You must read the following before continuing. The following applies to the offering circular following this page (the “**Offering Circular**”), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR, IF CATEGORY 2 IS SPECIFIED IN THE APPLICABLE PRICING SUPPLEMENT (AS DEFINED IN THE OFFERING CIRCULAR), TO, OR FOR THE ACCOUNT OR THE BENEFIT OF, U.S. PERSONS AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT, UNLESS AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE AND IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION.

THE OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY UNITED STATES ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: The Offering Circular is being sent at your request and by accepting the e-mail and accessing the Offering Circular, you shall be deemed to have represented to us that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and that you consent to delivery of the Offering Circular by electronic transmission.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular to any other person.

MIFID II PRODUCT GOVERNANCE/TARGET MARKET: The Pricing Supplement in respect of any Notes (as defined in the Offering Circular) may include a legend entitled “MiFID II Product Governance” which will outline the target market in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration such target market; however, a distributor subject to Directive 2014/65/EU (as amended, “**MiFID II**”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any Dealer (as defined in the Offering Circular) subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Lead Arrangers (as defined below) nor the Dealers (as defined in the Offering Circular) nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

UK MiFIR PRODUCT GOVERNANCE/TARGET MARKET: The Pricing Supplement in respect of any Notes may include a legend entitled “UK MiFIR Product Governance” which will outline the target market assessment in respect of such Notes and which channels for distribution of such Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (“**UK MiFIR Product Governance Rules**”) is responsible for undertaking its own target market assessment in respect of such Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Lead Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS: If the Pricing Supplement in respect of any Notes includes a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended or superseded, the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation EU 2017/1129 (as amended or superseded, the “**Prospectus Regulation**”). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS: If the Pricing Supplement in respect of any Notes includes a legend entitled “Prohibition of Sales to UK Retail Investors”, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (“**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, “**FSMA**”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

The materials relating to the offering of securities to which the Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of PNB Capital and Investment Corporation (the “**Sole Global Coordinator**”) and ING Bank N.V., Singapore Branch or J.P. Morgan Securities plc (collectively, the “**Lead Arrangers**”) and references to the Lead Arrangers or a Lead Arranger shall, except as otherwise provided, be deemed to include references to the Sole Global Coordinator), or any affiliate of any Lead Arranger or Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Lead Arrangers or Dealers or such affiliate on behalf of the Issuer (as defined in the Offering Circular) in such jurisdiction.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of the Lead Arrangers, the Dealers, any person who controls any Lead Arranger or any Dealer, or any director, officer, employee or agent of any Lead Arranger or any of the Dealers, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Lead Arrangers and the Dealers.

OFFERING CIRCULAR

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



Philippine National Bank

(Incorporated with limited liability in the Republic of the Philippines)

US\$2,000,000,000

Medium Term Note Programme

Under this US\$2,000,000,000 Medium Term Note Programme (the “**Programme**”), Philippine National Bank (the “**Issuer**” or the “**Bank**”), subject to compliance with all relevant laws, regulations, and directives, may from time to time issue notes (the “**Notes**”) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively “**Bearer Notes**” and “**Registered Notes**”). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not at any time exceed US\$2,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “*Summary of the Programme*” and any additional Dealer appointed under the Programme from time to time by the Issuer (each a “**Dealer**” and together the “**Dealers**”), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the relevant Dealer shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe to such Notes.

Approval-in-principle has been granted by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) for permission to deal in, and quotation of, any Notes to be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Offering Circular or the relevant Pricing Supplement (as defined below). Admission to the Official List and quotation of any Notes on the SGX-ST are not to be taken as an indication of the merits of the Issuer, the Programme or the Notes. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined under “*Terms and Conditions of The Notes*”) of Notes will be set out in a pricing supplement (the “**Pricing Supplement**”) which, with respect to Notes to be listed on the SGX-ST, will be delivered to the SGX-ST on or before the date of issue of the Notes of such Tranche.

The Programme provides that Notes may be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

The Issuer may agree with any Dealer and Citicorp International Limited (the “**Trustee**”) that Notes may be issued in a form not contemplated by the terms and conditions of the Notes (the “**Conditions**”) set out herein, in which event (in the case of Notes intended to be listed on the SGX-ST) a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

See “Investment Considerations” for a discussion of certain factors to be considered in connection with an investment in the Notes.

Notes to be listed on the SGX-ST will be accepted for clearance through Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream**”).

Each Tranche of Notes of each series (as defined in “*Form of the Notes*”) to be issued in bearer form (“**Notes**”, comprising a “**Series**”) will initially be represented by either a temporary bearer global note (a “**Temporary Bearer Global Note**”) or a permanent bearer global note (a “**Permanent Bearer Global Note**”) and, together with a Temporary Bearer Global Note, the “**Bearer Global Notes**”, and each a “**Bearer Global Note**”) as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the “**Common Depositary**”) for Euroclear and Clearstream.

On and after the date (the “**Exchange Date**”) which, for each Tranche in respect of which a Temporary Bearer Global Note is issued, is 40 days after the Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) definitive bearer Notes of the same Series.

Registered Notes will initially be represented by a global note in registered form, without receipts or coupons, (a “**Registered Global Note**”) deposited with a common depositary for Euroclear and Clearstream, and registered in the name of a nominee of such common depositary.

The applicable Pricing Supplement will specify that definitive Notes will be made available in certain limited circumstances.

Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, such rating will be specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) or with any U.S. securities laws and Bearer Notes are subject to U.S. tax law requirements. The Notes may not be offered, sold or delivered within the United States or, if Category 2 is specified in the applicable Pricing Supplement, to, or for the account or the benefit of, U.S. persons as defined in Regulation S under the Securities Act, unless an exemption from the registration requirements of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. See “*Subscription and Sale*”.

THE NOTES BEING OFFERED OR SOLD HEREIN ARE SECURITIES EXEMPT FROM REGISTRATION UNDER SECTION 9.1(E) OF THE PHILIPPINE SECURITIES REGULATION CODE AND ITS IMPLEMENTING RULES AND REGULATIONS, AS AMENDED (THE “SRC”). ACCORDINGLY, THE NOTES HAVE NOT BE REGISTERED WITH, AND THE BANK HAS NOT SOUGHT A CONFIRMATION OF SUCH EXEMPTION FROM, THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION (“PHILIPPINE SEC”).

Sole Global Coordinator

PNB Capital and Investment Corporation

Lead Arrangers (in alphabetical order)

ING

J.P. Morgan

Dealers

ING

J.P. Morgan

The date of this Offering Circular is 9 October 2024.

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything that would make the statements therein, in light of the circumstances under which they were made, misleading. The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the Programme and the Notes, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility accordingly.

To the fullest extent permitted by law, none of the Dealers or any of PNB Capital and Investment Corporation (the “**Sole Global Coordinator**”) and ING Bank N.V., Singapore Branch or J.P. Morgan Securities plc (collectively, the “**Lead Arrangers**”) and references to the Lead Arrangers or a Lead Arranger in this Offering Circular shall, except as otherwise provided, be deemed to include references to the Sole Global Coordinator) accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Lead Arrangers or a Dealer or on its behalf in connection with the Issuer or the issue and offering of the Notes. Each of the Lead Arrangers and the Dealers accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

No person is or has been authorised by the Issuer to give any information or to make any representation other than those contained in this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made by any other person, such information or representations must not be relied upon as having been authorised by the Issuer, the Lead Arrangers or the Dealers, the Trustee, or the Agents (as defined herein).

None of the Lead Arrangers, the Dealers, the Trustee, or the Agents, has separately verified the information contained or incorporated by reference in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of the Lead Arrangers, the Dealers, the Trustee, the Agents or any of them as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer in connection with the Programme. None of the Lead Arrangers, the Dealers, the Trustee, or the Agents accepts any responsibility for any acts or omissions of the Issuer or any other person in connection with the issue and offering of the Notes.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, any of the Lead Arrangers, the Dealers, the Trustee, or the Agents that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular, nor any other information supplied in connection with the Programme or the issue of any Notes, constitutes an offer or invitation by or on behalf of the Issuer, any of the Lead Arrangers, the Dealers, the Trustee, or the Agents to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as at any time subsequent to the date indicated in the document containing the same. The Lead Arrangers, the Dealers, the Trustee, and the Agents expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Neither the delivery of this Offering Circular or any Pricing Supplement nor any offering, sale or delivery made in connection with the issue of the Notes shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Bank since the date hereof or thereof or the date upon which this Offering Circular has been most recently amended or supplemented or create any implication that the information contained herein or therein is correct as at any date subsequent to the date hereof or thereof or the date upon which this Offering Circular has been most recently amended or supplemented. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Issuer, the Lead Arrangers, the Dealers, the Trustee, and the Agents represents that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, any of the Lead Arrangers, the Dealers, the Trustee, or the Agents which would permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area, the United Kingdom, Japan, Singapore, Hong Kong, the Philippines and the People's Republic of China, see "*Subscription and Sale*". If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Lead Arrangers or Dealers or any affiliate of the Lead Arrangers or Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Lead Arranger, such Dealer or such affiliate on behalf of the Issuer in such jurisdiction.

None of the Issuer, the Lead Arrangers, the Dealers, the Trustee, and the Agents makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

Notes issued as Green Bonds, Social Bonds or Sustainability Bonds – None of the Lead Arrangers, the Dealers, the Trustee, the Agents nor any of their respective affiliates accepts any responsibility for any environmental, social or sustainability assessment of any Notes issued as Green Bonds, Social Bonds or Sustainability Bonds or makes any representation or warranty or gives any assurance as to whether such Notes will meet any investor criteria or expectations or requirements regarding such "green, social, sustainable" or similar labels. None of the Lead Arrangers, the Dealers, the Trustee, the Agents nor any of their respective affiliates have undertaken, nor are they responsible for, any assessment of the Eligible Assets (as defined in the "*Sustainability Financing Framework*" section of this Offering Circular), any verification of whether the Eligible Assets meet any eligibility criteria set out in the Sustainability Financing Framework (as defined in the "*Sustainability Financing Framework*" section of this Offering Circular) nor are they responsible for the use of proceeds (or amounts equal thereto) for any Notes issued as Green Bonds, Social Bonds or Sustainability Bonds, nor the impact or monitoring of such use of proceeds or the allocation of the proceeds to particular Eligible Assets (see "*Investment Considerations – In respect of Notes issued as Green Bonds, Social Bonds, or Sustainability Bonds, there can be no assurance that the particular use of proceeds will be suitable for the investment criteria of an investor*" and "*Investment Considerations - There is no current market consensus on what constitutes a "green", "sustainable", "social" or equivalently-labelled project*"). The Sustainability Financing Framework, the Second Party Opinion (as defined in the "*Investment Considerations*" section of this Offering Circular) and any public reporting by or on behalf of the Issuer in respect of the application of proceeds will be available on the Issuer's website at www.pnb.com.ph but, for the avoidance of doubt, will not be incorporated by reference into this Offering Circular. None of the Lead Arrangers, the Dealers, the Trustee, the Agents nor any of their respective affiliates make any representation as to the suitability or content of such materials.

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A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Lead Arrangers

nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

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A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Lead Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MIFIR Product Governance Rules.

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NOTIFICATION UNDER SECTION 309B(1)(C) OF THE SECURITIES AND FUTURES ACT 2001 OF SINGAPORE: Unless otherwise stated in the Pricing Supplement in respect of any Notes, all Notes issued or to be issued under the Programme shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

This Offering Circular has not been approved by an authorised person in the United Kingdom. The Notes may not be offered or sold other than to persons whose ordinary activities involve these persons in acquiring, holding, managing, or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer. In addition, no person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in

connection with the issue or sale of the Notes other than in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer.

NOTICE TO CAPITAL MARKET INTERMEDIARIES AND PROSPECTIVE INVESTORS PURSUANT TO PARAGRAPH 21 OF THE HONG KONG SFC CODE OF CONDUCT

Prospective investors should be aware that certain intermediaries in the context of certain offering of the Notes pursuant to this Programme (each such offering a “**CMI Offering**”), including certain Dealers, may be “capital market intermediaries” (“**CMIs**”) subject to Paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the “**SFC Code**”). This notice to prospective investors is a summary of certain obligations the SFC Code imposes on such CMIs, which require the attention and cooperation of prospective investors. Certain CMIs may also be acting as “overall coordinators” (“**OCs**”) for a CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the Issuer, a CMI or its group companies would be considered under the SFC Code as having an association (“**Association**”) with the Issuer, the CMI or the relevant group company. Prospective investors associated with the Issuer or any CMI (including its group companies) should specifically disclose this when placing an order for the relevant Notes and should disclose, at the same time, if such orders may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not disclose their Associations are hereby deemed not to be so associated. Where prospective investors disclose their Associations but do not disclose that such order may negatively impact the price discovery process in relation to the relevant CMI Offering, such order is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should ensure, and by placing an order prospective investors are deemed to confirm, that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e., two or more corresponding or identical orders placed via two or more CMIs). A rebate may be offered by the Issuer to all private banks for orders they place (other than in relation to Notes subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of the relevant CMI Offering based on the principal amount of the Notes distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the CMIs otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate. Details of any such rebate will be set out in the applicable Pricing Supplement or otherwise notified to prospective investors. If a prospective investor is an asset management arm affiliated with any relevant Dealer, such prospective investor should indicate when placing an order if it is for a fund or portfolio where the relevant Dealer or its group company has more than 50 per cent. interest, in which case it will be classified as a “proprietary order” and subject to appropriate handling by CMIs in accordance with the SFC Code and should disclose, at the same time, if such “proprietary order” may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a “proprietary order”. If a prospective investor is otherwise affiliated with any relevant Dealer, such that its order may be considered to be a “proprietary order” (pursuant to the SFC Code), such prospective investor should indicate to the relevant Dealer when placing such order. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a “proprietary order”.

Where prospective investors disclose such information but do not disclose that such “proprietary order” may negatively impact the price discovery process in relation to the relevant CMI Offering, such “proprietary order” is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors should be aware that certain information may be disclosed by CMIs (including private banks) which is personal and/or confidential in nature to the prospective investor. By placing an order, prospective investors are deemed to have understood and consented to the collection, disclosure, use and transfer of such information by the relevant Dealers and/or any other third parties as may be required by the SFC Code, including to the Issuer, any OCs, relevant regulators and/or any other third parties as may be required by the SFC Code, it being understood and agreed that such information shall only be used for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. Failure to provide such information may result in that order being rejected.

In connection with the offering of any Series of Notes, each Dealer is acting or will act for the Issuer in connection with the offering and no one else and will not be responsible to anyone other than the Issuer for providing the protections afforded to clients of that Dealer nor for providing advice in relation to any such offering.

For a description of other restrictions, see “*Subscription and Sale*”.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The audited consolidated financial statements of the Bank and its subsidiaries and the Bank’s audited parent company financial statements as at and for the years ended 31 December 2021, 2022, and 2023, have been prepared in accordance with Philippine Financial Reporting Standards (“**PFRS**”) and the reviewed interim condensed consolidated financial statements as at 30 June 2024 and for the six months ended 30 June 2023 and 2024 have been prepared in accordance with Philippine Accounting Standards (PAS) 34 *Interim Financial Reporting*, both included in this Offering Circular. PFRS is substantially based on International Financial Reporting Standards. The Bank’s financial statements as at and for the years ended 31 December 2021, 2022, and 2023 were audited in accordance with Philippine Standards on Auditing (“**PSA**”), and the interim condensed consolidated financial statements as at 30 June 2024 and for the six months ended 30 June 2024 and 2023 were reviewed in accordance with Philippine Standard on Review Engagements (“**PSRE**”) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, by SyCip Gorres Velayo & Co. (“**SGV**”), the independent auditors.

A review conducted in accordance with PSRE 2410 is substantially less in scope than an audit conducted in accordance with PSA and, as stated in its review report appearing in this Offering Circular, SGV did not audit and does not express any opinion on such unaudited interim condensed consolidated financial statements included in this Offering Circular. Accordingly, the degree of reliance on its review report on such information should be restricted in light of the limited nature of the review procedures applied.

CERTAIN DEFINITIONS

Unless the context clearly indicates otherwise, any reference to the “**Issuer**” or the “**Bank**” are to the Philippine National Bank and its subsidiaries and associates on a consolidated basis and “**Parent Bank**” or “**PNB**” refers to the Philippine National Bank on a standalone basis. The information contained in this Offering Circular relating to the Bank, its operations and those of its subsidiaries and associates has been supplied by the Bank, unless otherwise stated herein. To the best of its knowledge and belief, the Bank (which has taken all reasonable care to ensure that such is the case) confirms that, as of the date of this Offering Circular, the information contained in this Offering Circular relating solely to the Bank, its operations and those of its subsidiaries and associates is true and that there is no material misstatement or omission of fact which would make any statement in this Offering Circular misleading in any material respect and that the Bank hereby accepts full and sole responsibility for the accuracy of the information contained in this Offering Circular with respect to the same. Unless otherwise indicated, all information in this Offering Circular is as of the date of this Offering Circular. Neither the delivery of this Offering Circular nor any sale made pursuant to this Offering Circular shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Bank since such date. Neither the Lead Arranger nor the Dealers assume any liability for information supplied by the Bank in relation to this Offering Circular.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the “**Philippines**” are references to the Republic of the Philippines. All references to the Government herein are references to the “**Government**” of the Republic of the Philippines. All references to the “**BSP**” herein are references to *Bangko Sentral ng Pilipinas*, the central bank of the Philippines. All references to “**United States**” or “**U.S.**” herein are to the United States of America, its territories and possessions, any State of the United States and the District of Columbia. All references to “**Peso**” and “**₱**” herein are to the lawful currency of the Philippines and all references to “**U.S. Dollars**” or “**U.S.\$**” herein are to the lawful currency of the United States. Unless the context indicates otherwise, references to a particular fiscal year are to the Bank’s financial year ended 31 December of such year.

This Offering Circular contains translations of certain amounts into U.S. Dollars at specified rates solely for the convenience of the reader. Unless otherwise stated herein, Peso amounts have been translated into U.S.\$ amounts using the exchange rate of ₱58.87 = U.S.\$1.00, being the BSP Reference Rate quoted on the BSP’s Reference Exchange Rate Bulletin on 28 June 2024 (the last date in June 2024 that such rate was published) (the “**BSP Rate**”). Such translations should not be construed as representations that the Peso or U.S. Dollar amounts referred to could have been, or could be, converted into Pesos or U.S. Dollars, as the case may be, at that or any other rate or at all.

Figures in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown for the same item of information may vary and figures which are totals may not be an arithmetic aggregate of their components.

ENFORCEABILITY OF CIVIL LIABILITIES

The Bank is organised under the laws of the Philippines. Substantially all of the directors and executive officers of the Bank are residents of the Philippines and a substantial portion of the assets of the Bank and the assets of such persons are located in the Philippines. As a result, it may not be possible for investors to effect service of process upon the Bank, or such directors and executive officers outside the Philippines, or to enforce judgements obtained against them outside the Philippines predicated upon civil liabilities of the Bank or such directors and executive officers under laws other than Philippine law.

The Philippines is not a party to any international treaty in relation to the recognition or enforcement of foreign judgements but is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Moreover, the Philippines enacted Republic Act No. 9285, otherwise known as the Alternative Dispute Resolution Act of 2004, to facilitate the enforcement of arbitral awards in the Philippines. The enforceability of foreign judgements in the Philippines is specifically provided for in the 1997 Rules of Civil Procedure, as amended by A.M. No. 19-10-20-SC (the “**Rules of Civil Procedure**”). Section 48 of Rule 39 of the Rules of Civil Procedure provides that a judgement or final order of a tribunal of a foreign country having jurisdiction to give the judgement or final order is enforceable in the Philippines as a general matter as follows: (a) in case of a judgement or final order upon specific property, is conclusive upon the title to that property; and (b) in case of a judgement or final order against a person, is presumptive evidence of a right between the parties and their successors in interest by a subsequent title. In either case, the judgement or final order may be rejected in the following instances: (i) such judgment was obtained by collusion or fraud, (ii) the foreign court rendering such judgment did not have jurisdiction, (iii) such order or judgment is contrary to law, morals, good customs, public order, or public policy of the Philippines, (iv) a party did not have notice of the proceedings before the foreign court or (v) such judgment was based upon a clear mistake of law or fact. Furthermore, Philippine courts have held that a foreign judgement is presumed to be valid and binding in the country from which it was issued until the contrary is shown, and the party contesting the foreign judgement has the burden of overcoming the presumption of its validity.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors which may cause actual results, performance or achievements of the Bank to be materially different from any future results; and
- performance or achievements expressed or implied by forward-looking statements.

The Issuer has included statements in this Offering Circular which contain words or phrases such as “will”, “would”, “aimed”, “is likely”, “are likely”, “believe”, “expect”, “expected to”, “will continue”, “will achieve”, “anticipate”, “estimate”, “intend”, “plan”, “contemplate”, “seek to”, “seeking to”, “target”, “propose to”, “future”, “objective”, “goal”, “project”, “should”, “can”, “could”, “may” and similar expressions or variations of such expressions, that are “forward-looking statements”. In addition, all statements other than statements of historical facts included in this Offering Circular are forward-looking statements. Statements in this Offering Circular as to the opinions, beliefs and intentions of the Issuer are the opinions, beliefs, and intentions of the management of the Issuer as to such matters at the date of this Offering Circular, although the Issuer gives no assurance that such opinions or beliefs will prove to be correct or that such intentions will not change. All subsequent written and oral forward-looking statements attributable to either the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by cautionary statements. Such forward-looking statements are based on assumptions regarding the present and future business strategies and the environment in which the Issuer will operate in the future.

Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with the expectations of the Issuer with respect to, but not limited to, its ability to successfully implement its strategy, its ability to integrate future mergers or acquisitions into its operations, future

levels of non-performing assets and restructured assets, its growth and expansion, the adequacy of its allowance for credit and investment losses, technological changes, investment income, its ability to market new products, cash flow projections, the outcome of any legal or regulatory proceedings it is or becomes a party to, the future impact of new accounting standards, its ability to implement its dividend policy, the impact of Philippine banking regulations on it, which includes the assets and liabilities of the Issuer, its ability to roll over its short-term funding sources, its exposure to market risks and the market acceptance of and demand for internet banking services.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this Offering Circular include, but are not limited to general economic and political conditions in the Philippines, Southeast Asia, and the other countries which have an impact on the Issuer's business activities or investments, political or financial instability in the Philippines or any other country caused by any factor including any terrorist attacks in the Philippines, the United States or elsewhere or any other acts of terrorism worldwide, any anti-terrorist or other attacks by the United States, a United States-led coalition or any other country, the monetary and interest rate policies of the Philippines, political or financial instability in the Philippines or any other country or social unrest in any part of the Philippines, inflation, deflation, unanticipated turbulence in interest rates, changes in the value of the Peso, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets and level of internet penetration in the Philippines and globally, changes in domestic and foreign laws, regulations and taxes, changes in competition and the pricing environment in the Philippines and regional or general changes in asset valuations. For a further discussion on the factors that could cause actual results to differ, see the discussion under "*Investment Considerations*" contained in this Offering Circular.

CONTENTS

GLOSSARY OF CERTAIN TERMS.....	1
DOCUMENTS INCORPORATED BY REFERENCE	6
GENERAL DESCRIPTION OF THE PROGRAMME	7
SUMMARY OF THE PROGRAMME	8
FORM OF THE NOTES	12
FORM OF THE PRICING SUPPLEMENT	15
TERMS AND CONDITIONS OF THE NOTES	30
SELECTED CONSOLIDATED FINANCIAL INFORMATION	72
USE OF PROCEEDS	76
SUSTAINABILITY FINANCING FRAMEWORK.....	77
CAPITALISATION AND INDEBTEDNESS	80
INVESTMENT CONSIDERATIONS	81
DESCRIPTION OF THE BANK	116
RISK MANAGEMENT.....	146
SELECTED STATISTICAL DATA	156
DESCRIPTION OF THE BANK’S ASSETS AND LIABILITIES.....	160
MANAGEMENT.....	172
RELATED PARTY TRANSACTIONS.....	186
DOSRI LOANS AND DEPOSITS.....	187
THE PHILIPPINE BANKING INDUSTRY	189
BANKING REGULATION AND SUPERVISION.....	193
TAXATION.....	234
SUBSCRIPTION AND SALE	238
GENERAL INFORMATION	246
INDEX TO THE FINANCIAL STATEMENTS.....	F-1

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

GLOSSARY OF CERTAIN TERMS

In this Offering Circular, unless the context otherwise requires, the following terms shall have the meanings set out below:

ABC.....	Allied Banking Corporation
AIHI.....	Allied Integrated Holdings, Inc., formerly PNBSB
ALCO	Asset and Liability Committee of the Bank
ALMD	Asset and Liability Management Division of the Bank
AMLA	Anti-Money Laundering Act of 2001 (Republic Act No. 9160), as amended
AMLC	Anti-Money Laundering Council
API	application program interface
ATM	automated teller machine
AUM.....	asset under management
the Bank	Philippine National Bank and its subsidiaries and associate (unless the context otherwise clearly indicates)
Banking Day	a day (except Saturdays, Sundays, and holidays) on which banks in the Philippines are open for business
BCBS	Basel Committee on Banking Supervision
BIR	Philippine Bureau of Internal Revenue
Board or the Board of Directors	the board of directors of the Bank
BSFI	BSP Supervised Financial Institutions
BSP	<i>Bangko Sentral ng Pilipinas</i> , the Philippine Central Bank
CASA	demand/current account and savings account
CAR.....	capital adequacy ratio
CBG.....	Corporate Banking Group of the Bank
CCB	capital conservation buffer
CCyB.....	countercyclical capital buffer
CET1	common equity tier 1 which comprises Paid Up Common Stock, Common stock dividends distributable. Additional Paid In Capital, Deposit for common stock subscription, Retained earnings, Undivided profits, Other comprehensive income and Minority interest in subsidiary banks less outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI), outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries, Deferred tax assets, Goodwill, Other intangible assets, Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies, Significant minority investments (10%-50% of voting stock) in securities dealers/brokers and insurance companies and other equity investments in non-financial allied undertakings and non-allied undertakings

CFS	Consumer Finance Sector of the Bank
COMMBG	Commercial Banking Group of the Bank
CTDs	certificate of time deposits
CREATE Act.....	Republic Act No. 11534, or the Corporate Recovery and Tax Incentives for Enterprise Act of the Philippines
CTRP	Comprehensive Tax Reform Program of the Philippines
CV	collateral value
Director	a director of the Bank
DOSRI	directors, officers, stockholders and related interests
D-SIB	domestic systemically important bank
DIG	Digital Innovations Group of the Bank
DST	Documentary stamp tax
eKYC	electronic know-your-customer
EaR	Earnings-at-Risk
ECL	PFRS 9 Expected Credit Loss
Eligible Assets	eligible assets under projects and activities in the categories set out in the “ <i>Use of Proceeds</i> ” section of the Sustainability Financing Framework
ERMG	Enterprise Risk Management Group
EVE	Economic Value of Equity
FATF	Financial Action Task Force
FCDU	foreign currency deposit unit
FID.....	Financial Institutions Division of the Bank
FinTech	financial technology, or new technology that seeks to improve and automate the delivery and use of financial services
FVOCI	fair value through other comprehensive income
FVTPL	fair value through profit or loss
GBMS.....	Global Banking and Markets Sector of the Bank
General Banking Law	General Banking Law (Republic Act No. 8791)
GMBSD.....	Global Markets Support Division of the Bank
GMG.....	Global Markets Group of the Bank
GMSD	Global Markets Sales Division of the Bank
GOCC.....	Government-owned and controlled corporations
Government	the government of the Republic of the Philippines
G-SIB	Global Systemically Important Bank
HLA.....	higher loss absorbency

HMO.....	health maintenance organisation
HQLA	higher quality liquid assets
IBCL	interbank call loan
IBS.....	Institutional Banking Sector of the Bank
ICAAP	Internal Capital Adequacy Assessment Process
IDD.....	Investment Distribution Division of the Bank
IRC	interest rate corridor
IRRBB	interest rate risk in banking book
IT	information technology
ITG	Information Technology Group of the Bank
LBP	Land Bank of the Philippines
LCR	Liquidity Coverage Ratio
LGU.....	local government units of the Philippines
LTG or the LT Group	LT Group, Inc.
LTNCD	long-term negotiable certificate of time deposit
MCO	maximum cumulative outflow
Merger Rules	2017 Rules on Merger Procedures in the Philippines issued by the PCC
Metro Manila	the metropolitan area comprising the cities of Caloocan, Las Piñas, Makati, Malabon, Mandaluyong, Manila, Marikina, Muntinlupa, Navotas, Parañaque, Pasay, Pasig, Quezon, Valenzuela, Taguig and San Juan, which together comprise the “National Capital Region” and are collectively referred to as “Metro Manila”
Monetary Board	Monetary Board of the BSP
MORB	Manual of Regulations for Banks issued by the BSP
MSMEs.....	micro, small and medium enterprises
New Central Bank Act	New Central Bank Act of 1993 (Republic Act No. 7653), as amended by Republic Act No. 11211
NGA	National Government Agencies of the Philippines
NOW	negotiable order of withdrawal accounts
NPAs	non-performing assets
NPLs	non-performing loans
NSFR	net stable funding ratio
OFWs	overseas Filipino workers
Overseas Filipinos	overseas Filipino workers and other Filipinos living or working abroad
PAL	Philippine Airlines, Inc.
PAS	Philippine Accounting Standards
Parent Bank or PNB	the Bank on an unconsolidated basis

PCA	Philippine Competition Act
PCC	Philippine Competition Commission
PCD Nominee	PCD Nominee Corporation, a corporation wholly owned by the PDTC
PDIC	Philippine Deposit Insurance Corporation
PDS	the Philippine Dealing System
PDTC	Philippine Depository & Trust Corporation, the central securities depository of, among others, securities listed and traded on the PSE
Pesos or ₱	the lawful currency of the Philippines
PFRS	Philippine Financial Reporting Standards
PhilHealth	Philippine Health Insurance Corporation
Philippine National	as defined under the Republic Act No. 7042, as amended, means a citizen of the Philippines, or a domestic partnership or association wholly owned by citizens of the Philippines, or a corporation organised under the laws of the Philippines of which at least 60.0% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines, or a corporation organised abroad and registered to do business in the Philippines under the Revised Corporation Code, of which 100.0% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos or a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60.0% of the fund will accrue to the benefit of Philippine Nationals
Philippines	Republic of the Philippines
Philippine SEC	the Philippine Securities and Exchange Commission
PIFITA.....	The Philippine Passive Income and Financial Intermediary Taxation Act
PNB Capital	PNB Capital and Investment Corporation, the Sole Global Coordinator
PNB Gen	PNB General Insurers Co.
PNB Holdings.....	PNB Holdings Corporation
PNBSB	PNB Savings Bank
PSE	The Philippine Stock Exchange, Inc.
RBS	Retail Banking Sector of the Bank
RBU.....	Regular Banking Unit of the Bank
REST Limit	real estate stress test limit
Revised Corporation Code	Revised Corporation Code of the Philippines or Republic Act No. 11232
RMs	relationship managers
ROC	Risk Oversight Committee
ROPA	real and other properties acquired
RPTs	related party transactions

RRP	reserve repurchase facility
RRR	reserve requirement ratio
S&P	Standard & Poor's Rating Services
SBL	single borrower's limit
SCCP	Securities Clearing Corporation of the Philippines
SFI	sustainable finance instruments
SFI Report	The SFI Allocation Report
SFWG	Sustainability Financing Working Group
SME	small-and-medium-enterprises
SRC	Securities Regulation Code of the Philippines (Republic Act No. 8799) and its implementing rules, as amended
SSOD	Sales Support and Operations Department of the Bank
SSS	Social Security System
Trust Deed	the trust deed dated 13 April 2018, as supplemented by the supplemental trust deed dated 9 October 2024 (such trust deed as modified and/or supplemented and/or restated from time to time) in each case, made between the Issuer and Citicorp International Limited
Sustainability Financing Framework.....	PNB's sustainability financing framework, as may be updated or amended from time to time
Tan Companies	a group of companies and individual shareholders, representing one of the largest conglomerates in the Philippines with interests in banking and financial services, aviation, beverages, chemicals, distillery, education, food, real estate development and tourism, among others
Tax Code	National Internal Revenue Code of 1997 as amended
TBG	Trust Banking Group of the Bank
Tier 1	Tier 1 is composed of CET1 and Additional Tier 1 (AT1). AT1 includes instruments issued by the bank that are eligible as AT1 capital less Regulatory Adjustments applicable to AT1 instruments.
TRAIN Law	Tax Reform for Acceleration and Inclusion or Republic Act No. 10963
Treasury	the Bank's treasury operations
UITF	unit investment trust funds
U.S.\$ or U.S. Dollar	the lawful currency of the United States of America
U.S. Securities Act	the United States Securities Act of 1933, as amended
VaR	Value-at-Risk
WMG	Wealth Management Group of the Bank
WS	Wealth Sales Division of the Bank

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (a) the most recently published audited non-consolidated and (if produced) consolidated annual financial statements and, if published later, the most recently published unaudited interim non-consolidated and (if produced) consolidated financial results of the Issuer, in each case, together with any audit or review reports prepared in connection therewith (where relevant) (see “*General Information*” for a description of the financial statements currently published by the Issuer); and
- (b) all supplements or amendments to this Offering Circular prepared by the Issuer from time to time.

Any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular. Copies of the documents listed in (a) above which are deemed to be incorporated by reference in this Offering Circular may be obtained at the Philippine Stock Exchange’s website at edge.pse.com.ph.

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office set out at the end of this Offering Circular.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, to an extent which is material in the context of the Programme, a new offering circular will be prepared.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer, subject to compliance with all relevant laws, regulations, and directives, may from time to time issue Notes denominated in any currency, subject as set out herein. A summary of the terms and conditions (the “**Conditions**”) of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Conditions endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under “*Form of the Notes*”.

This Offering Circular and any supplement will only be valid for listing Notes on the SGX-ST in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.\$2,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

- (a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under “*Form of the Notes*”) shall be determined by the principal paying agent (which for the time being is Citibank, N.A., London Branch (the “**Principal Paying Agent**”) for the Notes listed on the SGX-ST), as of the date on which agreement is reached for the issue of Notes on the basis of the spot rate for the sale of the U.S. dollar against the purchase of that Specified Currency in the London foreign exchange market quoted by leading international bank selected by the Principal Paying Agent on the relevant day of calculation;
- (b) the U.S. dollar equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under “*Form of the Notes*”) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the amount of the subscription price paid); and
- (c) the U.S. dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under “*Form of the Notes*”) and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the nominal amount of those Notes.

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in “Form of the Notes” and “Terms and Conditions of The Notes” shall have the same meanings in this summary.

Issuer	Philippine National Bank
Legal Entity Identifier of the Issuer	549300AFS0UU6SDK2K95
Description	Medium Term Note Programme
Sole Global Coordinator	PNB Capital and Investment Corporation
Lead Arrangers	ING Bank N.V., Singapore Branch and J.P. Morgan Securities plc. For the avoidance of doubt, references in this Offering Circular to the Lead Arrangers or a Lead Arranger shall, except as otherwise provided, be deemed to include references to the Sole Global Coordinator.
Dealers	ING Bank N.V., Singapore Branch, J.P. Morgan Securities plc and any other Dealers appointed in accordance with the Programme Agreement (as defined under “ <i>Subscription and Sale</i> ”).
Certain Restrictions	Each issue of Notes in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale</i> ”) including the following restrictions applicable at the date of this Offering Circular.

Notes having a maturity of less than one year

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see “*Subscription and Sale*”.

Trustee	Citicorp International Limited.
Principal Paying Agent	Citibank, N.A., London Branch.
Registrar and Transfer Agent	Citibank, N.A., London Branch.
Programme Size	U.S.\$2,000,000,000 (or its equivalent in other currencies calculated as described under “ <i>General Description of the Programme</i> ”) in aggregate nominal amount of Notes outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Investment Considerations	There are certain factors that may affect the Issuer’s ability to fulfil its obligations under the Notes issued under the Programme. These are set out under “ <i>Investment Considerations</i> ” below. In addition, there are certain factors which are material for the purpose of assessing the market risks

associated with Notes issued under the Programme. These are set out under “*Investment Considerations*” and include certain risks relating to the structure of particular Series of Notes and certain market risks.

Distribution	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis. The Notes will be issued in Series having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of the Series. Each Series may be issued in tranches (each a Tranche) on the same or different issue date. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be specified in the Pricing Supplement.
Currencies	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Maturities	Such maturities as may be agreed between the Issuer and the relevant Dealer and indicated in the applicable Pricing Supplement, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes	The Notes will be issued in bearer or registered form as described in “ <i>Form of the Notes</i> ”. Registered Notes will not be exchangeable for Bearer Notes or vice versa.
Fixed Rate Notes	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes	Floating Rate Notes will bear interest at a rate determined: (a) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (b) on such other basis as may be agreed between the Issuer and the relevant Dealer. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.
Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.

Other provisions in Floating Rate Notes and Index Linked Interest Notes	Floating Rate Notes and Index Linked Interest Notes may also have a relation to maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Other Notes	The Issuer may agree with any Dealer and the Trustee that Notes may be issued in a form not contemplated by the Conditions, in which event the relevant provisions will be included in the applicable Pricing Supplement.
Redemption	The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than (i) in specified instalments, if applicable; (ii) for taxation and regulatory reasons; or (iii) following an Event of Default (as defined in Condition 10)) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement. Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see “<i>Certain Restrictions – Notes having a maturity of less than one year</i>” above.
Denomination of Notes	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see “ <i>Certain Restrictions – Notes having a maturity of less than one year</i> ” above.
Taxation	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction (as defined in Condition 8.2), subject as provided in Condition 8. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.

Negative Pledge	The terms of the Notes will contain a negative pledge provision as further described in Condition 4.
Cross Default	The terms of the Notes will contain a cross-default provision as further described in Condition 10.1(c).
Status of the Notes	The Notes will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 4, unsecured obligations of the Issuer and will rank pari passu among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.
Listing	Approval-in-principle has been received from the SGX-ST for permission to deal in, and quotation of, any Notes to be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, Notes which are listed on the SGX-ST will be traded with a minimum board lot size of at least S\$200,000 or its equivalent in foreign currencies. Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).
Ratings	Notes issued under the Programme may be rated or unrated. Where a certain Series of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme and (where applicable) such rating will be specified in the applicable Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.
Governing Law	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.
Clearing System	Euroclear, Clearstream, and/or any other clearing system, as specified in the applicable Pricing Supplement (see “ <i>Form of the Notes</i> ”).
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area, the United Kingdom, Japan, Hong Kong, Singapore, the Philippines, the People’s Republic of China and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes (see “ <i>Subscription and Sale</i> ”).
United States Selling Restrictions	Regulation S Category, as specified in the applicable Pricing Supplement. TEFRA C/TEFRA D/TEFRA C and TEFRA D are not applicable, as specified in the applicable Pricing Supplement.

FORM OF THE NOTES

The Notes of each Series will either be in bearer form, with or without interest coupons (“**Coupons**”) attached (“**Bearer Notes**”), or registered form, without interest coupons attached (“**Registered Notes**”). The Notes will be issued outside the United States in reliance on Regulation S.

Notes to be listed on the SGX-ST will be accepted for clearance through Euroclear and Clearstream.

Bearer Notes

Prior to the issuance of any Bearer Notes hereunder, the Issuer will confirm with its counsel that all documents used in connection with the issuance of such Bearer Notes have been reviewed, revised, and updated to the extent necessary to ensure that such documents properly allow for the issuance of Bearer Notes in accordance with U.S. federal income tax law.

Each Tranche of Bearer Notes will initially be represented by either a Temporary Bearer Global Note or a Permanent Bearer Global Note as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to the Common Depositary for Euroclear and Clearstream.

While any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream and (in the case of a Temporary Bearer Global Note delivered to a Common Depositary for Euroclear and Clearstream) Euroclear and/or Clearstream, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent (as defined in “*Terms and Conditions of The Notes*”).

On and after the date (the “**Exchange Date**”) which, for each Tranche in respect of which a Temporary Bearer Global Note is issued, is 40 days after the Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) Definitive Bearer Notes (“**Definitive Bearer Notes**”) of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of Definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above, unless such certification has already been given. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for Definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for Definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (i) not less than 60 days’ written notice in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream, from Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein, or (ii) upon the occurrence of an Exchange Event. For these purposes, Exchange Event means that (i) an Event of Default (as defined in Condition 10) has occurred and is continuing or (ii) the Issuer has been notified that both Euroclear and Clearstream have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any case, no successor or alternative clearing system satisfactory to the Trustee is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes in definitive form and a certificate to such effect from an authorised officer of the Issuer has been given to the Trustee. The Issuer will promptly give notice to the Noteholders and the Trustee in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream, Euroclear and/or Clearstream (acting on the instructions

of any holder of an interest in such Permanent Bearer Global Note) or the Trustee may give notice to the Principal Paying Agent requesting exchange and in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange following an Exchange Event shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than one year and on all receipts and interest coupons relating to such Notes:

“ANY UNITED STATES PERSON (AS DEFINED IN THE INTERNAL REVENUE CODE OF THE UNITED STATES) WHO HOLDS THIS OBLIGATION MAY BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S will initially be represented by a Registered Global Note.

Prior to expiry of the distribution compliance period (as defined in Regulation S), if any, applicable to each Tranche of Notes, beneficial interests in a Registered Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear or Clearstream and such Registered Global Note will bear a legend regarding such restrictions on transfer.

Registered Global Notes will be deposited with, and registered in the name of a nominee of, a Common Depositary for Euroclear and Clearstream, as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form (**Definitive Registered Notes**).

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 6.5) as the registered holder of the Registered Global Notes. None of the Issuer, any Paying Agent or the Registrar (each as defined under “*Terms and Conditions of The Notes*”) will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Definitive Registered Notes will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6.5) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for Definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event.

The Issuer will promptly give notice to the Noteholders and the Trustee in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note), or the Trustee may give notice to the Principal Paying Agent requesting exchange and in the event of the occurrence of an Exchange Event as described above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange following

an Exchange Event shall occur not later than ten days after the date of receipt of the first relevant notice by the Principal Paying Agent.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream.

General

All Notes will be issued pursuant to the Trust Deed and the Agency Agreement (each as defined under “Terms and Conditions of The Notes”).

Pursuant to the Agency Agreement, the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN number which are different from the common code and ISIN number assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Bearer Global Note or a Registered Global Note (each a Global Note) held on behalf of Euroclear and/or Clearstream, each person (other than Euroclear and/or Clearstream) who is for the time being shown in the records of Euroclear or of Clearstream as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, its agents and the Trustee as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Trustee, the Issuer and their agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the Trust Deed and the expressions Noteholder and holder of Notes and related expressions shall be construed accordingly.

Any reference herein to Euroclear and/or Clearstream shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or otherwise approved by the Issuer, the Trustee and the Principal Paying Agent.

So long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that the Global Note representing such Notes is exchanged for definitive Notes. In addition, an announcement of such exchange will be made through the SGX-ST. Such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

No Noteholder, Receiptholder or Couponholder (each as defined in “*Terms and Conditions of The Notes*”) shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

If the applicable Pricing Supplement specifies any modification to the Conditions as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 5, 6, 7 (except Condition 7.2), 11, 12, 13, 14 (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 17, they will not necessitate the preparation of a supplement to this Offering Circular. If the Conditions of any Series of Notes are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

FORM OF THE PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme to reflect the particular terms of the relevant Notes and their issue.

[MIFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, “**MiFID II**”)] [MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[‘s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[‘s/s’] target market assessment) and determining appropriate distribution channels.]

[UK MIFIR product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (“**COBS**”), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“**UK MiFIR**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[‘s/s’] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the “**UK MiFIR Product Governance Rules**”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[‘s/s’] target market assessment) and determining appropriate distribution channels.]

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”) where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (UK). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (EUWA); (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the UK PRIIPs Regulation) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]

[NOTIFICATION UNDER SECTION 309B(1)(C) OF THE SECURITIES AND FUTURES ACT 2001 OF SINGAPORE – [To insert notice if classification of the Notes is not “prescribed capital markets products”, pursuant to Section 309B of the SFA or Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products)].]¹

¹ Relevant Dealer(s) to consider whether it / they have received the necessary product classification from the Issuer prior to the launch of the offer, pursuant to Section 309B of the SFA.

PHILIPPINE NATIONAL BANK

Issue of [Aggregate Nominal Amount of Tranche][Title of Notes]
under the US\$2,000,000,000
Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the **Conditions**) set forth in the Offering Circular dated 9 October 2024 [and the supplement[s] to it dated [date] [and [date]]] and any documents therein incorporated by reference (collectively, the **Offering Circular**). This Pricing Supplement comprises the final terms of the Notes and must be read in conjunction with such Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular [as so supplemented].

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the **Conditions**) set forth in the Offering Circular dated [original date] which are incorporated by reference in the Offering Circular dated [current date] and are attached hereto. This Pricing Supplement contains the final terms of the Notes described herein and must be read in conjunction with the Offering Circular dated [current date] [and the supplement[s] to it dated [date] [and [date]]], save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circulars dated [original date] and [current date] respectively.]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100, 000 or its equivalent in any other currency.]

1.	Issuer:	Philippine National Bank LEI: 549300AFS0UU6SDK2K95
2.	(a) Series Number:	[●]
	(b) [Tranche Number:]	[●]
		<i>(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)</i>
	(c) [Date on which the Notes will be consolidated and form a single Series:]	The Notes will be consolidated and form a single Series with [identify earlier Tranches] on [the Issue Date/ exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 34 below, which is expected to occur on or about [date]][Not Applicable]
3.	Specified Currency or Currencies:	[●]
4.	Aggregate Nominal Amount:	
	(a) Series:	[●]
	(b) Tranche:	[●]

5. (a) Issue Price: [●]% of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)]
- (b) Net Proceeds: [●]
(only for listed notes)
6. (a) Specified Denominations: [●]
(N.B. Notes must have a minimum denomination of €100,000 (or equivalent) in order to benefit from Transparency Directive exemptions in respect of whole sale securities and in order to benefit from the wholesale exemption set out in Article 3.2(d) of the Prospectus Directive in that Member State)
(Note – where Bearer Notes with multiple denominations above [€100,000] or equivalent are being used with respect to Bearer Notes, the following sample wording should be followed:
“[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].”)
(N.B. If an issue of Notes is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €100,000 minimum denomination is not required.)
(In the case of Registered Notes, this means the minimum integral amount in which transfers can be made.)
- (b) Calculation Amount: [●]
(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations)
7. (a) Issue Date: [●]
(b) Trade Date: [●]
(c) Interest Commencement Date: [Specify/Issue Date/Not Applicable]
(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes)
8. Maturity Date: [Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [specify month and year]]
9. Interest Basis: [[●]% Fixed Rate]
[[EURIBOR/SOFR Benchmark] +/- [●]% Floating Rate]
[Zero Coupon]

- [Index Linked Interest]
- [Dual Currency Interest]
- [specify other]
- (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
- [Index Linked Redemption]
- [Dual Currency Redemption]
- [Partly Paid]
- [Instalment]
- [specify other]
11. Change of Interest Basis or Redemption/Payment Basis: [Applicable/Not Applicable]
- (If applicable, specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis)*
12. Put/Call Options: [Investor Put]
- [Issuer Call]
13. Status of the Notes: Senior
14. (a) Date Board approval for issuance of Notes obtained: [●] [and [●], respectively]]/[None required]
- (N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Notes)*
- (b) Date regulatory approval/ consent for issuance of Notes obtained: [●]/[None required]
15. Listing: [SGX-ST/specify other/None]
- (N.B. Consider disclosure requirements under the EU Prospectus Directive applicable to securities admitted to an EU regulated market)*
16. Method of distribution: [Syndicated/Non-syndicated]
17. Fixed Rate Note Provisions: [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Rate(s) of Interest: [●]% per annum [payable in arrear] on each Interest Payment Date
- (b) Interest Payment Date(s): [●] in each year up to and including the Maturity Date
- (Amend appropriately in the case of irregular coupons)*
- (c) Fixed Coupon Amount(s) (and in relation to Notes in global form or
- [●] per Calculation Amount

- Registered Notes in definitive form, see Conditions):
- (d) Broken Amount(s) (and in relation to Notes in global form or Registered Notes in definitive form, see Conditions) ☐ per Calculation Amount, payable on the Interest Payment Date falling [in/on] ☐
 - (e) Day Count Fraction: [Actual/Actual (ICMA)
 [30]/360
 Actual/365 (Fixed)/Other]
 - (f) Determination Date(s): ☐ in each year] [Not Applicable]

 [Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]

 (N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration) (N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA))
 - (g) Party responsible for calculating the amount of interest payable per Calculation Amount (if not the Principal Paying Agent): ☐
 - (h) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
18. Floating Rate Note Provisions: [Applicable/Not Applicable]

 (If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Specified Period(s)/Specified Interest Payment Dates: ☐[, subject to adjustment in accordance with the Business Day Convention set out in subparagraph (c) below/, not subject to any adjustment, as the Business Day Convention in subparagraph (c) below is specified to be Not Applicable]

 The definition of “Interest Payment Date” in [Condition 5.2(b)(ii)(B)(3)] applies. *(Only applicable in the case of SOFR Payment Delay where Specified Interest Period is required)*
 - (b) Interest Period(s): [Each period beginning on (and including) [the Interest Commencement Date/☐] or any Specified Interest Period Date and ending on (but excluding) the next Specified Interest Period Date, subject to adjustment in accordance with the Business Day Convention set out in subparagraph (c) below, and “Specified Interest Period Date” means [☐, ☐, ☐ and ☐] in each year up to and including the Maturity Date, subject to adjustment in accordance with the Business Day Convention set out in subparagraph (c) below] *(Only applicable in the case of SOFR Payment Delay where Specified Interest Period Date is required)*

- (c) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[*specify other*]]
- (d) Additional Business Centre(s): [Not Applicable/*give details*]
- (e) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ *specify other*]
- (f) Calculation Agent: [*Name*]
- (g) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): [*Name*]
- (h) Screen Rate Determination: [●]
- Reference Rate and Relevant Financial Centre: Reference Rate: [EURIBOR/SOFR Benchmark/*specify other Reference Rate*].

Relevant Financial Centre: [Brussels/New York/*specify other Relevant Financial Centre*]
 - Interest Determination Date(s): [●] (*second day on which T2 is open prior to the start of each Interest Period if EURIBOR*)

[The [fifth]² U.S. Government Securities Business Day prior to the last day of each Interest Period – *only applicable in the case of Simple SOFR Average/SOFR Lag/SOFR Observation Shift/SOFR Lockout/Compounded SOFR Index*]

[The Specified Interest Period Date [(as defined in subparagraph (a) above)], provided that the Interest Determination Date with respect to the final Interest Period will be the U.S. Government Securities Business Day immediately following the relevant SOFR Rate Cut-off Date – *only applicable in the case of SOFR Payment Delay*]
 - Relevant Screen Page: [●]

(*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
 - SOFR Benchmark: [Not Applicable/Simple SOFR Average/Compounded SOFR Average/Compounded SOFR Index] (*Only applicable where the Reference Rate is SOFR*)
 - Compounded SOFR Average Method: [Not Applicable/SOFR Lag/SOFR Observation Shift/SOFR Payment Delay/SOFR Lockout] (*Only applicable where the Reference Rate is SOFR Benchmark and the SOFR Benchmark is Compounded SOFR Average*)

² To be at least the fifth U.S. Government Securities Business Day prior to the last day of each Interest Period unless otherwise agreed with the Calculation Agent.

- Lookback Days: [[Five] U.S. Government Securities Business Days – *used for SOFR Lag only*]/[Not Applicable]³
- SOFR Observation Days: [[Five] U.S. Government Securities Business Days – *used for the SOFR Observation Shift or Compounded SOFR Index only*]/[Not Applicable]⁴
- SOFR Rate Cut-Off Date: [The date falling [five] U.S. Government Securities Business Days prior to the end of each Interest Period – *used for only Simple SOFR Average (if applicable), Compound SOFR Average - SOFR Payment Delay or SOFR Lockout only*]/[Not Applicable]⁵
- Interest Payment Delay Days: [[Five] U.S. Government Securities Business Days – *used for SOFR Payment Delay only*]/[Not Applicable]⁶
- SOFR Index_{Start}: [Not Applicable]/[[Five] U.S. Government Securities Business Days – *used for Compounded SOFR Index only*]⁷
- SOFR Index_{End}: [Not Applicable]/[[Five] U.S. Government Securities Business Days – *used for Compounded SOFR Index only*]⁸
- (i) Margin(s): [+/-][●]% per annum
- (j) Minimum Rate of Interest: [●]% per annum
- (k) Maximum Rate of Interest: [●]% per annum
- (l) Day Count Fraction: [Actual/Actual (ISDA)]
[Actual/Actual] [Actual/365 (Fixed)]
[Actual/365 (Sterling)]
[Actual/360]
[30/360] [360/360][Bond Basis]
[30E/360][Eurobond Basis]
[30E/360 (ISDA)]
(See Condition 5 for alternatives)
- (m) Fallback provisions, rounding provisions and any other terms relating to the method of [●]

³ To be at least the fifth U.S. Government Securities Business Day prior to the last day of each Interest Period unless otherwise agreed with the Calculation Agent.

⁴ To be at least the fifth U.S. Government Securities Business Day prior to the last day of each Interest Period unless otherwise agreed with the Calculation Agent.

⁵ To be at least the fifth U.S. Government Securities Business Day prior to the last day of each Interest Period unless otherwise agreed with the Calculation Agent.

⁶ To be at least the fifth U.S. Government Securities Business Day prior to the last day of each Interest Period unless otherwise agreed with the Calculation Agent.

⁷ To be at least the fifth U.S. Government Securities Business Day prior to the last day of each Interest Period unless otherwise agreed with the Calculation Agent.

⁸ To be at least the fifth U.S. Government Securities Business Day prior to the last day of each Interest Period unless otherwise agreed with the Calculation Agent.

calculating interest on Floating Rate Notes, if different from those set out in the Conditions:

19. Zero Coupon Note Provisions: [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Accrual Yield: [●]% per annum
 - (b) Reference Price: [●]
 - (c) Any other formula/basis of determining amount payable: [●]
 - (d) Day Count Fraction in relation to Early Redemption Amounts: [30/360]
[Actual/360]
[Actual/365]
20. Index Linked Interest Note Provisions: [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Index/Formula: [Give or annex details]
 - (b) Calculation Agent: [Give name]
 - (c) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent): [●]
 - (d) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [Need to include a description of market disruption or settlement disruption events and adjustment provisions]
 - (e) Interest Periods: [●]
 - (f) Specified Interest Payment Dates: [●]
 - (g) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ specify other]
 - (h) Additional Business Centre(s): [Not Applicable/give details]
 - (i) Minimum Rate of Interest: [●]% per annum
 - (j) Maximum Rate of Interest: [●]% per annum
 - (k) Day Count Fraction: [●]
21. Dual Currency Interest Note Provisions: [Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

- (a) Rate of Exchange/method of calculating Rate of Exchange: [give details]
- (b) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent): [●]
- (c) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: *[Need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (d) Person at whose option Specified Currency(ies) is/are payable: [●]

PROVISIONS RELATING TO REDEMPTION

22. Notice periods for Condition 7.2: Minimum period: [●] days
Maximum period: [●] days

23. Issuer Call: [Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

- (a) Optional Redemption Date(s): [●]
- (b) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): [[●] per Calculation Amount/specify other]
- (c) If redeemable in part:
 - (i) Minimum Redemption Amount: [●] per Calculation Amount
 - (ii) Maximum Redemption Amount: [●] per Calculation Amount
- (d) Notice periods: Minimum period: [●] days
Maximum period: [●] days

(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or the Trustee)

24. Investor Put: [Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

- (a) Optional Redemption Date(s): [●]

- (b) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): ☐ per Calculation Amount/specify other]
- (c) Notice periods: Minimum period: ☐ days
Maximum period: ☐ days
- (N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or the Trustee)*
25. Final Redemption Amount of each Note: ☐ per Calculation Amount/specify other/see Appendix]
26. Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7.5): ☐ per Calculation Amount/specify other/see Appendix]
27. Applicable Spread: ☐% per annum]/Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

28. Form of Notes: **Bearer Notes:**
- [delete as appropriate]*
- [Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Bearer Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
- [Temporary Bearer Global Note exchangeable for Definitive Bearer Notes on and after the Exchange Date]
- [Permanent Bearer Global Note exchangeable for Definitive Bearer Notes [on ☐ days' notice given at any time/only upon an Exchange Event]]
- (Ensure that this is consistent with the wording in the "Form of the Notes" section in the Offering Circular and the Notes themselves. The exchange upon notice option should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect:*
- "[€ 100,000] and integral multiples of [€ 1,000] in excess thereof up to and including [€ 199,000]. No Notes in definitive form will be issued with a denomination above [€ 199,000]". Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Bearer Global Note exchangeable for Definitive Bearer Notes.)*

Registered Notes:

[Registered Global Note ([●] nominal amount) registered in the name of a nominee for a common depositary for Euroclear and Clearstream (*specify nominal amounts*)]

29. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]
(*Note that this item relates to the place of payment and not Interest Period end dates to which paragraphs 18(d) and 20(g) relate*)
30. Talons for future Coupons or Receipts to be attached to Definitive Notes in bearer form (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
31. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment]: [Not Applicable/give details. *N.B. a new form of Temporary Bearer Global Note and/or Permanent Bearer Global Note may be required for Partly Paid issues*]
32. Details relating to Instalment Notes: [Applicable/Not Applicable]
- (a) Instalment Amount(s): [Not Applicable/give details]
- (b) Instalment Date(s): [Not Applicable/give details]
33. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions annexed to this Pricing Supplement apply]
34. Consolidation provisions: [Not Applicable/[The provisions in Condition 17 (Further Issues)]/[annexed to this Pricing Supplement] apply]
35. Any applicable currency disruption/fallback provisions: [Not Applicable/give details]
36. Other terms or special conditions: [Not Applicable/give details][*N.B. If full terms and conditions are to be used: The full text of the Conditions which apply to the Notes [and which will be endorsed on the Notes in definitive form] are set out in [the Annex hereto], which Conditions replace in their entirety those appearing in the Offering Circular for the purposes of these Notes and such Conditions will prevail over any other provisions to the contrary. The full Conditions should be attached to and form part of the Pricing Supplement*]

DISTRIBUTION

37. (a) If syndicated, names of Managers: [Not Applicable/give names]
- (b) Stabilising Manager(s) (if any): [Not Applicable/give name(s)]
- (c) Date of Subscription Agreement: [●]
38. If non-syndicated, name of relevant Dealer: [●]

39. U.S. Selling Restrictions: Reg. S Category [1/2]; [TEFRA D/TEFRA C/TEFRA D and TEFRA C are not applicable]
40. Additional selling restrictions: [Not Applicable/give details]
41. Additional U.S. federal income tax considerations: [Not Applicable/give details]
[To consider whether any considerations relating to the U.S. Foreign Account Tax Compliance Act need to be included]
42. Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]
(N.B. If the Notes clearly do not constitute “packaged” products or the Notes do constitute “packaged” products and a key information document will be prepared in the EEA, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no key information document will be prepared in the EEA, “Applicable” should be specified.)
43. Prohibition of Sales to UK Retail Investors: [Applicable/Not Applicable]
(N.B. If the Notes clearly do not constitute “packaged” products or the Notes do constitute “packaged” products and a key information document will be prepared in the UK, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no key information document will be prepared in the UK, “Applicable” should be specified.)
44. Singapore Sales to Institutional Investors and Accredited Investors only: [Applicable/Not applicable]

OPERATIONAL INFORMATION

45. Any clearing system(s) other than Euroclear and Clearstream and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
46. Delivery: Delivery [against/free of] payment
47. Additional Paying Agent(s) (if any): [●]
48. ISIN [●]
49. Common Code: [●]

GENERAL

50. Rating(s): [Rating Agency: [●]]
51. The aggregate principal amount of Notes issued has been translated into U.S. Dollars at the rate of [●], producing a sum of (for Notes no denominated in [U.S. Dollars]): [Not Applicable/U.S.\$ [●]]

PROVISIONS RELATING TO [GREEN BONDS, SOCIAL BONDS OR SUSTAINABILITY BONDS]

52. [Green Bonds, Social Bonds or Sustainability Bonds]: [Applicable]/[Not Applicable]
(If not Green Bonds, Social Bonds or Sustainability Bonds, delete the remaining subparagraphs of this paragraph)

- (i) Green Bonds: [Yes/No]
- (ii) Social Bonds: [Yes/No]
- (iii) Sustainability Bonds: [Yes/No]
53. [Reviewer(s):] [●]
54. Date of [Second-party Opinion]: [Not Applicable/give details]

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55. Rebates: [A rebate of [●] bps is being offered by the Issuer to all private banks for orders they place (other than in relation to Notes subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of this offering based on the principal amount of the Notes distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the CMIs otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate.] / [Not Applicable]
56. Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent: [Include relevant contact email addresses of the Overall Coordinators where the underlying investor information should be sent – OCs to provide] / [Not Applicable]
57. Marketing and Investor Targeting Strategy: [As indicated in the Offering Circular] / [Describe if different from the Offering Circular]

USE OF PROCEEDS

[Give details if different from the “Use of Proceeds” section in the Offering Circular.]

[For Green Bonds, Social Bonds or Sustainability Bonds: [The net proceeds from the Notes will be used by the Issuer to finance or refinance, in whole or in part, the Eligible Assets in accordance with certain prescribed eligibility criteria as described in the Sustainability Financing Framework. See “Use of Proceeds” and “Sustainability Financing Framework” sections in the Offering Circular.]

[STABILISATION

In connection with this issue, [insert name of *Stabilising Manager(s)*] (the “**Stabilising Manager(s)**”) (or persons acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.]

[LISTING

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the US\$2,000,000,000 Medium Term Note Programme of Philippine National Bank.]

INVESTMENT CONSIDERATIONS

There are significant risks associated with the Notes including, but not limited to, counterparty risk, country risk, price risk and liquidity risk. Investors should contact their own financial, legal, accounting and tax advisers about the risks associated with an investment in these Notes, the appropriate tools to analyse that investment, and the suitability of the investment in each investor's particular circumstances. No investor should purchase the Notes unless that investor understands and has sufficient financial resources to bear the price, market liquidity, structure and other risks associated with an investment in these Notes.

Before entering into any transaction, investors should ensure that they fully understand the potential risks and rewards of that transaction and independently determine that the transaction is appropriate given their objectives, experience, financial and operational resources and other relevant circumstances. Investors should consider consulting with such advisers as they deem necessary to assist them in making these determinations.

The Issuer represents and warrants that except as disclosed in this Pricing Supplement, there has been no significant change in the financial or trading position of the Issuer since *[date of most recently audited accounts or interim accounts (if later)]* and no material adverse change in the financial position or prospects of the Issuer since *[date of most recently published annual accounts]*.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of **Philippine National Bank**:

By: _____
Duly authorised

By: _____
Duly authorised

TERMS AND CONDITIONS OF THE NOTES

The following are the Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and not so agreed, such definitive Note will have endorsed thereon or attached thereto such Conditions. The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the applicable Pricing Supplement in relation to any Tranche of Notes, which may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Conditions, replace or modify the following Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of the Pricing Supplement" for a description of the content of applicable Pricing Supplements, which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by Philippine National Bank (the **Issuer**), and constituted by the trust deed dated 13 April 2018, as supplemented by the supplemental trust deed dated 9 October 2024 (such trust deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**), in each case, made between the Issuer and Citicorp International Limited (the **Trustee**, which expression shall include any successor as Trustee).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a **Global Note**), units of each denomination (the **Specified Denomination**) and in the currency specified therein or, if none is specified, the currency in which the Notes are denominated (the **Specified Currency**);
- (b) any Global Note in bearer form (a **Bearer Global Note**);
- (c) any Global Note in registered form (a **Registered Global Note**);
- (d) definitive Notes in bearer form (**Definitive Bearer Notes**, and together with Bearer Global Notes, the **Bearer Notes**) issued in exchange for a Bearer Global Note; and
- (e) definitive Notes in registered form (**Definitive Registered Notes**, and together with Registered Global Notes, the **Registered Notes**), whether or not issued in exchange for a Registered Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an amended and restated agency agreement dated 9 October 2024 (such agency agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) and made between the Issuer, the Trustee, Citibank, N.A., London Branch, as principal paying agent (the **Principal Paying Agent**, which expression shall include any successor principal paying agent) and any additional paying agents appointed in accordance with the Agency Agreement, (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents), Citibank, N.A., London Branch as registrar (the **Registrar**, which expression shall include any successor registrar) and as transfer agent (the **Transfer Agent**, which expression shall include any additional or successor transfer agents appointed in accordance with the Agency Agreement, and, together with the Paying Agents and Registrar, the **Agents**).

Interest bearing Definitive Bearer Notes (unless otherwise indicated in the applicable Pricing Supplement) have interest coupons (**Coupons**) and, if indicated in the applicable Pricing Supplement, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Notes repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

The Pricing Supplement attached to or endorsed on this Note supplements these terms and conditions (**Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the **applicable Pricing Supplement** are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to **Noteholders** or **holders** in relation to any Notes, which expression shall mean (in the case of Bearer Notes) the holders of the Notes (and in the case of Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to **Receiptholders** shall mean the holders of the Receipts and any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons. The Trustee acts for the benefit of the Noteholders, the Receiptholders and the Couponholders, in accordance with the provisions of the Trust Deed.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, (unless the relevant Notes are Zero Coupon Notes) Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours upon prior written notice and the provision of proof of holding and identity (in a form satisfactory to the Trustee or the relevant Agent) at the registered office for the time being of the Trustee (being 40/F Champion Tower, 3 Garden Road, Central, Hong Kong) and at the specified office of each of the Principal Paying Agent and the other Agents. Copies of the applicable Pricing Supplement are obtainable during normal business hours at the specified office of each of the Paying Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, the Agency Agreement and the applicable Pricing Supplement which are applicable to them. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

Words and expressions defined in the Trust Deed and the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed or the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes are issued either in bearer form or in registered form as specified in the applicable Pricing Supplement and, in the case of definitive Notes, will be serially numbered, in the Specified Currency and in the Specified Denomination(s) specified in the applicable Pricing Supplement. Save as provided in Condition 2, Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*.

Prior to the issuance of any Bearer Notes hereunder, the Issuer will confirm with its counsel that all documents used in connection with the issuance of such Bearer Notes have been reviewed, revised and updated to the extent necessary to ensure that such documents properly allow for the issuance of Bearer Notes in accordance with U.S. federal income tax law.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Bearer Notes are issued with Coupons and (if applicable) Receipts and Talons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Conditions are not applicable.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery. Title to Registered Notes will pass upon registration of transfers in the register kept by the Registrar in accordance with the provisions of the Agency Agreement. The Issuer, the Trustee, the Principal Paying Agent, any

Paying Agent, the Registrar and the Transfer Agent will (except as otherwise ordered by a court of competent jurisdiction or required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and any person in whose name a Registered Note is registered as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held by a common depositary on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking S.A. (**Clearstream**), each person (other than Euroclear or Clearstream) who is for the time being shown in the records of Euroclear or Clearstream as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee, the Principal Paying Agent, any Paying Agent, the Registrar and the Transfer Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Trustee, the Principal Paying Agent, any Paying Agent, the Registrar and any Transfer Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder** of **Notes** and related expressions shall be construed accordingly.

In determining whether a particular person is entitled to a particular nominal amount of Notes, as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and/or Clearstream, as the case may be. References to Euroclear and/or Clearstream shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Trustee and the Principal Paying Agent.

For so long as any Notes are listed on the Singapore Exchange Securities Trading Limited (**SGX-ST**) and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that any of the Global Notes representing such Notes is exchanged for definitive Notes. In addition, in the event that any of the Global Notes is exchanged for definitive Notes, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

2. TRANSFERS OF REGISTERED NOTES

2.1 Transfers of Interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by Euroclear or Clearstream, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be exchangeable for Registered Notes in definitive form or for a beneficial interest in another Registered Global Note of the same series only in the authorised denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, as the case may be, and in accordance with the terms and conditions specified in the Trust Deed and the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for Euroclear or Clearstream shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of Euroclear or Clearstream or to a successor of Euroclear or Clearstream or such successor's nominee.

2.2 Transfers of Registered Notes Generally

Registered Notes may not be exchanged for Bearer Notes and *vice versa*.

Subject as provided in Condition 2.3 below, upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Definitive Registered Note may be transferred in whole or in part (in the authorised denominations set out in the applicable Pricing Supplement). In order to effect any such transfer:

- (a) the holder or holders must:
 - (i) surrender the Definitive Registered Note for registration of the transfer of the Definitive Registered Note (or the relevant part of the Definitive Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing; and
 - (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent; and
- (b) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request.

Any such transfer will be subject to such reasonable regulations as the Issuer, the Trustee, the Registrar, or as the case may be, the relevant Transfer Agent may prescribe (such initial regulations being set out in Schedule 3 to the Agency Agreement), which may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within seven business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations) authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by mail to such address as the transferee may request, a new Definitive Registered Note of a like aggregate nominal amount to the Definitive Registered Note (or the relevant part of the Definitive Registered Note) transferred. In the case of the transfer of part only of a Definitive Registered Note, a new Definitive Registered Note in respect of the balance of the Definitive Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

2.3 Registration of Transfer upon Partial Redemption

In the event of a partial redemption of Notes under Condition 7, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, that is called for partial redemption.

2.4 Costs of Registration

Registration of transfers will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent, but upon payment (or the giving of such indemnity and/or security and/or pre-funding as the Registrar or the relevant Transfer Agent may require) in respect of any tax or other governmental charges which may be imposed in relation to it provided that the Issuer shall not be responsible for any documentary stamp tax payable on the transfer of Notes effected in the Republic of the Philippines (the **Philippines**) unless the Issuer is the counterparty directly liable for that documentary stamp tax.

2.5 Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of, or payment of any Instalment Amount in respect of, that Note; and (ii) during the period of seven days ending on (and including) any Record Date (as defined in Condition 6.5).

3. STATUS

The Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

Under Philippine law unsecured debt (including guarantees of debt) of a borrower in insolvency or liquidation that is documented by a public instrument, as provided in Article 2244(14) of the Civil Code of the Philippines, ranks ahead of unsecured debt that is not so documented. Debt is treated as documented by a public instrument if it is acknowledged before a notary or any person authorised to administer oaths in the Philippines. The Issuer's debt which is documented by a public instrument will rank ahead of the Notes in the event the Issuer is unable to service its debt obligations.

In connection with the issuance of the Notes, the Issuer represents to the holders of such Notes that it has not prepared, executed or filed any public instrument, as provided in Article 2244(14) of the Civil Code of the Philippines, relating to any Relevant Indebtedness (as defined below), or consented to the preparation or filing of any such public instrument. In connection with the issuance of the Notes, the Issuer also agrees that it will not create or permit to subsist any preference or priority in respect of any Relevant Indebtedness pursuant to Article 2244(14) of the Civil Code of the Philippines unless it grants equal and ratable preference or priority to amounts payable under the Notes.

4. NEGATIVE PLEDGE

4.1 Negative Pledge

So long as any of the Notes remains outstanding (as defined in the Trust Deed):

- (a) the Issuer will not and the Issuer shall ensure that no Principal Subsidiary (as defined in Condition 10.1) of the Issuer will create or have outstanding any mortgage, charge, pledge, lien or other security interest (each, a **Security Interest**) upon, or with respect to, the whole or any part of its present or future undertaking, assets or revenues to secure any Relevant Indebtedness (as defined below) of the Issuer, unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:
 - (i) all amounts payable by it under the Notes and the Trust Deed (in respect of the Notes) are secured by the Security Interest equally and rateably with the Relevant Indebtedness to the satisfaction of the Trustee; or
 - (ii) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided which (A) the Trustee shall, in its absolute discretion, deem not materially less beneficial to the Noteholders, or (B) is approved by an Extraordinary Resolution (which is defined in the Trust Deed as a resolution duly passed by a majority of not less than three-fourths of the votes cast) of the Noteholders; and
- (b) the Issuer will not create or permit to subsist any preference or priority in respect of any other Relevant Indebtedness of the Issuer pursuant to Article 2244(14) of the Civil Code of the Philippines, or any successor Philippine law providing for preferences or priority in respect of notarised Relevant Indebtedness, unless amounts payable under the outstanding Notes are granted preference or priority equally and ratably therewith.

4.2 Interpretation

For the purposes of these Conditions:

- (a) **Relevant Indebtedness** means (i) any present or future indebtedness (whether being principal, premium, interest or other amounts) in the form of, or represented by, any bonds, notes,

debentures, loan stock or other securities (**Indebtedness**) having an original maturity of more than one year from its date of issue and which are for the time being (or in the case of Conditions 4.1(a) and 4.1(b) only are capable of being) quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market; and (ii) any guarantee or indemnity of any such indebtedness, provided that in the case of Condition 4.1(b), Relevant Indebtedness shall exclude (A) Indebtedness denominated, payable or optionally payable in Philippine Pesos and (B) if denominated, payable or optionally payable in U.S. dollars, Indebtedness in an aggregate principal amount not exceeding 5% of the consolidated total assets as shown in the latest audited balance sheet of the Issuer.

- (b) **Subsidiary** means in relation to any person (the **first person**) at any particular time, any other person (the **second person**):
- (i) whose affairs and policies the first person controls or has power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second person, or otherwise; or
 - (ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first person.

5. INTEREST

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are Bearer Notes in definitive form, except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in these Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Bearer Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (a) in the case of (i) Fixed Rate Notes which are represented by a Global Note or (ii) Registered Notes in definitive form, the aggregate outstanding nominal amount of the (A) Fixed Rate Notes represented by such Global Note or (B) such Registered Notes (or, in each case, if they are Partly Paid Notes, the aggregate amount paid up); or
- (b) in the case of Fixed Rate Notes which are Bearer Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure (including after application of any Fixed Coupon Amount or Broken Amount, as applicable, to the Calculation Amount in the case of Fixed Rate Notes which are Bearer Notes in definitive form) to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note which is a Bearer Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5.1:

- (a) if **Actual/Actual (ICMA)** is specified in the applicable Pricing Supplement:
 - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or
 - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
 - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
- (b) if **30/360** is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360; or
- (c) if **Actual/365 (Fixed)** is specified in the applicable Pricing Supplement, the actual number of days in the Accrual Period divided by 365.

In these Conditions:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

5.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period

specified as the **Specified Period** in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In these Conditions, **Interest Period** means (i) the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date and (ii) any other period (if any) in respect of which interest is to be calculated, being the period from (and including) the first day of such period to (but excluding) the day on which the relevant payment of interest falls due (which, if the relevant Series of Notes becomes due and payable in accordance with Condition 10, shall be the date on which such Notes become due and payable).

(b) **Rate of Interest**

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

- (i) *Screen Rate Determination for Floating Rate Notes (other than Floating Rate Notes which specify the Reference Rate as SOFR Benchmark)*

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined and the Reference Rate is specified as EURIBOR in the applicable Pricing Supplement, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation; or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page (as specified in the applicable Pricing Supplement) as of 11.00 a.m. (Brussels time in the case of EURIBOR, or other Relevant Financial Centre time) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph, provided, however, that Condition 5.2(h) shall apply if the Issuer or its designee has determined that a Benchmark Event (as defined in such Condition) has occurred.

- (ii) *Screen Rate Determination for Floating Rate Notes where the Reference Rate is specified as being SOFR Benchmark*

Where Screen Rate Determination is specified as the manner in which the Rate of Interest is to be determined and the Reference Rate is specified as SOFR Benchmark in the applicable Pricing Supplement, the Rate of Interest for each Interest Period will, subject as provided below, be equal to the relevant SOFR Benchmark plus or minus the Margin (if any), all as determined by the Calculation Agent on the relevant Interest Determination Date.

The **SOFR Benchmark** will be determined based on Simple SOFR Average, Compounded SOFR Average or Compounded SOFR Index, as follows (subject in each case to Condition 5.2(i) as further specified hereon):

- (A) If **Simple SOFR Average** is specified in the applicable Pricing Supplement as the manner in which the SOFR Benchmark will be determined, the SOFR Benchmark for each Interest Period shall be the arithmetic mean of SOFR for each U.S. Government Securities Business Day during such Interest Period, as calculated by the Calculation Agent, and where, if applicable and as specified in the applicable Pricing Supplement, SOFR on the SOFR Rate Cut-off Date shall be used for the U.S. Government Securities Business Day in the relevant Interest Period from (and including) the SOFR Rate Cut-off Date to (but excluding) the last day of that Interest Period.
- (B) If **Compounded SOFR Average** is specified in the applicable Pricing Supplement as the manner in which the SOFR Benchmark will be determined, the SOFR Benchmark for each Interest Period shall be equal to the compounded average of daily SOFR reference rates for each day during the relevant Interest Period (where SOFR Lag, SOFR Payment Delay or SOFR Lockout is specified in the applicable Pricing Supplement to determine Compounded SOFR Average) or the SOFR Observation Period (where SOFR Observation Shift is specified in the applicable Pricing Supplement to determine Compounded SOFR Average).

Compounded SOFR Average shall be calculated by the Calculation Agent in accordance with one of the formulas referenced below depending upon which is specified in the applicable Pricing Supplement:

- (1) SOFR Lag:

$$\left(\prod_{i=1}^{d_0} \left(1 + \frac{SOFR_{i-xUBSD} \times n_i}{360} \right) - 1 \right) \times \frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

d means the number of calendar days in the relevant Interest Period;

d₀ for any Interest Period, means the number of U.S. Government Securities Business Days in the relevant Interest Period;

i means a series of whole numbers ascending from one to d₀, representing each relevant U.S. Government Securities Business Days from (and including) the first U.S. Government Securities Business Day in the relevant Interest Period (each a **U.S. Government Securities Business Day “i”**);

Lookback Days means five U.S. Government Securities Business Days (or such other number of U.S. Government Securities Business Days as specified in the applicable Pricing Supplement);

“n_i” for any U.S. Government Securities Business Day “i” means the number of calendar days from (and including) such U.S. Government

Securities Business Day “*i*” up to (but excluding) the following U.S. Government Securities Business Day;

SOFR_{i-xUSBD} for any U.S. Government Securities Business Day “*i*” in the relevant Interest Period, is equal to SOFR for the U.S. Government Securities Business Day falling the number of Lookback Days prior to that U.S. Government Securities Business Day “*i*”; and

U.S. Government Securities Business Day means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(2) SOFR Observation Shift:

$$\left(\prod_{i=1}^{d_0} \left(1 + \frac{SOFR_i \times n_i}{360} \right) - 1 \right) \times \frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

d means the number of calendar days in the relevant SOFR Observation Period;

d₀ means the number of U.S. Government Securities Business Days in the relevant SOFR Observation Period;

i means a series of whole numbers ascending from one to d₀, representing each U.S. Government Securities Business Day from (and including) the first U.S. Government Securities Business Day in the relevant SOFR Observation Period (each a **U.S. Government Securities Business Day “*i*”**);

n_i for any U.S. Government Securities Business Day “*i*”, means the number of calendar days from (and including) such U.S. Government Securities Business Day “*i*” up to (but excluding) the following U.S. Government Securities Business Day;

SOFR_i for any U.S. Government Securities Business Day “*i*” in the relevant SOFR Observation Period, is equal to SOFR for that U.S. Government Securities Business Day “*i*”;

SOFR Observation Period means, in respect of each Interest Period, the period from (and including) the date falling the number of SOFR Observation Shift Days prior to the first day of the relevant Interest Period to (but excluding) the date falling the number of SOFR Observation Shift Days prior to the last day of such Interest Period;

SOFR Observation Shift Days means five U.S. Government Securities Business Days (or such other number of U.S. Government

Securities Business Days as specified in the applicable Pricing Supplement); and

U.S. Government Securities Business Day means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(3) SOFR Payment Delay:

$$\left(\prod_{i=1}^{d_0} \left(1 + \frac{SOFR_i \times n_i}{360} \right) - 1 \right) \times \frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

Interest Payment Date shall be the number of Interest Payment Delay Days following the date of each Specified Interest Period Date (as specified in the applicable Pricing Supplement), provided that the Interest Payment Date with respect to the final Interest Period will be the Maturity Date or the relevant date for redemption, as applicable;

Interest Payment Delay Days means five U.S. Government Securities Business Days (or such other number of Business Days as specified in the applicable Pricing Supplement);

d means the number of calendar days in the relevant Interest Period;

d₀ means the number of U.S. Government Securities Business Days in the relevant Interest Period;

i means a series of whole numbers ascending from one to d₀, representing each relevant U.S. Government Securities Business Day from (and including) the first U.S. Government Securities Business Day in the relevant Interest Period (each a **U.S. Government Securities Business Day “i”**);

n_i for any U.S. Government Securities Business Day “i”, means the number of calendar days from (and including) such U.S. Government Securities Business Day “i” up to (but excluding) the following U.S. Government Securities Business Day;

SOFR_i for any U.S. Government Securities Business Day “i” in the relevant Interest Period, is equal to SOFR for that U.S. Government Securities Business Day “i”; and

U.S. Government Securities Business Day means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

For the purposes of calculating Compounded SOFR Average with respect to the final Interest Period where SOFR Payment Delay is specified in the applicable Pricing Supplement, SOFR for each U.S. Government Securities Business Day in the period from (and including) the SOFR Rate Cut-off Date to (but excluding) the Maturity Date or the relevant date for redemption, as applicable, shall be SOFR in respect of such SOFR Rate Cut-off Date.

(4) SOFR Lockout:

$$\left(\prod_{i=1}^{d_0} \left(1 + \frac{SOFR_i \times n_i}{360} \right) - 1 \right) \times \frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

d means the number of calendar days in the relevant Interest Period;

d₀ means the number of U.S. Government Securities Business Days in the relevant Interest Period;

i means a series of whole numbers ascending from one to d₀, representing each relevant U.S. Government Securities Business Day from (and including) the first U.S. Government Securities Business Day in the relevant Interest Period (each a **U.S. Government Securities Business Day “i”**);

n_i for any U.S. Government Securities Business Day “i”, means the number of calendar days from (and including) such U.S. Government Securities Business Day “i” up to (but excluding) the following U.S. Government Securities Business Day;

SOFR_i for any U.S. Government Securities Business Day “i” in the relevant Interest Period, is equal to SOFR for that U.S. Government Securities Business Day “i”, except that the SOFR for any U.S. Government Securities Business Day “i” in respect of the period from (and including) the SOFR Rate Cut-off Date to (but excluding) the last day of such Interest Period shall be SOFR in respect of such SOFR Rate Cut-off Date; and

U.S. Government Securities Business Day means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

The following defined terms shall have the meanings set out below for the purposes of Conditions 5.2(b)(ii)(A) and 5.2(b)(ii)(B):

Bloomberg Screen SOFRRATE Page means the Bloomberg screen designated “SOFRRATE” or any successor page or service;

Reuters Page USDSOFR= means the Reuters page designated “USDSOFR=” or any successor page or service;

SOFR means, with respect to any U.S. Government Securities Business Day, the reference rate determined by the Calculation Agent in accordance with the following provisions:

- (1) the Secured Overnight Financing Rate published at the SOFR Determination Time as such reference rate is reported on the Bloomberg Screen SOFRRATE Page; the Secured Overnight Financing Rate published at the SOFR Determination Time as such reference rate is reported on the Reuters Page USDSOFR=; or the Secured Overnight Financing Rate published at the SOFR Determination Time on the SOFR Administrator's Website;
- (2) if the reference rate specified in (1) above does not appear and a SOFR Benchmark Event and its related SOFR Benchmark Replacement Date have not occurred, the SOFR reference rate shall be the reference rate published on the SOFR Administrator's Website for the first preceding U.S. Government Securities Business Day for which SOFR was published on the SOFR Administrator's Website; or
- (3) if the reference rate specified in (1) above does not appear and a SOFR Benchmark Event and its related SOFR Benchmark Replacement Date have occurred, the provisions set forth in Condition 5.2(i) shall apply; and

SOFR Determination Time means approximately 3:00 p.m. (New York City time) on the immediately following U.S. Government Securities Business Day;

SOFR Rate Cut-off Date means the date that is five U.S. Government Securities Business Days (or such other number of U.S. Government Securities Business Days as specified in the applicable Pricing Supplement) prior to the Interest Payment Date relating to the relevant Interest Period, the Maturity Date or the relevant Optional Redemption Date, as applicable; and

- (C) If **Compounded SOFR Index** is specified as applicable in the applicable Pricing Supplement, the SOFR Benchmark for each Interest Period shall be equal to the compounded average of daily SOFR reference rates for each day during the relevant SOFR Observation Period as calculated by the Calculation Agent as follows:

$$\left(\frac{SOFR\ Index_{End}}{SOFR\ Index_{Start}} - 1 \right) \times \left(\frac{360}{d_c} \right)$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

d_c means the number of calendar days in the applicable SOFR Observation Period;

SOFR Index means, with respect to any U.S. Government Securities Business Day the SOFR Index value as published on the SOFR Administrator's Website at the SOFR Index Determination Time on such U.S. Government Securities Business Day provided that:

- (1) if the value specified above does not appear and a SOFR Benchmark Event and its related SOFR Benchmark Replacement Date have not

occurred, the “Compounded SOFR Index” shall be calculated on any Interest Determination Date with respect to an Interest Period, in accordance with the Compounded SOFR Average formula described above in Condition 5.2(b)(ii)(B)(2), and the term “SOFR Observation Shift Days” shall mean five U.S. Government Securities Business Days (or such other number of U.S. Government Securities Business Days as specified in the applicable Pricing Supplement); or

- (2) if the value specified above does not appear and a SOFR Benchmark Event and its related SOFR Benchmark Replacement Date have occurred, the provisions set forth in Condition 5.2(i) shall apply as specified in the applicable Pricing Supplement;

SOFR Index_{End} means, in respect of an Interest Period, the SOFR Index value on the date that is five U.S. Government Securities Business Days (or such other number of U.S. Government Securities Business Days as specified in the applicable Pricing Supplement) preceding the last day of such Interest Period (or in the final Interest Period, the Maturity Date);

SOFR Index_{Start} means, in respect of an Interest Period, the SOFR Index value on the date that is five U.S. Government Securities Business Days (or such other number of U.S. Government Securities Business Days as specified in the applicable Pricing Supplement) prior to the first day of the relevant Interest Period;

SOFR Index Determination Time means, in relation to any U.S. Government Securities Business Day, approximately 3:00 p.m. (New York City time) on such U.S. Government Securities Business Day;

SOFR Observation Period means, in respect of an Interest Period, the period from (and including) the date falling the number of SOFR Observation Shift Days prior to the first day of such Interest Period to (but excluding) the date falling the number of SOFR Observation Shift Days prior to the last day of such Interest Period; and

SOFR Observation Shift Days means five U.S. Government Securities Business Days (or such other number of U.S. Government Securities Business Days as specified in the applicable Pricing Supplement).

The following defined terms shall have the meanings set out below for the purpose of this Condition 5.2(b)(ii)(C):

SOFR Administrator means the Federal Reserve Bank of New York or any successor administrator of the SOFR Index value and Secured Overnight Financing Rate;

SOFR Administrator’s Website means the website of the SOFR Administrator (currently being, <https://apps.newyorkfed.org/markets/autorates/sofr-avg-ind>), or any successor source;

SOFR Benchmark Replacement Date means the Benchmark Replacement Date (as defined in Condition 5.2(i)) with respect to the then-current SOFR Benchmark;

SOFR Benchmark Event means the occurrence of a Benchmark Event (as defined in Condition 5.2(i)) with respect to the then-current SOFR Benchmark; and

U.S. Government Securities Business Day or **USBD** means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(iii) If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than EURIBOR or SOFR, the Rate of Interest in such Notes will be determined as provided in the applicable Pricing Supplement.

(iv) In these Conditions:

Reference Rate means the rate specified in the applicable Pricing Supplement; and

Relevant Screen Page means such page, section, caption, column or other part of a particular information service as may be specified in the applicable Pricing Supplement or such successor or replacement page, section, caption, column or other part as may replace it on that information service.

(c) **Minimum Rate of Interest and/or Maximum Rate of Interest**

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph 5.2(b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph 5.2(b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

Unless otherwise stated in the applicable Pricing Supplement, the Minimum Rate of Interest shall be deemed to be zero.

(d) **Determination of Rate of Interest and Calculation of Interest Amounts**

The Calculation Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period and notify the Issuer, the Trustee, and the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Issuer hereby agrees that it shall not name Citibank, N.A., London Branch as Calculation Agent in the Conditions, Pricing Supplements and/or any other transaction document (the “**Transaction Documents**”) for any Series of Notes where the Calculation Agent is required to form an opinion and/or exercise discretion and/or determine alternative and/or substitute benchmarks, reference rates, successor reference rates and/or screen pages, interest adjustment factors/fractions or spreads, market disruptions or selections of reference banks. If, for whatever reason, any clause or reference or statement in the Transaction Documents refers to the Calculation Agent forming an opinion and/or exercising and/or determining alternative and/or substitute benchmarks, reference rates, successor reference rates and/or screen pages, interest adjustment factors/fractions or spreads, market disruptions or selection of reference banks and Citibank, N.A., London Branch has been appointed in such capacity then such reference to the Calculation Agent shall be construed as a reference to the Issuer exercising such opinions and/or discretions and/or making such determinations and/or selections for the relevant Series of Notes.

The Calculation Agent (or other Paying Agent, as specified in the applicable Pricing Supplement) will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

- (i) in the case of Floating Rate Notes or Index Linked Interest Notes which (i) are represented by a Global Note or (ii) Registered Notes in definitive form, the aggregate outstanding nominal amount of (A) the Notes represented by such Global Note or (B) such Registered Notes (or, in each case, if they are Partly Paid Notes, the aggregate amount paid up); or
- (ii) in the case of Floating Rate Notes or Index Linked Interest Notes which are Bearer Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note which is a Bearer Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5.2:

- (i) if **Actual/Actual (ISDA)** or **Actual/Actual** is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if **Actual/365 (Fixed)** is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (iii) if **Actual/365 (Sterling)** is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if **Actual/360** is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (v) if **30/360, 360/360** or **Bond Basis** is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

- (A) **Y₁** is the year, expressed as a number, in which the first day of the Interest Period falls;
- (B) **Y₂** is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;
- (C) **M₁** is the calendar month, expressed as a number, in which the first day of the Interest Period falls;
- (D) **M₂** is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

- (E) **D₁** is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and
 - (F) **D₂** is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;
- (vi) if **30E/360** or **Eurobond Basis** is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

- (A) **Y₁** is the year, expressed as a number, in which the first day of the Interest Period falls;
 - (B) **Y₂** is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;
 - (C) **M₁** is the calendar month, expressed as a number, in which the first day of the Interest Period falls;
 - (D) **M₂** is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;
 - (E) **D₁** is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and
 - (F) **D₂** is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30; and
- (vii) if **30E/360 (ISDA)** is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

- (A) **Y₁** is the year, expressed as a number, in which the first day of the Interest Period falls;
- (B) **Y₂** is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;
- (C) **M₁** is the calendar month, expressed as a number, in which the first day of the Interest Period falls;
- (D) **M₂** is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;
- (E) **D₁** is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

- (F) **D₂** is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30.

(e) **Notification of Rate of Interest and Interest Amounts**

The Principal Paying Agent or, as the case may be, the Calculation Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and the Trustee as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Notice thereof shall promptly be given by the Issuer to the Noteholders and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have been admitted to listing, trading and/or quotation. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified by the Issuer to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression London Business Day means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(f) **Determination or Calculation by Trustee**

If for any reason at any relevant time the Principal Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Principal Paying Agent defaults in its obligation to calculate any Interest Amount in accordance with paragraph 5.2(b)(i) above or paragraph 5.2(b)(ii) above or as otherwise specified in the applicable Pricing Supplement, as the case may be, and in each case in accordance with paragraph 5.2(d) above, the Trustee shall (or shall, at the expense of the Issuer, appoint an agent to) determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Pricing Supplement), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee (or an agent appointed by it) shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Principal Paying Agent or the Calculation Agent, as applicable.

(g) **Certificates to be Final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5, whether by the Principal Paying Agent or, if applicable, the Calculation Agent or the Trustee (or its agent), shall (in the absence of wilful default, fraud or manifest error) be binding on the Issuer, the Trustee, the Principal Paying Agent, the Registrar, the Calculation Agent (if applicable), the other Paying Agents, the Transfer Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent, the Registrar, the other Paying Agents, the Transfer Agents or the Trustee in connection with the exercise or non-exercise by any of them of their powers, duties and discretions pursuant to such provisions.

(h) **Benchmark Replacement (General)**

In addition, notwithstanding the provisions above in this Condition 5, if the Issuer determines that a Benchmark Event has occurred when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Reference Rate, then the following provisions shall apply:

- (i) the Issuer shall use reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine (acting in good faith and a commercially reasonable manner), no later than five Business Days prior to the relevant Interest Determination Date relating to the next succeeding Interest Period (the **IA Determination Cut-off Date**), a Successor Rate or, alternatively if there is no Successor Rate, an Alternative Reference Rate for purposes of determining the Rate of Interest (or the relevant component part thereof) applicable to the Notes;
- (ii) if the Issuer is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine a Successor Rate or an Alternative Reference Rate prior to the IA Determination Cut-off Date, the Issuer (acting in good faith and in a commercially reasonable manner) may determine a Successor Rate or, if there is no Successor Rate, an Alternative Reference Rate;
- (iii) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) is determined in accordance with the preceding provisions, such Successor Rate or, failing which, an Alternative Reference Rate (as applicable) shall be the Reference Rate for each of the future Interest Periods (subject to the subsequent operation of, and to adjustment as provided in, this Condition 5.2(h)); provided, however, that if sub-paragraph (ii) applies and the Issuer is unable to or does not determine a Successor Rate or an Alternative Reference Rate prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the preceding Interest Period (or alternatively, if there has not been a first Interest Payment Date, the rate of interest shall be the initial Rate of Interest (if any)) (subject, where applicable, to substituting the Margin that applied to such preceding Interest Period for the Margin that is to be applied to the relevant Interest Period and, if applicable, to any Maximum Rate of Interest and/or Minimum Rate of Interest applicable to the relevant Interest Period); for the avoidance of doubt, the proviso in this sub-paragraph (iii) shall apply to the relevant Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 5.2(h);
- (iv) if the Independent Adviser or the Issuer determines a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) in accordance with the above provisions, the Independent Adviser or the Issuer (as applicable), may also specify changes to these Conditions, including but not limited to the Day Count Fraction, Relevant Screen Page, Business Day Convention, Business Days, Interest Determination Date and/or the definition of Reference Rate applicable to the Notes, and the method for determining the fallback rate in relation to the Notes, in order to follow market practice in relation to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser (in consultation with the Issuer) or the Issuer (as applicable) determines that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser or the Issuer (as applicable) is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread. For the avoidance of doubt, the Trustee and Principal and Paying Agent shall, at the direction and expense of the Issuer, effect such consequential amendments to the Trust Deed, the Agency Agreement and these Conditions as may be required in order to give effect to this Condition 5.2(h). Noteholder consent shall not be required in connection with effecting the Successor Rate or Alternative Reference Rate (as applicable) or such other changes, including for the execution of any documents or other steps by the Trustee or Principal and Paying Agent (if required); and
- (v) the Issuer shall promptly, following the determination of any Successor Rate or Alternative Reference Rate (as applicable), give notice thereof to the Trustee, the Principal and Paying Agent and the Noteholders, which shall specify the effective

date(s) for such Successor Rate or Alternative Reference Rate (as applicable) and any consequential changes made to these Conditions.

An Independent Adviser appointed pursuant to these Conditions will act as an expert and (in the absence of gross negligence, wilful default or fraud) shall have no liability whatsoever to the Trustee or the Noteholders for any determination made by it under these Conditions.

For the purposes of this Condition 5.2(h):

Adjustment Spread means a spread (which may be positive, negative or zero) or formula or methodology for calculating a spread, which the Independent Adviser (in consultation with the Issuer) or the Issuer (as applicable), determines is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to Noteholders, Receiptholders and Couponholders as a result of the replacement of the Reference Rate with the Successor Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

- (i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body; or
- (ii) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Independent Adviser (in consultation with the Issuer) or the Issuer (as applicable) determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or
- (iii) if no such customary market usage is recognised or acknowledged, the Independent Adviser (in consultation with the Issuer) or the Issuer in its discretion (as applicable), determines (acting in good faith and in a commercially reasonable manner) to be appropriate;

Alternative Reference Rate means the rate that the Independent Adviser or the Issuer (as applicable) determines has replaced the relevant Reference Rate in customary market usage in international debt capital markets transactions for the purposes of determining rates of interest in respect of bonds denominated in the Specified Currency and of a comparable duration to the relevant Interest Period, or, if the Independent Adviser or the Issuer (as applicable) determines that there is no such rate, such other rate as the Independent Adviser or the Issuer (as applicable) determines in its discretion (acting in good faith and in a commercially reasonable manner) is most comparable to the relevant Reference Rate;

Benchmark Event means:

- (i) the Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist;
- (ii) a public statement by the administrator of the Reference Rate that it has ceased or that it will cease publishing the Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Reference Rate);
- (iii) a public statement by the supervisor of the administrator of the Reference Rate, that the Reference Rate has been or will be permanently or indefinitely discontinued; or
- (iv) a public statement by the supervisor of the administrator of the Reference Rate as a consequence of which the Reference Rate will be prohibited from being used either generally, or in respect of the Notes;

- (v) a public statement by the supervisor of the administrator of the Reference Rate that the Reference Rate is or will be (or is or will be deemed by such supervisor to be) no longer representative of its relevant underlying market; or
- (vi) it has become unlawful for any Paying Agent, the Calculation Agent(s) or the Issuer to calculate any payments due to be made to any Noteholder using the Reference Rate;

provided that the Benchmark Event shall be deemed to occur (a) in the case of paragraphs (ii) and (iii) above, on the date of the cessation of publication of the Reference Rate, or the discontinuation of the Reference Rate, as the case may be; (b) in the case of paragraph (iv) on the date of the prohibition of use of the Reference Rate; and (c) in the case of paragraph (v) above, on the date with effect from which the Reference Rate will no longer be (or will be deemed by the relevant supervisor to no longer be) representative of its relevant underlying market and which is specified in the relevant public statement, and, in each case, not the date of the relevant public statement.

The occurrence of a Benchmark Event shall be determined by the Issuer and promptly notified to the Trustee, the Calculation Agent(s) and the Paying Agents. For the avoidance of doubt, neither the Trustee, the Calculation Agent(s) nor the Paying Agents shall have any responsibility for making such determination.

Independent Adviser means an independent financial institution of international repute or an independent financial adviser experienced in the international debt capital markets, in each case appointed by the Issuer at its own expense;

Relevant Nominating Body means, in respect of the Reference Rate:

- (i) the central bank for the currency to which the Reference Rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate; or
- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of:
 - (A) the central bank for the currency to which the Reference Rate relates;
 - (B) any central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate (as applicable);
 - (C) a group of the aforementioned central banks or other supervisory authorities; or
 - (D) the Financial Stability Board or any part thereof; and

Successor Rate means the rate that the Independent Adviser or the Issuer (as applicable) determines is a successor to or replacement of the Reference Rate which is formally recommended by any Relevant Nominating Body.

(i) **Benchmark Replacement (SOFR)**

The following provisions shall apply if Benchmark Discontinuation (SOFR) is specified in the applicable Pricing Supplement:

(i) **Benchmark Replacement**

If the Issuer or its designee determines on or prior to the relevant Reference Time that a Benchmark Event and its related Benchmark Replacement Date have occurred with respect to the then-current Benchmark, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Notes in respect of all determinations on such date and for all determinations on all subsequent dates.

(ii) Benchmark Replacement Conforming Changes

In connection with the implementation of a Benchmark Replacement, the Issuer or its designee will have the right to make Benchmark Replacement Conforming Changes from time to time. At the request of the Issuer, but subject to receipt by the Trustee, the Principal Paying Agent and the Calculation Agent of a certificate signed by two authorised officers of the Issuer, the Trustee, the Principal Paying Agent and the Calculation Agent shall (at the expense and direction of the Issuer), without any requirement for the consent or approval of the Noteholders, be obliged to concur with such determination by the Issuer or its designee in using its reasonable endeavours in effecting any Benchmark Replacement Conforming Changes (including, inter alia, by the execution of a deed and/or agreement supplemental to or amending the Trust Deed and/or Agency Agreement) and the Trustee, the Principal Paying Agent and the Calculation Agent shall not be liable to any party for any consequences thereof, provided that the Trustee, the Principal Paying Agent and the Calculation Agent shall not be obliged so to concur if, in the opinion of the Trustee, the Principal Paying Agent and/or the Calculation Agent doing so would impose more onerous obligations upon them or expose them to any additional duties, responsibilities or liabilities or reduce or amend the rights and/or the protective provisions afforded to them in these Conditions, the Trust Deed, the Agency Agreement and/or any documents to which it is a party (including, for the avoidance of doubt, any supplemental trust deed and/or agency agreement) in any way.

Noteholders' consent shall not be required in connection with effecting any such changes, including the execution of any documents or any steps to be taken by the Trustee and the Agents (if required). Further, none of the Trustee, the Calculation Agent, the Paying Agents, the Registrar or the Transfer Agents shall be responsible or liable for any determinations, decisions or elections made by the Issuer or its designee with respect to any Benchmark Replacement or any other changes and shall be entitled to rely conclusively on any certifications provided to each of them in this regard.

(iii) Decisions and Determinations

Any determination, decision or election that may be made by the Issuer or its designee pursuant to this Condition 5.2(i), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection (1) will be conclusive and binding absent manifest error, (2) will be made in the sole discretion of the Issuer or its designee, as applicable, and (3) notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from the holders of the Notes or any other party.

(iv) Certain Defined Terms:

As used in this Condition 5.2(i):

Benchmark means, initially, the relevant SOFR Benchmark specified in the applicable Pricing Supplement; provided that if the Issuer or its designee determines on or prior to the Reference Time that a Benchmark Event and its related Benchmark Replacement Date have occurred with respect to the relevant SOFR Benchmark (including any daily published component used in the calculation thereof) or the then-current Benchmark, then **Benchmark** means the applicable Benchmark Replacement;

Benchmark Event means the occurrence of one or more of the following events with respect to the then-current Benchmark (including any daily published component used in the calculation thereof):

- (A) a public statement or publication of information by or on behalf of the administrator of the Benchmark (or such component) announcing that such administrator has ceased or will cease to provide the Benchmark (or such

component), permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

- (B) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark (or such component), the central bank for the currency of the Benchmark (or such component), an insolvency official with jurisdiction over the administrator for the Benchmark (or such component), a resolution authority with jurisdiction over the administrator for the Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark (or such component) has ceased or will cease to provide the Benchmark (or such component) permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or
- (C) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative;

Benchmark Replacement means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

- (A) the sum of:
 - (1) the alternate reference rate that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof); and
 - (2) the Benchmark Replacement Adjustment;
- (B) the sum of:
 - (1) the ISDA Fallback Rate; and
 - (2) the Benchmark Replacement Adjustment; or
- (C) the sum of:
 - (1) the alternate reference rate that has been selected by the Issuer or its designee as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) giving due consideration to any industry-accepted reference rate as a replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) for U.S. dollar-denominated Floating Rate Notes at such time; and
 - (2) the Benchmark Replacement Adjustment;

Benchmark Replacement Adjustment means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

- (A) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;

- (B) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment; or
- (C) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer or its designee giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark (including any daily published component used in the calculation thereof) with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated Floating Rate Notes at such time;

Benchmark Replacement Conforming Changes means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) the Issuer or its designee decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer or its designee decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer or its designee determine that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer or its designee determines is reasonably necessary);

Benchmark Replacement Date means the earliest to occur of the following events with respect to the then-current Benchmark (including any daily published component used in the calculation thereof):

- (A) in the case of sub-paragraph (A) or (B) of the definition of “Benchmark Event”, the later of:
 - (1) the date of the public statement or publication of information referenced therein; and
 - (2) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component); or
- (B) in the case of sub-paragraph (C) of the definition of “Benchmark Event”, the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination;

designee means a designee as selected and separately appointed by the Issuer in writing;

ISDA Definitions means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time;

ISDA Fallback Adjustment means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark;

ISDA Fallback Rate means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark (including any daily published

component used in the calculation thereof) for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

Reference Time with respect to any determination of the Benchmark means (1) if the Benchmark is the SOFR Benchmark, the SOFR Determination Time (where Compounded SOFR Average is specified in the applicable Pricing Supplement) or SOFR Index Determination Time (where Compounded SOFR Index is specified in the applicable Pricing Supplement), or (2) if the Benchmark is not the SOFR Benchmark, the time determined by the Issuer or its designee after giving effect to the Benchmark Replacement Conforming Changes;

Relevant Governmental Body means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto; and

Unadjusted Benchmark Replacement means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

5.3 Interest on Dual Currency Interest Notes

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

5.4 Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

5.5 Accrual of Interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) as provided in the Trust Deed.

5.6 Definitions

In these Conditions, if a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (a) in any case where Specified Periods are specified in accordance with Condition 5.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply mutatis mutandis or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls in the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (b) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

- (c) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (d) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, **Business Day** means:

- (a) a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Metro Manila and in each Additional Business Centre specified in the applicable Pricing Supplement; and
- (b) either (i) in relation to any sum payable in a Specified Currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); or (ii) in relation to any sum payable in euro, a day on which the real time gross settlement system operated by Eurosystem, or any successor or replacement for that system (**T2**) is open; or (iii) in relation to any sum payable in Renminbi, a day on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

6. PAYMENTS

6.1 Method of Payment

Subject as provided below:

- (a) payments in a Specified Currency other than euro and Renminbi will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively);
- (b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee; and
- (c) payments in Renminbi will be made by transfer to a Renminbi account maintained by or on behalf of the payee with a bank in Hong Kong.

- 6.2 Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto.

6.3 Presentation of Definitive Bearer Notes, Receipts and Coupons.

Payments of principal in respect of Definitive Bearer Notes will (subject as provided below) be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Definitive Bearer Notes, and payments of interest in respect of Definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as

used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principals (if any) in respect of Definitive Bearer Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 6.1 above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Definitive Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Definitive Bearer Note to which it appertains. Receipts presented without the Definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any Definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Note** is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any Definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable 6.3 against surrender of the relevant Definitive Bearer Note.

6.4 Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of any Bearer Global Note will (subject as provided below) be made in the manner specified above in relation to Definitive Bearer Notes or otherwise in the manner specified in the relevant Bearer Global Note against presentation or surrender, as the case may be, of such Bearer Global Note at the specified office of any Paying Agent outside the United States.

A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Note either by the Paying Agent to which it was presented and/or in the records of Euroclear and Clearstream, as applicable, and such record shall be prima facie evidence that the payment in question has been made.

6.5 Payments in respect of Registered Notes

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note will be made against presentation and surrender (or, in the case of part payment of any

sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made on the due date by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the **Register**) (i) where in global form, at the close of the business day (being for this purpose, in respect of Notes clearing through Euroclear and Clearstream, a day on which Euroclear and Clearstream are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (a) a holder does not have a Designated Account or (b) the principal amount of the Notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment (in the case of a currency other than Renminbi) will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, **Designated Account** means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account and, in the case of a payment in Renminbi, means the Renminbi account maintained by or on behalf of the payee with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment) maintained by a holder with a Designated Bank and identified as such in the Register and **Designated Bank** means (in the case of payment in a Specified Currency other than euro and Renminbi) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro and (in the case of a payment in Renminbi) a bank in Hong Kong.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note (in the case of a Specified Currency other than Renminbi) will be made on the due date by transfer to the Designated Account of the holder (or the first named of joint holders) of the Registered Note appearing in the Register (i) where in global form, at the close of the business day (being for this purpose, in respect of Notes clearing through Euroclear and Clearstream, a day on which Euroclear and Clearstream are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifth day (in the case of Renminbi) and the fifteenth day (in the case of a currency other than Renminbi, whether or not such fifteenth day is a business day) before the relevant due date (the **Record Date**) at his address shown in the Register on the Record Date and at his risk.

Payments of interest and payments of instalments of principal (other than the final instalment) in Renminbi shall be made by transfer to the registered account of the payee. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest or an instalment of principal (other than the final instalment) in respect of a Registered Note form, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final instalment will be made in the same manner as payment of the principal amount of such Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Note.

None of the Issuer, the Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

6.6 General Provisions Applicable to Payments

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the

holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, as the case may be, for his share of each payment so made by the Issuer or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. Dollars, such U.S. Dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. Dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;
- (b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. Dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

6.7 Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day (as defined below), the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 9) is:

- (a) a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Metro Manila and:
 - (i) in the case of Notes in definitive form only, the relevant place of presentation; and
 - (ii) in each Additional Financial Centre specified in the applicable Pricing Supplement; and
 - (iii) either (A) in relation to any sum payable in a Specified Currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); or (B) in relation to any sum payable in euro, a day on which T2 is open; or (C) in relation to any sum payable in Renminbi, a day on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

6.8 Interpretation of Principal and Interest

Any reference in these Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 8 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;

- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7.5); and
- (g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

7. REDEMPTION AND PURCHASE

7.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

7.2 Redemption for Tax Reasons

Subject to Condition 7.5, the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note, nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 and not more than 60 days' notice to the Trustee and the Principal Paying Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of such notice that:

- (a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay or withhold or deduct Additional Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of, or rulings promulgated in, a Tax Jurisdiction (as defined in Condition 8) or any change in the application or official interpretation or administration of such laws, regulations, or rulings, which change, amendment, application, interpretation, or administration becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes for such Series; and
- (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee to make available at its specified office to the Noteholders (i) a certificate signed by an authorised officer of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change, or amendment, application, interpretation, or administration. The Trustee shall be entitled without further action or enquiry to accept the certificate(s) and the opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders and the Trustee shall make such certificates available for inspection during normal business hours at its registered office for the time being.

Notes redeemed pursuant to this Condition 7.2 will be redeemed at their Early Redemption Amount referred to in Condition 7.5 below together (if any) with interest accrued to (but excluding) the date of redemption.

7.3 Redemption at the Option of the Issuer (Issuer Call)

If Issuer Call is specified as being applicable in the applicable Pricing Supplement, the Issuer may, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 14, (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and/or not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Pricing Supplement.

In the case of a partial redemption of Notes (or, as the case may be, parts of Registered Notes), the Notes to be redeemed (**Redeemed Notes**) will be selected in such place as the Trustee may approve and in such manner as it deems fit, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, the Issuer will ensure that a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes or represented by a Global Note shall in each case bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding and Notes outstanding represented by such Global Note, respectively, bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that, if necessary, appropriate adjustments shall be made to such nominal amounts to ensure that each represents an integral multiple of the Specified Denomination. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

7.4 Redemption of the Notes at the Option of the Noteholders (Investor Put)

If Investor Put is specified as being applicable in the applicable Pricing Supplement, upon the holder of any Notes giving to the Issuer in accordance with Condition 14 not less than 15 and not more than 30 days' notice (which notice shall be irrevocable) the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, such Note on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date.

To exercise the right to require redemption of a Note the holder of the Note must:

- (a) if the Note is in definitive form and held outside Euroclear and Clearstream, deliver a duly signed and completed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent, Transfer Agent or the Registrar (a **Put Notice**) accompanied by the definitive Note, to the specified office of any Paying Agent in the case of Bearer Notes, or of any Transfer Agent or the Registrar in the case of Registered Notes; or
- (b) if the Note is represented by a Global Note held on behalf of Euroclear or Clearstream, to exercise the right to require redemption of the Notes, the holder of this Note must, give a Put Notice in accordance with the standard procedures of Euroclear or Clearstream (which may include notice being given on his instruction by Euroclear or Clearstream for them to the Principal Paying Agent by electronic means) accompanied by the relevant Global Note for notation accordingly to the specified office of any Paying Agent, at any time within the notice period during normal business hours of such Paying Agent, Transfer Agent or the Registrar. In the Put Notice the holder must specify a bank account to which payment is to be made under this Condition, and in the case of Registered Notes, the nominal amount thereof to be redeemed

and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2. If the Note is in definitive bearer form, the Put Notice must be accompanied by the Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

7.5 Early Redemption Amounts

For the purpose of Conditions 7.2 and 7.4 above and Condition 10, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or in the case of a Zero Coupon Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

Early Redemption Amount = $RP \times (1 + AY)^y$ where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is the Day Count Fraction specified in the applicable Pricing Supplement which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

7.6 Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 7.5 above.

7.7 Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

7.8 Purchases

Subject to applicable laws, Notes may at any time be purchased by or on behalf of the Issuer (provided that, in the case of definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held,

reissued, resold or, at the option of the Issuer surrendered to any Paying Agent and/or the Registrar for cancellation.

7.9 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes redeemed and so cancelled and any Notes purchased and cancelled pursuant to Condition 7.8 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent (which shall notify the Registrar of such cancelled Notes in the case of Registered Notes) and may not be reissued or resold.

7.10 Late Payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Conditions 7.1, 7.2, 7.3 or 7.4 above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 7.5 above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Note has been received by the Trustee or the Principal Paying Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

8. TAXATION

8.1 Payment without Withholding

All payments of principal, premium and interest by or on behalf of the Issuer in respect of the Notes, Receipts and Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within any Tax Jurisdiction, unless such withholding or deduction is required by law. In such event, the Issuer shall pay such additional amounts (the **Additional Amounts**) as will result in receipt by the holders of the Notes, Receipts or Coupons of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note, Receipt or Coupon:

- (a) presented for payment in the Philippines;
- (b) to or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon;
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on surrendering the relevant Note, Receipt or Coupon for payment on the last day of such period of 30 days assuming that day to have been a Payment Day (as defined in Condition 6.7); or
- (d) for or on account of any tax, deduction, or withholding imposed under Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto.

8.2 Interpretation

As used herein:

- (a) **Tax Jurisdiction** means the Philippines or any political subdivision or any authority thereof or therein having power to tax; and
- (b) **Relevant Date** in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders in accordance with Condition 14 that, upon further surrender of the relevant Note, Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

9. PRESCRIPTION

The Notes (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8.2) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6.2 or any Talon which would be void pursuant to Condition 6.2.

10. EVENTS OF DEFAULT AND ENFORCEMENT

10.1 Events of Default

If any of the following events (each an **Event of Default**) occurs and is continuing, the Trustee at its discretion may, and if so requested in writing by the holders of at least 25% in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction), give notice in writing to the Issuer that each Note is, and each Note shall thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest, any premium, and any Additional Amounts, as provided in the Trust Deed:

- (a) **Non-Payment:** there is failure to pay the principal or interest on any of the Notes when due and, in the case of failure to pay interest, such failure continues for a period of 14 days; or
- (b) **Breach of Other Obligations:** the Issuer defaults in the performance or observance of, or compliance with, any one or more of its other obligations under the Conditions or the Trust Deed and (except in any case where, in the opinion of the Trustee, the failure is incapable of remedy, such determination being binding on all parties and the Trustee shall not be liable for any such determination) the failure continues for a period of 30 days next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
- (c) **Cross-Default:** (i) any other present or future indebtedness of the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any event of default (howsoever described), (ii) the Issuer or any of its Subsidiaries fails to make any payment in respect of any indebtedness for borrowed money on the due date for payment or within the applicable grace period, (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money of any other person, provided that no event described in this subparagraph (c) shall constitute an Event of Default unless the relevant amount of indebtedness for borrowed money or other relative liability due and unpaid, either alone or when aggregated (without duplication) with other amounts of indebtedness for borrowed money and/or other liabilities due and unpaid relative to all (if any) other events specified in (i) to (iii) above, amounts to at least US\$15,000,000 (or its equivalent in any other currency); or

- (d) **Judgment, Decree or Order:** a final judgment, decree or order has been entered against the Issuer or any Subsidiary of the Issuer by a court of competent jurisdiction from which no appeal may be made or is taken for the payment of money in excess of U.S.\$10,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates) and any relevant period specified for payment of such judgment, decree or order shall have expired without it being satisfied, discharged or stayed; or
- (e) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Issuer or any Principal Subsidiary of the Issuer and is not discharged or stayed within 60 days of having been so levied, enforced or sued; or
- (f) **Security Enforced:** any Security Interest, present or future, created or assumed by the Issuer or any Principal Subsidiary of the Issuer becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person) and the indebtedness secured by the Security Interest is not discharged or such steps stayed within 60 days of such steps being so taken (or such longer period as the Issuer satisfies the Trustee is appropriate in relation to the jurisdiction concerned); or
- (g) **Insolvency:** the Issuer or any Principal Subsidiary of the Issuer (i) is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, (ii) stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, (iii) proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), (iv) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts, or (v) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any Principal Subsidiary of the Issuer; or
- (h) **Winding-up:** an order of a court of competent jurisdiction is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any Principal Subsidiary of the Issuer, or the Issuer or any Principal Subsidiary of the Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by (i) a reconstruction, amalgamation, reorganisation, merger or consolidation (x) on terms approved by a resolution of the Noteholders, or (y) in the case of a Principal Subsidiary, whereby the undertaking and assets of the Principal Subsidiary are transferred to or otherwise vested in the Issuer or another Subsidiary pursuant to a merger of the Principal Subsidiary with the Issuer or such other Subsidiary or by way of a voluntary winding-up or dissolution where there are surplus assets in such Principal Subsidiary and such surplus assets attributable to the Issuer and/or any other Subsidiary are distributed to the Issuer and/or any such other Subsidiary or (ii) a merger or consolidation with respect to the Issuer which is not materially prejudicial to the interests of the Noteholders; or
- (i) **Bankruptcy Proceedings:** proceedings shall have been initiated against the Issuer or any Principal Subsidiary of the Issuer under any applicable bankruptcy, insolvency, reorganisation law and such proceedings shall not have been discharged or stayed within a period of 60 days; or
- (j) **Repudiation:** the Issuer shall contest in writing the validity or enforceability of any of the Notes or shall deny generally in writing the liability of the Issuer, under any of the Notes; or
- (k) **Nationalisation:** any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of, in the case of the Issuer, all or a substantial part of its assets; or

- (l) **Illegality:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes; or
- (m) **Analogous Events:** any event occurs, which, under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs of this Condition 10.1.

In these Conditions, a **Principal Subsidiary** means, at any time, any Subsidiary of the Issuer:

- (i) whose revenue or (in the case of a Subsidiary which itself has Subsidiaries) consolidated revenue, as shown by its latest audited income statements is at least 5% of the consolidated revenue as shown by the latest published audited consolidated income statements of the Issuer and its Subsidiaries including, for the avoidance of doubt, the Issuer and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or
- (ii) whose net profit or (in the case of a Subsidiary which itself has Subsidiaries) consolidated net profit, as shown by its latest audited income statements is at least 5% of the consolidated net profit as shown by the latest published audited consolidated income statements of the Issuer and its Subsidiaries including, for the avoidance of doubt, the Issuer and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or
- (iii) whose total assets or (in the case of a Subsidiary which itself has Subsidiaries) consolidated total assets, as shown by its latest audited balance sheet are at least 5% of the amount which equals the amount included in the consolidated total assets of the Issuer and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Issuer and its Subsidiaries including, for the avoidance of doubt, the investment of the Issuer in each Subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Issuer and after adjustment for minority interests;

provided that, in relation to paragraphs (i), (ii) and (iii) above of this definition:

- (A) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Issuer relate, the reference to the then latest consolidated audited accounts of the Issuer for the purposes of the calculation above shall, until consolidated audited accounts of the Issuer for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published be deemed to be a reference to the then latest consolidated audited accounts of the Issuer adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;
- (B) if at any relevant time in relation to the Issuer or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, revenue, net profit or total assets of the Issuer and/or any such Subsidiary shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by or on behalf of the Issuer;
- (C) if at any relevant time in relation to any Subsidiary, no accounts are audited, its revenue, net profit or total assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by or on behalf of the Issuer;
- (D) if the accounts of any subsidiary (not being a Subsidiary referred to in paragraph (i) above of this definition) are not consolidated with those of the Issuer, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Issuer prepared for this purpose by or on behalf of the Issuer; and
- (E) in the case of a Subsidiary to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, the

Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall become a Principal Subsidiary upon such transfer but shall cease to be a Principal Subsidiary at the date on which the first published audited accounts (consolidated, if appropriate) of the Issuer prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such accounts by virtue of the provisions of paragraphs (i), (ii) and (iii) above of this definition.

The Issuer has undertaken in the Trust Deed that, so long as any Note remains outstanding, annually and also within 14 days after any request by the Trustee, it will send to the Trustee (i) a certificate signed by the authorised officers of the Issuer listing those entities which as at the last day of the most recent financial year of the Issuer or as at the date specified in such written request were Principal Subsidiaries and (ii) a certificate signed by the authorised officers of the Issuer to the effect that as at a date not more than five days prior to the date of the certificate no Event of Default or event or circumstance that could with the giving of notice, lapse of time and/or issue of a certificate become an Event of Default, has occurred. The Trustee is entitled to rely absolutely on such certificates.

10.2 Enforcement

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Notes, the Receipts and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes, the Receipts or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least twenty five percent (25%) in nominal amount of the Notes then outstanding and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

10.3 Interpretation

As used herein:

Winding-Up shall mean, a final, unappealable and executory order or resolution of any court or agency or supervisory authority in the Philippines for the bankruptcy, suspension of payment, rehabilitation, winding-up, liquidation, receivership or similar proceeding in respect of the Issuer or any of its Principal Subsidiaries (except for the purposes of a consolidation, amalgamation, merger or reorganisation the terms of which have previously been approved by an Extraordinary Resolution of the Noteholders).

11. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced subject to applicable laws, regulations and relevant stock exchange regulations at the specified office of the Principal Paying Agent (in the case of Bearer Notes, Receipts or Coupons) or of the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer and the Principal Paying Agent may require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

12. PAYING AGENTS, REGISTRAR AND TRANSFER AGENTS

The names of the initial Agents and their initial specified offices are set out in the inside back cover of this Offering Circular.

The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of the Principal Paying Agent, Paying Agent, Registrar or Transfer Agents and/or appoint additional or other Paying Agents, Registrars or Transfer Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent and a Registrar;
- (b) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Registrar and Transfer Agent (in the case of Registered Notes), which may be the Principal Paying Agent, and Transfer Agent, with a specified office in the place required by the rules and regulations of the relevant stock exchange or any other relevant authority; and
- (c) so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, if the Notes are issued in definitive form, there will at all times be a Paying Agent in Singapore unless the Issuer obtains an exemption from the SGX-ST.

In addition, the Issuer shall with the prior written approval of the Trustee forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.6. Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders promptly in accordance with Condition 14.

In acting under the Agency Agreement, the Paying Agents, the Registrar and the Transfer Agents act solely as agents of the Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

13. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

14. NOTICES

Notices to holders of Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an overseas address) by air mail to the holders (or the first named of joint holders) at their respective addresses as recorded in the Register and will be deemed to have been validly given on the fourth day after the date of such mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published on the website of the relevant stock exchange or relevant authority and/or in a daily newspaper of general circulation in the place or places required by those rules.

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading daily newspaper of general circulation in Asia or such other English language daily newspaper with general circulation in Asia. It is expected that such publication will be made in the *Asian Wall Street Journal*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange (or any other relevant authority) on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, be substituted for such mailing and such publication in such newspaper(s) or such websites of the relevant notice to Euroclear and/or Clearstream for communication by them to the holders of the Notes, such notice shall be deemed to have been given to the Noteholders on the date of delivery to Euroclear or Clearstream. In addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange (or relevant authority) so require, such notice will be

published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the second day after the day on which the said notice was given to Euroclear and/or Clearstream, or on such day as specified in the applicable Pricing Supplement.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, in such manner as the Principal Paying Agent, the Registrar, and Euroclear and/or Clearstream, may approve for this purpose.

Receiptholders and Couponholders will be deemed for all purposes to have notice of the contents of any notice given to Noteholders in accordance with this Condition 14.

15. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

15.1 Meeting of Noteholders

The Trust Deed contains provisions for convening meetings (including by way of conference call or by use of videoconference platform) of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if required in writing by Noteholders holding not less than 10% in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is two or more persons holding or representing in the aggregate not less than 50% in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts, the Coupons or the Trust Deed (including, *inter alia*, modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be two or more persons holding or representing in the aggregate not less than 66 2/3% in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting two or more persons holding or representing in the aggregate not less than 25% in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than three-fourths of the votes cast on such resolution upon a show of hands or, if a poll is duly demanded, by a majority consisting of not less than three-fourths of the votes cast on such poll, (ii) a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Notes outstanding which resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holders of not less than 90 per cent. in principal amount of the Notes outstanding, shall, in each case, for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held.

15.2 Modifications and Waivers

The Trustee may agree, without the consent or sanction of the Noteholders, Receiptholders or Couponholders, to any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Trustee, proven. Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and, unless the Trustee

agrees otherwise, any such modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking or covenant given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

Notwithstanding anything to the contrary in these Conditions, the Trust Deed or the Agency Agreement, whenever the Trustee is required or entitled by the terms of these Conditions, the Trust Deed or the Agency Agreement to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Noteholders by way of an Extraordinary Resolution and shall have been indemnified, provided with security and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions.

15.3 Substitution of Issuer

The Trustee may, subject to the prior written approval of the BSP (if and to the extent then required), without the consent of the Noteholders, the Receiptholders or the Couponholders at any time, agree with the Issuer to the substitution in place of the Issuer (or of the previous substitute under this Condition) as the principal debtor under the Notes, the Receipts, the Coupons and the Trust Deed of any entity owned or controlled by the Issuer, subject to (a) the Notes being unconditionally and irrevocably guaranteed by the Issuer, (b) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution and (c) certain other conditions set out in the Trust Deed being complied with.

15.4 General

Any such modification, waiver, authorisation, determination or substitution shall be binding on the Noteholders, the Receiptholders and the Couponholders and, unless the Trustee otherwise agrees, any such modification or substitution shall be promptly notified to Noteholders by the Issuer in accordance with Condition 14.

16. INDEMNIFICATION OF THE TRUSTEE AND TRUSTEE CONTRACTING WITH THE ISSUER

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or provided with security and/or prefunded to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into transactions or arrangements with the Issuer and/or its Subsidiaries to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or arrangements or, as the case may be, any such trusteeship without

regard to the interests of, or consequences for, the Noteholders, Receiptholders or Couponholders and (c) to retain and not be in any way liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

17. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

19. GOVERNING LAW AND SUBMISSION TO JURISDICTION

19.1 Governing Law

The Trust Deed, the Agency Agreement, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Agency Agreement, the Notes, the Receipts and/or the Coupons are governed by, and shall be construed in accordance with, English law.

19.2 Submission to Jurisdiction

The Issuer has in the Trust Deed agreed, for the exclusive benefit of the Trustee, the Noteholders, the Receiptholders and the Couponholders, that the High Courts of Justice of England and Wales are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons) and that accordingly any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons) may be brought in the High Courts of Justice of England and Wales.

The Issuer has in the Trust Deed irrevocably and unconditionally waived and agreed not to raise any objection which it may have now or hereafter to the laying of the venue of any Proceedings (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and the Coupons) arising out of or in connection with the Trust Deed, the Notes, the Receipts and the Coupons in the High Courts of Justice of England and Wales and any claim that any such Proceedings have been brought in an inconvenient forum and has further irrevocably and unconditionally agreed in the Trust Deed that a judgment in any such Proceedings brought in the High Courts of Justice of England and Wales shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

These submissions are made for the benefit of each of the Trustee, the Noteholders, the Receiptholders and the Couponholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

19.3 Appointment of Process Agent

The Issuer has, in the Trust Deed, irrevocably and unconditionally appointed Philippine National Bank (Europe) Plc at its specified office for the time being at 238 Vauxhall Bridge Road, London SW1V 1AU as its agent for service of process in England in respect of any Proceedings and has undertaken that in the event of such agent ceasing so to act it will appoint such other person as the Trustee may approve as

its agent for that purpose. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service.

19.4 Waiver of Immunity

The Issuer irrevocably and unconditionally with respect to any Proceedings (i) waives any right to claim sovereign or other immunity from jurisdiction, recognition or enforcement and any similar argument in any jurisdiction, (ii) submits to the jurisdiction of the English courts and the courts of any other jurisdiction in relation to the recognition of any judgment or order of the English courts or the courts of any competent jurisdiction in relation to any Proceedings and (iii) consents to the giving of any relief (whether by way of injunction, attachment, specific performance or other relief) or the issue of any related process, in any jurisdiction, whether before or after final judgment, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment in connection with any Proceedings.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present selected consolidated financial information of the Bank and should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this Offering Circular and the section entitled “Description of the Bank” in this Offering Circular. The selected consolidated financial information presented below was derived from the consolidated financial statements of the Bank as at and for the years ended 31 December 2021, 2022 and 2023 audited in accordance with Philippine Standards on Auditing by SyCip Gorres Velayo & Co. (“SGV”), a member firm of Ernst & Young, prepared in accordance with PFRS and the interim condensed consolidated financial statements of the Bank as at 30 June 2024 and for the six months ended 30 June 2023 and 2024 reviewed by SGV, prepared in accordance with PAS 34, Interim Financial Reporting. The selected financial information set out below does not purport to project the results of operations or financial condition for any future period or date. Past financial performance is not indicative of future performance.

CONSOLIDATED STATEMENTS OF INCOME

	For the year ended 31 December				For the six months ended 30 June		
	2021	2022	2023	2023	2023	2024	2024
	(audited)			(unaudited)	(unaudited)		(U.S.\$
	(P millions, except per share data)			(U.S.\$ millions) ⁽¹⁾	(P millions, except per share data)		millions) ⁽¹⁾
Interest income on							
Loans and other receivables	34,157.8	34,424.5	40,757.9	692.3	19,907.7	21,625.0	367.3
Investment securities at amortised cost and financial assets at fair value through other comprehensive income (“FVOCI”)	5,963.6	8,154.9	12,608.2	214.2	5,884.4	7,888.7	134.0
Deposits with banks and others ..	1,248.1	1,417.7	2,608.0	44.3	1,226.6	950.3	16.2
Financial assets at fair value through profit or loss (“FVTPL”)	632.5	292.7	251.9	4.3	127.0	290.4	4.9
Interbank loans receivable and securities held under agreements to resell	400.4	954.6	3,368.5	57.2	1,131.2	2,214.8	37.6
	42,402.4	45,244.4	59,594.5	1,012.3	28,276.9	32,969.2	560.0
Interest expense on							
Deposit liabilities	4,813.8	5,371.7	13,005.7	220.9	5,531.8	8,077.8	137.2
Bonds payable	2,231.9	2,111.2	1,660.2	28.2	942.6	729.5	12.4
Bills payable and other borrowings	511.9	434.0	335.8	5.7	187.6	131.7	2.2
	7,557.6	7,916.9	15,001.7	254.8	6,662.0	8,939.0	151.8
Net interest income	34,844.8	37,327.5	44,592.8	757.5	21,614.9	24,030.2	408.2
Service fees and commission income	6,340.3	6,997.6	6,591.3	112.0	3,719.1	3,002.1	51.0
Service fees and commission expense	1,051.3	1,429.2	1,266.6	21.5	587.3	728.1	12.4
Net service fees and commission income	5,289.0	5,568.4	5,324.7	90.5	3,131.8	2,274.0	38.6
Other income							
Net gains on sale or exchange of assets	981.5	7,775.2	4,541.6	77.1	2,933.5	506.1	8.6
Foreign exchange gains – net	743.5	1,608.3	1,367.4	23.2	905.6	500.5	8.5
Trading and investment securities gains (losses) – net	731.6	(1,280.8)	394.1	6.7	74.1	376.1	6.4
Equity in net earnings (losses) of an associate	50.8	(56.1)	268.1	4.6	161.1	242.0	4.1
Miscellaneous	1,070.0	1,136.7	871.4	14.8	467.1	715.6	12.2
Total other operating income	3,577.4	9,183.3	7,442.6	126.4	4,541.4	2,340.3	39.8
Total operating income	43,711.2	52,079.2	57,360.1	974.4	29,288.1	28,644.5	486.6
Provision for impairment, credit and other losses	10,725.0	7,198.1	5,923.1	100.6	1,567.9	2,069.4	35.2
Impairment in value of goodwill	2,154.0	-	1,036.6	17.6	-	-	-
Operating expenses							
Compensation and fringe benefits ..	9,985.8	9,762.8	10,464.1	177.8	5,256.1	5,421.9	92.1
Taxes and licences	3,988.4	5,225.6	4,852.2	82.4	2,512.0	2,602.3	44.2
Depreciation and amortisation	2,845.7	4,225.7	3,976.0	67.5	2,014.3	1,668.2	28.3
Occupancy and equipment-related costs	1,124.2	1,099.9	916.7	15.6	434.3	464.7	7.9
Miscellaneous	8,202.7	8,051.9	8,218.2	139.6	4,697.4	4,147.1	70.5
Total operating expenses	26,146.8	28,365.9	28,427.2	482.9	14,914.1	14,304.2	243.0

Note:

(1) Translations were made at the exchange rate of ₱58.87 per U.S.\$1.00, being the BSP Rate published as at 30 June 2024.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December				As at 30 June	
	2021	2022	2023	2023	2024	2024
		(audited)		(unaudited)	(unaudited)	(unaudited)
		(P millions)		(U.S.\$ millions) ⁽¹⁾	(P millions)	(U.S.\$ millions) ⁽¹⁾
Assets						
Cash and Other Cash Items	27,552.8	22,217.9	21,151.4	359.3	17,180.5	291.8
Due from Bangko Sentral ng Pilipinas	161,001.9	94,701.4	95,410.4	1,620.7	110,199.0	1,871.9
Due from Other Banks	27,222.1	26,010.2	21,243.9	360.9	20,881.8	354.7
Interbank Loans Receivable	32,106.1	16,290.1	35,634.4	605.3	33,119.8	562.6
Securities Held Under Agreements to Resell	15,796.7	64,523.9	69,694.5	1,183.9	84,074.6	1,428.1
Trading and Investment Securities						
Financial Assets at FVTPL	11,167.7	7,347.2	10,516.9	178.6	22,572.9	383.4
Financial Assets at FVOCI	167,987.3	158,183.5	164,531.5	2,794.8	166,975.4	2,836.3
Investment Securities at Amortised Cost	89,455.8	110,468.0	123,200.4	2,092.8	114,301.1	1,941.6
Loans and Receivables	606,953.8	593,099.9	616,710.7	10,475.8	631,845.6	10,732.9
Property and Equipment	13,472.3	11,973.5	10,754.0	182.7	10,353.0	175.9
Investment in an Associate	2,468.1	2,688.8	3,199.1	54.3	3,193.4	54.2
Investment Properties	10,735.9	13,795.0	14,579.6	247.7	14,691.1	249.6
Deferred Tax Assets	6,405.5	6,616.9	6,981.7	118.6	7,958.5	135.2
Intangible Assets	2,429.4	1,863.9	1,301.7	22.1	1,259.2	21.4
Goodwill	11,221.4	11,221.4	10,184.8	173.0	10,184.8	173.0
Other Assets	4,807.9	4,155.5	5,454.4	92.6	7,558.4	128.4
Total Assets	1,190,784.7	1,145,157.1	1,210,549.4	20,563.1	1,256,349.1	21,341.0
Liabilities and Equity						
Liabilities						
Deposit Liabilities						
Demand	216,367.8	220,043.9	228,405.9	3,879.8	231,001.3	3,923.9
Savings	498,581.5	519,940.5	541,009.4	9,189.9	567,099.0	9,633.1
Time	151,729.6	112,113.3	145,752.1	2,475.8	138,301.1	2,349.3
Long-term Negotiable Certificates	28,245.4	19,130.0	12,803.5	217.5	12,814.4	217.7
	894,924.3	871,227.7	927,970.9	15,763.0	949,215.8	16,124.0
Financial Liabilities at FVTPL	891.5	1,039.8	555.8	9.4	833.1	14.2
Bills and Acceptances Payable	52,953.8	14,980.4	20,162.6	342.5	19,767.1	335.8
Lease Liabilities	3,765.4	3,636.4	3,832.9	65.1	3,664.6	62.2
Accrued Taxes, Interest and Other Expenses	7,765.7	9,117.4	10,465.4	177.8	9,250.3	157.1
Bonds Payable	53,383.4	58,439.1	41,490.9	704.8	43,949.4	746.6
Income Tax Payable	157.7	983.1	180.4	3.1	1,006.4	17.1
Other Liabilities	15,719.9	15,827.6	14,741.9	250.4	25,882.3	439.4
Total Liabilities	1,029,561.7	975,251.5	1,019,400.8	17,316.1	1,053,569.0	17,896.4
Equity						
Equity attributable to the equity holders of the Parent Bank:						
Capital Stock	61,030.6	61,030.6	61,030.6	1,036.7	61,030.6	1,036.7
Capital Paid in Excess of Par Value	32,116.6	32,116.6	32,116.6	545.6	32,116.6	545.6
Surplus Reserves	5,147.4	4,929.2	4,677.9	79.5	4,825.7	82.0
Surplus	61,998.2	73,748.7	91,979.3	1,562.4	102,047.4	1,733.4
Net Unrealised Losses on Financial Assets at FVOCI	(703.7)	(5,959.3)	(1,722.7)	(29.3)	(1,201.5)	(20.4)
Remeasurement Losses on Retirement Plan	(2,725.1)	(2,222.9)	(2,728.5)	(46.3)	(2,732.7)	(46.4)
Accumulated Translation Adjustment	1,503.4	2,314.4	1,999.7	34.0	2,525.1	42.9
Other Equity Reserves	248.8	248.8	248.8	4.2	248.8	4.2
Share in Aggregate Reserves (Losses) on Life Insurance Policies	(626.4)	136.1	24.2	0.4	135.2	2.3
Other Equity Adjustment	14.0	14.0	14.0	0.2	14.0	0.2
Total equity attributable to equity holders of the Parent Bank	158,003.8	166,356.2	187,639.9	3,187.4	199,009.2	3,380.5
Non-controlling interests	3,219.2	3,549.4	3,508.7	59.6	3,770.9	64.1
Total Equity	161,223.0	169,905.6	191,148.6	3,247.0	202,780.1	3,444.6
Total Liabilities and Equity	1,190,784.7	1,145,157.1	1,210,549.4	20,563.1	1,256,349.1	21,341.0

Note:

(1) Translations were made at the exchange rate of ₱58.87 per U.S.\$1.00, being the BSP Rate published as at 30 June 2024.

SELECTED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended 31 December			For the six months ended 30 June	
	2021	2022	2023	2023	2024
		(audited) (P millions)		(unaudited) (P millions)	
Net cash from operating activities	17,673.9	6,270.3	41,143.9	26,199.1	16,000.0
Net cash from (used in) investing activities	(5,876.8)	(10,452.5)	(6,986.6)	12,343.4	9,228.8
Net cash used in financing activities	(51,527.5)	(40,608.8)	(12,937.2)	(16,795.9)	(680.4)
Cash and cash equivalents at beginning of the period	301,757.2	262,026.8	217,235.8	217,235.8	238,455.9
Cash and cash equivalents at end of the period	262,026.8	217,235.8	238,455.9	238,982.4	263,004.3

SELECTED FINANCIAL DATA AND RATIOS

The following table sets out certain key financial indicators of the Bank as at and for the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024.

	As at and for the year ended 31 December			As at and for the six months ended 30 June	
	2021	2022	2023	2023	2024
Return on average equity ⁽¹⁾	20.0%	7.0%	10.0%	10.3%	10.5%
Return on average assets ⁽²⁾	2.6%	1.0%	1.5%	1.6%	1.7%
Cost to income ratio ⁽³⁾	59.8%	54.5%	49.6%	50.9%	49.9%
Tier 1 capital adequacy ratio	13.0%	14.6%	16.9%	16.0%	18.5%
Total capital adequacy ratio	13.7%	15.4%	17.7%	16.8%	19.4%
Net NPL ratio ⁽⁴⁾	5.3%	2.6%	2.5%	2.7%	2.1%
NPL coverage ratio ⁽⁵⁾	60.3%	92.5%	91.1%	82.1%	85.6%
Average equity to total average assets ⁽⁶⁾	13.1%	14.2%	15.3%	15.2%	16.0%
Loan to deposit ratio ⁽⁷⁾	70.5%	70.4%	69.2%	69.0%	69.6%

Notes:

- (1) Net income divided by average total equity for the period indicated.
- (2) Net income divided by average total assets for the period indicated.
- (3) Total operating expenses (excluding provision for impairment, credit and other losses) divided by total operating income for the period indicated.
- (4) Total non-performing loans (net) divided by total adjusted loan portfolio.
- (5) The percentage of allowance for credit losses on loans to total NPL; based on the BSP's computation.
- (6) Average equity to total average assets is the ratio of average equity divided by the yearly average total assets.
- (7) Total loans divided by total deposits.

USE OF PROCEEDS

The net proceeds from each issue of the Notes will be used by the Issuer:

- (a) for general corporate purposes; or
- (b) if so specified in the applicable Pricing Supplement, to finance or refinance, in whole or in part, the Eligible Assets in accordance with certain prescribed eligibility criteria as described in the Sustainability Financing Framework.

The Lead Arrangers and the Dealers have not separately verified nor will make any assurance as to (i) whether the Green Bonds, Social Bonds or Sustainable Bonds issued under the Sustainability Financing Framework will meet investor criteria and expectations regarding sustainable development for any investors, (ii) whether the net proceeds from the Green Bonds, Social Bonds or Sustainable Bonds issued under the Sustainability Financing Framework will be used to finance and/or re-finance Eligible Assets or (iii) the characteristics of the Eligible Assets, including their sustainable development criteria. See *“Investment Considerations – In respect of Notes issued as Green Bonds, Social Bonds, or Sustainability Bonds, there can be no assurance that the particular use of proceeds will be suitable for the investment criteria of an investor”* and *“Investment Considerations – There is no current market consensus on what constitutes a “green”, “sustainable”, “social” or equivalently-labelled project”*.

PNB’s Sustainability Financing Framework and the Second Party Opinion issued by S&P Global Ratings will be available at www.pnb.com.ph, but, for the avoidance of doubt, are not incorporated in, and does not form a part of this Offering Circular.

SUSTAINABILITY FINANCING FRAMEWORK

The following section sets out a high-level summary of the PNB's Sustainability Financing Framework which has been published by PNB and is available on PNB's website (www.pnb.com.ph). For the avoidance of doubt, the contents of PNB's website is not incorporated into and does not form part of this Offering Circular.

None of the Lead Arrangers, the Dealers, the Trustee, the Agents or any of their respective directors, officers, employees, representatives, advisers, agents or affiliates accepts any responsibility for the contents of the Sustainability Financing Framework.

No assurance or representation is given by the Lead Arrangers, the Dealers, the Trustee, the Agents as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party (whether or not solicited by the Issuer) which may be made available in connection with the issue of any Green Bonds, Social Bonds or Sustainable Bonds. For the avoidance of doubt, any such opinion or certification is not, nor shall it be deemed to be, incorporated in and/or form part of this Offering Circular or any applicable Pricing Supplement. Any such opinion or certification is not, nor should it be deemed to be, a recommendation by the Lead Arrangers, the Dealers, the Trustee or the Agents to buy, sell or hold any such any Green Bonds, Social Bonds or Sustainable Bonds. The Noteholders have no recourse against the Lead Arrangers, the Dealers the Trustee or the Agents for the contents of any such opinion or certification. Any such opinion or certification is only current as at the date that opinion was initially issued. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in any Green Bonds, Social Bonds or Sustainable Bonds. Currently, the providers of such opinions and certifications are not subject to any specific or regulatory or other regime or oversight.

No assurance is given by the Lead Arrangers, the Dealers, the Trustee or the Agents that the use of the proceeds of issue of any Green Bonds, Social Bonds or Sustainable Bonds will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates. Neither the Lead Arrangers, the Dealers, the Trustee nor the Agents will have any responsibility for monitoring the application of any such proceeds.

Capitalised terms used in this section but not otherwise defined herein shall have the same meaning as defined in the Sustainability Financing Framework.

Introduction

PNB's sustainability strategy emphasises redirecting financing from carbon-intensive activities to climate transition efforts, integral to its corporate philosophy. PNB plans to align its funding strategy with this sustainability focus, believing that green finance instruments can drive investments in climate change mitigation and adaptation, while social finance instruments can support projects with social benefits, contributing to the UN Sustainable Development Goals. By issuing sustainable finance instruments, PNB aims to align its funding strategy with its corporate philosophy.

Under the sustainability financing framework (as maybe updated or amended from time to time, the **"Sustainability Financing Framework"**), PNB intends to issue sustainable finance instruments (**"SFIs"**) (e.g., bonds and/or loans) to finance and/or refinance eligible green and/or social projects in line with its core businesses and sustainability strategy.

Use of Proceeds

An amount equivalent to the net proceeds of each Green Bond, Social Bond, or Sustainability Bond will exclusively be used to finance or refinance, in whole or in part, eligible projects and activities under the **"Green Use-of-Proceeds Categories"**, the **"Social Use-of-Proceeds Categories"** or a combination of both, as set out in the **"Use of Proceeds"** section of the Sustainability Financing Framework (the **"Eligible Assets"**).

In addition to financing or refinancing the Eligible Assets, PNB may allocate the net proceeds for certain loans to "pure play" companies, or those companies deriving at least 90% of their revenue from projects or activities under the **"Green Use-of-Proceeds Categories"** subsection of the Sustainability Financing Framework.

Project Evaluation and Selection

PNB's frontline staff from the relevant loan origination teams will identify and select potential Eligible Assets by using the use-of-proceeds categories and their associated eligibility criteria as the primary selection gauge. The prospective Eligible Asset will be subject to the approval of a separate committee / team which is currently existing credit committees in PNB, and will be enlarged to be composed of members from the Credit Risk, Business and Sustainability Teams, to ensure a rigorous project evaluation and selection process.

At a minimum, the approval process includes customary due diligence on compliance with applicable laws (i.e. environmental protection and pollution, labor, occupational health, and safety standards) as evidenced by applicable permits. More than evaluating against regular lending and investment criteria set by PNB, the approval process for the prospective Eligible Asset will entail additional credit assessment processes, such as sustainability financing checklists and ESG scorecards that cross-check proposed eligible green/social assets or projects against the same criteria as set forth in the Sustainability Financing Framework.

Management of Proceeds

Allocation of Proceeds

PNB intends to allocate all proceeds from SFIs within 24 months of issuance (the “**Eligible Use of Proceeds**”). Such allocation will be done on a portfolio basis.

Tracking of Proceeds

PNB shall record the source and allocation of all its SFI proceeds on an allocation register which will be regularly monitored and assessed in terms of the environmental and social impact of the Eligible Use of Proceeds.

For each SFI issued, a database will be maintained, monitored and reported containing information such as the following:

1. Technical information on the SFIs, including:
 - a. Instrument type;
 - b. Issue date;
 - c. Maturity date;
 - d. International Securities Identification Numbering;
 - e. Coupon rate; and
 - f. Gross and net amount of the issuance/borrowing.
2. Information on the use and allocation of the proceeds, including:
 - a. Account information;
 - b. Description of each project;
 - c. Environmental and social impact;
 - d. For balance of unallocated net proceeds, the intended types of temporary placement of such unallocated net proceeds; and
 - e. All other information relevant to the compliance of the SFI and the use of its proceeds against the standards set in this framework, if applicable.

For so long as any SFI issued under the Sustainability Financing Framework is outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to Eligible Assets made during that period. The allocation of proceeds process will be reviewed by an annual external audit.

On a regular basis, PNB will review all reported Eligible Use of Proceeds to determine their compliance with the Sustainability Financing Framework, and submit the report to the Sustainability Financing Working Group (“**SFWG**”), which comprises representatives of various departments within PNB.

Use of Unallocated Proceeds

Unallocated funds representing proceeds of any SFI issued under the Sustainability Financing Framework, will be managed by PNB's Global Markets Group in accordance with its Investment and Trading Policy. The intended types of investment for the unallocated net proceeds are primarily cash and cash equivalents, as well as

investments in money market and short-term, liquid fixed income instruments until the amount is allocated to Eligible Assets. PNB commits not to invest unallocated proceeds to industries and sectors specified in the “Exclusions” section under the Sustainability Financing Framework.

Reporting

On a quarterly basis or as needed, SFWG shall report to the Asset and Liability Committee, Senior Management Credit Committee, and annually to Board Strategy and Policy Committee. PNB shall publish a yearly SFI Allocation Report (“**SFI Report**”) until full allocation of the net proceeds of the SFI. The SFI Report shall be published on PNB’s official website and will contain information on allocation and impact of the financing.

Allocation Reporting

On an annual basis until full allocation of net proceeds of each SFI, and as necessary thereafter in the event of new developments, PNB will, for public SFI issuances, publish an SFI Report within one year of issuance, to disclose the allocation of proceeds and the potential impact.

The SFI Report will be made available on PNB’s official website and in its Annual Report in the form of an Environmental Investment Report to be prepared by Corporate Sustainability Unit, Global Compliance Group and Marketing and Brand Management Sector and to be presented to the Corporate Governance Committee.

Impact Reporting

Where feasible, the SFI Report will include qualitative environmental and social impact analysis, and (if reasonably practicable) quantitative environmental and social performance indicators in line with the indicators suggested by the International Capital Markets Association Harmonized Framework for Impact Reporting, on the Eligible Use of Proceeds. This will be subject to the availability of information and baseline data, as well as based on methodologies that are publicly available. Any calculation methodologies and assumptions are to be based on project technical reports furnished to PNB, where applicable. Performance indicators may change from year to year. Reporting of estimated lifetime results and ex-post verification on projects, can be considered by PNB, as applicable.

External Review of the Bank’s Sustainability Financing Framework

PNB has appointed S&P Global Ratings, an independent second-party opinion provider, to review the Sustainability Financing Framework for alignment with the ICMA Green Bond Principles 2021 (with June 2022 Appendix 1), ICMA Social Bond Principles 2023 and the ICMA Sustainability Bond Guidelines 2021, among others. The Second Party Opinion will be available on the PNB’s website at www.pnb.com.ph. For the avoidance of doubt, the contents of the PNB’s website are not incorporated into and does not form part of this Offering Circular.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the indebtedness and capitalisation of the Bank as at 30 June 2024. This table should be read in conjunction with the Bank's unaudited consolidated condensed financial statements as at 30 June 2024 and the notes presented elsewhere herein. The translation of Peso amounts into U.S. Dollars at the specified rate is provided solely for convenience at the exchange rate of ₱58.87 per U.S.\$1.00, being the BSP reference rate published on the BSP's exchange rate bulletin on 28 June 2024.

	As at 30 June 2024	
	Actual	
	(₱ millions, except percentages)	(U.S.\$ millions)
Liabilities		
Deposit Liabilities		
Demand	231,001.3	3,923.9
Savings	567,099.0	9,633.1
Time	138,301.1	2,349.3
Long Term Negotiable Certificates.....	12,814.4	217.7
	949,215.8	16,124.0
Financial Liabilities at FVTPL	833.1	14.2
Lease Liabilities	3,664.6	62.2
Bills and Acceptances Payable	19,767.1	335.8
Bonds Payable.....	43,949.4	746.6
Other Liabilities ⁽¹⁾	36,139.0	613.6
Total Liabilities	1,053,569.0	17,896.4
Equity		
Capital stock.....	61,030.6	1,036.7
Capital Paid in Excess of Par Value.....	32,116.6	545.6
Surplus Reserves	4,825.7	82.0
Surplus	102,047.4	1,733.4
Others ⁽²⁾	(1,011.1)	(17.2)
Total equity attributable to PNB's stockholders	199,009.2	3,380.5
Non-controlling interests.....	3,770.9	64.1
Total equity	202,780.1	3,444.6
Total capitalisation and indebtedness	1,256,349.1	21,341.0
Capital Ratios		
CET1 ratio ⁽³⁾	18.5%	
Tier 1 capital ratio ⁽⁴⁾	18.5%	
Total capital ratio ⁽⁵⁾	19.4%	

Note:

- (1) Other liabilities: The significant items on this account includes accounts payable bills purchased – contra, Manager's checks and demand drafts outstanding and retirement benefit liability.
- (2) Others include: Net Unrealised Loss on Financial Assets at FVOCI, Remeasurement Losses on Retirement Plan, Accumulated Translation Adjustment, Other Equity Reserves, Shared in Aggregate Reserves on Life Insurance Policies, and Other Equity Adjustment.
- (3) CET1 capital divided by Total Risk Weighted Assets, as reported per BSP.
- (4) Tier 1 capital divided by Total Risk Weighted Assets, as reported per BSP.
- (5) Total Capital divided by Total Risk Weighted Assets, as reported per BSP. Total capital includes Tier 1 plus appraisal increment and general loan loss provision in accordance with BSP Regulations.

Except as described herein, there has been no significant change in the indebtedness or capitalisation or contingent liabilities of the Bank since 30 June 2024.

INVESTMENT CONSIDERATIONS

Investors should carefully consider the following investment considerations as well as the other information contained in this Offering Circular prior to making an investment in the Notes. In making an investment decision, each investor must rely on its own examination of the Bank and the terms of the offering of the Notes. The risks described below are not the only ones that may affect any Notes under the Programme. Additional risks not currently known to the Bank or that the Bank currently deems immaterial may also impair the Bank's business operations.

Risks Relating to the Bank and its Business

The Bank may not be successful in implementing its business strategies.

As part of its business strategies, the Bank intends to accelerate the growth of its consumer finance business, enhance its core institutional banking business, continue focusing on the generation of low-cost deposits, pursue digitisation initiatives, improve fee income generation capabilities and intensify cross-selling efforts, enhance operational, asset and capital efficiency, and leverage on its subsidiaries. The Bank's ability to implement these strategies (including expanding into new business lines) exposes the Bank to a number of risks and challenges, including the following:

- new and expanded business activities may require greater marketing and compliance costs than the Bank's current products and services;
- new and expanded business activities may have less growth or profit potential than expected, and there can be no assurance that new business activities will become profitable or at all;
- the Bank's competitors may have substantially greater experience and resources for new and expanded business activities;
- economic conditions, such as rising interest rates or inflation, could hinder the Bank's expansion, particularly in the consumer loan industry;
- the Bank may fail to identify and offer attractive new services in time in response to market demand, placing it at a disadvantage against competitors; and
- the Bank may need to further enhance the capability and improve the implementation of its information technology systems to support a broader range of activities and may incur additional costs.

There can be no guarantee that the Bank's strategies will be successful due to several factors, including increasing competition and changes in the macro-economic environment. The Bank's competitors may have substantially greater experience and resources for the new and expanded business activities and thus the Bank may not be able to attract customers from its competitors. The Bank may also fail to identify and offer attractive new products and services in a timely manner or at all, putting it at a disadvantage to its competitors.

Further, the Bank's intention to increase its earning assets to improve its return on assets and capital and reduce the Bank's operating cost-to-income ratio is subject to risks and challenges. If the Bank is unable to successfully grow its earning asset base or shift its resources to higher-yielding assets, it would need to reduce its operating costs to improve its financial performance, which may be difficult to accomplish in a short period of time. Any failure of the Bank to reduce its operating costs in such event would have a material adverse effect on the Bank's financial performance and results of operations.

In addition, new business endeavours may require knowledge and expertise which differ from those used in the current business operations of the Bank, including different management skills, risk management procedures, guidelines and systems, credit risk evaluation, monitoring and recovery procedures. The Bank may not be successful in developing such knowledge and expertise.

The Bank's success in implementing its strategies also depends upon, among other factors, the retention of its key management and senior executives and upon its ability to attract and retain other highly capable individuals. The loss of some of the Bank's key management, senior executives or an inability to attract or retain other key individuals could hinder the Bank's implementation of its strategies.

The Bank's inability to implement its business strategies could materially and adversely affect the Bank's business, financial condition and results of operations.

Increased exposure to consumer debt could result in increased delinquencies in the Bank's loan portfolio.

As part of its growth strategies, the Bank plans to continue to expand its consumer loan operations, including home mortgage loans, auto loans and credit card services, which comprised 4.1%, 1.0% and 2.3% of the Bank's gross loan portfolio as at 30 June 2024, respectively. The Bank believes that such expansion plans will increase the Bank's exposure to consumer debt and vulnerability with respect to changes in general economic conditions affecting Philippine consumers. Accordingly, economic difficulties in the Philippines and across the globe which would have a significant adverse effect on Philippine consumers could result in reduced growth and a deterioration in the credit quality of the Bank's consumer loan and credit card portfolios. For example, an increase in interest rates could have an adverse impact on the ability of borrowers to make payments and increase the likelihood of potential defaults, while reducing demand for consumer loans. In addition, the number of loan accounts may be negatively affected by declines in household income, public concerns about unemployment or other negative macroeconomic factors. Moreover, as retail consumers have smaller leverage to manage the adverse effects of the results of economic fluctuations, the Bank's consumer loan portfolio is prone to deterioration in credit quality and delinquencies, which could lead to a slowdown in the growth of the business and losses. Further, the lack of a central credit bureau and access to readily available data on credit quality in the Philippines may limit the Bank's ability to effectively assess consumer loan applications which may expose the Bank to significant credit risks. As of 30 June 2024, the Bank's Consumer Finance Sector recorded a mortgage delinquency of 11.3% which is slightly higher than the industry standard of 8% according to the BSP. To the extent the Bank's growth strategy results in significant increases in exposures to consumer loans, the effects of adverse changes in the economic environment on the Bank's financial condition and results of operations could be exacerbated, resulting in significant losses.

The Bank's levels of NPLs and provisions for impairment, credit and other losses may affect its results of operations.

Volatile economic conditions in the Philippines and overseas may adversely affect the ability of the Bank's borrowers to repay their debt obligations and, as a result, the Bank may experience an increase in non-performing loans ("NPLs") and provisions for impairment, credit and other losses. While the Bank has successfully managed to reduce its NPLs in the past ten years, the Bank's results of operations may be materially and adversely affected by the level of its NPLs. The Bank's net NPLs as at 30 June 2024 reported to the BSP amounted to ₱16,234.8 million as compared to ₱17,944.1 million and ₱18,410.9 million as at 31 December 2022 and 2023, respectively. The Bank's net NPL ratio computed as net NPLs divided by total loans (receivables from customers, unquoted debt securities, other receivables, interbank loans and securities under agreements to re-sell) was slightly lower at 2.1% as at 30 June 2024 compared to 2.5% as at 31 December 2023. As at 31 December 2021 and 2022, the Bank's net NPL ratio was 5.3% and 2.6%, respectively. According to the BSP, average net NPL ratios for the Philippine banking system were 2.1%, 1.5%, 1.5% and 1.6% as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively. For those periods, the Bank's net NPL ratio was higher than the average net NPL ratio for Philippine banks. In order to fund its NPLs, the Bank relies on its deposit base and other sources. There can be no assurance that the Bank will be able to continue to reduce or maintain its NPL levels within industry standards.

For the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024, the Bank's provision for impairment, credit and other losses was ₱10,725.0 million, ₱7,198.1 million, ₱5,923.1 million, ₱1,567.9 million and ₱2,069.4 million, respectively, representing 25.3%, 15.9%, 9.9%, 5.5% and 6.3%, respectively, of the Bank's gross interest income for such periods. As at 30 June 2024, the Bank's NPL coverage was at 85.6% compared to 60.3%, 92.5% and 91.1% as at 31 December 2021, 2022 and 2023, respectively. See "— The Bank's provisioning policies in respect of non-performing loans require significant subjective determinations which may increase the variation of application of such policies."

To manage its loan portfolio and reduce its exposure to NPLs, the Bank practices restructuring suitable loans on a case-by-case basis, including but not limited to, extending the maturity dates of certain loans and rescheduling principal payments in line with expected cash flows. See "Description of the Bank's Assets and Liabilities – Assets and Liabilities – Loan Loss Management and Provisioning – Non-performing loans." While the Bank regularly monitors its NPL levels and has strict credit policies in place, there can be no assurance that the Bank will be successful in reducing or maintaining its NPL levels or that the percentage of NPLs the Bank will be able to recover will be similar to its historical recovery rates or that the overall quality of its loan portfolio will not deteriorate in the future. Failure on the part of the Bank to control and reduce its NPLs or recover expected amounts from NPLs, if the quality of collateral is lower than estimated or if there is a significant increase in its

provisions for loan losses, could result in the Bank's operating costs, business, financial condition, results of operations and capital adequacy being adversely affected.

The Bank's failure to manage risks associated with its digital applications and information and technology systems could adversely affect its business.

The Bank is subject to risks relating to its information and technology ("IT") systems and processes and will be subject to heightened risks as part of its strategy to increase digitisation and reliance on digital platforms and FinTech solutions. The hardware and software used by the Bank in its information technology are vulnerable to damage or interruption by human error, misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses or the interruption or loss of support services from third parties such as internet service providers, ATM operators and telephone companies. Any disruption, outage, delay or other difficulties experienced by any of these information and technology systems could result in delays, disruptions, losses or errors that may result in loss of income and decreased consumer confidence in the Bank. In addition, in the event of a system outage and physical data loss, the Bank's ability to provide services would be materially and adversely affected. These may, in turn, adversely affect the Bank's business, financial condition and results of operations.

As the Bank increases its digital capabilities, its business and internal systems have, and will increasingly rely on software and processes that are highly technical and complex. In addition, the Bank's digitisation capabilities will depend on the ability of such software and processes to store, retrieve, process and manage large amounts of data. The software and processes on which the Bank relies may now or in the future contain undetected errors or bugs.

The Bank seeks to protect its computer systems and network infrastructure from physical break-ins as well as cybersecurity breaches and other disruptive problems caused by the Bank's increased use of mobile apps and digital solutions. The Bank also has access to and analyses certain data from its customers with their authorisation, which makes it an attractive target and potentially vulnerable to cyber-attacks, computer viruses, physical or electronic break-ins or similar disruptions. Computer break-ins and security breaches could affect the confidence, integrity and availability of information stored in and transmitted through these computer systems and network infrastructure. The Bank employs IT security solutions such as firewalls, data encryption and multifactor authentication, designed to minimise the risk of security breaches and maintains operational procedures to prevent break-ins, damage and failures. The potential for fraud and security problems is likely to persist and there can be no assurance that these security measures will be adequate or successful in view of the dynamic and evolving transformation of cybercrimes. Further, as techniques used to sabotage or obtain unauthorised access to systems change frequently and generally are not recognised until they are launched against a target, the Bank may be unable to anticipate these techniques or to implement adequate preventative measures. The Bank has incurred and will continue to incur expenses and costs related to such security measures, such as the engagement of external cybersecurity partners to conduct vulnerability testing and compromise assessments and the hiring of skilled IT personnel. The failure of the Bank to successfully implement security measures or prevent any security breaches could have a material adverse effect on the Bank's business, financial condition and results of operations of the Bank.

The Bank may be unable to engage in profitable lending and may, as a result, experience limited or negative future growth.

The Bank's ability to increase its revenues, margins and profits depends principally on its ability to achieve growth in profitable lending. For the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024, interest income from loans and receivables has contributed 80.6%, 76.1%, 68.4%, 70.4% and 65.6%, respectively, of the Bank's total interest income. Although the Bank has experienced slow growth in its loan portfolio as a result of its focus on managing its NPL levels in the past, due to the country's stable economic growth, the Bank was able to expand its loans and receivables. As at 30 June 2024, the Bank's loans and receivables increased to ₱631,845.6 million, from ₱606,953.8 million, ₱593,099.9 million, and ₱616,710.7 million as at 31 December 2021, 2022 and 2023, respectively. As at 31 December 2021, 2022, 2023 and 30 June 2024, the Bank's loans and receivables comprised 51.0%, 51.8%, 50.9% and 50.3%, respectively, of the Bank's total assets.

A slowdown in the economy's growth or intensified competition can curtail the growth of the Bank's loan portfolio and eventually its revenues, margins or profits. This could inhibit the Bank's future growth and adversely affect its financial condition and results of operations.

The Bank's funding is primarily comprised of "core" deposits, and the Bank is subject to liquidity risk, particularly in the event its traditional sources of funding are threatened by adverse events, including those that are outside of the Bank's control.

A significant portion of the Bank's funding comprises short-term sources, primarily in the form of time, savings and demand deposits. As at 31 December 2021, 2022 and 2023 and 30 June 2024, 83.8%, 86.9%, 84.8% and 86.0% respectively, of the Bank's total deposit liabilities was considered "core" (i.e., current and term deposits which the Bank expects to remain with it for more than one year), while 16.2%, 13.1%, 15.2% and 14.0%, for the same periods, respectively, was considered by the Bank to be volatile or unstable sources of funding (i.e., deposits maturing within one year which are considered to be interest rate-sensitive).

Accordingly, the maturity profile of the Bank's assets and liabilities may from time to time show a negative gap in the short-term when the Bank's liabilities which are composed of short-term funding sources (primarily in the form of deposits) and other liabilities are of shorter average maturity than its loans and investments, thereby resulting in a funding mismatch and creating a potential risk for liquidity squeeze.

The liquidity risk arises when the Bank's core funding sources are threatened by adverse events. These events could either be a major economic event affecting the whole industry, and/or specific negative events that could result in major withdrawals of the Bank's current level of deposits. As a result of such events, the Bank will be forced to seek alternative sources to fund growth in assets which could materially and adversely affect the Bank's financial condition and operations.

Further, although core deposits have historically been a stable source of funding for the Bank, no assurance can be given that this will continue to be the case. In the event the Bank is unable to attract or retain sufficient deposits, or if a substantial number of the Bank's depositors do not roll over deposited funds upon maturity, the Bank's liquidity position could be adversely affected and the Bank may be unable to fund its loan portfolio and may be required to seek alternative sources of funding. The Bank can provide no assurance as to the availability or terms of such funding. To the extent the Bank is unable to obtain sufficient funding on acceptable terms or at all, the Bank's liquidity and financial condition and results of operations will be adversely affected.

The value of the Bank's collateral may decline in the future.

As at 31 December 2021, 2022 and 2023, and 30 June 2024, the Bank's secured loans (gross of unearned and other deferred income and allowance for credit losses) represented 18.1%, 16.8%, 20.8% and 18.6% of the Bank's receivables from customers, respectively. As at the same dates, 10.4%, 9.2%, 17.4% and 12.7%, respectively, of such secured loans were secured by real estate mortgages, while 3.7%, 2.2%, 1.8% and 1.7%, respectively, were secured by chattel mortgages.

The recorded values of the Bank's collateral may not accurately reflect its liquidation value, which is the maximum amount the Bank is likely to recover from a sale of collateral, less expenses of such sale. There can be no assurance that the realised value of the collateral would be adequate to cover the Bank's loans. An economic downturn, in particular a downturn in the real estate market, could result in a fall in relevant collateral values for the Bank. Some of the valuations in respect of the Bank's collateral may also be out of date or may not accurately reflect the value of the collateral. In certain instances, where there are no purchasers for a particular type of collateral, there may be significant difficulties in disposing of such collateral at a reasonable price. Any decline in the value of the collateral securing the Bank's loans, including with respect to any future collateral taken by the Bank, would mean that the Bank may not be able to recover fully the provisions that absorbed the NPL. Any increase in the Bank's loan loss provisions would adversely affect its business, its financial condition, results of operations and capital adequacy ratio.

In addition, the Bank may not be able to recover in full the value of any collateral or enforce any guarantee due, in part, to difficulties and delays that may be involved in enforcing such obligations through the Philippine legal system. The procedures to foreclose on collateral or enforce a guarantee are subject to administrative and bankruptcy law requirements which may be more burdensome than in certain other jurisdictions. The resulting delays can last several years and lead to the deterioration in the physical condition and market value of the collateral, particularly where the collateral is in the form of inventory or receivables. In addition, such collateral may not be insured. These factors may expose the Bank to legal liability while in possession of the collateral. These factors may also significantly reduce the Bank's ability to realise the value of its collateral and therefore the effectiveness of taking security for the loans it grants. Furthermore, the Bank may incur expenses to maintain such properties and prevent their deterioration. In realising cash value for such properties, the Bank may incur

further expenses such as legal fees and taxes associated with such realisation. There can be no assurance that the Bank will be able to realise the full value, or any value, of any collateral on its loans.

The Bank may not be able to successfully rationalise its operations and integrate or consolidate existing subsidiaries.

As part of the Bank's strategy to rationalise and make its business operations more efficient, the Bank may merge or integrate existing businesses. For example, on 1 March 2020, the Bank fully integrated its wholly-owned thrift bank subsidiary, PNB Savings Bank ("PNBSB"), through the acquisition of its assets and assumption of its liabilities in exchange for cash. Through the integration, the Bank expected to serve a wider customer base and allow customers of PNBSB to have access to the Bank's diverse portfolio of financial solutions. On 5 March 2020, PNBSB surrendered its thrift bank licence to the BSP and was subsequently converted into a holding company, changing its name to Allied Integrated Holdings, Inc. ("AIHI").

The Bank may continue to integrate or merge its businesses in the future and there can be no assurance that the Bank will not experience difficulties integrating or merging these businesses, retaining and integrating key employees of such companies, or addressing new business risks not currently faced by the Bank. There is also no assurance that the expected benefits or cost savings or efficiencies of such integration or mergers will materialise whether partially or at all. This could have an adverse effect on the Bank's financial condition and results of operations as well as its future growth prospects.

The Bank is effectively controlled by one shareholder group, with which it has extensive business connections.

As at 30 June 2024, the LT Group held indirect ownership of 59.83% of the Bank's shares through various holding companies. There can be no assurance that the companies and persons affiliated/associated with the LT Group or any of the shareholders of the Bank will not exercise its control and influence the Bank for their benefit.

The LT Group is one of the country's largest conglomerates with interests in banking and other financial services, beverages, distillery, and real estate development, among others. As at 31 December 2023 and 30 June 2024, the Bank had no loans and receivables from customers of the LT Group.

Although the Bank conducts all transactions with its related parties on an arm's length basis and believes that its loans to related parties are made substantially on the same terms as loans to other individuals and businesses of comparable risks, there can be no assurance that the interests of the LT Group will necessarily coincide with the interests of the holders of the Notes. In addition, there can be no assurance that deterioration in the financial condition of the LT Group or negative publicity regarding the LT Group will not adversely affect the Bank's financial condition and business opportunities.

The Bank has significant exposure to the Philippine property market, which may cause the Bank to acquire increasing levels of real and other properties acquired ("ROPA") and risks related to realising the value of its ROPA.

The Bank has significant exposure to the Philippine property market due to its portfolio of loans to customers in the real estate industry as well as the level of real estate it holds as collateral. The Bank's outstanding loans to borrowers who are engaged in real estate, renting and business activities (gross of unearned and other deferred income and allowance for credit losses) amounted to ₱99.0 billion, ₱96.2 billion, ₱110.7 billion and ₱100.8 billion as at 31 December 2021, 2022 and 2023, and 30 June 2024, respectively, representing 15.7%, 15.7%, 17.2% and 15.3%, respectively, of its total loans as at those dates. The Bank acquires ROPA when it forecloses on the collateral provided by a borrower or whenever assets, usually real estate, are conveyed to or acquired by the Bank as payment. Accordingly, the level of the Bank's ROPA varies according to the level of NPLs. As at 31 December 2021, 2022 and 2023 and 30 June 2024, ROPA (presented as investment properties in the Bank's statement of financial position) amounted to ₱10,735.9 million, ₱13,795.0 million, ₱14,579.6 million and ₱14,691.1 million, respectively, representing 0.9%, 1.2%, 1.2% and 1.2%, respectively, of the Bank's total assets.

The Bank periodically disposes of its ROPA in public auctions and through negotiated sales at prevailing market prices, which are largely determined by purchasers. The Philippine property market has in the past been cyclical and property values have been affected by supply of and demand for comparable properties, the rate of economic growth in the Philippines, and political and social developments.

Further, while the amount of ROPA appearing on the Bank's statement of financial position is shown net of allowance for impairment losses and depreciation in value, there can be no assurance that the Bank will be able to recover the full estimated value of ROPA stated in its financial statements. To the extent that property values decline

in the future, there can be no assurance that the Bank will be able to sell and recover the value of the ROPA stated in the financial statements or that the ability of the Bank's customers in the real estate industry to make timely payment on their loans will not deteriorate. Furthermore, given the Bank's significant amount of ROPA, it may take a number of years before the Bank is able to realise a significant part of the value of its ROPA. In realising cash value for such properties, the Bank may incur further expenses such as legal fees and taxes associated with such realisation. There can be no assurance that the Bank will be able to realise the full value, or even partial value, of its ROPA.

If the Bank is unable to dispose of its ROPA, it may be required to recognise levels of provisions in future years which are higher than those currently recognised by the Bank. Furthermore, if the Bank's customers in the real estate industry fail to make timely payment on their loans, it may have to set aside additional provisions for impairment losses. An increase in the level of the Bank's provisions will reduce the Bank's net income and consequently adversely affect the Bank's business, financial condition and results of operations.

The Bank's restructured loans may become non-performing.

As at 31 December 2021, 2022 and 2023 and 30 June 2024, the Bank had ₱46,256.9 million, ₱43,204.8 million, ₱40,539.0 million and ₱40,202.5 million, respectively, of restructured loans in its loan portfolio. In the restructuring of such loans, the Bank has agreed with borrowers to set interest payments at a relatively low level for a certain time-frame followed by much larger interest payments in later periods. The relatively low interest payments improve the likelihood that a restructured loan will be categorised as performing during the period of such payments. However, future interest payments that may be significantly higher may cause the loan to again become non-performing if the borrower is unable to make such larger payments in the later periods. If a significant number of the Bank's customers are unable to pay larger interest payments on their respective restructured loans, a larger number of restructured loans may become non-performing, thereby requiring additional provisions and additional capital, which could have a material adverse effect on the Bank's financial position, liquidity and results of operations.

The treasury and risk management functions of the Bank's subsidiaries, representative offices and remittance centres are decentralised and conducted separately from the Parent Bank, thereby exposing the Bank to significant risks.

Treasury functions, including trading and investment functions, and risk management functions, are decentralised and conducted separately at the Parent Bank level and at each of its subsidiaries, representative offices and remittance centres. See "Risk Management—Subsidiaries and Overseas Offices" on page 155 of this Offering Circular. While (a) all overseas representative offices and remittance centres and subsidiaries are required to regularly submit a profile of their portfolio to the Treasury sector of the Bank's head office and liquidity and interest rate gap reports (including maximum cumulative outflow positions and earnings-at-risk ("EaR") profiles) to the Enterprise Risk Management Group of the Bank's head office for monitoring and supervision purposes, (b) proprietary foreign exchange trading is also centralised and controlled at the head office, and (c) investments are coordinated by the Treasury Sector of the head office, BSP regulations mandate that certain risk management functions and systems be managed and installed on an entity-by-entity basis. Accordingly, the Bank may not possess information that enables it to properly assess credit, market, foreign exchange and other operational risks applying to its subsidiaries or to the Bank as a whole on a day-to-day basis. This decentralised approach to risk management may result in the Bank being exposed to certain risks as earlier mentioned that the Bank is unable to identify or assess properly on a day-to-day basis.

The Bank and its subsidiaries and overseas branches, representative offices and remittance centres may be exposed to incidents of fraud.

The Bank has experienced and may experience isolated incidents of employees engaging in fraudulent activities such as unauthorised withdrawals and abstraction of deposits. The failure by employees of the Bank to comply with required internal policies and controls contributed to this and other incidents of fraud. The Bank's and its subsidiaries' internal control systems rely heavily on the implementation of and compliance with the same by the employees and effectiveness of the Bank's whistle-blower policy. Although the Bank and its subsidiaries closely monitor strict adherence to their internal control procedures and implement internal control reviews and risk management procedures, there can be no assurance that these efforts will prevent future fraudulent actions. In addition, there are limitations inherent in all internal control systems such as human error, poor judgment in decision making, deliberate circumvention of control processes by employees, management override of controls and occurrence of unforeseeable circumstances.

Furthermore, although the Bank implements enhanced system security controls (see “*Description of the Bank – Information Technology*” on page 134 of this Offering Circular), as the Bank continues to invest in the automation and computerisation of its various internal and control processes and expands its internet banking operations, the potential risk for fraud and data privacy and information security problems arising from the exploitation of technological weaknesses attributed particularly to the growing cybercrime related cases also increase.

Failure on the part of any of the Bank and its subsidiaries to prevent future fraudulent actions or data privacy or security breaches may result in administrative or other regulatory sanctions by the BSP or other Government agencies and may also result in the suspension of, or other limits on, the Bank’s banking and other business licences. In addition, such events may also result in a loss of confidence of current and potential deposit customers of the Bank, which could materially and adversely affect its financial condition and results of operations.

Changes in the regulatory regimes or guidelines may adversely affect the Bank’s businesses, financial condition and results of operations.

The Bank has business interests in a number of highly regulated sectors, including banking, leasing, credit card business, real estate investments and insurance. Each of these businesses is subject to separate regulatory regimes and guidelines that are periodically subject to change. Failure to comply with relevant laws and regulations may result in financial penalties and/or administrative or legal proceedings against the Bank, including the revocation of the Bank’s licences, permits or certificates. Regulators of the Bank’s businesses may alter current regulations or introduce new regulations to control a particular line of business. There can be no assurance that the guidelines issued by the regulatory authorities will not materially and adversely affect the Bank’s business, financial condition or results of operations. For a discussion of the banking regulations governing the Bank, see “*Banking Regulation and Supervision*” on page 193 of this Offering Circular.

The Bank is subject to credit, market and liquidity risks which may have an adverse effect on its credit ratings and its cost of funds.

To the extent any of the instruments or strategies the Bank uses to manage its exposure to market or credit risks are not effective, the Bank may not be able to effectively mitigate its risk exposures. The Bank’s trading revenues and interest rate risk exposure are dependent upon its ability to properly identify and mark to market the changes in the value of financial instruments caused by changes in market prices or rates. The Bank’s earnings are dependent upon, among others, the effectiveness of its management of migrations in credit quality and risk concentrations, the accuracy of its valuation models and its critical accounting estimates and the adequacy of its allowances for credit losses. To the extent its assessments, assumptions or estimates prove inaccurate or not predictive of actual results, the Bank could suffer higher than anticipated losses. The successful management of credit, market and operational risks is an important consideration in managing its liquidity risk because it affects the evaluation of its credit ratings by rating agencies. A failure by the Bank to effectively manage its credit, market and liquidity risk could materially and adversely affect the Bank’s business, financial condition and results of operations.

A downgrade of the Bank’s credit rating could have a negative effect on its business, financial condition and results of operations.

The Bank has a credit rating of Baa3, with a positive outlook for its bank deposits from Moody’s. In the event of a downgrade of the Bank by its credit rating agency, the Bank may have to accept terms that are not as favourable on its transactions with counterparties, including capital raising activities, or may be unable to enter into certain transactions. This could have a negative impact on the Bank’s treasury operations and also adversely affect its financial condition and results of operation. Rating agencies may reduce or indicate their intention to reduce the ratings at any time. The rating agencies may also decide to withdraw their ratings altogether, which may have the same effect as a reduction in its ratings. Any reduction in the Bank’s ratings (or withdrawal of ratings) may increase its borrowing costs, limit its access to capital markets and adversely affect its ability to sell or market its products, engage in business transactions, particularly longer-term and derivatives transactions, or retain its customers. This, in turn, could reduce the Bank’s liquidity and materially and adversely affect the Bank’s business, financial condition and results of operations.

The Bank’s trading activities are subject to volatility.

The Bank engages in trading activities, primarily maintaining proprietary trading positions in Government securities. Income from trading and investment activities as a percentage of the Bank’s operating income has been

volatile in recent years. The Bank incurred a loss in its trading and investment securities for the year ended 31 December 2022 primarily due to an uptrend in interest rates driven by global monetary tightening during the year, and posted a gain for the same in the year ended 31 December 2023 as the Bank capitalised on market opportunities, despite limited market liquidity and the rising interest rate environment. Despite the volatility in the Bank's trading positions, the Bank believes that gains from its trading activities still constitute an important aspect of the Bank's operating income. Trading and investment securities gains – net accounted for 1.7%, (2.5)%, 0.7%, 0.3% and 1.3% of the Bank's total operating income for the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024, respectively.

There can be no assurance that the Bank will be able to continue posting trading gains, that it will not continue to incur a loss from such trading or that it will not hold on to its trading and investment securities to realise interest income, any or all of which could have a material adverse effect on the Bank's future net income. The Bank's income from trading activities is subject to substantial volatility based on, among other things, changes in interest rates, foreign currency exchange rates and debt prices, as well as stock market fluctuations. For example, an increase in interest rates or downgrade of the credit ratings of some of the fixed income securities invested may have a substantial impact on the value of the Bank's investments in fixed income securities, which would negatively affect the Bank's results of operations.

An increase in interest rates could decrease the value of Banks' securities portfolio and raise their funding costs.

Domestic interest rates have remained low since 2009, with the monetary policy directed towards stimulating the economy. In 2018, however, domestic interest rates started to rise following the BSP's staggered 175 basis point hike in policy rates to subdue inflationary pressures from higher taxes under the R.A. 10963 or the Tax Reform for Acceleration and Inclusion ("**TRAIN Law**") (implemented in January 2018), rising global oil prices, an acute rice shortage, and a weaker Peso. In 2019, the BSP cumulatively cut its rates by 75 basis points to help bolster economic growth back to the government's target and with inflation on a downtrend.

Effective 9 May 2019, the Monetary Board decided to reduce the interest rate on the BSP's overnight reverse repurchase facility ("**RRP**") to 4.5%; on 8 August 2019, to 4.25%; on 26 September 2019, to 4.00%; and on 6 February 2020, to 3.75%. In 2020, at the onset of the pandemic, the BSP pivoted towards an accommodative policy stance. On 19 March 2020, the Monetary Board further reduced the BSP's overnight RRP by 50 basis points to 3.25%. The interest rates on the overnight lending and deposit facilities were reduced as well to 3.75% and 2.75%, respectively. For the rest of 2020, the BSP adopted a number of measures to support the economy during the COVID-19 pandemic. It decreased its benchmark interest rate to 2.00% as of 17 December 2020 and interest rates on overnight deposit and lending facilities to 1.50% and 2.50%, respectively. The Monetary Board maintained the foregoing interest rates through the end of 2021. However starting 19 May 2022, the Monetary Board increased the benchmark interest rate, overnight lending and deposit facilities almost on a monthly basis to combat inflation. On 15 December 2022, the Monetary Board implemented the final increase in the policy rates for 2022 with overnight RRP, overnight deposit, and lending facility rates set at 5.50%, 5.00% and 6.00%, respectively. On 16 February 2023, the interest rate of the BSP's RRP was further raised by 50 basis points to 6.0%. Thus, interest rates on the overnight deposit and lending facilities were set to 5.5% and 6.5%, respectively. On 23 March 2023, the Monetary Board decided to further raise the interest rate of the BSP's RRP by 25 basis points to 6.25%. Accordingly, the interest rates on the overnight deposit and lending facilities will be set to 5.75% and 6.75%, respectively. The Monetary Board maintained the foregoing rates until 26 October 2023 when the BSP decided to further raise its RRP rate to 6.50%. As such, the overnight deposit and lending rates were increased to 6.00% and 7.00%, respectively. The Monetary Board maintained the policy interest rates through the end of 2023 and the first seven months of 2024. On 15 August 2024, the BSP reduced the RRP rate to 6.25%, and the overnight deposit and lending facilities were accordingly adjusted to 5.75% and 6.75%, respectively. However, there is no assurance that interest rates in the Philippines will not increase in the future, including in response to inflationary pressures resulting from strong economic growth, tax reforms and global developments.

An increase in interest rates could lead to a decline in the value of securities in the Bank's portfolio and the Bank's ability to earn excess trading gains as revenue. A sustained increase in interest rates will also raise the Bank's funding costs without a proportionate increase in loan demand (if at all). Rising interest rates will therefore require the Bank to re-balance its assets and liabilities in order to minimise the risk of potential mismatches and maintain its profitability. In addition, rising interest rate levels may adversely affect the economy in the Philippines and the financial position and repayment ability of its corporate and retail borrowers, including holders of credit cards, which in turn may lead to a deterioration of the Bank's credit portfolio in addition to lower levels of liquidity in the system which may lead to an increase in the cost of funding. Lower levels of liquidity in the system may

likewise lead to an increase in the cost of funding as banks actively compete for funds by raising the interest rates they charge on deposits.

The Bank's provisioning policies in respect of NPLs require significant subjective determinations and are subject to the implementation of any new accounting standards and tighter regulations in the future.

The level of loan loss provisions which the Bank recognises may increase significantly in the future due to the introduction of new accounting standards and implementation of tighter regulations on credit risk (e.g., BSP Circular 855 and PFRS 9 amendments to loan loss provisions). The level of provisions currently recognised by the Bank in respect of its loan portfolio depends largely on the quality of the portfolio and estimated value of the collateral coverage for the portfolio. Although the Bank has a policy to test its loan portfolio for impairment on a monthly basis in order to ensure adequacy of provisions as needed and in line with changing market conditions, the level of the Bank's provisions may not be adequate to cover increases in the amount of its non-performing loans, or any deterioration in the overall credit quality of the Bank's loan portfolio, including the value of the underlying collateral. In particular, the amount of the Bank's reported loan losses may increase in the future as a result of factors beyond the Bank's control. In addition, these requirements in certain circumstances may be less stringent than those applicable to banks in other countries and may result in particular loans being classified as non-performing later than would be required in such countries or being classified in a category reflecting a lower degree of risk.

In January 2017, the BSP amended the regulatory definitions of past due accounts, restructured loans and non-performing loans, as well as revisions of other related provisions under BSP Circular 941. Among others, the said Circular cites the conditions under which an account will be classified as NPL (i.e. meeting any of the following: considered impaired under existing accounting standards; classified as doubtful or loss; in litigation; full repayment of principal and interest is unlikely without foreclosure of collateral, if any; 91 days past due; and restructured). Banks are required to make the necessary revisions in their management information and reporting systems relating to past due and NPLs to allow them to comply with the requirements of the Circular effective 1 January 2018.

Certain accounting standards have been adopted in the Philippines based on International Accounting Standards, which require the Bank's loan loss provisions to reflect the net present value of the cash flows of the loan and underlying collateral. The PFRS 9 Expected Credit Loss ("ECL") poses risk of variability of provisions due to the subjective nature of assumptions used and complexity of data requirements for the model forecasts as well as potentially unforeseen changes in macroeconomic and industry conditions. The Bank adopted PFRS 9 effective 1 January 2018, and the application of the ECL model increased the Bank's allowance for credit losses and other comprehensive income as at 1 January 2018.

There is no guarantee that such accounting standards or tighter regulations may result in the Bank recognising significantly higher provisions for loan loss in the future. In addition, while the Bank believes its current level of provisions and collateral position are more than adequate to cover its NPL exposure, an unexpected or significant increase in NPL levels may result in the need for higher levels of loan loss provisions in the future.

The Bank has significant credit exposure to certain borrowers and industries and deterioration in the performance of any of these industry sectors may adversely impact the asset quality of the Bank's loan portfolio and its business.

As at 30 June 2024, the Bank's five largest industry exposures were to the (i) wholesale and retail trade, (ii) financial intermediaries, (iii) real estate, renting and business activities, (iv) electricity, gas and water, and (v) manufacturing, representing 17.3%, 16.8%, 15.3%, 12.6% and 11.0%, respectively, of the Bank's total loan portfolio (based on gross amount before allowance and unearned discount) as at 30 June 2024. The global and domestic trends in these industries may have a bearing on the Bank's financial position. Any significant deterioration in the performance of a particular sector, driven by events outside the Bank's control, such as regulatory action or policy announcements by the Government or the general condition of the domestic and global economies, would adversely impact the ability of borrowers in that industry to service their debt obligations to the Bank. In addition, if the loans to these borrowers or sectors were to become non-performing, this could adversely affect the Bank's business and results of operations.

The Bank is subject to foreign currency risk and interest rate risk.

As a financial organisation, the Bank is exposed to foreign exchange rate risk. Movements in foreign exchange rates could affect the Bank's business and results of operations. See "*Risks Relating to the Philippines—Volatility*

in the value of the Peso against the U.S. dollar and other currencies as well as in the global financial and capital markets could adversely affect the Bank's businesses". The decline or appreciation in the value of the Peso against foreign currencies, in particular, the U.S. dollar may affect the ability of the Bank's customers to service debt obligations denominated in foreign currencies and, consequently, potentially increase NPLs depending on the pace of currency adjustment, the nature of the clients' enterprises, and degree to which they are hedged. There can be no assurance that the Peso will not fluctuate further against other currencies and that such fluctuations will not ultimately have an effect on the Bank. In addition, the foreign exchange transactions of Philippine banks are subject to certain BSP regulations. Under BSP guidelines, the Bank is required to provide a 100.0% foreign asset cover for all foreign currency liabilities in its foreign currency deposit unit books ("FCDU"). As at 30 June 2024, \$2,978.7 million and \$2,968.1 million of the Bank's total assets and total liabilities, respectively, are in the Bank's FCDU books and denominated in foreign currencies, primarily in U.S. Dollars. These represent 13.9% and 16.5% of the Bank's total assets and total liabilities, respectively, as at 30 June 2024.

The Bank realises income from the margin between interest-bearing assets, such as investments and loans, and on interest-bearing liabilities, such as deposits and borrowings. The business of the Bank is subject to fluctuations in market interest rates as a result of mismatches in the re-pricing of assets and liabilities. These interest rate fluctuations are neither predictable with certainty nor controllable and might have a material adverse impact on the operations and financial condition of the Bank. In a rising interest rate environment, if the Bank is not able to pass along higher interest costs to its customers, it might negatively affect the Bank's profitability. If such increased costs are passed along to customers, such increased rates might make loans less attractive to potential customers and result in a reduction in customer volume and hence operating revenues. In a decreasing interest rate environment, potential competitors might find it easier to enter the markets in which the Bank operates and to benefit from wider spreads. As a result, fluctuations in interest rates could have an adverse effect on the Bank's margins and volumes and in turn affect the Bank's business, financial condition and results of operations.

The Bank is involved in litigation, which could result in financial losses or harm its business.

The Bank is and may in the future be, implicated in lawsuits on an ongoing basis. Litigation could result in substantial costs to, and a diversion of effort by, the Bank and/or subject the Bank to significant liabilities to third parties. There can be no assurance that the results of such legal proceedings will not materially harm the Bank's business, reputation or standing in the marketplace or that the Bank will be able to recover any losses incurred from third parties, regardless of whether the Bank is at fault. Furthermore, there can be no assurance that (i) losses relating to litigation will not be incurred beyond the limits, or outside the coverage, of such insurance, or that any such losses would not have a material adverse effect on the results of the Bank's business, financial condition or results of operations, or (ii) provisions made for litigation related losses will be sufficient to cover the Bank's ultimate loss or expenditure.

The Bank relies on certain key personnel and the loss of any such key personnel or the inability to attract and retain other highly capable individuals may negatively affect its business.

The Bank's ability to successfully implement its growth strategies depends upon, among other factors, the retention of its key management and senior executives, and upon its ability to attract and retain other highly capable individuals. The loss of some of the Bank's key management and/or senior executives, or an inability to attract or retain other key individuals could materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank's past or current results may not be indicative of the Bank's future performance.

The Bank's results in the future are dependent upon many factors, including among other factors, the Bank's ability to implement its business strategies, economic growth in the Philippines and foreign markets, performance of its loan portfolio, and fluctuation in interest rates and exchange rates. There can be no assurance that the Bank will be profitable or will not incur operating losses in the future.

PNB's investments in equity of unconsolidated subsidiaries may adversely affect PNB's qualifying capital and PNB's ability to meet the BSP's Basel III capital adequacy ratio requirements.

PNB's investments in unconsolidated subsidiaries amounted to ₱24,840.3 million as at 30 June 2024. As prescribed under BSP Circular No. 538, as amended by BSP Circular No. 781, investments in the equity of unconsolidated subsidiary banks and quasi-banks, securities dealers/brokers, insurance companies, other financial and non-financial allied undertakings and reciprocal investments in the equity of other banks/enterprises and reciprocal investments in other regulatory capital instruments of other banks and quasi-banks, among others, are

deductions from the gross qualifying capital in computing for the risk-based capital adequacy ratios. PNB's investments in equity of unconsolidated subsidiaries (including any increase thereto) may adversely affect PNB's qualifying capital and PNB's ability to meet the BSP's Basel III capital adequacy ratio requirements. See “ – *Risks Relating to the Philippine Banking Industry – The Bank may experience difficulties due to the implementation of Basel III in the Philippines*”.

The Bank is subject to regulatory risks associated with its operations in jurisdictions other than the Philippines.

While the Philippine market is the Bank's primary market, the Bank has operations in other parts of the world including in China, the United Kingdom, the United States and Canada. The banking industries in these markets are subject to extensive regulation by governments, securities exchanges and regulators, central banks and other regulatory bodies and there may be restrictions on foreign banks or foreign investments. In such countries, the laws and regulations applicable to the financial services industries may be prone to change and uncertainty, and it may be difficult to determine the requirements of local laws in every market or manage its relationships with multiple regulators in various jurisdictions. If the Bank fails to comply with local laws or manage its relationship with regulators, it may expose the Bank to regulatory risks, which could materially and adversely affect the Bank's business, financial condition and results of operations. See also “*Risks Relating to the Philippine Banking Industry – The Bank may have to comply with stricter regulations and guidelines issued by banking and other regulatory authorities in the Philippines and international bodies.*”

Risks Relating to the Philippine Banking Industry

The Philippine banking industry is highly competitive and increasing competition may result in declining margins in the Bank's principal businesses.

The Bank is subject to significant levels of competition from many other Philippine banks and branches of international banks, including competitors which, in some instances, have greater financial and other capital resources, a greater market share and greater brand name recognition than the Bank. In addition, increased competition may arise from, among others:

- other large Philippine banks and financial institutions with significant presence in Metro Manila and extensive country-wide branch networks;
- full entry of foreign banks in the Philippines through any of the following modes allowed under Republic Act No. 10641 (An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act No. 7721 (An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines)) (“**RA 10641**”): (a) the acquisition, purchase or ownership of up to 100% of the voting stock of an existing bank; (b) investment of up to 100% of the voting stock in a new banking subsidiary incorporated under Philippine law; or (c) establishment of branches with full banking authority;
- domestic banks entering into strategic alliances with foreign banks with significant financial and management resources and, in some cases, resulting in excess capital that can be used as leverage for asset growth and market share gains;
- continued consolidation and increased mergers and acquisitions in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions;
- the emergence of FinTech, including businesses such as an all-digital bank set up by CIMB, and mobile payment tools or e-wallet applications such as GCash and PayMaya, and the growing popularity of peer-to-peer lending through digital platforms;
- the emergence and issuance of digital banking licences to GoTyme Bank Corporation, Maya Bank, Inc., Overseas Filipino Bank, Inc., Tonik Digital Bank, Inc., Union Digital Bank and UNObank, Inc by the BSP, which may offer banking products more aggressively on the back of reduced physical operating costs. The BSP expects to issue a circular that would lift the moratorium imposed in 2021 on applications for digital banking licences with a view to provide access to new players in the industry; and
- as banks venture into micro-finance and other consumer financing products, other consumer-focused players, including informal lenders.

The ongoing mergers and consolidations in the banking industry, as well as the liberalisation of foreign ownership regulations in banks, have allowed the emergence of foreign and bigger local banks in the market. For example, there has been increased foreign bank participation in the Philippines following the lifting of the ban on granting of new licences by the Monetary Board, as well as the amendment of banking laws with respect to the limit on the number of foreign banks. This has led to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea – Manila Branch, Shinhan Bank – Manila Branch, Yuanta Savings Bank Philippines, Inc., United Overseas Bank Limited – Manila Branch, Hua Nan Commercial Bank, Ltd. – Manila Branch, First Commercial Bank, Ltd. – Manila Branch, CIMB Bank Philippines, Inc., Industrial and Commercial Bank of China Limited – Manila Branch, and Chang Hwa Commercial Bank, Ltd. – Manila Branch being granted new licences, and also equity investments by Bank of Tokyo-Mitsubishi UFJ into Security Bank, Cathay Life into Rizal Commercial Banking Corporation, Woori Bank into Wealth Development Bank and Tyme Group in GoTyme Bank Corporation. In addition, the establishment of the ASEAN Economic Community in 2015 has enhanced cross-border flows of financial services (in addition to goods, capital, and manpower) among member nations and increased the level of competition both from Philippine banks and branches of international banks. As at 30 June 2024, according to data from the BSP, there were a total of 44 domestic and foreign universal and commercial banks operating in the Philippines.

There can be no assurance that the Bank will be able to compete effectively in the face of such increased competition. Increased competition may make it difficult for the Bank to continue to increase the size of its loan portfolio and deposit base, as well as cause increased pricing competition, which could have a material adverse effect on its growth plans, margins, results of operations and financial condition.

The Bank may have to comply with stricter regulations and guidelines issued by banking and other regulatory authorities in the Philippines and international bodies.

The Bank is regulated and supervised principally by, and has reporting obligations to, the BSP. The Bank is also subject to the banking, corporate, taxation, data privacy laws and other regulations and laws in effect in the Philippines administered by agencies such as the Anti-Money Laundering Council (“**AMLC**”), the Philippine Bureau of Internal Revenue (the “**BIR**”), the Philippine SEC, the PSE and the National Privacy Commission as well as international bodies such as the Financial Action Task Force (“**FATF**”), whose recommendations and pronouncements have been adopted, incorporated or referred to by the BSP in its regulatory issuances.

In recent years, existing rules and regulations have been modified, new laws, rules and regulations have been enacted and reforms have been implemented which are intended to provide tighter control and added transparency in the Philippine banking sector. These rules include new guidelines on the monitoring and reporting of suspected money laundering activities as well as regulations governing the capital adequacy of banks in the Philippines. Institutions that are subject to the Anti-Money Laundering Act, as amended (“**AMLA**”) are required to establish and record the true identities of their clients based on official documents. They are to maintain a system of verifying the true identity of their clients and, in case of corporate clients, require a system of verifying their legal existence and organisational structure, as well as the authority and identification of all persons purporting to act on their behalf. All records of transactions are required to be maintained and stored for a minimum of five years from the date of a transaction, unless a case has been filed involving the account, then the records must be retained and safely kept beyond the five-year period until it is officially confirmed by the AMLC Secretariat that the case has been resolved, decided or terminated with finality. In addition, records of closed accounts must also be kept for five years after their closure.

The BSP has also ordered universal, commercial and thrift banks to conduct real estate stress tests to determine whether their capital is sufficient to absorb a severe shock. The Real Estate Stress Test Limit (“**REST Limit**”) combines a macroprudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. Should a bank fail to comply with the prescribed REST Limits, it shall be directed to explain why its exposures do not warrant immediate remedial action. If the explanation is deemed insufficient, the bank shall be required to submit an action plan to meet the REST Limits within a reasonable time frame. In 2020, the BSP issued BSP Circular No. 1093, which requires banks’ total real estate loans of universal banks and commercial banks to not exceed 25% of their total loan portfolio, net of interbank loans, excluding certain items listed in the relevant BSP regulations and the Manual of Regulation for Banks (“**MORB**”).

In June 2016, the BSP implemented the interest rate corridor (“**IRC**”) which effectively narrowed the band among the BSP’s key policy rates. The pricing benchmark, which used to be the “special deposit account” prior to the implementation of the IRC, was replaced by the “overnight deposit facility” with a current rate of 6.0% (as of 1 August 2024), and forms the lower bound of the IRC. Meanwhile, the rate for the “overnight lending facility”,

which replaced the previous repurchase facility, and forms the upper bound of the IRC, is currently at 7.0% (as of 1 August 2024). The BSP likewise introduced the “term deposit facility” to serve as the main tool for absorbing liquidity through weekly term deposit facility auctions, the frequency for which may be changed depending on the BSP’s liquidity forecasts. According to the BSP, the changes from IRC are purely operational in nature to allow it to conduct monetary policy effectively.

Additionally, the BSP pursuant to BSP Circular Nos. 1175, 1176 and 1185 (Series of 2023) reduced the rates of required reserves against deposit and deposit substitute liabilities for universal and commercial banks commencing on 6 January 2024 (BSP Circular No. 1185) and June 2023 (BSP Circular Nos. 1175 and 1176), as follows: (a) 9.5% against demand deposits, negotiable order of withdrawal (“**NOW**”) accounts, savings deposits (excluding basic deposit accounts), time deposits, deposit substitutes, negotiable certificates of time deposits (“**CTDs**”), long-term non-negotiable tax-exempt CTDs, Peso deposits lodged under due to foreign banks, and Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank); (b) 0% against deposit substitutes evidenced by repurchase agreements; (c) 4% against long-term negotiable certificates of time deposits (“**LTNCDs**”); (d) 1.0% against green, social sustainable bonds as defined under the relevant regulations of the Philippine SEC or other relevant regional or international standards acceptable to the market (“**Sustainable Bonds**”) issued within one year from 6 January 2024; (e) 0% for Sustainable Bonds issued one year after 6 January 2024, effective for another 12 months, (f) 3% against bonds other than Sustainable Bonds; and (g) 0% against basic deposit accounts as defined under Section 213 of the Manual of Regulations for Banks and for interbank call loan transactions (“**IBCL**”).

On 25 June 2021, the FATF released its grey list of countries that will be subjected to increased monitoring to prove their progress as they address strategic deficiencies in their regimes against money laundering, terrorist financing, and proliferation financing. With its inclusion in the grey list, the Philippines needs to implement the 18 action items required within the prescribed timelines to ensure the country’s removal from such list. Progress reports must likewise be submitted to the FATF thrice a year. The AMLC emphasised, however, that the Philippines will not yet be subjected to countermeasures. It is only when a country fails to meet the deadlines that the FATF will call on countries to impose countermeasures against it. Based on the progress review conducted by the FATF in February 2023, the FATF noted that while the Philippines has taken steps to address the findings raised by FATF, it should continue to work on implementing its action plan to address its strategic deficiencies as soon as possible.

The BIR has also promulgated rules on the submission of an alphabetical list of portfolio investors receiving income payments and dividends. The BIR requires all withholding agents to submit such list of payees on income payments subject to creditable and withholding taxes and prohibit the lumping into a single amount and account of various income payments and taxes withheld. The Supreme Court, however, issued a temporary restraining order against the said BIR rule on 9 September 2014 with regard to the prohibition against lumping into a single amount. On 5 July 2022, the Supreme Court converted the temporary restraining order into a permanent injunction.

For the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2024, 1.5%, 1.3%, 1.2% and 1.2% of the Bank’s operating income, respectively, was derived from its remittance services. As a substantial portion of the Bank’s remittance business is from the United States, the Bank has been compliant, with the increasingly stringent anti-money laundering rules and regulations in the United States. Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“**USA Patriot Act**”) and other regulations, financial services firms, including the Bank, must establish a compliance program that includes a compliance oversight structure, policies and procedures to detect and report suspicious transactions to the government as well as ensure adherence to existing and new laws. There are requirements to implement specialised employee training programs, designate a special compliance officer, implement robust transaction monitoring and conduct independent audits of the effectiveness of the compliance program. The U.S. regulations also impose requirements regarding client information and verification of that information. Financial services firms are required to verify the identity of the clients with whom they do business, determine the source of funds in a client’s account and obtain information about a client’s wealth as well as ensure there is economic reason for the transaction.

Although the Bank has invested in maintaining and upgrading its anti-money laundering solutions (see “*Description of the Bank—Information Technology—Anti-money laundering systems*” on page 136 of this Offering Circular), there is no assurance that the anti-money laundering solution implemented by the Bank will always perform at 100.0% accuracy and efficiency. By its nature, it is subject to the same risks relating to other information and technology systems and processes, including vulnerability to damage or interruption by human error, misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses or the interruption or loss of support services from third parties. Further, although the Bank has in place contingency programs and

preventive measures to address events that may cause disruptions and has home grown systems to generate critical reports to ensure regulatory compliance, any disruption, outage, delay or other difficulties experienced by any of these information and technology systems could result in delays, disruptions, losses or errors that may affect the performance of the anti-money laundering solution put in place by the Bank.

Further, there is no assurance that the BSP or other Philippine or international regulators will not issue stricter regulations aimed at preventing fraudulent transactions that may affect financial institutions in the Philippines, such as the cyber heist of the Bangladesh Bank in 2016. In the event of any changes to the existing guidelines or rules, or introduction of additional regulations, the Bank may have to comply with the same and may incur substantial compliance and monitoring costs. The Bank's failure to comply with current or future regulations and guidelines issued by regulatory authorities in the Philippines and in other relevant jurisdictions could have a material adverse effect on the Bank's business, financial condition and results of operations. Such failure to comply could also result in the imposition of administrative sanctions or filing of criminal charges against the Bank and its employees responsible for the violations.

Increased enforcement by the Government of regulations relating to priority lending for agrarian reform and the agricultural sector could adversely affect the Bank's business, financial condition and results of operations.

The Government has imposed a lending policy requiring Philippine banks to extend certain loan amounts to the agriculture and fisheries sector and agrarian reform beneficiaries of the country. Failure to meet the specified level of loans may result in penalties being assessed against a non- or under-compliant bank. As at 30 June 2024, the requirement applicable to the Bank was ₱78.0 billion. Although the Bank has complied with this lending requirement as at 30 June 2024, the Bank, in the future, may be unable to generate sufficient exposure to agrarian reform and the agricultural sector due to its prudent credit and risk, and as a result, the Bank may be subject to penalties in the future. There can be no assurance that the Government will not increase its penalties for non- or under-compliance or force banks to lend in accordance with the policy. There has, however, been a recent relaxation of regulations following the adoption of Republic Act No. 11901 or the Agricultural, Fisheries, and Rural Development Financing Enhancement Act of 2022, which has removed the required allocation of credit to agrarian reform beneficiaries (i.e., 10% of total loanable funds out of the mandatory credit requirement of 25% of total loanable funds required to be set aside by banks for agricultural and fisheries financing in general), and expanding the allowable modes of alternative compliance to meet such mandatory credit requirement.

The Bank may experience difficulties due to the implementation of Basel III in the Philippines.

In 2007, the implementing guidelines of the revised International Convergence of Capital Measurement and Capital Standards known as Basel II took effect. To supplement these guidelines, the BSP issued BSP Circular No. 639 requiring banks to have in place an Internal Capital Adequacy Assessment Process ("ICAAP") that (i) takes into account not just the credit, market and operational risks but also all other material risks to which a bank is exposed (such as interest rate risk in the banking book, liquidity risk, compliance risk, strategic/business risk and reputation risk); (ii) covers more precise assessments and quantification of certain risks (i.e., credit concentration risk); and (iii) evaluates the quality of capital.

In December 2010, the Basel Committee on Banking Supervision ("BCBS") issued an update to the Basel Accords, known as Basel III, that modified the structure of regulatory capital. The Basel III regulations included tighter definitions of qualifying capital, and introduced frameworks for capital conservation buffer, countercyclical buffer, systemically important financial institutions, leverage ratio, and short-term and medium-term quantitative liquidity ratios.

In January 2013, the BSP issued the Basel III Implementing Guidelines on Minimum Capital Requirements, effective January 2014. The guidelines include the following highlights:

- adoption of a new categorisation of the capital base;
- keeping the minimum capital adequacy ratio at 10%, and prescribing: (i) a minimum common equity tier 1 ("CET1") ratio of 6.0%, (ii) a minimum Tier 1 capital adequacy ratio of 7.5%, and (iii) an additional capital conservation buffer ("CCB") of 2.5%;
- rendering ineligible existing capital instruments that do not meet the eligibility criteria for capital instruments under the revised capital framework; and

- subjecting covered banks and quasi-banks to the enhanced disclosure requirements pertaining to regulatory capital.

On 29 October 2014, the BSP issued Circular No. 856, or the “*Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks (“D-SIBs”) under Basel III*”, as amended by BSP Circular No. 1051 on 27 September 2019, to address systemic risk and interconnectedness by identifying banks which are deemed systemically important within the domestic banking industry. Banks identified as D-SIBs are required to have higher loss absorbency capabilities, in addition to minimum CET1 capital and CCB requirements. Identified D-SIBs will need to put up an additional 1.5% to 2.5% CET1 depending on their classification.

Banks identified as D-SIBs will be required to have higher loss absorbency (“**HLA**”) to ensure that D-SIBs have a higher share of their balance sheets funded by instruments which increase their resilience as a going concern. To ensure a maximum degree of consistency in terms of effective loss absorbing capacity, the HLA requirement will be addressed through CET1 capital. Further, the BSP imposes restrictions on distributions, depending on the countercyclical capital buffer (“**CCyB**”) rate of the bank. However, payments which do not result in the depletion of CET1 capital are not considered capital distributions.

A D-SIB will not be subject to any restriction on distribution if it has positive retained earnings as of the preceding quarter and complies with the regulatory requirements for the declaration of dividends, and is compliant with total required CET1 capital (under the relevant BSP Circulars) before the distribution and minimum capital ratios after distribution.

Banks will be required to maintain higher minimum levels of capital if they are designated as D-SIBs by the BSP.

On 10 March 2016, the BSP issued Circular No. 905, or the “*Implementation of Basel III Framework on Liquidity Standards — Liquidity Coverage Ratio (“**LCR**”) and Disclosure Standards*”, requiring banks to hold a sufficient level of high-quality liquid assets (“**HQLA**”) to enable them to withstand a 30-day liquidity stress scenario. Furthermore, banks face new liquidity requirements under Basel III’s new liquidity framework, namely, the LCR and the net stable funding ratio (“**NSFR**”). The LCR requires banks to hold sufficient level of high-quality liquid assets to enable them to withstand a 30-day liquidity stress scenario. Banks have been required to meet a LCR threshold of 100% beginning on 1 January 2019.

Subsequently, the BSP imposed a 70% LCR floor for subsidiary banks and quasi-banks, which are required to comply with the minimum LCR of 100% starting January 2020.

On 6 June 2018, the BSP issued Circular No. 1007 in relation to the implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards – NSFR. As of 1 January 2020, the minimum 100% NSFR became effective for covered banks and quasi-banks. Compliance with these ratios may also further increase competition among banks for deposits as well as high quality liquid assets.

The BSP has approved the Philippine Adoption of the Basel III CCyB under Circular No. 1024 issued on 6 December 2018, which imposes a CCyB of 0% subject to upward adjustment to a rate determined by the Monetary Board when systemic conditions warrant, but not to exceed 2.5%. Any increase in the CCyB rate shall be effective 12 months after its announcement, while decreases shall be effective immediately. A CCyB set as a percentage of risk-weighted assets shall be required of banks, comprised of CET1 capital.

On 4 May 2020, the BSP issued BSP Memorandum Circular No. M-2020-039, which allows universal and commercial banks, and their subsidiary banks and quasi-banks, which have built up their CCB and LCR buffer, to utilise the same during this state of health emergency. A covered bank which draws down its 2.5% minimum capital conservation buffer will not be considered in breach of the capital adequacy framework. A covered bank which utilises its capital conservation buffer is restricted from making distributions in the form of dividends, share buybacks, discretionary payments on other Tier 1 capital instruments, or discretionary bonus payments to staff. A covered bank may draw on its stock of liquid assets to meet liquidity demand even if may cause to maintain a LCR that is below the 100% minimum requirement. However, a covered bank that has recorded a shortfall in the stock of its High-Quality Liquid Assets for three Banking Days within any two-week rolling calendar period, causing it to fall below the 100% must notify the BSP on the Banking Day immediately following the occurrence of the third liquidity shortfall.

On 3 March 2022, the BSP issued BSP Circular No. 1142, which amends the Guidelines on the Computation of Minimum Required Capital and Risk-Based Capital Adequacy Ratio. Under this circular, government-owned or

controlled banks need not deduct from the computation of qualifying capital the unsecured Peso-denominated credit accommodations to the Philippine National Government.

Banks and quasi-banks will be given a reasonable time period to restore their Basel III capital conservation and liquidity buffers after the COVID-19 pandemic. Meanwhile, non-compliance with the minimum capital adequacy ratio (“CAR”) and NSFR requirements as a result of the COVID-19 pandemic will be handled on a case-by-case basis by the BSP.

These may result in an increase in the capital adequacy requirement of the Bank. Unless the Bank is able to access the necessary amount of additional capital, any incremental increase in the capital requirement due to the implementation of ICAAP and Basel III may impact the Bank’s ability to grow its business, which could materially and adversely affect the Bank’s business, financial condition and results of operations. There can be no assurance that the Bank will be able to raise adequate additional capital in the future on terms favourable to it or at all and comply with the requirements of Basel III as implemented by the BSP.

Whenever the capital accounts of a bank are deficient with respect to the prescribed risk-based CAR of 10%, the Monetary Board may impose monetary and non-monetary sanctions. The Monetary Board will also prohibit the opening of new branches whenever a bank’s CAR falls below 12% on a non-consolidated and consolidated basis. Furthermore, the Monetary Board will also prohibit the distribution of dividends whenever a bank’s CET1 ratio and CAR falls below 8.5% and 10%, respectively. Such limitations or restrictions imposed by the BSP’s implementation of Basel III could materially and adversely affect the Bank’s business, financial condition and results of operations, as well as limit the Bank’s ability to declare dividends.

Although intended to strengthen banks’ capital positions and thwart potential asset bubbles, the foregoing BSP and Monetary Board regulations will add pressure to local banks to meet these additional capital adequacy requirements, which may effectively create greater competition among local banks for deposits and temper bank lending in the commercial property and home mortgage loan sectors given that banks’ ability to lend to these sectors depends on their exposure to the sector and the capital levels they maintain. Stricter lending and prudential regulations may reduce the lending appetite of the Bank or cause the Bank to alter its credit risk management systems, which may adversely affect the Bank’s business, financial condition and results of operations. While the Bank closely monitors its compliance with the requirements of Basel III as implemented by the BSP, there can also be no assurance that it will be able to raise adequate additional capital in the future at all or on terms favourable to it.

Any future changes in Philippine Financial Reporting Standards (“PFRS”) may affect the financial reporting of the Bank’s business.

PFRS continues to evolve, and certain newly promulgated standards and interpretations taking effect at the beginning of a relevant year may affect the financial reporting of the Bank’s businesses.

For example, PFRS 17, *Insurance Contracts*, establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued, and likewise requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. All companies shall apply PFRS 17 to their audited financial statements effective 1 January 2025. However, companies may opt to adopt PFRS 17 in the preparation of their audited financial statements starting 1 January 2023.

The Bank believes that other amendments and improvement to PFRS issued effective after 31 December 2023 will not have a material impact on the Bank’s future financial statements. The Bank, however, is unable to predict future changes in PFRS and its impact. Any future changes in PFRS may affect the financial reporting of the Bank’s business.

The Philippine banking sector may face another downturn, which could materially and adversely affect the Bank.

Although the Philippine banking sector has generally recovered from past regional and global economic crises, the Philippine banking industry may face significant financial and operating challenges in the event of any regional or global economic downturn, including as a result of a pandemic such as COVID-19. These challenges may include, among other things, a sharp increase in the level of NPLs, variations of asset and credit quality, significant compression in bank net interest margins, low loan growth and potential or actual under-capitalisation of the banking system. According to data published by the BSP as at 31 May 2024, the past due ratio in the Philippine

universal and commercial banking system was at 3.9%, a slight increase from the past due ratio of 3.7% reported in 31 May 2023. Nonetheless, the NPL coverage ratio in the Philippine universal and commercial banking system reached 101.1% as at 31 May 2024 compared to 107.8% NPL coverage ratio reported in 31 May 2023. There is no guarantee that the Philippine banking industry will not face significant financial and operating challenges. These may include, among other things, a sharp increase in the level of NPLs, variations of asset and credit quality, significant compression in bank net interest margins, low loan growth and potential or actual under-capitalisation of the banking system. Fresh disruptions in the Philippine financial sector, or general economic conditions in the Philippines, may cause the Philippine banking sector in general, and the Bank in particular, to experience similar problems to those faced in the past, including substantial increases in NPLs, problems meeting capital adequacy requirements, liquidity problems and other challenges.

The sovereign credit ratings of the Philippines may adversely affect the Bank's business.

The sovereign credit ratings of the Philippines directly affect companies resident and domiciled in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. In 2013, the Philippines earned investment grade status from all three major credit ratings agencies — Fitch (BBB-), S&P (BBB-) and Moody's (Baa3). Moody's subsequently upgraded their ratings to "Baa2" and recently reaffirmed their rating in May 2024. Meanwhile, Fitch upgraded the Philippines' credit rating to "BBB" and affirmed the rating in May 2023, with a stable outlook. Fitch Ratings upgraded the Philippines' rating to "BBB" and affirmed the same in June 2024 with a stable outlook. S&P also further upgraded the country's rating to "BBB+", which was reaffirmed in November 2023. All ratings are above investment grade and the highest that the Philippines have received so far from any credit ratings agency.

International credit rating agencies issue credit ratings for companies with reference to the country in which they are resident. As a result, the sovereign credit ratings of the Philippines directly affect companies that are resident in the Philippines, such as the Bank. There is no assurance that Fitch, Moody's, S&P or other international credit rating agencies will not downgrade the credit rating of the Philippines in the future. Any such downgrade could have a material adverse effect on the liquidity in the Philippine financial markets and the ability of the Government and Philippine companies, including the Bank, to raise additional financing, and will increase borrowing and other costs.

The Philippine banking industry is generally exposed to higher credit risks and greater market volatility than that of more developed countries.

Philippine banks are subject to the credit risk that Philippine borrowers may not make timely payment of principal and interest on loans and, in particular, that upon such failure to pay, Philippine banks may not be able to enforce the security interest they may have. The credit risk of Philippine borrowers is, in many instances, higher than that of borrowers in developed countries due to the greater uncertainty associated with the Philippine regulatory, political, legal and economic environment, the vulnerability of the Philippine economy in general to a severe global downturn as it impacts on its export sector, employment in export-oriented industries, and overseas Filipino workers' ("OFWs") remittances, the large foreign debt of the Government and the corporate sector, relative to the gross domestic product of the Philippines, and the volatility of interest rates and U.S. dollar/Peso exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including the Bank, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on the Bank's financial condition, liquidity and results of operations. According to data from the BSP, the average gross NPL ratios exclusive of interbank loans of the Philippine universal and commercial banking system were 3.6%, 2.9%, 3.0%, and 3.59% for the years ended 31 December 2021, 2022 and 2023 and for the six months ended 30 June 2024, respectively.

Philippine banks' ability to assess, monitor and manage risks inherent in its business differs from the standards of its counterparts in more developed countries.

Philippine banks are exposed to a variety of risks, including credit risk, market risk, portfolio risk, foreign exchange risk, and operational risk. The effectiveness of their risk management is limited by the quality and timeliness of available data in the Philippines in relation to factors such as the credit history of proposed borrowers and the loan exposure borrowers have with other financial institutions. In addition, the information generated by different groups within each bank, including the Bank, may be incomplete or obsolete. The Bank may have

developed credit screening standards in response to such inadequacies in quality of credit information that are different from, or inferior to, the standards used by its international competitors. As a result, the Bank's ability to assess, monitor and manage risks inherent in its business would not meet the standards of its counterparts in more developed countries. If the Bank is unable to acquire or develop in the future the technology, skills set and systems available to meet such standards, it could have a material adverse effect on the Bank's ability to manage these risks and on the Bank's financial condition, liquidity and results of operations.

Any future changes in Philippine taxation may materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank is subject to the taxation laws and regulations in effect in the Philippines. In the event of any changes to existing laws, the Bank's business, financial condition and results of operations could be materially affected. The TRAIN Law, which is the first package of the Comprehensive Tax Reform Program ("CTRP") of the Duterte administration, brought about extensive changes to individual income taxation. Republic Act No. 11534, or the Corporate Recovery and Tax Incentives for Enterprise Act ("CREATE Act"), which became effective on 11 April 2021, amended the fiscal incentives and lowered the regular corporate income tax rate from 30% to 25% (with retroactive application from 1 July 2020). Other proposals being pushed for enactment include Package 4 (Passive Income and Financial Intermediary Taxation Act). The fourth package under the CTRP relating to passive income and financial intermediaries proposes to impose (i) a single final withholding tax rate of 15% on interest income regardless of currency, maturity, issuer and other differentiating factors, (ii) a single rate of 15% on interest income, dividends and capital gains, (iii) a single gross receipt tax of 5% on banks, quasi-banks, and certain non-bank financial intermediaries across all types of income (lending and non-lending), regardless of the maturity of the instrument, except dividends, equity shares and net income of subsidiaries, (which will remain exempt), (iv) uniform taxation of 2% of premium for pre-need, pension, life and health maintenance organisation ("HMO") insurance, and (v) gradually reduce the stock transaction tax until it reaches zero by 2026 and removal of the transaction tax on listed and traded debt instruments by 2026, and exemption of non-monetary documents from documentary stamp tax ("DST").

Further, one of the amendments from the TRAIN Law included increasing the rate of DST on the original issue of shares of stock and debt instruments. The original issue of shares is now subject to documentary stamp tax of ₱2.00 for each ₱200.00, or a fractional part thereof, of the par value of the shares issued. Meanwhile, all such affected debt instruments are generally subject to DST at the rate of ₱1.50 on each ₱200.00, or fractional part thereof, of the issue value of such instruments.

The other tax reform packages that the Government seeks to implement include tax amnesty (estate, general), as well as "sin" (e.g., alcohol, gaming), property, passive income and financial intermediaries, and luxury taxes.

The fourth package under the CTRP, or the Passive Income and Financial Intermediary Taxation Act ("PIFITA") is a proposed tax reform measure relating to passive income and financial intermediaries and is currently pending before the Philippine Senate. The proposal aims to, among others, impose: (i) a single final withholding tax rate of 15% on interest income regardless of currency, maturity, issuer and other differentiating factors, (ii) a single rate of 15% on interest income, dividends and capital gains, (iii) a single gross receipt tax of 5% on banks, quasi-banks, and certain non-bank financial intermediaries across all types of income (lending and non-lending), except dividends, equity shares and net income of subsidiaries, (iv) uniform taxation of 2% of premium for pre-need, pension, life and HMO insurance, (v) removal of IPO tax, and (vi) a gradual reduction of the stock transaction tax until it reaches 0.1%. In relation to debt instruments (including the Notes), the current proposals would introduce a uniform final withholding tax rate on interest income on deposit substitutes and interest income on long-term deposits or investments of 20% (as opposed to a range between 20%-25%), unless a treaty rate applies.

If the Bank is unable to comply with existing and new rules and regulations applicable to it, it could incur penalties and its business reputation may suffer, which could have a material adverse effect on its business, financial position and results of operations. Further, no assurance can be given that the proposed PIFITA will be passed in its present form. Any increase in taxes on the Bank will reduce the net income of the Bank, which may have a material and adverse effect on the Bank's business, results of operations and financial condition. Further, the expiration, non-renewal, revocation or repeal of any tax exemptions or tax incentives, the enactment of any new laws or increase in taxes could have an effect on the Bank's business, financial condition and results of operations.

If the Bank were not to comply with FATCA, this may cause material and adverse impact on the Bank's business, financial conditions and results of operations.

FATCA is the Foreign Account Tax Compliance Act enacted into law in the United States on 18 March 2010 as part of the Hiring Incentives to Restore Employment Act. It is a new regime for finding income overseas as a response to a landmark court case in which a large international bank agreed to pay \$780 million in fines for their role in assisting U.S. citizens in evading income taxes.

FATCA impacts a number of organisations and individuals. It first affects U.S. persons with income abroad. Secondly, foreign financial institutions (“**FFIs**”) that invest in U.S. markets will be impacted as well as U.S. financial institutions that do business with FFIs. Additionally, local government and taxing authorities in each country will see the effects of the act as well. It also brought forth an expansion of tax reporting for non-resident aliens. An FFI will have to set up a process to identify U.S. accounts as part of its onboarding procedures. Once that is in place, it will also have to identify any current accounts with U.S. indicia. Additionally, there is a need to set up a process to monitor account changes for indicia of U.S. status.

After the identification of impacted accounts, an FFI will have to collect documentation on each of these accounts to prove whether or not they are a U.S. person. If they are not a U.S. person and the FFI has the appropriate documentation, the FFI's obligations have been fulfilled. If they are a U.S. person, the FFI's next move will depend on the country that has jurisdiction over the FFI. By default, the Participating Foreign Financial Institutions (“**PFFIs**”) in countries without an intergovernmental agreement will directly report to the U.S. Internal Revenue Service (“**IRS**”).

There is a requirement for PFFIs to withhold 30% of income from recalcitrant account holders in order to comply with FATCA. A recalcitrant account holder is one who fails to comply with reasonable requests pursuant to IRS mandated verification and due diligence procedures to identify U.S. accounts, to provide a name, address and tax identification number or fails to provide a bank secrecy waiver upon request.

Specific to the Bank's compliance with FATCA, the Bank and its subsidiaries registered on 16 January 2014 as an Expanded Affiliate Group i.e., Philippine National Bank (lead financial institution) and subsidiaries. The Bank subsequently updated its FATCA status and registered as a Reporting Financial Institution under a Model 1 Intergovernmental Agreement (“**IGA**”). The Bank's FATCA ID and Global Intermediary Identification Number is 19UIFP.00000.LE.608.

Under the IGA, the Secretary of Finance or Commissioner of Internal Revenue is the competent authority to receive FATCA information for reporting to the U.S. Internal Revenue Service. FATCA reporting will not take place until the PH-US FATCA IGA has been concurred by the Philippine Senate and has entered into force.

Uncertainties and instability in global market conditions could adversely affect the Bank's business, financial condition, and results of operations.

Global markets have experienced, and may continue to experience, significant dislocation and turbulence due to economic and political instability in several areas at the world. These ongoing global economic conditions have led to significant volatility in capital markets around the world, including Asia, and further volatility could significantly impact investor risk appetite and capital flows into emerging markets including the Philippines, as well as the trading price of the Notes.

On 24 February 2022, Russia launched a full-scale invasion of Ukraine that resulted in massive humanitarian casualties from both sides, and in destruction of infrastructure, roads, and physical properties in Ukrainian cities and in the Crimean region which was caused by the Russo-Ukrainian war from 2014. Trade and supply chain disruptions continue to cause political and economic tensions among member nations of the European Union, in the U.S. and, to some extent, in some Asian and African countries.

In March 2023, as a result of elevated interest rates and a sluggish economy, regional banks in the US namely Silicon Valley Bank, Signature Bank, and First Republic Bank collapsed, declaring insolvency. This series of bank runs, coined the Banking Crisis of 2023, may continue to have long-term effects on consumers' confidence levels in the banking system. Also, in the middle of March 2023, Credit Suisse, the second-largest bank in Switzerland and one of the leading financial institutions globally, collapsed following numerous scandals in the recent years. The collapse led to the bank being bought by rival UBS Group AG for about U.S.\$3.3 billion to prevent bigger devastation in the global financial system. The full impact of these bank runs remains uncertain,

considering both the U.S. and Switzerland carry reputations as leading countries for banks and financial institutions.

Trade tensions between the United States and major trading partners, most notably China, remain heightened following the introduction of a series of tariff measures in both the United States and China and a U.S. investment ban on certain Chinese companies, and these tensions could significantly impact global trade. Such tensions are set to continue in the areas of data and technology security and the maritime claims in the South and East China Seas, and as the results of China-Taiwan relations and human rights accusations. In addition, financial market volatility and increased economic uncertainty may arise due to specific country-related factors. For example, the Chinese government may maintain tight regulatory oversight on specific sectors (such as property and platform technology companies) and rein in debt increases even as it attempts to stabilise economic growth. To the extent that uncertainty regarding the economic outlook is heightened and starts to negatively impact consumer confidence and consumer credit factors globally or regionally, the Bank's business, financial condition and results of operations could be significantly and adversely affected. There has also been continued and lingering political unrest in certain countries within the Southeast Asia region in recent years. Such geopolitical risks could continue to emerge in the region, resulting in economic slowdown, financial and commodity market volatilities and capital flight from emerging markets.

There can be no assurance that the uncertainties affecting global markets will not negatively impact credit markets in Asia, including in the Philippines. These developments may adversely affect trade volumes with potentially negative effects on the Philippines. The success of the Bank's business is highly dependent upon its ability to maintain certain minimum liquidity levels, and any rise in market interest rates could materially and adversely affect the Bank's liquidity levels and force it to reduce or cease its offering of certain banking and other financial services.

Risks Relating to the Philippines

Volatility in the value of the Peso against the U.S. dollar and other currencies as well as in the global financial and capital markets could adversely affect the Bank's businesses.

The Philippine economy has experienced volatility in the value of the Peso as well as limitations to the availability of foreign exchange.

While the value of the Peso has recovered since 2010, its valuation may be adversely affected by certain events and circumstances such as the strengthening of the U.S. economy, the rise of interest rates in the U.S. and the consequent departure of foreign funds from emerging markets including the Philippines, and other events affecting the global markets or the Philippines, causing investors to move their investment portfolios from the riskier emerging markets such as the Philippines. Consequently, an outflow of funds and capital from the Philippines may occur and may result in increasing volatility in the value of the Peso against the U.S. dollar and other currencies. As at 30 June 2024, according to BSP data, the Peso has depreciated by 5.9% to ₱58.87 per U.S.\$1.00 from ₱55.57 per U.S.\$1.00 at the end of 2023.

A significant portion of the Bank's operations and assets are based in the Philippines and, therefore, a slowdown in economic growth in the Philippines could materially and adversely affect the Bank's business, financial position and results of operations.

A significant portion of the Bank's business activities and assets are based in the Philippines, which exposes the Bank to risks associated with the country, including the performance of the Philippine economy. Historically, the Bank has derived most of its revenues and operating profits from the Philippines and, as such, its businesses are highly dependent on the state of the Philippine economy. Demand for banking services is directly related to the strength of the Philippine economy (including its overall growth and income levels), the overall levels of business activity in the Philippines as well as the amount of remittances received from Overseas Filipinos. Factors that may adversely affect the Philippine economy include:

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- foreign exchange rate fluctuations and foreign exchange controls;

- downgrade in the long-term foreign and local currency sovereign credit ratings of the Philippines or the related outlook for such ratings;
- rising inflation or increases in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government's fiscal and regulatory policies and regulations, including tax laws and regulations that impact or may impact inflation and consumer demand such as the TRAIN Law or any subsequent legislation;
- Government budget deficits;
- adverse trends in the current accounts and balance of payments of the Philippine economy;
- the outbreak or re-emergence of an epidemic, such as Middle East Respiratory Syndrome-Corona virus ("MERS-CoV"), SARS, avian influenza (commonly known as bird flu), or H1N1 (commonly known as swine flu), or the emergence of another similar disease (such as Zika) in the Philippines or in other countries in Southeast Asia;
- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other regulatory, social, political or economic developments in or affecting the Philippines.

Any future deterioration in economic conditions in the Philippines due to these or other factors could materially and adversely affect the Bank's borrowers and contractual counterparties. This, in turn, could materially and adversely affect the Bank's financial position and results of operations, including the Bank's ability to grow its asset portfolio, the quality of the Bank's assets and its ability to implement the Bank's business strategy.

There can be no assurance that the Philippines will maintain strong economic fundamentals in the future. Changes in the conditions of the Philippine economy could materially and adversely affect the Bank's business, financial condition and results of operations.

Political and social instability in the Philippines could destabilise the country and may have a negative effect on the Bank's businesses.

The Philippines has from time to time experienced political and social instability. The Philippine Constitution provides that, in times of national emergency, when the public interest so requires, the Government may take over and direct the operation of any privately owned public utility or business. In the last few years, there were instances of political instability, including impeachment proceedings against two former presidents, removal of two chief justices of the Supreme Court of the Philippines, hearings on graft and corruption issues against various government officials, and public and military protests arising from alleged misconduct by previous and current administrations.

The Philippine general elections for national and local officials took place on 9 May 2022 with Ferdinand Marcos, Jr. being proclaimed President and Sara Duterte being proclaimed Vice-President. The mid-term national and local election, in which 12 senators, representatives of the House of Representatives, and local officials will be elected, is set on 12 May 2025. There can be no assurance that acts of election-related or other political violence will not occur in the future, and any such events could negatively impact the Philippine economy. Additionally, there can be no assurance that the elected officials will continue to implement the economic, development and regulatory policies of their predecessors, including those policies that may have an effect on the Bank's assets and operations. Major deviation from the policies of the previous administration or fundamental change of direction may lead to an increase in political or social uncertainty and instability.

The International Criminal Court ("ICC") conducted an inquiry on the "war on drugs", which was thereafter suspended in 2021 after the Philippine Government requested the ICC to defer its investigation on the basis that national authorities were currently investigating the same allegations domestically. On the other hand, the ICC prosecutor requested for authority to resume their investigation, noting that domestic proceedings did not amount

to an investigation that would sufficiently be consistent with the ICC's procedures. On 26 January 2023, the ICC decided to resume its investigation. While the Government appealed the ICC's decision, this was denied in July 2023 with the Government continuing to argue that the ICC has no jurisdiction to investigate former President Duterte's "war on drugs" campaign, insisting that the country's judicial system could sufficiently conduct its own investigation. In mid-2023, the Office of the Vice President ("OVP") was scrutinised for spending ₱125 million in confidential and intelligence funds in less than three weeks. Several petitions have since been filed with the Supreme Court of the Philippines questioning the legality of the transfer of such funds from the Office of the President ("OP") to the OVP, seeking for the restitution of such funds to the Government's coffers.

There can be no assurance that any changes in regulations or policies imposed by the Government from time to time or the future political environment in the Philippines will be stable or that current or future administrations will adopt economic policies conducive to sustaining economic growth. Political instability in the future could reduce consumer demand for retail and consumer goods to the Bank's disadvantage or result in inconsistent or sudden changes in regulations and policies that affect the Bank's business operations, which could have a material adverse impact on the results of operations and financial condition of the Bank.

Acts of terrorism could destabilise the country and could have a material adverse effect on the Bank's businesses, financial condition and results of operation.

The Philippines has been subject to a number of terrorist attacks in recent years. The Philippine army has been in conflict with the Abu Sayyaf organisation, which has ties to the al-Qaeda terrorist network and has been identified as being responsible for certain kidnapping incidents and other terrorist activities particularly in the southern part of the Philippines. There have also been isolated bombings in the Philippines, mainly in regions in the southern part of the Philippines, such as the province of Maguindanao. In May 2017, members of the "Maute Group", a local terrorist group with alleged allegiances to the Islamic State of Iraq and Syria, attacked Marawi City in Lanao del Sur, leading to clashes with Government troops. The attacks on Marawi City prompted President Duterte to declare martial law and suspend the writ of habeas corpus over the whole island of Mindanao. The Marawi siege left 1,100 dead, over 350,000 displaced and cost more than ₱17 billion in property damage. By the end of 2018, the Philippine Congress extended Martial Law until the end of 2019. Two years after the siege, over 100,000 evacuees have yet to return to their homes. Based on news reports, up to 600,000 residents of Marawi City and nearby towns have been displaced as a result of the ongoing clashes between the Maute Group and Government troops. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilise the Philippines, and adversely affect the country's economy and the Bank's business.

Similar attacks or conflicts between the Government and armed or terrorist groups could lead to further injuries or deaths of civilians and police or military personnel, which could destabilise parts of the country and adversely affect the country's economy. An increase in the frequency, severity, or geographic reach of terrorist acts could adversely affect the country's economy. Any such destabilisation could cause interruption to parts of the Bank's businesses and materially and adversely affect its financial conditions, results of operations and prospects. An increase in the frequency, severity or geographic reach of terrorist acts could destabilise the Philippines, and adversely affect the country's economy and the Bank's business.

Public health epidemics or outbreaks of diseases could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Bank's business, financial condition and results of operations.

On 11 March 2020, the World Health Organization ("WHO") declared the COVID-19 pandemic as a global outbreak, leading the Office of the President of the Philippines, on 13 March 2020, to issue a declaration placing Metro Manila under lockdown. Subsequent proclamations were issued declaring a State of Calamity throughout the country, and later, implementing various modes of quarantine (such as enhanced community quarantine, modified enhanced community quarantine, and general community quarantine), depending on the impact of the pandemic in each area of the Philippines. Beginning February 2022, in light of the declining number of COVID-19 cases in the country, the national government progressively eased restrictions in NCR and most areas, subject to the imposition of granular lockdowns and without prejudice to minimum public health standards and health and safety protocols issued by national government agencies for specific sectors.

Since early May 2022, monkeypox cases have been reported from non-endemic countries, with reports continuing from endemic regions. On 23 July 2022, WHO Director-General, Tedros Adhanom Ghebreyesus, declared the monkeypox outbreak as a Public Health Emergency of International Concern. In 2023, an outbreak of the Nipah virus was reported in India. The WHO stated that the Nipah virus has a mortality rate ranging from 40% to 75%,

which varies on the effectiveness of public health interventions. As of September 2023, the DOH confirmed that there are no cases of the Nipah virus in the Philippines.

On 1 July 2023, President Marcos issued Proclamation No. 297 lifting the Public Health Emergency throughout the Philippines due to COVID-19, with all orders, memoranda, and issuances effective during a State of Public Health Emergency deemed no longer in effect.

Since 2024, the Philippines has been managing the outbreak of the African Swine Fever (“ASF”) in the country. As of 26 July 2024, the National ASF Prevention and Control Program under the country’s Department of Agriculture reported that there were 11 regions, 18 provinces, 45 municipalities, and 150 barangays that had active ASF cases.

If the outbreak of any public health epidemic becomes widespread in the Philippines or increases in severity, it could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Bank’s business, financial condition and results of operations.

Natural or other catastrophes, including severe weather conditions, may adversely affect the Bank’s business, materially disrupt the Bank’s operations and result in losses not covered by its insurance.

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, droughts, volcanic eruptions and earthquakes.

Significant calamities that hit the country were Typhoon Ondoy in 2009, Typhoon Yolanda in 2013, the Bohol and Cebu Earthquake in 2013, the Cotabato and Batangas Earthquakes in 2019, Taal Volcano eruption in 2020, 2022 and 2024, Typhoon Odette in 2021, the Abra earthquake in 2022 and Typhoon Carina in 2024. Such calamities had caused significant destruction and damage to infrastructure, including telecommunication facilities and power lines, which temporarily reduced the Bank’s ATM availability in the areas affected. Natural catastrophes will continue to affect the Philippines. The Bank may incur losses for such catastrophic events, which could materially and adversely affect its business, financial condition and results of operations.

There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt the Bank’s operations. These factors, which are not within the Bank’s control, could potentially have significant effects on the Bank’s branches and operations. While the Bank carries insurance for certain catastrophic events, of types, in amounts and with deductibles that the Bank believes are in line with general industry practices in the Philippines, there are losses for which the Bank cannot obtain insurance at a reasonable cost or at all. The Bank also does not carry any business interruption insurance. Should an uninsured loss or a loss in excess of insured limits occur, the Bank could lose all or a portion of the capital invested in such business, as well as the anticipated future turnover, while remaining liable for any costs or other financial obligations related to the business. Any material uninsured loss could materially and adversely affect the Bank’s business, financial condition and results of operations.

Territorial disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.

The Philippines, China and several Southeast Asian nations have been engaged in a series of long-standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. The Philippines maintains that its claim over the disputed territories is supported by recognised principles of international law consistent with the United Nations Convention on the Law of the Sea.

In March 2021, more than 180 Chinese military vessels were spotted on Julian Felipe Reef in the West Philippine Sea. The presence of the vessels defied a diplomatic protest and demand for the vessels to leave the area, issued by Philippine Defense Secretary Delfin Lorenzana.

There have been numerous run-ins in areas of the West Philippine Sea. In August 2023, China Coast Guard vessels used water cannon against a Philippine resupply mission preventing one of the boats from delivering its cargo. On 24 September 2023, the Philippine Coast Guard reported that the Chinese Coast Guard had installed a floating barrier near the Bajo de Masinloc (Scarborough Shoal) in the West Philippine Sea in an attempt to prevent Filipino fishermen from entering the Scarborough Shoal. In a special operation conducted the following day, the Philippine Coast Guard confirmed that it had removed and cut the floating barrier. In October 2023, the Philippines lodged a diplomatic protest with China in response to maneuvers by Chinese vessels that led to collisions with Philippine ships on a resupply mission to the BRP Sierra Madre on Ayungin Shoal (international name: Second Thomas Shoal). The Philippines filed 66 diplomatic protests against China in 2023. As of 24 January 2024, four diplomatic protests have so far been filed by the country against China in 2024.

United States President Joe Biden has indicated that the United States would not be easing its military operations in the West Philippine Sea. Additionally, Southeast Asian countries involved in territorial disputes over the West Philippine Sea dispute continue to uphold their sovereign rights against China and other nations in the region.

Should territorial disputes between the Philippines and other countries in the region continue or escalate further, the Philippines and its economy may be disrupted and the Bank's operations could be adversely affected as a result. In particular, further disputes between the Philippines and other countries may lead to reciprocal trade restrictions on the other's imports or suspension of visa-free access and/or Overseas Filipinos permits. Any impact from these disputes could materially and adversely affect the Bank's business, financial condition and results of operations.

Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries.

Although a principal objective of Philippine securities laws is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Issuer, than is regularly made available by public companies in the U.S. and other countries. As a result, Noteholders may not have access to the same amount of information or have access to information in as timely of a manner as may be the case for companies listed in the U.S. and many other jurisdictions. Furthermore, although the Bank complies with the requirements of the BSP and the Philippine SEC with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. For example, the Philippine Code of Corporate Governance for Publicly Listed Companies requires the Bank, as a publicly listed company, to have at least three independent directors or such number as to constitute at least one-third of the members of the Board. PNB has four independent directors as of the date of this Offering Circular. Many other jurisdictions may require more independent directors.

Furthermore, corporate governance standards may be different for public companies listed on the Philippine securities markets than for securities markets in developed countries. Rules and policies against self-dealing and regarding the preservation of the interests of Noteholders may be less well-defined and enforced in the Philippines than elsewhere, putting Noteholders at a potential disadvantage. Because of this, the directors of Philippine companies may be more likely to have interests that conflict with the interests of Noteholders generally, which may result in them taking actions that are contrary to the interests of Noteholders.

Investors may face difficulties enforcing judgements against the Bank.

The Bank is organised under the laws of the Republic of the Philippines. A substantial portion of the Bank's assets are located in the Philippines. It may be difficult for investors to effect service of process outside of the Philippines upon the Bank. Moreover, it may be difficult for investors to enforce judgements against the Bank outside of the Philippines in any actions pertaining to the Notes. In addition, substantially all of the directors and officers of the Bank are residents of the Philippines, and all or a substantial portion of the assets of such persons are or may be located in the Philippines. As a result, it may be difficult for investors to effect service of process upon such persons or enforce against such persons judgements obtained in courts or arbitral tribunals outside of the Philippines predicated upon the laws of jurisdictions other than in the Philippines.

The Philippines is not a party to any international treaty in relation to the recognition or enforcement of foreign judgements but is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Moreover, the Philippine enacted Republic Act No. 9285, otherwise known as the Alternative Dispute Resolution Act of 2004, to facilitate the enforcement of arbitral awards in the Philippines. Judgments obtained against the Bank in any foreign court may be recognised and enforced by the courts of the Philippines in an independent action brought in accordance with the relevant procedures set forth in the Rules of Court of the Philippines to enforce such judgment. The enforceability of foreign judgments in the Philippines is specifically provided for in the Rules of Civil Procedure. Section 48 of Rule 39 of the Rules of Civil Procedure provides that a judgment or final order of a tribunal of a foreign country having jurisdiction to give the judgment or final order is as follows: (a) in case of a judgment or final order upon specific property, is conclusive upon the title to that property; and (b) in case of a judgment or final order against a person, is presumptive evidence of a right between the parties and their successors in interest by a subsequent title. Judgements obtained against the Bank in any foreign court may be recognised and enforced by the courts of the Philippines in an independent action brought in accordance with the relevant procedures set forth in the Rules of Court of the Philippines to enforce such judgement. Further, Philippine courts have held that a foreign judgment is presumed to be valid and binding in the country from which it issues, until the contrary is shown, and the party contesting the foreign judgment has the burden of overcoming the presumption of its validity. However, such foreign judgement or final order may be

rejected in the following instances: (i) such judgement was obtained by collusion or fraud, (ii) the foreign court rendering such judgement did not have jurisdiction, (iii) such order or judgement is contrary to good customs, public order, or public policy of the Philippines, (iv) the Bank did not have notice of the proceedings before the foreign court, or (v) such judgement was based upon a clear mistake of law or fact.

Risks Relating to an Investment in the Notes Generally

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of investing in the Notes in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes are complex financial instruments and investors may purchase such instruments as a way to manage risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The priority of debt evidenced by a public instrument.

Under Philippine law, in the event of liquidation of a company, an unsecured debt of the company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244(14) of the Civil Code of the Philippines will rank ahead of unsecured debt of the company which is not so evidenced. Under Philippine law, a debt becomes evidenced by a public instrument when it has been acknowledged before a notary or any person authorised to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a *jurat* (which is a statement of the circumstances in which an affidavit was made) may be sufficient to constitute a debt evidenced by a public instrument. So far as the Bank is aware, none of its debt is evidenced by a public instrument and the Bank will undertake in the Conditions and the Trust Deed not to create or permit to subsist any preference or priority in respect of any Relevant Indebtedness (as defined in Condition 4.2) pursuant to Article 2244(14). However, a domestic lender may acknowledge debt before a notary or a person authorised to administer oaths without notice to the Bank. Any such debt evidenced by a public instrument may, by mandatory provision of law, rank ahead of the Notes in the event of the liquidation of the Bank.

New tax and other revenue raising measures are being considered by the Philippine legislature and increase taxes on the Issuer, including by imposing a withholding tax on the Notes.

Certain tax measures proposed under, and currently referred to as, the PIFITA are pending in the Philippine legislature. In its current form, the PIFITA would impose a uniform rate of 15% on interest income, dividends, and capital gains on the sale of shares of stock. The PIFITA measures are currently part of the measure approved by the Philippine House of Representatives known as House Bill No. 4339. No assurance can be given that the PIFITA will be adopted by the Philippine Senate without amendment, approved by the President without veto and become law in its current form, or if other tax measures may affect the Issuer's payments on the Notes, or when such changes would come into effect. If enacted into law, the PIFITA is expected to affect a broad range of Philippine taxes on passive income and financial instruments.

Specifically, the PIFITA proposes (i) the removal of the preferential tax treatment of the expanded foreign currency deposit system, (ii) a single final withholding tax rate of 20% on interest income regardless of currency, maturity, issuer and other differentiating factors, (iii) a single gross receipt tax of 5% on banks, quasi-banks, and certain non-bank financial intermediaries across all types of income (lending and non-lending), except dividends, equity shares and net income of subsidiaries, (which will remain exempt), (iv) uniform taxation of 2% of premium for pre-need, pension, life and HMO insurance, and (v) the gradual reduction of the stock transaction tax until it reaches 0.1%. In relation to debt instruments (including the Notes), the current proposals would introduce a uniform final withholding tax rate on interest income on deposit substitutes and interest income on long-term deposits or investments of 20% (as opposed to a range between 20%-25%), unless a treaty rate applies. As a result, the Issuer may be required to pay Additional Amounts (as defined in the Conditions) and its option to redeem the affected series of Notes may be triggered. See “*Terms and Conditions of the Notes—7.2 Redemption for Tax Reasons*”.

No assurance can be given that House Bill No. 4339 will be passed in its present form. Any increase in taxes on the Bank will reduce the net income of the Bank, which may have a material and adverse effect on the Bank’s business, results of operations and financial condition. Further, the expiration, non-renewal, revocation or repeal of any tax exemptions or tax incentives, the enactment of any new laws or increase in taxes could have an effect on the Bank’s business, financial condition and results of operations.

If an investor holds Notes which are not denominated in the investor’s home currency, such investor will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.

The Bank will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “**Investor’s Currency**”) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to the Specified Currency would decrease (1) the Investor’s Currency-equivalent yield on the Notes; (2) the Investor’s Currency equivalent value of the principal payable on the Notes; and (3) the Investor’s Currency equivalent market value of the Notes.

The Government has, in the past, instituted restrictions on the conversion of Pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency denominated obligations. The Monetary Board of the BSP, with the approval of the President of the Philippines, has statutory authority, during a foreign exchange crisis or in times of national emergency, to suspend temporarily or restrict sales of foreign exchange, require licensing of foreign exchange transactions or require delivery of foreign exchange to the BSP or its designee. The Bank is not aware of any pending proposals by the Government relating to such restrictions. Although the Government has from time to time made public pronouncements of a policy not to impose restrictions on foreign exchange, there can be no assurance that the Government will maintain such policy or will not impose economic or regulatory controls that may restrict free access to foreign currency. Any such restriction imposed in the future could adversely affect the ability of investors to repatriate foreign currency upon sale of the Notes or receipt of any dividends.

The Notes may have limited liquidity.

Notes issued under the Programme will constitute a new issue of securities for which there is no existing market. The offer and sale of any Notes is not conditioned on obtaining a listing of the Notes on the SGX-ST or any other exchange. The Dealers are not obligated to make a market in any Notes, and any market-making activity with respect to such Notes, if commenced, may be discontinued at any time without notice in their sole discretion.

No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, Notes issued under the Programme. If an active trading market for any Notes does not develop or is not maintained, the market price and liquidity of such Notes may be adversely affected. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the price at which the Notes are issued depending on many factors, including:

- prevailing interest rates;
- the Bank’s results of operations and financial condition;

- political and economic developments in and affecting the Philippines;
- the market conditions for similar securities; and
- the financial condition and stability of the Philippine financial sector.

Approval in-principle has been granted by the SGX-ST for permission to deal in and quotation for any Notes which are agreed at the time of the issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the official list of the SGX-ST. However, there can be no assurance that the Bank will obtain or be able to maintain such a listing or that, if listed, a trading market will develop for the Notes on the SGX-ST. The Bank does not intend to apply for listing of the Notes on any securities exchange other than the SGX-ST. Lack of a liquid, active trading market for the Notes may adversely affect the price of the Notes or may otherwise impede a holder's ability to dispose of the Notes.

Investors who hold an amount of Notes less than the minimum Specified Denomination may not receive a definitive Note for such amount.

In relation to any issue of Notes which has denominations consisting of a minimum Specified Denomination (as specified in the applicable Pricing Supplement) plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Noteholders are required to rely on the procedures of the relevant clearing system and its participants while the Notes are cleared through the relevant clearing system.

Notes issued under the Programme will be represented on issue by one or more Global Notes that may be deposited with a common depositary for Euroclear and Clearstream. Except in the circumstances described in each Global Note, investors will not be entitled to receive Notes in definitive form. Each of Euroclear and Clearstream and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

The implementation of Basel III guidelines may have an adverse effect on the position of the Noteholders.

On 17 December 2009, the BCBS proposed a number of fundamental reforms to the regulatory capital framework in its consultative document entitled 'Strengthening the resilience of the banking sector'. On 16 December 2010 and on 13 January 2011, the BCBS issued its final guidance on Basel III. The Basel III reforms require Tier 1 and Tier 2 capital instruments to be more loss-absorbing. The BCBS proposed that the guidelines should be implemented from 1 January 2013. In January 2012, the BSP announced that the country's universal and commercial banks, including their subsidiary banks and quasi-banks, will be required to adopt in full the capital adequacy standards under Basel III with effect from 1 January 2014. Under the new Basel III capital standards proposed by the BSP, Philippine banks are required to maintain at least 7.5% and 10.0% Tier 1 and total CAR, respectively, compared to the current minimum levels of 5.0% and 10.0%. These effectively make the proposed BSP requirements more stringent than those of the Bank for International Settlement ("BIS") minimum levels of 6.0% and 8.0% Tier 1 and total CAR respectively. BSP Circular No. 768 issued in September 2012 provides that eligible capital instruments issued as Lower Tier 2 capital under the conditions for eligibility as capital instruments pursuant to existing regulations shall continue to be recognised as qualifying capital until the BSP issues further guidelines. In March 2016, the Monetary Board announced that it had approved the LCR framework which requires universal and commercial banks to hold sufficient HQLAs that can be easily converted into cash to service liquidity requirements over a 30-day stress period. The approval of the LCR framework by the Monetary Board provides for an observation period from 1 July 2016 until the end of 2017, during which banks are required to

commence reporting their LCR to the BSP. On 1 January 2018, the LCR threshold that banks will be required to meet will be 90%, which was increased to 100% commencing on 1 January 2019. Moreover, banks are required to publicly disclose information related to the LCR on solo and consolidated bases beginning 1 January 2019. On 15 March 2019, BSP issued BSP Circular No. 1035 which introduced certain amendments to the Basel III LCR Framework and Minimum Liquidity Ratio Framework, including the (i) extension of the observation period of the minimum Basel III LCR requirement to 31 December 2019 for subsidiary banks and quasi-banks of universal and commercial banks, (ii) adoption of the 70% LCR floor for subsidiary banks and quasi-banks during the observation period, and (iii) amendment of the formula for minimum liquidity ratio. The subsidiary banks and quasi-banks of universal and commercial banks are required to comply with the minimum LCR of 100% starting 1 January 2020.

The press release of the BCBS dated 13 January 2011 entitled “Minimum requirements to ensure loss absorbency at the point of non-viability” included an additional Basel III requirement (the “**Point of Non-Viability Requirement**”) as follows:

“The terms and conditions of all non-common Tier 1 and Tier 2 instruments issued by an internationally active bank must have a provision that requires such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of the trigger event unless:

- (a) the governing jurisdiction of the bank has in place laws that (i) require such Tier 1 and Tier 2 instruments to be written off upon such event, or (ii) otherwise require such instruments to fully absorb losses before tax payers are exposed to loss;
- (b) a peer group review confirms that the jurisdiction conforms with clause (a); and
- (c) it is disclosed by the relevant regulator and by the issuing bank, in issuance documents going forward, that such instruments are subject to loss under clause (a) in this paragraph.”

The release also states as follows: “The trigger event is the earlier of: (1) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant authority” (for the purposes of this Offering Circular, each a “**Non-Viability Event**”).

The BSP has provided guidance to the Philippine banks regarding the minimum capital ratios under the Basel III regime and the terms and conditions of Basel III compliant capital through the issuance of BSP Circular No. 781, Series of 2013, concerning the Basel III Implementing Guidelines on Minimum Capital Requirements. The Implementing Guidelines states that all instruments (other than common equity) qualified as Additional Tier 1 and Tier 2 capital must have contractual terms and conditions requiring them to be written-off or converted into common equity upon occurrence of a specified trigger event. The trigger event occurs when a bank is considered non-viable as determined by the BSP.

Specifically, capital instruments should be written off or converted into Common Equity Tier 1 at the earlier of:

- (a) the occurrence of a deviation from a certain level of Common Equity Tier 1 ratio, specifically, where the Common Equity Tier 1 ratio falls to 7.25% or below or as may be determined by the BSP;
- (b) the inability of the bank to continue business; or
- (c) any other event as may be determined by the BSP.

There is currently no indication that the BSP is considering having laws in place that would allow it or any other relevant authority the right to impose losses on the capital instruments without there being specific terms and conditions in the capital instruments that would allow it to do so (the “**Statutory Loss Absorption**”).

The Conditions contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Noteholders and without regard to the individual interests of particular Noteholders.

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions also provide that the Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 15.3 (*Substitution of Issuer*).

Payments under the Notes may become subject to U.S. Foreign Account Tax Compliance Withholding.

The FATCA imposes a reporting regime and, potentially, a 30.0% withholding tax. While the Notes are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may in the future affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Issuer's obligations under the Notes are discharged once it has paid the common depositary or common safekeeper for the clearing systems and the Issuer has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries.

The occurrence of a Non-Viability Event may be inherently unpredictable and may depend on a number of factors which may be outside of the Bank's control.

The occurrence of a Non-Viability Event is dependent on a determination by the BSP (a) that a deviation from a certain level of Common Equity Tier 1 ratio occurred, specifically, where the Common Equity Tier 1 ratio falls to 7.25% or below or as may be determined by the BSP, whichever comes earlier; (b) of the inability of the bank to continued business; or (c) of any other event as may be determined by the BSP. As a result, the BSP may require or may cause a write-off in circumstances that are beyond the control of the Bank or with which the Bank does not agree. Because of the inherent uncertainty regarding the determination of whether a Non-Viability Event exists, it will be difficult to predict when, if at all, a write-off will occur. Consequently, a write-off shall have the following effects: (a) reduce the claim of the instrument in liquidation; (b) reduce the amount repaid when a call is exercised; and (c) partially or fully reduce coupon/dividend payments on the instruments.

Based on the existing Basel III Guidelines, there is no assurance that any contractual provisions with non-viability loss absorption features, to the extent applicable, will be sufficient to satisfy the Basel III-compliant requirements that the Relevant Authorities may implement in the future. There is a risk that any Relevant Authority may deviate from the Basel III proposals by implementing reforms which differ from those envisaged by the BCBS.

The credit ratings assigned to the Notes may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to an issue or Notes and/or the Programme. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes and/or the Programme. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Developments in other markets and countries may adversely affect the Philippine economy and, therefore, the market price of the Notes.

In the past, the Philippine economy and the securities of Philippine companies have been, to varying degrees, influenced by economic and market conditions in other countries, especially other countries in Southeast Asia, as well as investors' responses to those conditions. Although economic conditions are different in each country, investors' reactions to adverse developments in one country may affect the market price of securities of companies in other countries, including the Philippines. For example, the recent economic crisis in the United States and Europe triggered market volatility in other countries' securities markets, including the Philippines. Accordingly,

adverse developments in the global economy could lead to a reduction in the demand for, and market price of, the Notes.

Change of law.

The conditions of the Notes are based on English law, in effect as of the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law, or administrative practice after the date of this Offering Circular.

Risks Relating to the Structure of a Particular Issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for investors. Set out below is a description of certain such features and associated risks.

Notes subject to optional redemption by the Bank.

An optional redemption feature of Notes is likely to limit their market value. During any period when the Bank may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Bank may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes.

The Bank may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, or to movements in currency exchange rates or other factors (each, a “**Relevant Factor**”). In addition, the Bank may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (a) the market price of such Notes may be volatile;
- (b) they may receive no interest;
- (c) payment of principal or interest may occur at a different time or in a different currency than expected;
- (d) they may lose all or a substantial portion of their principal;
- (e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (f) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and
- (g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index or other Relevant Factor should not be viewed as an indication of the future performance of such Relevant Factor during the term of any Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Notes linked to such a Relevant Factor and the suitability of such Notes in light of its particular circumstances.

Partly-paid Notes.

The Bank may issue Notes where the issue price is payable in more than one instalment. Any failure by an investor to pay any subsequent instalment of the issue price in respect of the Notes could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor.

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Fixed/Floating Rate Notes.

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Bank has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Bank may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Bank converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Bank converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium.

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

The regulation and reform of “benchmark” rates of interest and indices may adversely affect the value of Notes linked to or referencing such “benchmarks”.

The Programme allows for the issuance of Notes that reference certain interest rates or other types of rates or indices which are deemed to be “benchmarks”. These benchmarks are the subject of national and international regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past or to be discontinued entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes referencing such a benchmark. More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

The euro risk-free rate working group for the euro area has published a set of guiding principles and high-level recommendations for fallback provisions in, among other things, new euro denominated cash products (including bonds) referencing EURIBOR. The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts (without robust fallback provisions) may increase the risk to the euro area financial system. On 11 May 2021, the euro risk-free rate working group published its recommendations on EURIBOR fallback trigger events and fallback rates. On 4 December 2023, the group issued its final statement, announcing completion of its mandate.

Such factors may have (without limitation) the following effects on certain benchmarks: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark; and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to, referencing, or otherwise dependent (in whole or in part) upon, a benchmarks. The Conditions provide for certain fallback arrangements in the event that a Benchmark Event (as defined in the Conditions) occurs. Benchmark Events include (among other things) where a relevant Reference Rate (as defined in the Conditions) ceases to be published for a period of at least five business days or ceases to exist, where a public statement has been made by the supervisor of the administrator of the relevant Reference Rate that such Reference Rate has been or will be permanently or indefinitely discontinued or where it has become unlawful for any Paying Agent or Calculation Agent or the Issuer to calculate any payments due to be made to any Noteholder using the relevant Reference Rate. Such fallback arrangements include the possibility that the Rate of Interest (as defined in the Conditions) could be set by reference to a Successor Rate or an Alternative Reference Rate (both as defined in the Conditions), with or without the application of an adjustment spread and may include amendments to the Conditions (which may be effected by the Trustee, at the direction of the Issuer, without the consent of holders)

to ensure the proper operation of the successor or replacement benchmark, all as determined by an Independent Adviser appointed by the Issuer.

An adjustment spread, if applied, could be positive or negative or zero and would be applied with a view to reducing or eliminating, to the fullest extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of a relevant Reference Rate. However, it may not be possible to determine or apply an adjustment spread and even if an adjustment is applied, such adjustment spread may not be effective to reduce or eliminate economic prejudice to investors. If no adjustment spread can be determined, a Successor Rate or Alternative Reference Rate may nonetheless be used to determine the Rate of Interest. The use of a Successor Rate or Alternative Reference Rate (including with the application of an adjustment spread) will still result in any Notes linked to or referencing a relevant Reference Rate performing differently (which may include payment of a lower Rate of Interest) than they would if the relevant Reference Rate were to continue to apply in its current form.

If, following the occurrence of a Benchmark Event, no Successor Rate or Alternative Reference Rate is determined, the ultimate fallback for the purposes of calculation of the Rate of Interest for a particular Interest Period may result in the Rate of Interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. Due to the uncertainty concerning the availability of Successor Rates and Alternative Reference Rates, the involvement of an Independent Adviser and the potential for further regulatory developments, there is a risk that the relevant fallback provisions may not operate as intended at the relevant time.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by international reforms, particularly in the United Kingdom, in making any investment decision with respect to any Notes linked to or referencing a benchmark.

The use of the Secured Overnight Financing Rate (“SOFR”) as a reference rate is subject to important limitations.

The rate of interest on the Floating Rate Notes may be calculated on the basis of SOFR (as further described under Condition 5.2(b)(ii) of the Conditions).

In June 2017, the New York Federal Reserve’s Alternative Reference Rates Committee (the “**ARRC**”) announced SOFR as its recommended alternative to U.S. dollar LIBOR. However, the composition and characteristics of SOFR are not the same as those of LIBOR. SOFR is a broad U.S. Treasury repo-financing rate that represents overnight secured funding transactions. This means that SOFR is fundamentally different from LIBOR for two key reasons. First, SOFR is a secured rate, while LIBOR is an unsecured rate. Second, SOFR is an overnight rate, while LIBOR represents interbank funding over different maturities. As a result, there can be no assurance that SOFR will perform in the same way as LIBOR would have at any time, including, without limitation, as a result of changes in interest and yield rates in the market, market volatility or global or regional economic, financial, political, or regulatory events. For example, since publication of SOFR began in April 2018, daily changes in SOFR have, on occasion, been more volatile than daily changes in comparable benchmark or other market rates.

As SOFR is an overnight funding rate, interest on SOFR-based Notes with interest periods longer than overnight will be calculated on the basis of either the arithmetic mean of SOFR over the relevant interest period or compounding SOFR during the relevant interest period. As a consequence of this calculation method, the amount of interest payable on each interest payment date will only be known a short period of time prior to the relevant interest payment date. Noteholders therefore will not know in advance the interest amount which will be payable on such Notes.

Although the Federal Reserve Bank of New York has published historical indicative SOFR information going back to 2014, such publication of historical data inherently involves assumptions, estimates and return on, any approximations. Noteholders should not rely on any historical changes or trends in SOFR as an indicator of future changes in SOFR.

The Federal Reserve Bank of New York notes on its publication page for SOFR that use of SOFR is subject to important limitations and disclaimers, including that the Federal Reserve Bank of New York may alter the methods of calculation, publication schedule, rate revision practices or availability of SOFR at any time without notice. In addition, SOFR is published by the Federal Reserve Bank of New York based on data received from other sources, and the Group has no control over its determination, calculation or publication. There can be no guarantee that SOFR will not be discontinued or fundamentally altered in a manner that is materially adverse to the interests of

the Noteholders. If the manner in which SOFR is calculated is changed or if SOFR is discontinued, that change or discontinuance may result in a reduction or elimination of the amount of interest payable on the Notes and a reduction in the trading prices of the Notes which would negatively impact the Noteholders who could lose part of their investment.

The Conditions provide for certain fallback arrangements in the event that a SOFR Benchmark Event occurs, which is based on the ARRC recommended language. There is however no guarantee that the fallback arrangements will operate as intended at the relevant time or operate on terms commercially acceptable to all Noteholders. Any of the fallbacks may result in interest payments that are lower than, or do not otherwise correlate over time with, the payments that would have been made on the Notes if SOFR had been provided by the Federal Reserve Bank of New York in its current form. Investors should consult their own independent advisers and make their own assessment about the potential risks in making any investment decision with respect to any Notes linked to SOFR.

The market continues to develop in relation to SOFR as a reference rate for Floating Rate Notes.

Investors should be aware that the market continues to develop in relation to SOFR as a reference rate in the capital markets and its adoption as a replacement for U.S. dollar LIBOR. Market participants and relevant working groups are exploring alternative reference rates based on SOFR (which seek to measure the market's forward expectation of a SOFR rate over a designated term). The market or a significant part thereof may adopt an application of SOFR that differs significantly from that set out in the Terms and Conditions of the Notes. In addition, the manner of adoption or application of SOFR in the bond markets may differ materially compared with the application and adoption of SOFR in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SOFR in the bond, loan and derivatives markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of Notes referencing SOFR. In addition, the development of SOFR as an interest reference rate for the bond markets, as well as continued development of SOFR-based rates, indices and averages for such markets and the market infrastructure for adopting such rates, could result in reduced liquidity or increased volatility or could otherwise affect the market price of Notes referencing SOFR. Similarly, if SOFR does not prove widely used in securities such as the Notes referencing SOFR, investors may not be able to sell such Notes referencing SOFR at all or the trading price of the Notes referencing SOFR may be lower than those of bonds linked to indices that are more widely used.

The use of SOFR as a reference rate for bonds is nascent, and may be subject to change and development, both in terms of the substance of the calculation and in the development and adoption of market infrastructure for the issuance and trading of bonds referencing such rates. Notes referencing SOFR may have no established trading market when issued, and an established trading market may never develop or may not be very liquid which, in turn, may reduce the trading price of such Notes or mean that investors in such Notes may not be able to sell such Notes at all or may not be able to sell such Notes at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and may consequently suffer from increased pricing volatility and market risk. Investors should consider these matters when making their investment decision with respect to Notes referencing SOFR.

The Trustee may request Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances (including giving of notice to the Issuer pursuant to the Conditions), the Trustee may (at its sole discretion) request Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Noteholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the Trust Deed and the Conditions and applicable laws and regulations, it will be for the Noteholders to take such actions directly.

In respect of Notes issued as Green Bonds, Social Bonds, or Sustainability Bonds, there can be no assurance that the particular use of proceeds will be suitable for the investment criteria of an investor.

The Issuer may issue Notes under the Programme from time to time which are specified to be "Green Bonds", "Social Bonds" or "Sustainability Bonds" in the applicable Pricing Supplement. It will be the Issuer's intention

to apply an amount equal to the net proceeds from an offer of Green Bonds, Social Bonds and Sustainability Bonds specifically for a portfolio of Eligible Assets in each case as described in the Issuer's Sustainability Financing Framework.

No assurance is given by the Issuer, the Lead Arrangers, the Dealers, the Trustee, the Agents or any other person that the use of such proceeds for any Eligible Assets will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Assets. None of the Lead Arrangers, the Dealers, the Trustee, or the Agents shall be responsible for the ongoing monitoring of the use of proceeds in respect of any such Notes. Prospective investors should consult with their legal and other advisers before making an investment in any such Notes and must determine for themselves the relevance of the information set out in this Offering Circular and the applicable Pricing Supplement for the purpose of any investment in such Notes together with any other investigation such investor deems necessary.

On 8 October 2024, the Bank obtained a second-party opinion from S&P Global Ratings (the "**Second Party Opinion**"), confirming that the Sustainability Financing Framework is aligned with the ICMA Green Bond Principles 2021 (with June 2022 Appendix 1), the ICMA Social Bond Principles 2023 and the ICMA Sustainability Bond Guidelines 2021, among others. No assurance or representation is given by the Issuer, the Lead Arrangers, the Dealers, the Trustee, the Agents or any other person as to the suitability or reliability for any purpose whatsoever of the Second Party Opinion or any opinion, report or certification of any third party (whether or not solicited by the Issuer) which may be made available in connection with the issue of any Notes and in particular with any Eligible Assets to fulfil any environmental, social and/or other criteria. For the avoidance of doubt, the Second Party Opinion or any such opinion, report or certification (i) is not, nor shall it be deemed to be, incorporated in and/or form part of this Offering Circular, (ii) is not, nor should it be deemed to be, a recommendation by the Issuer, the Lead Arrangers, the Dealers, the Trustee, the Agents or any other person to buy, sell or hold any such Notes, and (iii) would only be current as at the date that the Second Party Opinion, any such opinion, report or certification was initially issued. The Second Party Opinion or any such opinion or certification may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed above and other factors that may affect the value of the Notes. The Second Party Opinion or any such opinion or certification may be updated, suspended or withdrawn at any time. A withdrawal of the Second Party Opinion or any such opinion or certification may have an adverse effect on the value of the Notes and/or may have adverse consequences for certain investors with portfolio mandates to invest in green assets. Prospective investors must determine for themselves the relevance of the Second Party Opinion, any such opinion, report or certification and/or the information contained therein and/or the provider of such opinion, report or certification for the purpose of any investment in such Notes. Currently, S&P Global Ratings, the providers of any such opinions, reports and certifications are not subject to any specific regulatory or other regime or oversight. Investors in such Notes shall have no recourse against the Issuer, the Lead Arrangers, the Dealers, the Trustee, the Agents or the provider of any such opinion, report or certification for the contents of any such opinion, report or certification. No assurance can be provided with respect to the suitability or reliability of any such opinion or certification or that the Notes will fulfil the criteria to qualify as Green Bonds, Social Bonds or Sustainable Bonds, as the case may be. The Lead Arrangers, the Dealers, the Trustee, and the Agents, have not undertaken, nor are responsible for, any assessment of the eligibility of projects as Eligible Assets or the monitoring of the use of proceeds from the offering of the Notes.

The Sustainability Financing Framework, the Second Party Opinion and any public reporting by or on behalf of the Issuer in respect of the application of proceeds (or an amount equal to the proceeds) will be available on the Bank's website at www.pnb.com.ph, but for the avoidance of doubt, will not be incorporated in and/or form part of this Offering Circular. The Issuer's Sustainability Financing Framework may be amended at any time without the consent of Noteholders and none of the Issuer, the Lead Arrangers, the Dealers, the Trustee, or the Agents assumes any obligation or responsibility to release any update or revision to the Sustainability Financing Framework and/or information to reflect events or circumstances after the date of publication of the Sustainability Financing Framework.

Whilst it is the intention of the Issuer to apply the net proceeds (or an amount equal to the net proceeds) of any Notes so specified for Eligible Assets in the manner specified in this Offering Circular or the applicable Pricing Supplement, there can be no assurance that the relevant project(s) or use(s) the subject of, or related to, any Eligible Assets will be capable of being implemented in, or substantially in, such manner and/or in accordance with any timing schedule and that accordingly such proceeds will be totally or partially disbursed for such Eligible Assets. Nor can there be any assurance that such Eligible Assets will be completed within any specified period or at all

or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Issuer. Any such event or failure by the Issuer will not constitute an Event of Default under the Notes or otherwise result in the Notes being redeemed prior to their maturity date.

Any such event or failure to apply the proceeds of any issue of Notes for any Eligible Assets as mentioned in the previous paragraph and/or withdrawal of any such opinion or certification or any such opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on, may have a material adverse effect on the value of such Notes and also potentially the value of any other Notes which are intended to finance Eligible Assets and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

In the event that the Notes will be listed or admitted to trading on any dedicated green, environmental, sustainable or other equivalently-labeled segment of any stock exchange or securities market (whether or not regulated), no representation or assurance is given by the Issuer, the Lead Arrangers, or the Dealers or any other person that such listing or admission satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, for example with regard to any direct or indirect environmental, social or sustainability impact of any projects or uses, the subject of or related to, any Eligible Assets. Additionally, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. In addition, no representation or assurance is given or made by the Issuer, the Lead Arrangers, or the Dealers or any other person that any such listing or admission to trading will be obtained in respect of the Notes or, if obtained, that any such listing or admission to trading will be maintained during the life of the Notes.

There is no direct contractual link between any Green Bonds, Social Bonds, or Sustainability Bonds and any green, social or sustainability targets of the Issuer. Therefore, payments of interest, principal or other amounts, as applicable payable in respect of any Notes and rights to accelerate under the Notes will not be impacted by the performance of Eligible Assets funded out of the proceeds of issue (or amounts equal thereto) of the Notes or by any other green, social or sustainable assets of the Issuer.

There is no current market consensus on what constitutes a “green”, “sustainable”, “social” or equivalently-labelled project.

It should be noted that the definition (legal, regulatory or otherwise) of, or market consensus as to what constitutes or may be classified as, a “green”, “sustainable”, “social” or equivalently-labelled project or investment that may finance such project is evolving. No assurance can be given that a clear definition, consensus or label will develop over time or that, if it does, any Green Bonds, Social Bonds, or Sustainability Bonds will comply with such definition, market consensus or label. No assurance can be given by the Issuer, the Lead Arrangers, the Dealers, the Trustee, the Agents or any other person to investors that any Green Bonds, Social Bonds, or Sustainability Bonds will comply with any future standards or requirements regarding any “green”, “social”, “environmental”, “sustainable” or other equivalently-labelled performance objectives and, accordingly, the status of any Notes as being “green”, “social”, “sustainable” (or equivalent) could be withdrawn at any time.

In addition, there can be no guarantee that there will not be any adverse environmental and/or social impacts during the implementation of any Eligible Assets. Where negative impacts are insufficiently mitigated, the projects and activities may become controversial, and/or may be criticised by activist groups or other stakeholders. The Issuer may not meet or continue to meet the investment requirements of certain investors with respect to the Notes, which may also have consequences for certain investors with portfolio mandates to invest in “green”, “sustainable”, “social” assets. No assurance can be provided to investors that the Notes and the use of proceeds by the Issuer or any Eligible Assets will satisfy, whether in whole or in part, any expectations or requirements of any investor or any present or future expectations or requirements with respect to “green”, “sustainable”, “social” or equivalently-labelled projects. Prospective investors should consult with their legal and other advisers before making an investment in any such Notes and must determine for themselves the relevance of the information set out in this Offering Circular and the applicable Pricing Supplement for the purpose of any investment in such Notes together with any other investigation such investor deems necessary.

DESCRIPTION OF THE BANK

Overview

The Bank provides a full range of banking and other financial services to large corporate, middle-market, small and medium enterprises (“SMEs”) and retail customers, as well as to the Government, National Government Agencies (“NGAs”), local government units (“LGUs”) and government owned and controlled corporations (“GOCCs”). While the Bank’s principal focus has historically been to serve the banking needs of Government-related entities and GOCCs, the Bank’s focus since 2000, after its privatisation, has been to further develop its banking services for large corporates, middle-market, SMEs, retail customers and OFWs.

As at 30 June 2024, with total assets of ₱1,256,349.1 million, the Bank was the sixth largest privately-owned Philippine universal bank in terms of total assets based on BSP data. As at 30 June 2024, the Bank’s total assets reached ₱1.3 trillion. The Bank was also the sixth largest local private universal bank in the Philippines in terms of local branches based on BSP data. As at 30 June 2024, the Bank had 631 branches and offices and 1,701 automated teller machines (“ATMs”) located throughout the Philippines. The Bank has the largest overseas network among Philippine banks with 72 branches, representative offices, remittance centres and subsidiaries in key cities in the United States, Canada, Europe, the Middle East and Asia. As at 30 June 2024, the Bank also maintained correspondent relationships with 348 banks and financial institutions worldwide. As a result of this large geographic coverage, the Bank believes it is one of the leading providers of remittance services to OFWs.

The Bank’s principal commercial banking activities include deposit-taking, lending, bills discounting, trade finance, foreign exchange dealings, fund transfers/remittance servicing, a full range of retail banking and trust services, and treasury operations. The Bank also provides banking and financial services to its customers through its PNB Digital App and internet banking system. Likewise, the Bank offers cash management solutions to corporate clients such as basic banking services, liquidity management, disbursement and collections, among others. Through its subsidiaries and affiliates, the Bank also engages in a number of diversified financial and related businesses such as remittance servicing in the United States, Canada, Hong Kong, Italy, France and the United Kingdom, investment banking, life and non-life insurance, stock brokerage, leasing and financing and freight forwarding services.

As at 30 June 2024, the Bank’s consolidated Tier 1 CAR and total CAR as reported to the BSP was 18.5% and 19.4%, respectively. The Bank has been listed on the PSE since June 1989. The market capitalisation of the Bank as of 30 June 2024 was ₱33.6 billion.

For the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024, the Bank’s net income was ₱31,690.0 million, ₱11,584.0 million, ₱17,965.8 million, ₱9,741.7 million, and ₱10,290.2 million, respectively.

Competitive Strengths

The Bank considers the following to be its principal competitive strengths relative to the banking sector:

Trusted and established banking brand in the Philippines

The Bank has a rich history of operations and was established more than 100 years ago. PNB was initially established as a Government-owned bank in 1916 and would later become the first universal bank in the Philippines. Until 1949, PNB acted as the de facto central bank of the Philippines as it was given the special power to issue circulating notes. Owing to its original mandate to provide financial services to the Philippine industrial and agricultural sectors and support the Government’s economic development efforts, PNB has established itself as a well-known banking brand in the Philippines with a strong presence in both rural and metro areas.

Today, the Bank believes that its scale, branch network, business lines and product offerings have made it one of the most recognisable brands in the Philippine financial services industry. The Bank is one of the leading universal and commercial banking franchises across a range of metrics being the sixth largest private universal bank in terms of total assets, total deposits, and net loans and receivables as at 30 June 2024 based on data from the BSP. The Bank also boasts of an extensive distribution network with 631 branches in the Philippines and 72 branches, representative offices, remittance centres and subsidiaries globally as at 30 June 2024.

In affirmation of the Bank’s well-managed operations, the Bank has received numerous awards from the BSP and other international bodies over the years. PNB has been recognised by Asiamoney as “*Best Bank for Investment Research*” for three consecutive years from 2021 to 2023, which is a testament to the Bank’s contribution in

helping its clients make sound investment decisions by sharing their insights on equities, industries, and the Philippine economy. In April 2024, PNB ranked 1st in the Philippines in Forbes' list of World's Best Banks for 2024, an improvement from its ranking in 2023 as the 2nd Best Bank in the Philippines. The ranking was based on a worldwide survey of more than 49,000 banking customers in 33 countries as highlighted in the story published by Forbes, "Meet the World's Best Banks 2024". Banks were rated in terms of general satisfaction, recommendation, trust, terms and conditions, digital services, customer services, and financial advice. In April 2021, the employment-related online platform LinkedIn ranked PNB as "*#1 LinkedIn Top Companies 2021*" list in the Philippines, in a ranking of the 15 best workplaces to grow one's career.

Over the past few years, the Bank was recognised as "*Best KYC and Customer Onboarding Technology of the Year*" by The Asian Banker in 2021; "*Mortgage and Home Loan Product of the Year*" by The Asian Banking and Finance for the Bank's "*Own a Philippine Home Loan*" in 2021; "*Top Fixed-Income Brokering Participant*" and one of the "*Top Five Fixed-Income Cash Settlement Banks*" by the Philippine Dealing System Holdings Corp. in 2022; "*Best Disbursement Partner*" in the Commercial Bank category and "*Best Collection Partner*" in the Overseas Bank category by the Social Security System in 2023; "*Runner Up for Transparency and Reporting*" by the European Union and the UN Women in 2021 and 2022; one of "*Asia's Most Influential Companies*" by the Asia Corporate Excellence and Sustainability Awards in 2022; one of the "*Best Managed Funds*" under the Peso Equity Fund category by the Chartered Financial Analyst® Society of the Philippines for the Bank's High Dividend Fund in 2023; and "*Best Bank for Corporate Social Responsibility*" in 2023 by the International Business Magazine Awards, among others.

In June 2023, PNB was recognised twice in the Asia Responsible Enterprise Awards 2023 for the following categories: (1) Corporate Governance category for adhering and maintaining the quality and completeness of disclosure and reporting of governance practices in annual reports of business entities in the public and private sectors; and (2) Corporate Sustainability Reporting category for the Bank's comprehensive sustainable reporting in disclosure, transparency, and credibility while bridging the social, environmental, and economic issues affiliated to the business.

PNB has also been a recipient of the "*Four Golden Arrows Award*" for three consecutive years from 2020 to 2023. The award is given by the Institute of Corporate Directors and is the highest corporate governance award given to the country's top publicly listed companies based on the 2023 ASEAN Corporate Governance Scorecard assessment results.

In October 2023, PNB won the Philippines' "*Digital Experience of the Year – Banking*" accolade at the Asian Experience Awards 2023. The PNB Digital App was cited for offering clients a superior banking experience with its fresh look, intuitive design, and quick access to frequent banking transactions via a customizable dashboard. The PNB Digital App was designed to meet the growing demand for reliable and secure online banking solutions and offers an array of features tailored to enhance the banking experience for PNB customers. In April 2024, PNB's mobile banking app, PNB Digital App, was awarded the highly acclaimed Excellence in Customer Service Innovation Award during The Digital Banker's Digital CX Awards 2024. According to The Digital Banker, PNB Digital is notable for its personalized features and improved navigation, which ensured that users can swiftly and securely conduct desired transactions with the number of active users increasing by 42% year-on-year, proving the app's capability as an easy-to-use, intuitive, and convenient banking app.

Apart from the foregoing, the Bank received the following awards as a testament of its trusted and established brand:

- 17th Annual Best Deal & Solution Awards 2023 – PNB Capital received the following awards: (i) Best PPP & Blended Financing Infrastructure Deal of the Year for San Miguel Corporation Mass Rail Transit Inc.'s ₱100 Billion Syndicated Term Loan Facility; (ii) Best Local Currency Bond Deal of the Year in the Philippines for San Miguel Corporation's ₱60 Billion Fixed Rate Bonds; Best Multi-year Bond of the Year in the Philippines for Aboitiz Equity Ventures Inc.'s ₱17.45 Billion (2-, 5- and 10-year) Fixed Rate Bonds;
- PDS Annual Awards – Top 1 Fixed-Income Brokering Participant; Top 5 Fixed-Income Cash Settlement Bank;
- PAG-IBIG Funds Chairman's Report 2023 Excellence Awards – Highest number of transactions of Overseas Pag-IBIG Fund members; Highest number of transactions of Overseas Pag-IBIG Fund members;

- International Business Magazine Awards 2024 – Most Admired Financial Services Provider in the Philippines;
- Euromoney Private Banking Awards 2024 – Best Bank for Investment Research in the Philippines (for four consecutive years); and
- Asian Banking and Finance: Retail Banking Awards 2024 – Rebranding Campaign of the Year in the Philippines for “PNB *Every Step Together*”.

Extensive and strategically located distribution network

The Bank has one of the most extensive branch and ATM networks among its competitors in the Philippines. As at 30 June 2024, the Bank had 631 domestic branches representing 4.7% of the total number of branches of all universal, commercial and thrift banks in the Philippines based on data from the BSP. As at 30 June 2024, the Bank had 72 branches, representative offices, remittance centres and subsidiaries globally. As at 30 June 2024, the 1,701 ATMs of the Bank represented about 7.5% of the total number of ATMs of universal, commercial and thrift banks in the Philippines based on data from the BSP. See “*Description of the Bank—Banking Activities—Retail Banking Sector—Branch Banking*” starting on page 126 of this Offering Circular for more information.

The Bank’s distribution network allows it to continue its strong deposit collection capability and provides convenient channels to offer and sell fee-generating product lines such as bancassurance, trust, fixed-income securities and credit cards.

The branches of the Bank are strategically located in areas outside Metro Manila particularly in emerging high growth regions, such as the Mindanao region, which enables the Bank to capitalise on the robust development of these areas. Almost two-thirds of the Bank’s branches are located outside Metro Manila as at 30 June 2024, including in areas such as the Davao Region, Central Luzon, Western Visayas, Ilocos and Cordillera Administrative Region which have experienced average GDP growth greater than the average 5.5% growth of Metro Manila from 2021 to 2023 based on data published by the Philippine Statistics Authority. As at 31 December 2023 and 30 June 2024, PNB’s demand and savings account (“CASA”) ratio to total deposits in branches outside Metro Manila was 91.9% and 91.0%, respectively, which was higher than PNB’s CASA ratio of 79.2% and 81.4%, respectively in its Metro Manila branches as of the same dates.

The Bank believes its long-standing presence in key provincial markets places it in a unique position, allowing it to cultivate deep and long-term relationships with clients in such areas that are difficult for potential new entrants to replicate. Further, the Bank believes that the strategic and convenient locations of its branches in such areas, being close to local town centres or at key crossroads of commerce, is a compelling factor to sustain the loyalty of its existing clientele and for attracting new customers. As at 31 December 2023 and 30 June 2024, the Bank’s commercial loans in provincial markets accounted for 56.3% and 59.9% of the total commercial loans of the Bank, while the Bank’s commercial loans in Manila accounted for 43.7% and 40.1% of the total commercial loans of the Bank, respectively. Moreover, the Bank believes that the longer payback periods in provincial areas compared to metropolitan areas serve as an additional deterrent to the entry of potential competitors.

Market-leading and low-cost deposit franchise driving competitive cost of funding

The Bank has been successful in building a low-cost CASA deposit franchise with CASA deposits per branch at ₱1,264.8 million as at 30 June 2024, which is one of the highest among the top private universal and commercial banks based on data from the BSP. Further, as an illustration of the Bank’s unique advantage in this area, the Bank’s low-cost deposit base has consistently increased, with its CASA deposits growing at a compound annual growth rate (“CAGR”) of 7.2% from 2020 to 2023.

As at 31 December 2023, the Bank’s clientele included more than 5.0 million private and Government depositors, which the Bank believes provide it with a readily accessible market base for fee-generating cross-selling opportunities. While the Bank’s cost of deposits is largely driven by interest rate movements, the Bank is able to sustain average cost of deposits at a lower level through its CASA ratio. As at 31 December 2023, CASA deposits accounted for 82.9% of the Bank’s total deposit liabilities, which was the highest CASA ratio among universal and commercial banks in the Philippines based on data from the BSP. As at 30 June 2024, CASA deposits accounted for 84.1% of the Bank’s total deposit liabilities. As at 30 June 2024, the Bank has maintained long-term relationships with its client base with about 61.1% of its deposit clients having banking relationship with the Bank for over five years.

The Bank believes its long-term depositors and low-cost CASA deposits are a competitive advantage which will continue to support the Bank's core lending operations and generate meaningful value for the Bank even in a rising interest rate environment.

Strong commercial banking franchise with a diversified customer base

The Bank has the sixth largest loan portfolio in the Philippines as at 31 December 2023 among private universal and commercial banks based on BSP data. The Institutional Banking Sector loans of the Parent Bank, comprising corporate and commercial loans (including those booked under the financial institution division), accounted for 86.8% of the total gross loans of the Bank as at 31 December 2023, and grew from ₱537.6 billion as at 31 December 2021 to ₱545.8 billion as at 31 December 2023, representing a CAGR of 1.0%. As at 30 June 2024, the Institutional Banking Sector of the loans of the Parent Bank reached ₱561.0 billion. This growth was driven mostly by the commercial banking loans of the Parent Bank which grew from ₱178.0 billion as at 31 December 2021 to ₱228.1 billion as at 31 December 2023, or a CAGR of 13.2%. The commercial banking loans of the Parent Bank was at ₱214.2 billion as at 30 June 2024. The Bank believes that its growing commercial banking segment coupled with its low cost CASA deposit base have been the key drivers behind its ability to maintain its net interest margins. See “*Description of the Bank—Banking Activities—Institutional Banking Sector*” starting on page 127 of this Offering Circular for more information.

The Bank provides a full range of banking and other financial services to a diversified customer base including large corporate, middle-market, SMEs and retail customers. As at 31 December 2023, the Bank's clientele included more than 5.0 million private and Government depositors, and at least 39,284 loan-counterparties comprising private corporations, Government entities and individual borrowers.

Uniquely positioned to service global Filipinos through an extensive international footprint

The Bank has one of the most extensive international footprints among Philippine banks, spanning 17 countries across Asia, Europe, the Middle East and North America, with 72 overseas branches, representative offices and remittance centres as at 30 June 2024. The Bank intends to leverage on its global network and leadership in remittance to facilitate cross-selling opportunities targeting sophisticated Filipinos clients residing outside the Philippines. The Bank has a suite of products targeted at international customers including home loans, wealth management, credit cards, trust, insurance, consumer loans, among other products. For instance, the Bank offers Own a Philippine Home Loan, a mortgage product designed to provide easy access to bank financing of residential properties in the Philippines for Overseas Filipinos and foreigners.

As at 30 June 2024, the Bank also maintained correspondent relationships with 348 banks and financial institutions and 94 overseas agents and tie-up partners worldwide. The Bank's OFW remittance business accounted for approximately 9% market share by remittance volume as at 30 June 2024 based on data from the BSP, making it one of the largest in the Philippines.

Highly experienced and trusted management team

The Bank has assembled a strong management team with its senior executive officers (consisting of officers at the executive vice-president level and above) having on average over 34 years of experience in the banking sector. The Bank believes that the extensive experience and financial acumen of its management provide it with a significant competitive advantage.

As at 30 June 2024, the Bank has several banking industry leaders on its Board of Directors, including Chairman Edgar A. Cua and President Florido P. Casuela. The Bank's other top executives also have a proven track record in banking, finance and in other industries given their experience with leading banking firms both domestically and internationally. The Board of Directors has a strong independent element, with four of its 14 members (including the chairman of the Board) being independent Directors as of the date of this Offering Circular. See “*Management—Board of Directors*” and “*Management—Executive Officers*” on pages 172 and 179 of this Offering Circular for more details.

Supportive shareholder group

The LT Group is led by Dr. Lucio C. Tan who has been a pillar of the Philippine banking industry since founding Allied Banking Corporation in 1977 and growing it into one of the largest banks in the Philippines before its merger with PNB in 2013. As a member of the LT Group and an affiliate of the Tan Companies, the Bank believes that it will continue to benefit from being part of one of the largest and most diversified conglomerates and group of companies in the Philippines, with interests ranging from beverages, airlines, tobacco, property development,

education and others. The Bank believes that it has been able to achieve significant synergies with the LT Group and the Tan Companies, such as partnering with Philippine Airlines, Inc. (“PAL”) to introduce one of the most popular mileage rewards credit cards in the Philippine market and facilitating guarantees for ticketing agents of PAL, and providing collection and disbursement facilities to other companies such as Philip Morris Fortune Tobacco Corporation, Tanduay Distilleries, Inc., Asia Brewery, Inc. and MacroAsia Corporation, and continues to service the requirements of these companies as their bank-of-choice.

Business Strategies

The Bank aims to fortify its position as one of the leading banks in the Philippines, delivering consistent profitability supported by a solid balance sheet. To achieve this, the Bank will focus on the following key strategies:

Accelerate growth of the consumer finance business

The Bank’s lending strategy involves shifting its marketing focus from large institutional accounts to retail customers, with a goal of making consumer lending a significant portion of its revenues.

In March 2020, the PNB’s wholly-owned thrift bank subsidiary, PNBSB, was integrated with the Parent Bank to strengthen the Bank’s foothold in the retail and consumer segment. Through the integration, the Bank’s consumer lending business was able to offer more competitive consumer finance products, capitalising on the Bank’s lower funding costs, expanding its reach by leveraging on PNBSB’s extensive branch network, and cross-selling to the Parent Bank’s existing deposit clients.

To augment its consumer lending strategy, the Bank aims to educate and arm its existing employees with the necessary tools and skill-sets to implement the Bank’s growth strategy. This would include enhancement of internal “academies” focused on specific areas within the Bank to achieve the Bank’s training and development goals.

Enhance its core institutional banking business

The Bank will continue its Institutional Banking Sector’s growth trajectory with greater focus on higher return opportunities. As part of its loan products in this sector, the Bank intends to focus on historically higher margin loans such as secured project finance, structured loans and commercial banking loans which have grown from 85.3% of the Bank’s total loan portfolio as at 31 December 2021 to 85.5% of the Bank’s total loan portfolio as 31 December 2023, while as part of its transaction banking product offerings, the Bank aims to provide differentiated payments and cash management solutions to improve cross-selling opportunities and capture ancillary revenue sources. The Bank also intends to increase its capital efficiency by providing holistic services to its strategic Institutional Banking Sector’s clients by also servicing their ecosystem of customers and suppliers through loans, capital markets, and transaction banking products and services. The Bank also intends to capitalise on its relationship with the LT Group and the Tan Companies by focusing on increasing coverage and penetration of the various member companies.

Continue focus on generating low-cost deposits

The Bank will continue to leverage on the strength of its nationwide branch network to generate low-cost deposits from its existing and growing customer base. In particular, the Bank intends to continue to attract and increase deposits by assigning all branch personnel to handle specific accounts with its branch managers focusing on the top 200 accounts. This will be complemented by the implementation of a “complete customer” strategy which includes providing various banking and financial services to deposit clients to ensure deposits will be retained with the Bank for longer periods. The Bank also expects to increase deposits on operating accounts through its cash management, payroll and payments solutions as well as its credit product offerings. To maintain funding flexibility and support asset expansion, the Bank also intends to complement its low-cost deposit base by tapping cost-effective alternate funding mechanisms such as interbank borrowings, capital markets and reverse repurchase.

Pursue digitisation initiatives

The Bank’s strategy is to collaborate with technology providers and FinTech companies, with the objective of enriching the digital experience available to its customer as well as to attract new clients. The Bank intends to take advantage of emerging technology and services that are readily available from third parties and are not currently provided by the Bank. The Bank also intends to leverage its relationship with members of the LT Group

and other affiliated companies and capitalise on available and emerging digital technologies to maximise the value-add of its digital services. The Bank's Digital Innovations Group spearheads the Bank's plans and efforts towards maximizing recent technologies for the greater benefit of the Bank's customers and stakeholders.

A key channel for the Bank's digital offering is the PNB Digital App, which has offered key services for existing customers with deposit, credit card and unit investment trust funds ("UITF") products. The PNB Digital App, launched in February 2021 and had approximately 1.3 million enrolled users as at July 2024. These users are able to avail of the following services:

- View account balance and transactions history;
- Make intra-bank and inter-bank fund transfers through InstaPay and Pesonet to 140 banks, wallets and electronic money issuers, with the option to use convenient QR codes;
- Make bill payments to more than 1,500 billers, using CASA and Credit Cards as source of payment, and pay at merchant stores using QR codes;
- Subscribe, view and redeem UITF instruments; and
- Withdraw from PNB ATMs without the need of a debit card on hand (Cardless Cash)

Security in the app is enhanced by biometrics and multi-factor soft token technologies, on top of the standard Username, Password, one-time password and organisational and administrative controls.

The PNB Digital App's relevant features, user-friendly and intuitive interface, have been recognised through the following awards:

- 2023 Philippines Digital Experience of the Year for Banking, from the Asian Experience Awards; and
- 2024 Highly Acclaimed Excellence in Customer Service Innovation, from the Digital Banker CX Awards.

The Bank also makes full use of its marketing channels (web, social media, print) to increase awareness of the PNB Digital App. The growth of users availing of the PNB Digital App services are set out in the table below.

	As at 31 December			As at 30 June
	2021	2022	2023	2024
User base	438,667	778,361	1,105,231	1,270,651
Increment	-	339,694	326,870	165,420
Increase in users (%)	-	77	42	15

For its existing customers in the near term, the Bank seeks to further strengthen its security posture by integrating its digital channels with an Enterprise Fraud Management System, which detects and prevents fraudulent exceptions that can compromise the system due to social engineering.

As part of its continuous innovation, the bank is also enriching its facilities to serve more customers for its deposits and consumer finance services, by embarking on digital loans and CASA account openings using e-KYC and customer identity access technologies. In preparation for these advancements, the Bank has recently upgraded its loan origination systems for consumer loans and credit cards. Additionally, it will implement digital channels to offer these services remotely through mobile and web platforms.

As part of its ongoing initiatives, the Bank regularly coordinates with the LT Group ecosystem to offer existing digital services to the employees and clients of the group, offering promotions and facilitating their entry into the digital offerings of PNB.

See also "*Description of the Bank—Information Technology—Digital Initiatives*" on page 134 of this Offering Circular.

Improve fee income generation capabilities and intensify cross-selling efforts

As part of the strategy to improve its profitability, the Bank has initiatives in place to drive fee-based income growth. For example, the Bank intends to intensify its cross-selling efforts to its existing customers, including

OFWs. The Bank believes its existing customer base has significant potential for cross-selling opportunities, as only approximately 7.4% of the Bank's targeted depositors as at 30 June 2024 have availed of the Bank's non-deposit banking services and products. The Bank also plans to focus its marketing efforts on offering consumer loan products, differentiated cash management solutions, bancassurance, usage of electronic remittance channels, wealth management products and trust banking products. Likewise, the Bank intends to continue to expand its product offerings to OFWs with a comprehensive suite of financial services, such as loan, insurance and savings products.

The Bank upholds the ecosystem strategy which positions the Bank as the financial intermediary for the management and flow of operating funds of customers, trade counterparties and individual customers. The Bank has launched PNB Connect to promote long term relationships by offering efficient cash management and innovative solutions to evolving markets that span across various segments such as SMEs, MSMEs and institutional clients.

To further gain a competitive advantage in the fast-changing banking industry, now characterized by the continued technological advancements, the Bank has promoted and implemented the use of "PNB C@shNet Plus", a business online platform that provides corporate clients an access to a wide array of cash management services such as account management, liquidity management, collections and payments management.

The Bank also offers integrated corporate service packages and innovative financial solutions offered outside of the "PNB C@shNet Plus" platform to further address customers' changing needs. The Bank will continue to remain committed to provide a full suite of cash management and innovative services that will bring efficiency and convenience to the markets it serves.

In 2021, the Bank introduced the PNB Digital App which allows its customers to, among others, to avail of key services for existing customers with deposit, credit card and UITF Products allowing further opportunity for cross-selling of the Bank's offerings. See "*Pursue digitisation initiative*" and "*Description of the Bank—Information Technology—Digital Initiatives—PNB Digital App*" on page 134 of this Offering Circular.

Enhance operational, asset and capital efficiency

The Bank will continue to undertake process improvements and automation which are expected to improve operational efficiency and generate cost savings. The Bank also intends to further cost efficiency improvements through branch re-engineering, economies of scale, systems integration, realignment of front offices and optimisation of back-office processing and support functions.

Furthermore, the Bank expects that its digital banking initiatives will further enhance cost savings. As part of these initiatives, the Bank intends to simplify business processes through digitisation, such as paperless account opening and e-KYC, electronic workflow and electronic statement of account. The Bank plans to outsource services in its cash operations and take on shared services for digital archiving, self-service operations support, and a centralised customer information file. Likewise, the Bank intends to undertake system enhancements in its front-loan system, remittance, and account reconciliation systems, as well as in its fraud management tools.

Leveraging the Bank's subsidiaries

The Bank will undertake a proactive approach to ensure that the return on its equity investments from its domestic and foreign subsidiaries is maximised. As such, the Bank's subsidiaries will implement strategic initiatives that will ensure achievement of business targets aligned with the Bank's goals. For instance, PNB Securities intends to establish an online trading platform and actively market its services to high net worth clients, the LT Group and the Tan Companies. Similarly, PNB Capital plans to develop an interactive website for capital market offerings as well as maximise sales output per branch by including capital market products in score cards of branches and defined revenue sharing between PNB Capital and the Bank's Retail Banking Sector.

The Bank is committed in providing strong support to its subsidiaries while also ensuring their independence to operate their respective businesses. The subsidiaries intend to capitalise on the Bank's extensive branch network and resources in order to complement and enhance the product offerings of the Bank. The Bank also continuously seeks to extract and improve synergies between the Parent Bank and its subsidiaries through cross-selling and other related initiatives.

History

The Bank was established in 1916 by the Government. At that time, in addition to engaging in the general commercial banking business, the Bank also served as the *de facto* central bank of the Philippines. The Bank acted as the sole depository of Philippine Government deposits, the clearing house for the Philippine banking system, the custodian of bank reserves and the issuer of Philippine bank notes and Government bonds, functions which the Bank performed until 1949, when the Central Bank of the Philippines, which has since been renamed the BSP was established.

As a bank which was then solely owned by the Government, the Bank played an important role in implementing the Government's financial policies. Such financial policies included being a major provider of banking services to the Government as well as its agencies, LGUs and GOCCs, serving as a depository bank for working balances, providing fund transfers, disbursements, credits and import/export financing, administering trust funds, and acting as a channel for the sale of Government securities.

Following Proclamation No. 50, the Government embarked on the privatisation of the Bank. In June 1989, the Government offered to the Philippine public 30.0% of the outstanding shares of the Bank for a total consideration of ₱1.1 billion. In April 1992, the Government disposed of a further 10.0% of the outstanding shares in the Bank to the Philippine public for a total consideration of ₱2.1 billion. In December 1995, the Government disposed of a further 7.2% of the outstanding shares of the Bank.

On 27 May 1996, the Bank was incorporated with the Philippine SEC as a juridical entity.

The Tan Companies (comprised of certain companies owned or controlled by Dr. Lucio C. Tan and affiliates) acquired approximately 35% of the total outstanding capital stock of PNB in late 1999 and joined the Board of Directors in December 1999. In early 2000, the Tan Companies increased its equity interest in the Bank to 69.32% and injected nearly ₱20 billion of fresh capital.

As a result of the Asian financial crisis, the Bank suffered a liquidity crisis for five years, ending on 31 December 2002, which necessitated significant levels of financial assistance from the BSP and the Government (through the Philippine Deposit Insurance Corporation (“**PDIC**”)). The Bank had to undergo a rehabilitation program pursuant to a memorandum of agreement (“**MOA**”) signed by the Republic of the Philippines, the PDIC and the Tan Companies (being a major shareholder of the Bank) on 3 May 2002. The MOA stipulated the following financial conditions: conversion into equity of ₱7.8 billion of the ₱25.0 billion assistance extended by the BSP and the PDIC; settlement of the ₱10.0 billion obligation by way of *dacion en pago* through the assignment of government and government related receivables; and the conversion of ₱6.1 billion into a ten-year loan with interest equivalent to the 91-day T-Bill rate plus 1.0%. This increased the Government's stake in the Bank from 16.58% to 44.98%, in effect reducing the Tan Companies' share to 44.98%.

In August 2005, the Government, as part of its privatisation program, sold down its 32.45% stake in the Bank via an auction. The private stockholders represented by the Tan Companies exercised their right of first refusal, reducing the Government's share to 12.5% and raising the Tan Companies' stake in the bank to a total of 77.43%.

In June 2007, the Bank settled its ₱6.1 billion loan to PDIC, four years ahead of maturity date.

In August 2007, the Bank successfully completed a Tier 1 Follow-On Equity Offering where it raised about ₱5.1 billion, net of issuance cost of ₱199.5 million, in Tier 1 Capital. Together with the sale of 89 million primary shares, 71.8 million secondary shares owned by the Government through PDIC and the Department of Finance were sold to the public paving the way for a complete exit of the Government from the Bank.

On 9 February 2013, the Bank concluded its planned merger with Allied Banking Corporation (“**ABC**”) as approved and confirmed by the Board of Directors of the Bank and of ABC on 22 and 23 January 2013, respectively. The respective shareholders of the Bank and ABC, representing at least two-thirds of the outstanding capital stock of both banks, approved the amended terms of the Plan of Merger of the two banks on 6 March 2012. The original Plan of Merger was approved on 24 June 2008 by the affirmative vote of ABC and the Bank's respective shareholders, representing at least two-thirds of the outstanding capital stock of both banks.

On 11 February 2013, the Board of Directors of LTG approved the acquisition of indirect ownership in the merged entity through an investment in the 27 holding companies which had collective ownership interest in PNB of 59.8% (collectively referred to as “**Bank Holding Companies**”). LTG's acquisition was effected by way of a subscription to the increase in the authorised capital shares of 22 Bank Holding Companies and a direct buy-out of shares of five Bank Holding Companies. As of 30 June 2024, LTG held indirect ownership over 59.83% of the Bank's shares

through the Bank Holding Companies, while 14.29% of the Bank's shares were held by the Philippine Central Depository Nominee Corporation. The remaining 25.88% of the Bank's shares were held by other stockholders holding less than 10.0% each.

In November 2017, in recognition of the consistent improvement in the Bank's credit profile, Moody's upgraded the Bank's foreign currency and local currency deposit ratings to Baa2/P-2 from Baa3/P-3, two notches above investment grade. The upgrade reflects the improvement in financial profile since PNB's merger with Allied Banking Corporation. Capital Intelligence likewise raised the Bank's Financial Strength Rating to 'BBB-' from 'BB+', one notch above investment grade, noting the Bank's solid capital adequacy, good liquidity and sound asset quality. In December 2017, Fitch Ratings also revised upwards the support rating floor of PNB to 'BB' from 'BB-', following the upgrade of the Philippines sovereign's rating to 'BBB' from 'BBB-'. In June 2018, Moody's assigned a Counterparty Risk Rating of Baa2(P-2) to the Bank.

To support the Bank's efforts to diversify its funding sources to meet the financial needs of its clients, PNB offered series of Long-Term Negotiable Certificates of Time Deposit ("**LTNCDs**") in 2017 and 2019 to extend the maturity profile of the Bank's liabilities as part of overall liability management and to raise long-term funds for general corporate purposes. In April 2018, the Bank also successfully issued in Singapore and Hong Kong its five-year Fixed Rate Senior Notes worth U.S.\$300.0 million out of its U.S.\$1.0 billion Medium Term Note Programme. This marked the first time that the Bank tapped the international bond market for medium term dollar funding. The proceeds of the Notes were used to support the Bank's loan expansion as the Bank took advantage of the country's sustained economic growth.

In July 2019, the Bank successfully issued and listed 276,625,172 common shares priced at ₱43.38 per share from its stock rights offering. The net proceeds from the offering amounting to ₱11.7 billion were used to enhance the Bank's presence in emerging growth areas.

In March 2020, the Bank fully integrated its wholly-owned thrift bank subsidiary, PNBSB, into the parent bank through the acquisition of its assets and assumption of its liabilities in exchange for cash. On 5 March 2020, PNBSB surrendered its thrift bank licence to the BSP, and consequently converted into a holding company changing its name to "Allied Integrated Holdings, Inc." on 3 December 2020. With the integration, not only was the Bank able to deliver a more efficient banking experience and serve a wider customer base, but PNBSB's then customers were given access to PNB's diverse portfolio of financial solutions.

In November 2020, PNB and PNB Holdings Corporation ("**PNB Holdings**") entered into an agreement for the sale of their respective equity investment in PNB General Insurers Co., Inc. ("**PNB Gen**"), a former subsidiary of the Bank engaged in non-life insurance business. The sale of the shares in PNB Gen marked the Bank's exit from the non-life insurance space.

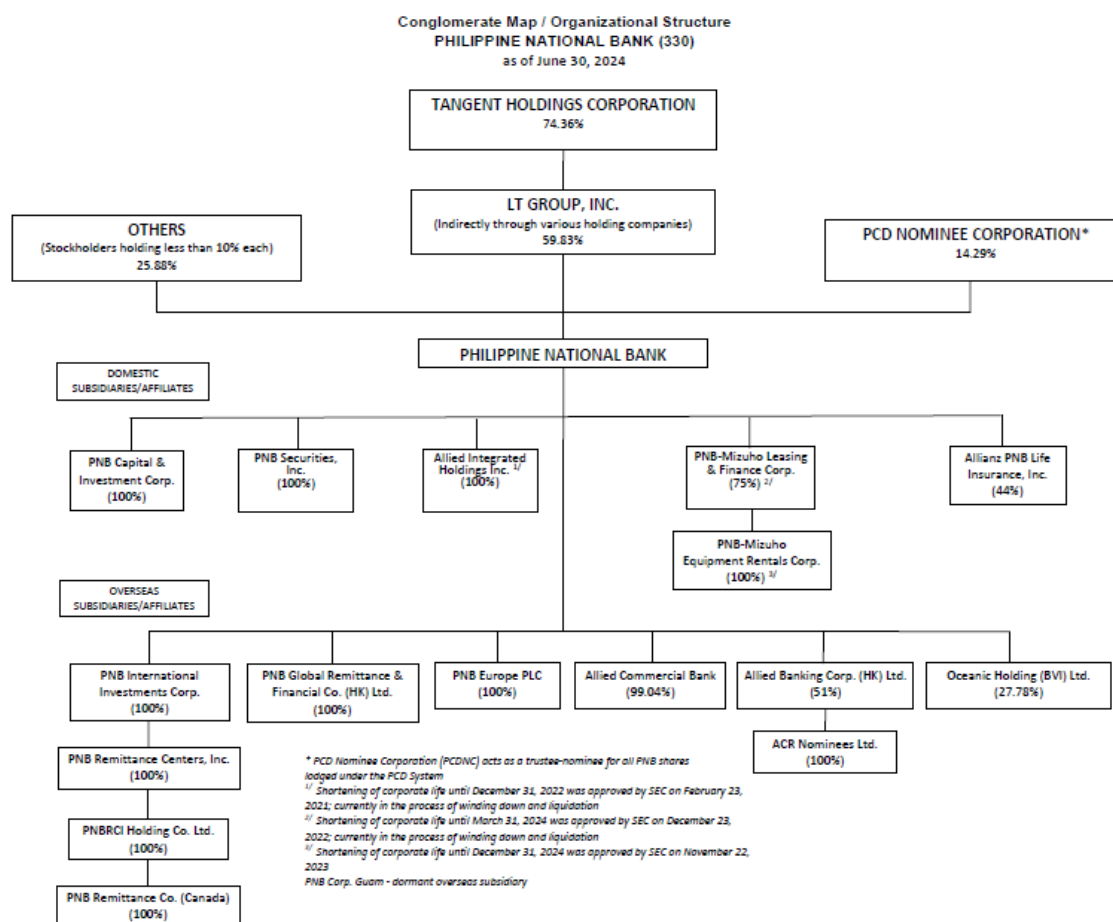
In 2021, as part of its strategies to monetize its low-earning assets, the Bank subscribed to additional 466,770,000 shares of PNB Holdings in exchange for certain real estate properties with fair values of ₱46.7 billion. Afterwards, the Bank declared property dividends of up to 239,353,710 common shares of PNB Holdings with a par value of ₱100.00 per share, to all stockholders of record as of 18 May 2021. In the same year, the Bank received the Certificate of Filing the Notice of Property Dividend Declaration issued by the Philippine SEC.

During the COVID-19 pandemic, the Bank deployed its "*Bank-on-Wheels*" in Metro Manila and some provinces where travel was restricted to provide easy and convenient access to cash for its clients. "*Bank-on-Wheels*" are mobile ATMs that allow customers to conveniently perform transactions such as cash withdrawal, cash deposit, bills payment, and fund transfer. Furthermore, the Bank provided a point-of-sale network that allowed bank customers to conveniently withdraw cash from 100 select branches of a leading pawnshop chain. In addition, the Bank partnered with a logistics company to make it easier and safer for small and medium businesses across the country to receive payments and manage cash flows during the community lockdowns. With these, the Bank was honoured by The Asian Banker as the "*Best Managed Bank*" in 2020 for PNB's response to the challenges brought about by the community lockdowns imposed due to the pandemic.

In November 2023, to provide convenient financial services to OFWs, PNB opened a branch at the Department of Migrant Workers Building. The establishment of this branch reflects the Bank's commitment to serve OFWs seeking reliable banking solutions as PNB offers a range of services tailored to their requirements. This customer-centric approach is consistent with the Bank's strategy of being a supportive financial partner for the OFWs.

Organisational Structure

The following shows the structure of the Bank and its subsidiaries and associate as at 30 June 2024:



Banking Activities

The Bank provides a full range of banking and financial services to corporations, small and medium markets, retail customers, various Government units and agencies through its head office, domestic branches/offices, ATMs nationwide and overseas branches, representative offices, remittance centres and subsidiaries. The Bank's principal commercial banking activities include deposit-taking, lending, trade financing, foreign exchange dealings, bills discounting, fund transfers/remittance servicing, asset management, treasury operations, comprehensive trust services, retail banking, digital banking and other related financial services.

The Bank's banking activities are undertaken through different sectors and groups within the Bank, including the Retail Banking, Consumer Finance, Institutional Banking, and Global Banking and Markets, Global Markets, Wealth Management Group, International Banking and Remittance Group, Trust Banking Group, Digital Innovations Group and Marketing Group.

Retail Banking Sector

The Retail Banking Sector ("RBS") principally focuses on retail deposit products (i.e., current accounts, interest-bearing savings accounts and time deposit, U.S. dollar and other foreign currency accounts), cash management solutions, credit cards, consumer loans, remittance services and other bank services. While the focal point for the RBS is the generation of lower cost funding for the Bank's operations, the RBS also offers cash management solutions to corporate clients such as basic banking services, liquidity management, disbursement and collections, among others. The RBS also caters the cross-selling of trust products, treasury products and bancassurance products (both life and non-life) to existing customers and referred customers by transforming its domestic branch distribution channels into a sales-focused organisation. The Bank's bancassurance product, which

provides it with additional fee income, is a BSP-approved service allowing banks such as the Bank to cross-sell life and non-life insurance products to the bank's client base and through their branch network.

Deposits

The Bank offers a full range of deposit products, including current accounts (both interest-earning and non-interest-bearing demand deposits), savings accounts and time deposits in Pesos, U.S. Dollars and other foreign currencies. These are being provided to its customers that include individuals (including OFWs and their beneficiaries), private businesses, NGAs, LGUs and GOCCs. To generate more deposits, the Bank intends to continue to implement measures that will enhance existing products and services and optimise the use of latest technology to deliver more responsive banking services to its clients, reduce costs and improve productivity. Likewise, new products and promotions were introduced for unbanked individuals, alongside other deposit-based promotions to encourage existing clients to increase and keep their deposits with the Bank for longer periods of time.

As at 30 June 2024, the Bank's total deposit liabilities amounted to ₱949,215.8 million compared to ₱894,924.3 million, ₱871,227.7 million, and ₱927,970.9 million as at 31 December 2021, 2022 and 2023, respectively. As at 30 June 2024, 86.4% of total deposit liabilities were denominated in Pesos while 13.6% were denominated in foreign currency, principally in U.S. Dollars. As at 31 December 2021, 2022 and 2023, 87.2%, 84.9% and 86.2%, respectively, of total deposit liabilities were denominated in Pesos while 12.8%, 15.1% and 13.8%, respectively, were denominated in foreign currency, principally in U.S. Dollars. The ratio of CASA (demand account and savings account) to total deposit liabilities as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively, was 79.9%, 84.9%, 82.9% and 84.1%, respectively. By sector, as at 30 June 2024, 99.7% of the Bank's total deposits were generated from the private sector, while the remaining 0.3% were accounted for by NGAs, LGUs, and GOCCs. As at 31 December 2021, 2022 and 2023, the private sector accounted for 99.3%, 99.3%, and 99.7%, respectively, of total deposits while the balance of 0.7%, 0.7% and 0.3% were from the Government sector.

In terms of customer base, the Bank had more than 4.7 million depositors as at 31 December 2021, compared to 5.0 million depositors as at 31 December 2023.

Branch Banking

As at 30 June 2024, the Bank's domestic branch network consisted of 631 branches and offices, approximately 39.3% of which are located in Metro Manila with the rest strategically located in other key cities or areas in the provincial areas such as local town centres or key crossroads of commerce.

The Bank believes that the breadth of its branch network allows the Bank to cover areas its competitors are not able to reach. The Bank also believes that these areas tend to be the places where many beneficiaries of OFWs reside, giving the Bank direct access to OFWs and their beneficiaries.

The Bank has undergone a rebranding program to improve customer experience at its branches. The Bank has made significant investments into the renovation of PNB branches nationwide. A total of ten branches in Metro Manila and the provinces were rebranded as of 30 June 2024.

As at 30 June 2024, the Bank operated a network of 1,701 ATMs at its branch premises and off-site locations. The Bank installed 21 new ATMs as at 30 June 2024.

The following table sets out the Bank's branches and ATM information in the Philippines:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
PNB				
Metro Manila.....	252	244	231	231
Rest of Luzon	217	214	213	213
Visayas	107	105	104	104
Mindanao	94	88	83	83
PNB Total Branches	670	651	631	631
PNB ATMs.....	1,731	1,720	1,680	1,701

The Bank's branch heads are responsible for the performance and profitability of their branches. The Bank regularly monitors the progress of each of its branches and keeps the relevant branch heads informed of such progress via a monthly dashboard. Although the Bank annually plans to expand its branch network to locations

not currently served by the Bank, such expansion is subject to prior approval of the Monetary Board. The Bank has also been rationalising its branch network, closing 86 branches between 2021 and 2023, and adjusting the size of certain branches in order to maximise operating efficiency and to become poised to expand its branch network should the opportunity arise.

The Bank is a member of Bancnet, a consortium of ATMs in the Philippines. Bancnet comprises 110 banks whose ATMs have been pooled for the common use of their respective customers. As at 30 June 2024, the Bank's customers had access to approximately 27,188 ATMs through the Bancnet system.

Security is an important consideration in the Philippine banking industry. All of the Bank's branches employ time delay security devices and closed-circuit televisions to prevent robberies. In addition, the Bank generally employs two security guards at each of its branches. These security services are provided by independent contractors to the Bank.

The Bank has also established a 24-hour customer care centre, which handles all inbound inquiries for deposit accounts, as well as ATM, remittance and e-banking services offered by the Bank.

Consumer Finance Sector

In November 2023, the Bank merged its Cards and Payments Solutions Group with the Retail Lending Group to establish the Consumer Finance Sector ("CFS"). This consolidation aims to maximise efficiency by aligning the groups that manage similar products and target markets. Additionally, the consolidation seeks to streamline operations, effectively leverage on available resources and streamline processes, as both secured and unsecured products tap the same market profile and utilise the same acquisition channels.

CFS offers a range of tailored products to meet the evolving needs of the Bank's diverse retail and corporate client base such as: (i) credit, debit, prepaid cards; (ii) auto loan; (iii) home loan; (iv) contract-to-sell facility; (v) and personal loan. CFS continuously develops new products, improves processes, invests in technological advancements to deliver and enhanced overall customer experience and strengthen its products' position in the market.

Institutional Banking Sector

The Bank's Institutional Banking Sector ("IBS") is the primary lending arm responsible for the establishment, expansion, and overall management of the Bank's relationships with corporate clients. The IBS is subdivided into two distinct business groups, the Corporate Banking Group ("CBG") and the Commercial Banking Group ("COMMBG") and one business division, the Financial Institutions Division ("FID").

The CBG, which offers a comprehensive suite of well-crafted products and services designed to meet complex requirements of its clients, supports IBS' large corporate clients, while the COMMBG oversees relationships with middle market and SME customers located in Metro Manila and provincial areas.

In 2023, IBS reorganised its COMMBG into Metro Manila COMMBG, Luzon COMMBG, and VisMin COMMBG to deepen the Bank's relationships with commercial clients and capitalise on growth opportunities with middle market and SME customers in priority industries. IBS also contributes significantly to the growth in the Bank's deposits and fee-based income through its underwriting capabilities and international trade business.

Set out below is a summary of the IBS loans by type for the periods indicated.

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	<i>(in ₱ millions)</i>			
Corporate Banking	353,588	339,919	308,035	336,856
Commercial Banking	178,037	178,564	228,129	214,218
Metro Manila	68,937	63,452	99,608	85,988
Luzon	26,066	26,989	30,718	33,395
VisMin	83,034	88,122	97,803	94,834
Financial Institution	5,928	5,928	9,605	9,931
Total.....	537,554	524,411	545,768	561,005

Corporate Banking Group

The CBG manages banking relationships with the country's top conglomerates and large corporates, Government and Government-related entities like national government agencies, LGUs (comprising of cities, municipalities and provinces), water districts, electric cooperatives, and GOCCs.

The CBG provides a range of traditional banking products and services, including term loans, short-term loans, foreign currency loans, and trade finance. It also offers a suite of cash management solutions such as disbursement, collection and liquidity management facilities.

To address customers' short-term working capital requirements, the CBG provides omnibus credit lines, which allow the customer to draw in the form of revolving credit lines or to secure trade financing and other forms of credit. Trade finance-related products and services include letters of credit, export advances, commercial and export bills discounting, documentary credits, negotiating bills under documentary credits, bills collection and trust receipts.

The CBG also has structured financing capabilities and engages in corporate finance and project finance deals to support industries geared towards nation building e.g., power, infrastructure, telecommunications, and manufacturing, among others.

Commercial Banking Group

Metro Manila Commercial Banking Group

The Metro Manila COMMBG offers a wide array of loan, trade, and other credit products and services mainly to emerging conglomerates and mid-sized businesses primarily based in Metro Manila.

Luzon Commercial Banking and VisMin Commercial Banking Groups

The Luzon Commercial Banking and VisMin Commercial Banking Divisions provide a wide range of loan products and services to their respective large corporate customers, middle-market customers and small entrepreneurs that are located outside of Metro Manila with products and services similar to that offered by the Metro Manila COMMBG, except in respect of their geographical target markets. In addition, the Luzon Commercial Banking and VisMin Commercial Banking Divisions are the main platforms for promoting and developing the Bank's agricultural loan portfolio in their respective geographic target markets, with their capabilities being bolstered by offering structured finance solutions targeting regional emerging conglomerates diversifying into value-added businesses.

Financial Institutions Division

The FID focuses on managing the relationships with foreign and local banks, bank-affiliated leasing companies, financing companies, cooperatives, savings and loan associations, and insurance companies. Its business objectives include (i) capturing funding requirements while effectively managing credit risk, deposits, and remittances; (ii) generating fee-based and other income from the Bank's cash management products and trade services; (iii) providing customised financial solutions to clients; (iv) servicing the business requirements such as collections and disbursements; and (v) ensuring the availability of alternative funding sources for PNB through trade advance facilities of foreign banks and multilateral or government funding sources.

As at 30 June 2024, the Bank had 348 correspondent banks located in various regions, namely Asia, Australia, Europe, the Middle East, Africa, the United States, Canada and Latin America. These correspondent banks generally receive and process trade and payments for the Bank in foreign jurisdictions, as well as handle OFW remittances for the Bank. With these correspondent banks in place, the Bank is able to service customers in these regions more effectively.

Global Banking and Markets Sector

The Global Banking and Markets Sector ("GBMS") is primarily tasked with the management of the Bank's liquidity and funding needs, as well as the execution of financial market transactions involving investments, trading of fixed income, foreign exchange, derivatives and hedging solutions for clients.

GBMS capitalises on opportunities in capital markets and is entrusted to strategically deploy excess funds in low-risk high-quality investment outlets, effectively manage returns and duration and ensure the ease of converting these investments into higher-yielding assets as the market normalizes.

GBMS provides a wide range of banking products and services to corporates, governments, financial institutions, and individuals. Its functions include developing the Bank's wealth management proposition by providing corporate and high-net-worth individuals access to the financial markets. In addition, GBMS builds partnerships with banks and non-bank financial institutions by offering them banking solutions to address their needs and help attain their objectives. Moreover, GBMS ensures the availability of alternative funding sources for the Bank through trade advance facilities of foreign banks and multilateral or government funding sources.

Global Markets Group

The Global Markets Group ("GMG") primarily manages the liquidity and regulatory reserves of the Bank and risk positions on interest rates and foreign exchange borne out from the daily inherent operations in deposit taking and lending and from proprietary trading. This includes an oversight on risk positions of its foreign branches and subsidiaries. The GMG is divided into four divisions:

- The Asset and Liability Management Division ("ALMD") is responsible for managing the overall liquidity of the Bank's Regular Banking Unit ("RBU") and FCDU books. It ensures strict compliance with the regulatory reserve requirements on deposits and other regulatory and internal ratios. ALMD is also responsible for managing the investment portfolio of the bank. Investments include securities issued by the Republic of the Philippines and other investment-grade sovereign and corporate issuers. ALMD also exercises oversight functions on liquidity management of foreign branches. ALMD coordinates with various internal business units to carry out its liquidity and interest rate risk management functions.
- The Trading Division is responsible for managing the proprietary trading activities of the Bank. It is composed of the following: (i) Foreign Exchange Desk, which handles the propriety trading of foreign currencies, particularly in the U.S. dollar/Peso spot market and U.S-dollar/third currencies market; (ii) Interest Rate Desk, which handles trading of Peso-denominated and foreign currency-denominated fixed income securities; and (iii) Product Engineering Desk, which is responsible for managing the proprietary trading of derivative products where the Bank is allowed and licensed by the BSP, and is looking into yield enhancement products for the Bank's investment portfolio, and providing the hedging requirement of the Bank's qualified corporate clients through the Global Markets Sales Division. These trading departments also oversee the management of the fixed income securities and foreign exchange risk positions of the local and overseas branches of the Bank.
- Global Markets Sales Division ("GMSD") is the marketing and sales arm of GMG and seeks to provide the best price and execution in foreign exchange, derivatives, and hedging solutions to corporates and financial institutions. GMSD is also the brokering arm for fixed-income products catering to institutional clients. GMSD conducts regular marketing calls together with the IBS, BBG and other bank units, develops plans and strategies and anticipates client requirements, and provides financial insights to deepen customer relationships and improve client satisfaction.
- Global Markets Business Support Division ("GMBSD") ensures that the GMG minimises operation risks and complies with internal and external policies and regulations. GMBSD also oversees projects and other efficiency initiatives.

Wealth Management Group

The Wealth Management Group ("WMG") is the Bank's investment distribution group, dedicated to serve high net worth individuals, retail clients, and retail corporations with the goal to maximise their wealth. The WMG assists clients in planning for their financial future by collaborating closely to develop a diversified investment portfolio tailored to each clients' financial condition, risk tolerance, sophistication and knowledge of financial markets and products. The WMG facilitates investments in various investment products, including fixed income securities (both government and corporate), mutual funds, UITFs, single-pay insurance and other allowed investment vehicles and structures. By leveraging on the Bank's Research Group, WMG seeks to offer clients the best investment ideas.

The group is composed of three units: the Investment Sales Distribution Division, the Wealth Sales Division and the Sales Support and Operations Department.

- Investment Distribution Division (“**IDD**”) is responsible for the distribution of securities through all the channels of the Bank, specifically, the RBS, IBS, WMG through its Wealth Sales Relationship Managers (“**RMs**”) and Offshore/Electronic/Digital channels. IDD coordinates various sources of the securities in the primary and secondary markets (e.g., PNB Capital and other investment houses, issuers, market counterparties, etc.) and the distribution channels. IDD cascades the terms and conditions of the securities and educates the distribution channels on the type of securities being offered (e.g., REITS, perpetual notes, preferred shares, etc.). As Philippine-SEC licensed fixed income salesmen, IDD RMs present and discuss fixed income products to clients.
- Wealth Sales Division (“**WS**”) handles clients with a minimum total relationship balance (“**TRB**”) of ₱8.0 million (“**Tier 3 Clients**”) by onboarding self-sourced accounts and co-managing existing Tier 3 Clients of the Bank’s branches. Wealth Sales RMs offer personalised and priority services, and financial advisory through portfolio and risk-based investing. Wealth Sales RMs are responsible in growing client relationships to increase asset under management (“**AUM**”) and enhance revenue of the Bank through cross-selling and/or referral to product providers.
- Sales Support and Operations Department (“**SSOD**”) comprises three main support functions: (i) operations and compliance, (ii) financial reporting and data analytics, and (iii) investment strategy and product development.

Liquidity

The Bank’s liquidity risk management initiatives seek to ensure that the Bank has available funds to meet its present and future financial obligations, and to capitalise on business opportunities as they arise. The Bank ensures sufficient liquidity through a combination of active management of liabilities, a liquid asset portfolio, access to money markets and the maintenance of repurchase facilities to support any unexpected liquidity stress situations. The Bank regularly monitors the maturity mismatch between assets and funding sources to ensure that it is kept at manageable levels.

Pursuant to BSP regulations, universal and commercial banks are required to maintain a reserve requirement ratio (“**RRR**”) as a percentage of bank deposits and deposit substitute liabilities of 9.5% of the same base. The required reserves must be kept in the form of deposits placed in a demand deposit account with the BSP. The BSP also requires banks under the foreign currency deposit and expanded foreign currency deposit systems to maintain asset cover of 100.0% of their FCDU liabilities, except for U.S. dollar-denominated repurchase agreements with the BSP. The BSP allows banks to offset any deficiency in asset cover occurring in one or more days of the week by the excess cover that it may hold in the same week and in the immediately succeeding week. A simple moving average for every two-week reference period shall be used in the measurement of the asset cover.

International Banking and Remittance Group

As at 30 June 2024, the Bank had the largest overseas network among Philippine banks, with 72 branches, representative offices, remittance centres and subsidiaries in the United States, Canada, Europe, the Middle East and Asia. The Bank also has 94 overseas agents and tie-up partners, and maintains correspondent relationships with 348 banks and financial institutions worldwide as at 30 June 2024.

The Bank is one of the leading providers of OFW remittance services in the market. The Bank derives income from OFW remittances principally through fees and foreign exchange margin. Although the Bank’s remittance business has been under fee pressure due to competition from money service businesses and FinTech companies, its remittance business maintained a significant market share based on remittance volumes as of 30 June 2024 based on data obtained from the BSP.

The Bank offers various remittance channels to its customers such as: over-the-counter at PNB branches, remittance centres, agents and tie-ups, and electronic means via phone and the web. Phone Remit allows clients from the U.S. and Europe to send money to their beneficiaries in the Philippines simply by calling a designated number and providing instructions to PNB phone processors. Web Remit on the other hand, allows US-based clients to make a remittance via an online web portal.

Remittance beneficiaries in the Philippines are able to receive their remittance through various payout modes, including online credit to PNB account, credit to other banks, cash delivery, and cash pick-up. The range of remittance products and services available to Overseas Filipinos include, among others, *Overseas Bills Payment* which allows overseas remitters to make payments to various institutions in the Philippines and *Global Filipino Card* which is a reloadable prepaid card.

In addition to providing remittance services, overseas branches also offer the following:

- PNB *Pangarap* Loan – an all-purpose loan secured by hold-out on existing deposits extended to qualified borrowers in Hong Kong and Singapore who have sufficient amount of cash deposits in their accounts maintained with PNB overseas or domestic branches.
- Own a Philippine Home Loan – a housing loan extended to Overseas Filipinos and foreigners for the acquisition of real estate properties in the Philippines.
- Account Opening – overseas branches are able to facilitate remitter’s request for account opening in the Philippines.

The Bank intends to further expand its international presence through partnerships and offer world-class products and services, to create value and enrich the lives of Filipinos worldwide.

Trust Banking Group

The Bank, through its Trust Banking Group (“TBG”) provides a wide range of investment funds, including money market, fixed income, multi-asset, local equity funds and global feeder funds, to meet every customer’s financial standing, investment goal, risk appetite and investment horizon. These funds are managed by a team of experienced professional fund managers.

The Bank believe that it is one of the pioneers in the trust banking business. TBG has a wide client base of retail, corporate and institutional clients who benefit from its wide array of trust banking products and services, large distribution network, professional expertise, and sound investment strategies. The Bank believes that it has one of the strongest trust entities in the industry on fiduciary services such as escrow, facility agency, trust under indenture and transfer agency.

As at 30 June 2024, total AUM by the TBG amounted to ₱178.8 million, which was an increase of ₱10.8 million or 6.4%, from its AUM of ₱168.0 million as at 31 December 2023.

In 2023, TBG introduced the PNB UITF Online through the PNB Digital App to support the Bank’s innovation strategy and to provide its customers with a more seamless, convenient, and secure banking experience by eliminating the need for customers to fill out physical forms in PNB branches. PNB UITF provides a fully automated process from enrolment and subscription to the funds to redemption.

TBG has also made considerable progress in the automation of its major client reports. In addition to the electronic Confirmation of Transaction (“e-COT”) which was launched in 2022, TBG introduced innovations such as the electronic UITF Statement of Account (“e-UITF SOA”) and the electronic UITF Confirmation of Transaction (“e-UITF COT”) in 2023, which have significantly reduced turn-around time for customers to receive their respective financial reports. Additionally, these projects seek to promote sustainability by encouraging paperless transactions which help to lessen the Bank’s carbon footprint.

For 2024, TBG intends to continue focusing on growing its UITF business and expanding its electronic distribution channels, including the completion of its electronic statement initiatives.

Digital Innovations Group

The Digital Innovations Group (“DIG”) is tasked to drive the Bank’s consumer digital strategy by working with business lines and subsidiaries, support groups and Information Technology Group (“ITG”) to provide innovative digital experiences and services for retail consumers. DIG provides end-to-end digital business and product ideation and development, covering market scoping and assessment, ideation of business models, customer experience design, and coordination with marketing and business groups to promote the acquisition of digital customers and usage of digital offerings. DIG is likewise tasked to execute, deliver and implement digital products and services, as well as manage and provide post-launch support to the Bank’s digital platforms, in coordination with ITG and external solutions providers. See “—*Information Technology—Digital Initiatives*”.

Marketing Group

The Marketing Group's key role is to provide support in achieving the Bank's goals through centralised and solid marketing campaigns aligned with the PNB branding and strategy. The Marketing Group aims to build and strengthen a data-driven culture by providing timely and relevant customer insights aimed at enhancing productivity, acquisition, retention, and business growth and provides end-to-end management for all communications and brand-building initiatives of the Bank. The Marketing Group is composed of three divisions: (i) Market Intelligence and Analytics; (ii) Marketing Services; and (iii) Communications and Content Management.

Credit Approvals

Credit policies

One of the basic credit risk management infrastructures of the Bank is the adoption of effective credit policies to govern its various lending operations. These policies are directed towards the following institutional objectives: (i) to maintain a sound and prudent lending portfolio; (ii) to be responsive to market changes; (iii) to maintain the liquidity of its risk asset portfolio; and (iv) to attain profitability commensurate to risks taken.

All credit policies adopted by the Bank are approved by the Bank's Board of Directors and any amendments or revisions require prior approval of the Board unless expressly delegated to the President and other committees.

These policies reflect the Bank's credit risk tolerance which are communicated constantly to all lending units and support offices. Limits are imposed to manage credit concentration risks and provide more control of the Bank's lending operations. The Bank has also put in place pro-active monitoring systems to ensure compliance with statutory and internal limits. Approvals on deviations from the Bank's credit policies are based on the Bank's Manual on Signing Authority ("**MSA**") for credit matters.

Credit approval process

Loan recommendations are submitted to the different levels of credit committees or to designated approving officers within the Bank. The aggregate amount of the credit facility, generally, will determine the approving body which will approve the transaction. However, loan recommendations requiring Board approval needs the endorsement of the Senior Management Credit Committee ("**SMCC**") and the Executive Committee ("**EXCOM**").

Before the Bank approves any extension of credit, the Bank identifies the needs of the prospective borrower, analyses the appropriateness of the exposure and evaluates any inherent risks. The Bank assigns an account officer to every prospective borrower to start the credit approval process. The account officer identifies the borrowing requirements of the client and obtains the loan application form from client together with the required documents. The account officer further determines if exposure can be covered by collateral. In cases where a property appraisal is warranted, this is undertaken by the Bank's appraisal unit or by an accredited external appraiser. The account officer conducts credit evaluation on the prospective borrower with the assistance of the credit support units, as needed. For borrowers from the middle-market segments, the account officer will validate the borrower's financial position from different information sources. For transactional lending, the account officer may focus more on the size and quality of cash flows from the transaction, but also continues to consider the financial position of the borrower itself.

Lending centres credit committees have authority to approve aggregate credits and trade transactions of not more than ₱20.0 million. Requests for credit accommodations and trade transactions aggregating up to ₱50.0 million are approved by the IBS Credit Committee while those up to ₱200.0 million are for approval of the SMCC. Any request for approval of credit accommodations and trade transactions of over ₱200.0 million are endorsed by the SMCC and are submitted to the EXCOM for approval. Specific transactions which are beyond the authority of the EXCOM shall require Board approval.

The decision on whether or not to extend the credit is determined by a combination of internal policies and guidelines and the regulatory policies of the BSP. The internal credit policies are continuously reviewed and updated by the Credit Policies Department.

Except as may be otherwise approved by the BSP, the Bank generally cannot grant to a single borrower a loan equivalent to more than 25.0% of the Bank's net worth. This can be increased by 10.0% provided these are secured by trust receipts, shipping documents, warehouse receipts or other documents transferring title to readily

marketable non-perishable goods covered by insurance. In determining whether the Bank complies with the single borrower's limit of the BSP, the Bank includes exposure to related accounts (i.e., exposure to subsidiaries and parent companies of the borrower including guarantees by the borrower or its related companies or its principal officers) but excludes, among others, loans and other credit accommodations guaranteed by the BSP or the Government and Government corporations, loans secured by hold- outs/margin deposits maintained in the Bank and other loans and credit accommodation classified as non-risk by the Monetary Board.

Additionally, exposure to specific sectors of the economy is subject to internally approved limits or ceilings which are regularly monitored. There are however certain sectors which are already subject to specific pre-determined lending requirements as imposed by law on all banks, specifically in the area of lending to small and medium scale industries, to the agricultural/agrarian sector and to the real estate industry.

The Bank also follows guidelines of the BSP in the grant of loans to its directors, officers, stockholders and other related interests (i.e., certain relatives, affiliates, subsidiaries and parent companies thereof). Grants of these facilities require the approval of the Bank's Board of Directors and compliance with individual and aggregate ceilings as well as the BSP reporting requirements.

For control purposes, implementation of credit approvals is subject to review at least once a year by the Internal Audit Group. This audit is designed to determine the efficiency of the internal control system in place as well as the quality of lending operations. Additionally, the Board Audit and Compliance Committee monitors the past due level and status of past due accounts. Risk Management Group also does this via the Credit Dashboard reported to the Risk Oversight Committee.

In compliance with BSP requirements, the Bank has an Internal Credit Risk Rating System ("ICRRS") for corporate accounts and credit scoring for consumer and small loans to standardise the assessment of its credit portfolio in terms of risk profile. The ICRRS grades new and existing corporate loan borrowers with total assets of more than ₱15.0 million, regardless of the total credit facilities. Exposures are grouped based on the underlying risk characteristics to provide homogenous segments for a better assessment of credit risk. Existing or prospective loan borrowers with asset size of ₱15.0 million and below are rated using the respective credit scoring system for small and medium enterprises as well as consumer loan borrowers.

Credit monitoring and review process

Pursuant to the BSP's MORB, the Bank is required to establish a system of identifying and monitoring existing or potential problem loans and other risk assets and of evaluating credit policies with regard to prevailing circumstances and emerging portfolio trends. In compliance with this requirement, the Bank has established credit support units under its credit risk management group to review and monitor individual accounts within a particular portfolio to identify existing and potential areas of deterioration and assess the risks involved. In addition, the credit support units evaluate the degree to which a particular lending unit is complying with existing credit management policies.

The evaluation of the individual loan accounts culminates in the classification of the account. An account may be adversely classified depending on the degree or gravity of the perceived problems of the account reviewed. Classification is based on the parameters/guidelines set forth in the MORB.

The review and recommended classification of a loan account are initiated by the assigned account officer and approved per the MSA.

DOSRI

The Bank and its subsidiaries will, from time to time and in the ordinary course of business, enter into loans with directors, officers, shareholders and/or related interests ("DOSRI"). All such loans are on commercial, arm's length terms. BSP regulations require that the aggregate amount of such DOSRI loans should generally not exceed 100.0% of the Bank's net worth or 15.0% of the Bank's total loan portfolio, whichever is lower, but in no case shall the total unsecured loans, other credit accommodations and guarantees to said DOSRI exceed 30% of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower. The amount of any loan to a DOSRI of the Bank, of which 70.0% must be secured, may not exceed the aggregate amount of their unencumbered deposits with the Bank and the book value of their paid-in capital investments in the Bank. The Bank is required to report the level of DOSRI loans to the BSP on a weekly basis. The Bank is required to submit to BSP a copy of the approval within 20 days from the date of approval. As at 31 December 2021, 2022, 2023 and 30 June 2024, the Bank's DOSRI loans amounted to ₱4,606.1 million, ₱39.0 million, ₱2.7

million and ₱2.2 million, respectively, or 0.7%, 0.0%, 0.0% and 0.0%, respectively, of the Bank's total receivables from customers.

Information Technology

The Bank's strategy is to increase the use of IT in its business, including its front-office and back-office operations, in order to enhance its business capabilities, products and services. The Bank is focused on using technology to provide customers with convenience, to increase employee productivity and service delivery, to achieve operational efficiencies among its business divisions and to ensure competitiveness in the market. The Bank is also dedicated to ensuring security and regulatory compliance in its information technology systems across local and foreign monetary bodies. The Bank maintains a global off-site backup data centre to store vital records of the Bank and participates in annual disaster recovery exercises.

Digital Initiatives

The Bank's strategy is to collaborate with technology providers and FinTech companies, with the objective of enriching the digital experience available to its customer as well as to attract new clients. The Bank intends to take advantage of emerging technology and services that are readily available from third parties and are not currently provided by the Bank. The Bank also intends to leverage its relationship with members of the LT Group and the broader Tan Companies and capitalise on available and emerging digital technologies to maximise the value-add of its digital services. The Bank's Digital Innovations Group spearheads the Bank's plans and efforts towards maximising recent technologies for the greater benefit of the Bank's customers and stakeholders. See also "*—Business Strategies—Pursue digitisation initiatives*".

PNB Digital App

The Bank offers digital banking solutions through its PNB Digital App. The PNB Digital App enables the Bank's customers to perform account management and banking transactions such as (i) monitoring deposit account, credit card and debit card balances and transactions, (ii) transfer funds to other banks and eWallets, (iii) pay monthly bills, (iv) access credit card services, (v) utilise Quick Response ("QR") Codes to send and receive money, (vi) withdraw cash without an ATM card, (vii) enrol and manage UITF investments, (viii) order chequebooks, and (ix) approve transactions with the Bank's digital key. The number of the Bank's customers using its digital platforms grew by approximately 190% from 31 December 2021 to 30 June 2024.

A key channel for the Bank's digital offering is the PNB Digital App, which has offered key services for existing customers with deposit, credit card and UITF products. The PNB Digital App, launched in February 2021 and had approximately 1.3 million enrolled users as at July 2024. These users are able to avail of the following services:

- View account balance and transactions history;
- Make intra-bank and inter-bank fund transfers through InstaPay and Pesonet to 140 banks, wallets and electronic money issuers, with the option to use convenient QR codes;
- Make bill payments to more than 1,500 billers, using CASA and Credit Cards as source of payment, and pay at merchant stores using QR codes;
- Subscribe, view and redeem UITF instruments; and
- Withdraw from PNB ATMs without the need of a debit card on hand (Cardless Cash)

Security in the app is enhanced by biometrics and multi-factor soft token technologies, on top of the standard username, password, one-time password and organisational and administrative controls.

This package of relevant features, along with a user-friendly, intuitive interface, has been recognised with the app winning the following awards:

- 2023 Philippines Digital Experience of the Year for Banking, from the Asian Experience Awards; and
- 2024 Highly Acclaimed Excellence in Customer Service Innovation, from the Digital Banker CX Awards.

The Bank also makes full use of its marketing channels (web, social media and print) to increase awareness and adoption of these client enriching services.

The growth of users availing of the PNB Digital App services are set out in the table below.

	As at 31 December			As at 30 June
	2021	2022	2023	2024
User base	438,667	778,361	1,105,231	1,270,651
Increment	-	339,694	326,870	165,420
Increase in users (%)	-	77	42	15

For its existing customers in the near term, the Bank seeks to further strengthen its security posture by integrating its digital channels with an Enterprise Fraud Management System, which detects and prevents fraudulent exceptions that can compromise the system due to social engineering.

As part of its continuous innovation, the Bank is also enriching its facilities to serve more customers for its deposits and consumer finance services, by embarking on digital loans and CASA account openings using eKYC and customer identity access technologies. In preparation for these advancements, the Bank has recently upgraded its loan origination systems for consumer loans and credit cards. Additionally, it will implement digital channels to offer these services remotely through mobile and web platforms.

As part of its ongoing initiatives, the Bank regularly coordinates with the LT Group ecosystem to offer existing digital services to the employees and clients of the group, offering promotions and facilitating their entry into the digital offerings of PNB.

Security Measures

The Bank places high importance on the confidentiality, integrity and availability of information given the evolving and expanding cybersecurity risk that accompanies increasing use of digital and internet-based technology.

As part of the Information Security Strategic Plan (“ISSP”) and Information & Cyber Security Program (“ICSP”), the Bank has implemented monitoring, detection and prevention security tools to proactively respond to cyber-attacks and provide immediate mitigation, containment and remediation measures against such attacks. Layered security controls or defence-in-depth are in place based on industry standards and best practices in compliance with relevant information and cybersecurity regulations.

The Bank also engaged a third-party service provider to provide security operations centre (“SOC”) services which gives the Bank around-the-clock visibility on security incidents, and provides event correlation, triaging, notification and remediation recommendations. Alert notifications are escalated to concerned responders through the Bank’s centralised service desk for incident response handling with agreed turnaround time.

The Bank has also assembled an internal SOC support team equipped with artificial intelligence (Darktrace technology) tools to monitor and detect network-related anomalies. In addition, the Bank implemented an anti-distributed denial-of-service (“DDoS”) solution from Akamai to protect public-facing applications of the Bank from layer three and seven DDoS attacks.

The Bank periodically conducts threat scenario playbooks to simulate and test incident response to test the readiness of incident responders and assess the effectivity of controls in place. Information and cybersecurity policies and guidelines are documented and approved by the Bank’s management and Board of Directors. Everyone within the organisation, including those in overseas offices, is required to adhere to and follow the information and cybersecurity policies, resulting in a culture of compliance throughout the organisation.

The Bank’s Chief Information Security Officer (“CISO”) oversees these security measures and initiatives, which are complemented by a continuing enterprise-wide information and cybersecurity awareness and education campaigns. These campaigns emphasise the roles and responsibilities of all individuals concerning the Bank’s cybersecurity.

The Bank believes that its cybersecurity defense-in-depth strategy it implements is on par with its peers in the banking industry. The overall security posture with respect to its public facing systems and infrastructure vis-à-vis its peer banks are regularly reported to the top management and Board level risk committee for information

and guidance. Changes in the security posture score, due to novel cyber threat or vulnerabilities discovered, will be readily assessed, analyzed, and escalated to ITG and concerned business unit teams for remediation and mitigation. The Bank has established close and active collaboration with peer banks and information security groups for cybersecurity threat intelligence and incident sharing.

Core-banking system

The Bank is in the process of upgrading its core banking system and supporting infrastructure which is expected to complete by the third quarter of 2025. The project covers the migration of the existing Systematics (212) core banking system which handles its deposits and loans processing, customer information and relationship management, and general ledger to a newer version of Systematics (220). The new system will run on the z/OS platform replacing VSE 5.2 Operating System which will reach its end-of-support in September 2025. A new IBM z16 mainframe machine has already been acquired and installed to host the new system along with additional storage capacity to accommodate the expected growth in transaction volume.

Aside from addressing obsolescence, the upgrade to Systematics 220 and its migration to the new z/OS platform and host IBM z16 machine will enable the Bank to further improve operational efficiency, modernize system integration with various channels using application program interfaces, enhance security management using secured protocols and encryption, and boost system recovery with faster processing capacity.

Similarly, the Bank is also migrating its existing managed ATM platform from Connex to IST, an ATM/payment processing switch which offers a more advanced, flexible, and richer system functionality and is one of the most widely deployed payment switches in the market today. The new ATM Switch is expected to be fully operational by January 2025.

Anti-money laundering systems

To improve its electronic system for money laundering monitoring, the Bank deployed in 2021 the SAS Anti-Money Laundering System (“SAS”), which is an electronic Transaction Monitoring (“TM”) that replaced the GIFTSWEB Enhanced Due Diligence (“EDD”) monitoring system which the Bank used since 2005. This anti-money laundering solution, developed and marketed by SAS Institute, a developer of analytics and artificial intelligence software based in Cary, North Carolina, United States, fulfils the strict and complex regulatory requirements for the detection, monitoring and reporting of suspected money laundering activities by financial institutions. The software solution provides the analytical tools needed to proactively detect and monitor possible suspicious transaction activity, respond to regulatory subpoenas and create a database for case management reports. The system also facilitates the preparation of Currency/Covered Transactions Reports and Suspicious Activity/Transaction Reports. It is currently being used by PNB Head Office in the Philippines since March 2021 and eight other PNB branches and subsidiaries, particularly PNB Remittance Centers Inc. since December 2020, PNB New York Branch, PNB Los Angeles Branch, PNB Guam Branch, PNB Singapore Branch, PNB Hong Kong Branch, and PNB Global Hong Kong since 2021, and PNB Japan Branch since April 2023.

Subsidiaries

Universal banks in the Philippines, such as the Bank, may invest in the equity of banking-related companies or “allied undertakings”. Financial allied undertakings include leasing companies, banks, and investment houses, financing companies, credit card operations and financial institutions catering to small and medium-scale businesses.

Publicly listed universal banks may acquire up to 100.0% of the voting stock of one other commercial or universal bank, up to 100.0% of the voting stock of thrift banks and rural banks, up to 100.0% of other financial allied undertakings and up to 100.0% of non-financial undertakings. Prior Monetary Board approval is required for investments in financial allied undertakings and investments of more than 40.0% in non-financial undertakings.

Through its subsidiaries and associate, the Bank also engages in a number of diversified financial and related businesses such as remittances, life and non-life insurance, stock brokerage, leasing and financing. The Bank believes that these strategic investments and businesses complement its core banking business and generate synergies, including additional opportunities to generate fee-based income for the Bank. See “*Description of the Bank—Business Strategies—Leveraging the Bank’s Subsidiaries.*”

The Bank's subsidiaries and associate include the following:

Domestic subsidiaries and associate

- **Allied Integrated Holdings, Inc. (“AIHI”; formerly “PNBSB”)** – Prior to its conversion as a holding company in 2021, PNBSB was the thrift banking arm of the Bank. Effective 1 March 2020, PNBSB was integrated to the parent bank through the acquisition of the former's assets and assumption of its liabilities in exchange for cash. On 5 March 2020, PNBSB surrendered its thrift bank licence to the BSP, and consequently converted into a holding company, changing its name to “Allied Integrated Holdings, Inc.” on 3 December 2020. The Philippine SEC also approved the change in name on 23 February 2021. On 10 February 2022, the Philippine SEC approved the Amended Articles of Incorporation and By-Laws and decrease in authorized capital stock of AIHI. On 31 December 2022, AIHI's corporate term ended but will continue to exist as a body corporate for three years to wind-up its affairs, including the disposal of its properties and distribution of assets, as provided by law.
- **PNB Capital and Investment Corporation (“PNB Capital”)**, an investment house with a non-bank, non-quasi-banking licence, was incorporated on 30 July 1997 and commenced operations on 8 October 1997. It is a wholly-owned subsidiary of the Bank. As at 30 June 2024, it had an authorised capital stock of ₱2.0 billion and paid-up capital of ₱1.5 billion or 20,000,000 shares and 15,000,000 shares at ₱100.0 par value, respectively. Its principal business is providing investment banking services, namely: debt underwriting (bonds, commercial papers), equity underwriting, private placements, loan syndications and financial advisory services. PNB Capital is authorised to buy and sell, for its own account, securities issued by private corporations and the government of the Philippines. As at 31 December 2023 and 30 June 2024, total assets of PNB Capital were ₱2,149.4 million and ₱3,653.8 million, respectively, while total capital was at ₱1,931.8 million and ₱1,985.0 million, respectively. For the year ended 31 December 2023 and the six months ended 30 June 2024, PNB Capital's net income was ₱311.8 million and ₱52.3 million, respectively. PNB Capital is the sole global coordinator for this Programme.
- **PNB Holdings Corporation (“PNB Holdings”)**, a wholly-owned subsidiary of the Bank, was established on 20 May 1920 as Philippine Exchange Co., Inc. The Philippine SEC approved the extension of the corporate life of PNB Holdings for another 50 years effective 20 May 1970. In 1991, it was converted into a holding company and was used as a vehicle for the Bank to go into the insurance business. As at 30 June 2024, PNB Holdings had an authorised capital of ₱500.0 million or 5,000,000 shares at ₱100 par value per share. On 29 May 2023, the Philippine SEC approved PNB Holdings' Amended Articles of Incorporation which includes, among others, the perpetual existence of the corporation until dissolved in accordance with applicable law.

As of 31 December 2020, PNB owned all of the 2,551,000 shares issued by PNB Holdings, with par value of ₱100 per share. On 13 January 2021, the Philippine SEC approved the increase of PNB Holdings' authorized capital stock from ₱500.0 million divided into 5,000,000 shares with par value of ₱100 per share, to ₱50.5 billion divided into 505,000,000 shares with the same par value. On the same date, the PNB proceeded with the subscription of additional 466,770,000 shares of PNB Holdings shares in exchange for certain real estate properties with fair values of ₱46.7 billion.

On 23 April 2021, the PNB's Board approved the property dividend declaration of up to 239,353,710 common shares of PNB Holdings, representing 51.0% ownership, with a par value of ₱100 per share, to all stockholders of record as of 18 May 2021 equivalent to ₱23.9 billion.

On 24 December 2021, the Philippine SEC approved the property dividend declaration. On the same date, the PNB assessed that it has lost control over PNB Holdings, and accordingly classified its retained interest of 49.0% in PNB Holdings as financial asset at FVOCI with no recycling to profit or loss, in accordance with PFRS 9.

On 21 December 2021, PNB was able to secure ruling from the BIR that the transfer of properties to PNB Holdings is not subject to tax, except for DST. Further, on 10 March 2022, PNB was able to secure another ruling from the BIR that the property dividends distribution is exempt from tax, except for DST.

PNB was able to demonstrate loss of control over PNB Holdings because of the following:

- Declaration of 51.00% ownership in PNB Holdings as property dividends;

- Execution of proxy in favour of LTG for the remaining 49.00% held by the Bank;
- Election of new board of directors made by the stockholders of PNB Holdings in January 2021, effectively resulting in the Bank having no representations in the board of directors of PNB Holdings;
- Appointment of key management personnel by the board of directors of PNB Holdings, resulting in the Bank having no officers and staff participating in the day-to-day operations of PNB Holdings; and
- Approval of the Philippine SEC of the property dividend declaration and distribution to all stockholders as of 18 May 2021.

The foregoing corporate actions were taken by PNB and LTG to allow PNB to focus on its core banking business. These demonstrate that the Bank no longer exercises control over PNB Holdings as certain elements of control under PFRS 10, Consolidated Financial Statements, are no longer demonstrated.

Further, the Bank no longer has a significant influence over PNB Holdings by virtue of the execution of a proxy in favour of LTG to vote all shares registered in the name of PNB on any and all matters in the annual stockholders' meeting of PNB Holdings and the fact that LTG controls both PNB and PNB Holdings.

- **PNB Securities, Inc. ("PNBSI")**, a wholly-owned subsidiary of the Bank, was incorporated on 18 January 1991 with an authorised capital of ₱200.0 million or 2,000,000 shares at ₱100 par value per share. As a member of the PSE, it is engaged in the brokerage and dealership of the various equity and equity-related securities listed in the PSE, including the distribution of initial public offerings in collaboration with PNB Capital. In addition, PNBSI performs other related services such as tender offer agency and price stabilisation agency as well as processing of dividend and pre-emptive rights entitlements on behalf of its clients. Lastly, PNBSI also offers stock market research products to inform and assist clients in making decisions with their investments in the equities market.

As at 31 December 2023, PNBSI had a total paid-up capital of ₱100.0 million and with total assets and total capital of ₱281.7 million and ₱194.0 million, respectively. As at 30 June 2024, total assets and total capital were ₱294.1 million and ₱189.1 million, respectively. For the year ended 31 December 2023, PNBSI's net loss was ₱22.7 million, and for the six months ended 30 June 2024, PNBSI's net loss was ₱2.4 million. PNBSI ranked 34th among 121 active members in the PSE with 0.43% market share in terms of value turnover as of 30 June 2024.

- **PNB-Mizuho Leasing and Finance Corporation ("PMLFC"; formerly "PNB-IBJL Leasing and Finance Corporation")** was formerly the PF Leasing and Finance Corporation ("PF Leasing") and was incorporated on 24 April 1996 under the auspices of the Provident Fund of the Bank. PF Leasing was largely inactive until it was used as the vehicle for the joint venture between the Bank (60.0%), IBJ Leasing Co. Ltd., Tokyo ("IBJ Leasing") (20.0%), Industrial Bank of Japan, (Mizuho Corporate Bank, Ltd.) (5.0%) and Mitsubishi Trust Banking Corporation (15.0%). The corporate name was changed to Japan-PNB Leasing and Finance Corporation and the joint venture company commenced operations as such in February 1998. In 2001, IBJ Leasing increased its stake to 35.0% as it acquired the 15.0% share of Mitsubishi Trust Banking Corporation. The Bank and Mizuho Corporate Bank, Ltd. maintained their shares at 60% and 5%, respectively. Its major activities are financial leasing, chattel mortgage loans and instalment note discounting. All the leasing and lending activities of the joint venture are in the domestic market. In 2008, PNB-IBJL Equipment Rentals Corp. ("PIERC"), a 100%-owned subsidiary, was incorporated to engage in the business of renting or leasing all kinds of real and personal properties.

On 24 June 2022, the Bank approved the proposal to amend the Articles of Incorporation of PMLFC, shortening its corporate term to 31 March 2024, subject to necessary approvals. On 23 December 2022 the Philippine SEC approved the above amendment. The Bank and its joint venture partner, Mizuho Leasing Co. Ltd., mutually agreed to wind down operations of PMLFC due to the impact of the COVID-19 pandemic to the operations of the joint venture company and the domestic leasing industry.

- **PNB-Mizuho Equipment Rentals Corporation ("PMERC"; formerly "PNB-IBJL Equipment Rentals Corporation")** is a wholly-owned subsidiary of PMLFC, was incorporated on 3 July 2008 as a rental company and started commercial operations on the same date. It is engaged in the business of renting all types of real and personal properties. On 22 November 2023, the Philippine SEC approved the amendment of the Articles of Incorporation of PMERC to shorten its corporate term to 31 December 2024.

- **Allianz PNB Life Insurance, Inc. (“Allianz PNB Life”)**, formerly “PNB Life”) is an associate of the Bank, and traces its roots to New York Life Insurance Philippines, Inc. (“NYLIP”), the Philippine subsidiary of US-based New York Life International, LLC, which began its operations in the Philippines in August 2001.

In February 2003, ABC acquired a minority interest in NYLIP, and started bancassurance operations in its branches nationwide. In June 2007, ABC and its principals became the majority shareholder NYLIP, as New York Life International, LLC divested all of its interests in NYLIP as part of its Asian strategy.

NYLIP formally changed its corporate name to PNB Life Insurance Inc. in May 2008 to reflect the change in ownership, and in anticipation of the merger of Allied Bank and Philippine National Bank. This change in branding demonstrates the new owners’ commitment to the Philippine life insurance market niche, its dynamism and growth prospects.

In October 2009, the Philippine National Bank acquired a minority stake in PNB Life, paving the way for the expansion of bancassurance operations of PNB Life to PNB branches nationwide.

With PNB as the surviving entity, the merger of ABC and the PNB in February 2013 further strengthened the bancassurance partnership with PNB Life, which benefited from the resulting synergy and increased operational efficiency. This development set the stage for the introduction of competitive investment-linked insurance products to bank clients, designed to meet their changing needs for complete financial solutions.

On 21 December 2015, the Bank entered into a 15-year exclusive partnership with Allianz SE under the following arrangements:

- Allianz SE will acquire 12,750 shares representing 51.0% of PNB Life and would have management control over PNB Life;
- PNB Life would operate under the name of “Allianz PNB Life Insurance, Inc.”; and
- PNB Life would enter into a 15-year distribution agreement with the Bank, providing exclusive access to the nationwide branches of the Bank.

On 6 June 2016, the Bank sold 12,750 shares in PNB Life to Allianz. The change of the company’s name to “Allianz PNB Life Insurance, Inc.” was approved by the Philippine SEC on 21 September 2016.

As Allianz PNB Life expands its reach to more Filipino families, the company has set up regional business centres in Northern Luzon (San Fernando, La Union), Central Luzon (San Fernando, Pampanga), Southern Luzon (Naga City, Camarines Sur), Western Mindanao (Zamboanga City); Eastern Mindanao (Davao City), Eastern Visayas (Cebu City), and Western Visayas (Iloilo City). In Metro Manila, Allianz PNB Life has its business centres in Binondo City, Manila for West Metro Manila, while the offices in Quezon City Circle and Cubao seek to serve North and East Metro Manila, respectively.

Allianz PNB Life offers innovative financial solutions through a variety of platforms through its bancassurance with the Bank and alternative distribution channels. It is ranked among the top life insurance companies in the country in terms of premium income and is a leading provider of variable life products. As at 30 June 2024, total assets and total capital (net worth) of Allianz PNB Life were ₱129,362.7 million and ₱3,630.5 million, respectively. For the year ended 31 December 2023, Allianz PNB Life’s net income was ₱609.3 million, while for the six months ended 30 June 2024, Allianz PNB Life had a net income of ₱578.0 million.

Foreign branches and subsidiaries

The Bank has the largest overseas network among Philippine banks, with 72 branches, representative offices, remittance centres and subsidiaries in the United States, Canada, Europe, the Middle East and Asia. The Bank also has 94 overseas agents and tie-up partners and maintains correspondent relationships with 348 banks and financial institutions worldwide as at 30 June 2024. Its foreign subsidiaries include the following:

- **PNB International Investments Corporation (“PNB IIC”)**, formerly Century Holding Corporation, a wholly-owned subsidiary of the Bank, is a U.S. non-bank holding company incorporated in California on 21 December 1979. It changed its name to PNB International Investment Corporation on 16 November 1999.

PNB IIC owns PNB Remittance Centres, Inc. (“**PNB RCI**”) which was incorporated in California on 19 October 1990. PNB RCI is a company engaged in the business of transmitting money to the Philippines. As of 30 June 2024 PNB RCI has 19 branches in six states of the United States of America. PNB RCI owns PNB RCI Holding Company, Ltd. which was incorporated in California on 18 August 1999. PNB RCI Holding Company, Ltd. is the holding company for PNB Remittance Company Canada (“**PNB RCC**”). PNB RCC is also a money transfer company incorporated in Canada on 26 April 2000. PNB RCC has six branches as of 30 June 2024.

PNB RCI is regulated by the U.S. Internal Revenue Service and the Department of Financial Protection and Innovation of the State of California and other state regulators of licensed money transmitters. PNB RCC is regulated by the Financial Transactions and Reports Analysis Centre of Canada.

PNB IIC does not actively compete for business, being a holding company only. PNB RCI and PNB RCC have numerous competitors, including U.S. banks, Philippine bank affiliates doing business in North America, as well as other money transfer companies such as Western Union, Money Gram, RIA, Xoom, Transfast, Lucky Money, and LBC.

- **PNB Global Remittance & Financial Company (HK) Limited (“PNB Global”)**, a wholly-owned subsidiary of the Bank, is registered with the Registrar of Companies in Hong Kong. On 1 July 2010, PNB Global took over the remittance business of PNB Remittance Center Limited with the former as the surviving entity. PNB Global currently operates as a lending and remittance company. As of 30 June 2024, it maintains seven branches in Hong Kong. PNB Global’s remittance business is regulated by the Customs and Excise Department of Hong Kong.

PNB Global’s major competitors are the remittance subsidiaries of Metrobank, BDO, RCBC, and BPI, and non-bank competitors such as Frankie Money Exchange, Czarina, Kabayan, I-Remit, LBC, Pacific Ace, and mobile application provider, TNG.

- **Philippine National Bank (Europe) PLC (“PNBE”)** is incorporated in the United Kingdom and is authorised by the Prudential Regulation Authority (“**PRA**”) and regulated by the Financial Conduct Authority (“**FCA**”) and the PRA. PNBE was first established in the United Kingdom in 1976 and was known as “PNB London Branch”. In 1997, it became a wholly-owned UK subsidiary of the Bank with a full banking licence. In April 2014, PNBE was merged with Allied Bank Philippines (UK) Plc. Following the conclusion of the Brexit transition period in 2020, PNBE continues to provide services to Filipinos in the region through its UK office as well as its web and phone remittance platforms.
- **Allied Commercial Bank (“ACB”)** is a majority owned (99.04%) subsidiary of PNB and was formerly known as Xiamen Commercial Bank. ACB maintains its head office in Xiamen, Fujian, China and has a branch in Chongqing which was established in 2003.

From its establishment in 1993 until 2017, ACB was allowed to deal only in foreign currency-denominated products and services. In 2017, local currency or Chinese Yuan-denominated products and services were allowed except to local residents. Finally, in 2020, ACB obtained a banking licence allowing it to offer services to all market segments with all traditional banking products, denominated in local or foreign currencies.

ACB is a full-service commercial bank specializing in international trade finance and loans to micro, small and medium-sized industries or enterprises. The Bank believes that its deposit products are varied and competitive. In 2020, the Bank launched its enterprise internet banking system which seeks to provide convenience to its corporate depositors. In 2022, the ACB enhanced its system to automate its credit management. In 2023, ACB completed the first phase of its local disaster recovery construction, and realised the system-level disaster recovery deployment of the core banking system, data platform, financial system, credit management system, and the data-level disaster recovery deployment of the corporate internet banking system, which provided a solid guarantee for the Bank to ensure that it can respond quickly and recover in time to ensure business continuity in the face of interruption risks. In the same year, the ACB also launched the construction of the CNY cross-border front end system and the construction of the second generation enterprise credit reporting system. It continues to innovate to deliver financial products and services the banking public needs and deserves.

In 2023, ACB amended its articles of incorporation to set its corporate term to perpetual, which was approved by the regulatory authorities. Accordingly, certain amendments were simultaneously made to better comply

with the latest regulatory requirements, effectively strengthen corporate governance work, improve the operation mechanism of its board of directors, board supervisor, and senior management, and enhance the quality and efficiency of its performance of various governance undertakings.

- **Allied Banking Corporation (Hong Kong) Limited (“ABCHKL”)**, was incorporated in 1978 and is a private limited company and holds a restricted licence under the Hong Kong Banking Ordinance. ABCHKL became a majority-owned subsidiary of the Bank as a result of the merger of PNB and Allied Banking Corporation in 2013.

ABCHKL provides a full range of commercial banking services such as deposit-taking, lending and trade financing, documentary credits, participation in loan syndications and other risks, money market and foreign exchange operations.

ABCHKL’s wholly-owned subsidiary, ACR Nominees Limited, a private limited company incorporated in Hong Kong, provides non-banking general services to its customers. It is a Trust or Company Service Provider licensee in Hong Kong.

Capital Expenditures

The Bank’s capital expenditures for the three years ended 31 December 2021, 2022 and 2023 and for the six months ended 30 June 2024 are:

	For the year ended 31 December			For the six months ended 30 June
	2021	2022	2023	2024
	(₱ millions)			
Capital Expenditure	1,776.2	1,428.7	1,018.8	727.6

The Bank has budgeted ₱2,400.0 million for capital expenditures in 2024 to be used mainly for upgrading of the core banking systems and its supporting infrastructure, acquisition of network communication and information technology systems, and for the development and/or acquisition of business applications and tools that will support the Bank’s overall business plans.

Insurance

The Bank has insured its material properties against fire and other usual risks. The Bank also maintains insurance for operational risks such as the loss of cash or securities through loss or theft by obtaining insurance from third party providers. The Bank does not have business interruption insurance covering loss of revenues in the event that its operations are affected by unexpected events. The Bank believes that its insurance coverage is appropriate for its business and operations and its peers in the industry.

Properties

The Bank’s head office is located at Philippine National Bank Financial Center, Pres. Diosdado Macapagal Boulevard, Pasay City. The Bank leases the premises occupied by its head office, including most of its branches. The following table provides a geographic breakdown of the Philippine branch network owned by the Bank:

Location	Number of Owned Branches	
	As at 31 December 2023	As at 30 June 2024
PNB		
Rest of Metro Manila	44	43
Luzon.....	73	73
Visayas.....	41	41
Mindanao.....	41	41
Total.....	199	198

The Bank leases premises for its remaining branches. Generally, the Bank’s lease contracts for its branches are for periods ranging from three to five years and are renewable under certain terms and conditions.

The following table provides a geographic breakdown of the Bank’s Philippine branches that occupy leased premises:

Location	Number of Leased Branches	
	As at 31 December 2023	As at 30 June 2024
PNB		
Rest of Metro Manila	189	191
Luzon.....	138	138
Visayas.....	63	63
Mindanao.....	42	42
Total	432	434

Intellectual Property

The Bank has applied for, and received, intellectual property protection for its brand names “Philippine National Bank” and “PNB” with the Philippine Intellectual Property Office and with appropriate agencies in Canada and the European Community. Specifically, these cover its corporate logo, financial, investment banking and various remittance services. The Bank has not been the subject of any disputes relating to its intellectual property rights.

Legal Proceedings

The Bank is a party to legal proceedings which arise in the ordinary course of its business activities. The Bank believes that none of such legal proceedings arising in the ordinary course of the Bank’s business activities, whether individually or in the aggregate, are reasonably expected to have a material adverse effect on the Bank or its consolidated financial condition.

Competition

The Bank faces competition in all its principal areas of business, from both Philippine and foreign banks, as well as finance companies, mutual funds and investment banks. The Bank believes that offering diverse products and services, investing in technology, and leveraging synergies within the LT Group and with its Government customers, as well as building on relationships with the Bank’s other key customers, have allowed it to maintain its market position in the industry. The Bank believes its principal competitors are BDO Unibank, Inc., BPI, Metropolitan Bank and Trust Company, China Banking Corporation and Rizal Commercial Banking Corporation. See “*The Philippine Banking Industry*.”

In addition, the Bank faces competition from the emergence of FinTech, including businesses such as an all-digital bank set up by CIMB and ING Direct, and mobile payment tools or e-wallet applications such as GCash and PayMaya, and the growing popularity of peer-to-peer lending through digital platforms. As the Bank ventures into micro-finance and other consumer financing products, the Bank may also face competition from other consumer-focused players, including informal lenders.

Employees and Labour Relations

As at 30 June 2024, the Bank had a total of 8,478 employees comprising 4,610 officers and 3,868 rank and file employees. The average age of employees (i.e., officers and rank and file employees) is 39 years and the average tenure with the Bank is 12 years.

The Bank’s regular rank and file employees are represented by one existing union under the Bank, as follows:

Name	Membership	Total Membership as at 30 June 2024	Effectivity
Philnabank Employees Association (“PEMA”)	PNB Pasay (original PNB employees and new hires under the Bank from 9 February 2013 onwards) and PNB Makati (original Allied Bank employees; absorbed under the Bank)	3,383, or 87.5% of the non-officer population are members of PEMA	1 July 2022 to 30 June 2027

Previously, the Bank had two existing unions (PNBEU- PNB Employee Union and PEMA), which completed their merger in 2019.

As of the date of this Offering Circular, the Bank has not suffered any strikes, and the Bank's management believes that its relations with its employees and the union are harmonious and mutually beneficial.

Retirement Plan

Under the Bank's regular retirement plan, employees shall be eligible for normal retirement upon reaching 60 years of age or completion 35 years of service, whichever comes first. The Bank also offers an early retirement plan which may be availed of by employees who have completed at least ten years of service regardless of age, or who have reached 55 years of age with at least ten years of service. The retirement plan provides each eligible employee with a defined amount benefit dependent on one or more factors such as age, years of service and salary. For more information on the Bank's retirement plan, see Note 28 to the Bank's audited consolidated financial statements included in this Offering Circular.

Compensation Policy

Consistent with the Bank's goal of being one of the Philippines' preferred employers, the Bank has adopted a compensation policy that it believes is competitive with industry standards in the Philippines. Salaries and benefits are reviewed periodically and adjusted to retain current employees and attract new talent. Tied to this is a competency-based performance management system that calls for the alignment of individual key results, competencies, and development plans with the Bank's overall business targets and strategy. Performance is reviewed annually, and employees are rewarded based on the attainment of pre-defined objectives.

Insurance

The Bank provides its employees with group accident insurance, term life insurance and medical hospitalisation insurance coverage in line with good business practice and in accordance with Philippine standards. The Bank has also obtained insurance policies for all of its employees. Insurance premium payments for these policies are paid entirely by the Bank.

Corporate Social Responsibility and Sustainability

The Bank manifests and demonstrates its responsibility to society in various ways. In aspiring to be a world-class company, impact to society and the environment is an important element in the way the Bank conducts its business.

The Bank is dedicated to fostering sustainable growth and contributing positively to the economy, society, and the environment. Its comprehensive sustainability policy integrates environmental, social, and governance ("ESG") principles into all aspects of its business operations, ensuring compliance with regulatory requirements and alignment with both local and international best practices. The Bank's sustainability efforts are structured around four key pillars: (i) economic, (ii) environmental, (iii) social, and (iv) governance. Economically, the Bank focuses on revenue growth, profitability, and business continuity through sustainable financing transactions and financial wellness programs. Environmentally, the Bank emphasises efficient resource management, reducing its environmental footprint, and supporting businesses with positive environmental impacts. Socially, the Bank prioritises capability-building, leadership development, and promoting social inclusion and gender equality. In terms of governance, the Bank ensures compliance with all applicable laws and regulations, maintains transparency and accountability, and implements an effective Environmental and Social Risk Management System ("ESRMS").

The Bank's sustainability policy underscores the importance of human capital, resource management, and stakeholder relationships. The Bank is committed to respecting human rights, fostering an inclusive work culture, and providing equal opportunities for all employees. This policy extends to the Bank's customers, vendors, and third-party service providers, encouraging them to adopt sustainable practices.

The Bank sets out below a number of its key projects to further implement its sustainability policy:

Economic

- *Sustainable Finance Working Group (SFWG) (2023)*: Managing ESG-related loans and investment accounts.
- *Green Ribbon Recognition Program (2022)*: Incentivising Relationship Managers to promote sustainable financing.

- *Digitalization Efforts* (Ongoing): Automating bank forms, e-signatures, and developing online platforms to reduce paper consumption and improve operational efficiency.

Environmental

- *Project P.L.A.N.E.T. (Protect, Love, and Nurture the Environment Together)* (2019): A campaign focused on environmental conservation.
- *PNB CommuniTree* (2021): An initiative aimed at environmental sustainability through tree planting and other green activities.
- *GHG Emissions Assessment* (2023): Baseline data collection to set emission reduction targets for domestic and overseas branches and offices.
- *Digitalization Efforts* (Ongoing): Automating bank forms, e-signatures, and developing online platforms to reduce paper consumption.

Social

- *PNB Sustainability Training and E-Learning Program (STEP)* (2023): Educating employees on sustainability principles and ESG topics.
- *Financial Literacy, Health, and Spiritual Wellness Sessions* (2021-2023): Programs aimed at improving the well-being of employees and communities.
- *Donation of Decommissioned Computers* (2021-2023): Providing resources to public schools and state universities.
- *Relief Support for Families Affected by Oil Spill in Oriental Mindoro* (2023): Emergency response initiatives.
- *PNB Employee Volunteerism Activities* (Ongoing): Engaging employees in community service activities such as tree planting, coastal clean-ups, and medical missions.

Governance

- *ESG Screening and Due Diligence* (Ongoing): Implementing enhanced due diligence for high and medium environment and social (“E&S”) risk accounts.
- *Enhanced Centralized Watchlist System (ECWS)* (2023): Conducting ESG Negative Screening for clients and vendors/suppliers.
- *Facility Risk Rating (FRR) Review* (2023): Integrating environmental and social risk criteria into the Bank’s credit risk rating models.
- *Compliance with BSP Circulars* (Ongoing): Adhering to regulations on sustainable finance, environmental and social risk management, and consumer protection.

These projects reflect the Bank’s ongoing commitment to integrating ESG principles into its operations, ensuring long-term value creation for all stakeholders while contributing to the achievement of the United Nations Sustainable Development Goals.

The Bank has undertaken several initiatives to integrate ESG principles into its lending practices, with the goal to ensure that its financial activities support sustainable development while effectively managing associated risks. The Bank’s key initiatives include:

- *ESG Risk Categorization* (2021): Identification of loan accounts with high, medium, and low E&S risk categories based on the Philippine Standard Industrial Classification Code. ESG screening checklists and forms are used as part of due diligence, starting with high-risk and medium-risk accounts.

- *ESG Scorecards (2021)*: Integration of ESG scorecard results into the credit risk assessment and rating of identified loan accounts. Guidelines have been established for project evaluation and selection of borrowers eligible for sustainable financing.
- *Stakeholder Engagement (2021 and 2022)*: Conducting roundtable discussions for loan clients and PNB employees to raise awareness about PNB's Sustainability Financing Framework and align expectations regarding ESG requirements.
- *Portfolio Reviews (2022)*: Regular reviews of loan accounts to establish baseline data for limit-setting for medium to high E&S risk accounts and target-setting for green and eligible goals.
- *Green Ribbon Recognition Program (2022)*: Development of a programme to incentivise Relationship Managers to promote the build-up and booking of pipeline loans that are green and socially eligible, in compliance with regulatory requirements.
- *IBS LEADS Project (2023)*: A digitalisation project aimed at automating the end-to-end loan evaluation and decision system to comply with various regulatory requirements, including those related to sustainable finance and environmental and social risk management.

These initiatives reflect the Bank's commitment to integrating ESG principles into its lending practices, ensuring that its financial activities support sustainable development while effectively managing associated risks.

Operational and Management Support

The Bank provides operational support to all of its subsidiaries. The support provided includes information technology, controllership, legal, operations and human resource services.

RISK MANAGEMENT

The Bank is exposed to risks that are particular to its lending and trading businesses and the environment within which it operates. The Bank's goal with respect to risk management is to ensure that it identifies, understands, measures, controls and monitors the various risks that arise from its business activities, and that it strictly adheres to the policies and procedures which are established to mitigate these risks.

Risk Management

The Bank recognises that a sound, robust and effective enterprise risk management system complemented with global best practices are as a necessity and the prime responsibility of the Board and senior management. The Bank's approach to risk is founded on corporate governance practices that are intended to strengthen the enterprise risk management of the Bank, while positioning the Bank to manage the changing regulatory environment in an effective and efficient manner.

The Bank believes that strong independent oversight has been established at all levels within the Bank. The Bank's Board of Directors has delegated specific responsibilities to various board committees which are integral to the Bank's risk governance framework and allow executive management, through management committees, to evaluate and effectively manage the risks inherent in the business.

The approach to managing risk is outlined in the Bank's Enterprise Risk Management Framework ("**ERM Framework**") which creates the context for setting policies and standards and establishing the right practices throughout the Bank. The ERM Framework defines the risk management processes and sets out the activities, tools, and organisational structure to ensure material risks are identified, measured, monitored and managed.

The Bank believes that its ERM Framework, through regular reviews and updates, has been an effective risk management tool, and has proven to be resilient through economic cycles. The Bank relies on its ERM Framework and the "three lines" model, and believes that these are important for its goal to develop a risk management system that is at par with global best practices.

Although the first line of defence in risk management is primarily with the Bank's risk-taking units and support units, the Bank's Enterprise Risk Management Group is primarily responsible for the monitoring of risk management functions to ensure that a robust risk-oriented organisation is maintained.

The risk management framework of the Bank is under the direct oversight of the Chief Risk Officer ("**CRO**") who reports directly to the Risk Oversight Committee ("**ROC**"). The CRO is supported by Division Heads with specialised risk management functions to ensure that a robust organisation is maintained. The Enterprise Risk Management Group is independent from the business lines of the Bank and organised into the following divisions: Credit Risk Management Division, Market Liquidity and Interest Rate Risk Management Division, Operational and Fraud Risk Management Division, Integrated Risk Management Division, Information Technology/Information Security, Project Risk Management & Governance Division, Cyber Security Operations Division and Data Privacy Department.

Each division monitors the implementation of the processes and procedures that support the policies for risk management applicable to the organisation. These Board-approved policies, define the risks to be managed, set forth the organisational structure and mandate appropriate training necessary to manage and control risks. Further, each risk division engages with all levels of the organisation among its business and support groups. This ensures that the risk management and monitoring is embedded at the moment of origination.

The Bank's governance policies also provide for the validation, audit and compliance testing, to measure the effectiveness and suitability of the risk management structure. The Enterprise Risk Management Group also functions as the secretariat to the Risk Oversight Committee which meets monthly to discuss the immediate previous month's total risk profile according to the material risks defined by the Bank in its ICAAP document.

The Bank's risk management system and the Bank's Board of Directors' criteria for assessing its effectiveness are revisited on an annual basis and limit settings are discussed with the relevant business units and presented to the Risk Oversight Committee for final approval by the Bank's Board of Directors.

In line with the integration of the BSP-required ICAAP and risk management processes, the Bank currently monitors nine material risks. These material risks are:

Pillar 1 Risks:

1. Credit Risk (includes Counterparty and Country Risks)
2. Market Risk
3. Operational Risk

Pillar 2 Risks:

4. Credit Concentration Risk
5. Interest Rate Risk in Banking Book
6. Liquidity Risk
7. Reputational Risk
8. Strategic Business Risk
9. Information Security/Cybersecurity Risk
10. Data Privacy Risk
11. Information Technology Risk
12. Human Resource Risk

Pillar 1 risk-weighted assets are computed based on the guidelines set forth in BSP Circular No. 538 using the “Standard Approach for Credit and Market Risks” and “Basic Indicator Approach for Operational Risks”.

Risk Categories and Definitions

The Bank broadly classifies and defines risks into the following categories, and manages the risks according to their characteristics. These are monitored accordingly under the Bank’s ICAAP programme:

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
Credit Risk (including Credit Concentration Risks and Counterparty Risks)	Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty’s failure to perform and meet the terms of its contract. Credit concentration risk arises from excessive exposures to individual counterparties, groups of related counterparties and groups of counterparties with similar characteristics (e.g., counterparties in specific geographical locations, economic or industry sector). Its potential loss implications are large enough relative to a bank’s capital, total assets, or overall risk level, to threaten a financial institution’s health or ability to maintain its core operations. It is inherent in a bank’s assets, liabilities or off-balance sheet items, through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories. The potential for loss reflects the size of the position and the extent of loss given a particular adverse circumstance (BSP MORB Sec 301.6, Series of 2009; BCBS).	• Loan Portfolio Analysis • Credit Dashboards • Credit Review • Credit Model Validation	• Trend Analysis (Portfolio / Past Due and Non-Performing Loan Levels) • Monitoring and Compliance to Credit Limits (regulatory and internal limits) • Stress Testing • Rapid Portfolio Review • Credit Risk Rating (CRR) Migration • Tracking of movement of loan portfolio • Concentrations and Demographics Review • Monitoring of large exposure • Monitoring of credit risk concentrations • Counterparty Limits Monitoring • Credit Risk Dashboard (Bankwide, Consumer, Overseas and Subsidiaries, ROPA and SCR) • Capital Adequacy Ratio (quarterly report) • Review of adequacy of Loan Loss Reserves and impairment loss • Specialised Credit Monitoring on Real Estate • Credit Review • Credit Model Validation
Market Risk	Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution’s overall portfolio, both on or off-balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and position taking in interest rate, foreign exchange, equity, and commodities market. (BSP Circular No. 544, Series of 2006).	• Value-at-Risk (“VaR”) Utilisation • Results of Marking to Market • Risks Sensitivity/Duration Report • Exposure to Derivative/Structured Products	• VaR Limits • Stop Loss Limit • DV01/PV01 • Foreign Exchange Position Limit • Management Action Triggers for FVOCI • Duration Analysis • Republic of the Philippines Exposure Limit • Limit to Derivatives and Structured

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
			- Products - Exception Report on Traders' Limit - Exception Report on Rate Tolerance - Stress testing/scenario analysis - BSP Uniform Stress Testing - Monthly validation/preparation of the Market Risk Weighted Exposures in the CAR Report - Backtesting
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 they come due, without incurring unacceptable losses or costs. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources (BSP Circular No. 981).	- Funding Liquidity Plan - Liquidity Ratios - Large Fund Providers - Maximum Cumulative Outflow ("MCO") - Liquid Gap Analysis - Interbook Lending	- MCO Limit - Liquid Assets Monitoring - Liquidity Stress Testing - Large Fund Provider Analysis - Contingency Planning - Lending from FCDU to RBU Book Limit - TPR Computation
Interest Rate Risk in the Banking Books ("IRRBB")	Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. It arises from the difference between the timing of rate changes and the timing of cash flows (reprising risk) from changing rate relationships among It arises from differences between the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships among different yield curves affecting financial institution ("FI") activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-related options embedded in FI products (options risk). The amount at risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. (BSP Circular No. 1044, Series of 2019).	- Interest Rate Gap Analysis - Earnings at Risk ("EaR") Measurement - Cashflow-based Economic Value of Equity	- EaR Limit - Balance Sheet Profiling - Repricing Gap Analysis - Cashflow-based Economic Value of Equity (EVE) - Stress Testing - BSP Uniform Stress Testing
Operational Risk	Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes legal risk but excludes strategic and reputational risk. Operational Risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs (BSP Circular 900).	- Risk Identification - Risk Measurement - Risk Evaluation (i.e., analysis of risk) - Risk Management (i.e., monitor, control or mitigate risk) Monitoring of Pillar 2 Risks below fall under the purview of Operational Risk Management. Management: Risk Identification – Risk Maps Risk Measurement and Analysis – ICAAP Risk Assessment	- Internal Control - Board Approved Operating Policies and Procedures Manuals - Board Approved Product Manuals - Loss Events Report (LER) - Risk and Control Self-Assessment (RCSA) - Key Risk Indicators (KRI) monitoring - Fraud Risk Monitoring - Legal Risk Review - Business Continuity Program and Disaster Recovery Plans - Business Continuity Playbooks - Business Impact Analysis (BIA) and Business Continuity Risk Assessment (BCRA) - Crisis Management Plan - Business Continuity Drills and Testing - Vendor Risk Assessment and Vendor Management Risk Monitoring - Statistical Analysis - Awareness Campaign - Risk and Control Trainings
Included in Operational Risks:			
Reputational Risk	Reputational risk is the risk to earnings, capital, and liquidity arising from negative perception on the Bank of its customers, shareholders, investors, and employees, market analysts, the media, and other stakeholders such as regulators and other government agencies, that can adversely affect the Bank's ability to maintain existing business relationships, establish new businesses or partnerships, or continuously access varied sources of funding. (BSP Circular 1114, dated 8 April 2021). Reputational Risk also covers Customer Franchise Risk and Consumer Protection Risk. Customer Franchise Risk is defined in PNB's Policy on ICAAP, as the failure to find, attract, and win new clients, nurture and retain those PNB already has, and entice former clients back into the fold as well as the failure to meet client's expectation in delivering PNB's products and services. Consumer Protection	- Risk Identification - Risk Measurement - Risk Evaluation (i.e., Analysis of Risk) - Risk Management (i.e., Monitor, Control or Mitigate Risk) Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: - Risk Identification – Risk Maps - Risk Measurement and Analysis – ICAAP Risk Assessment Major Factors considered: - Products - Technology	- Customer Engagement and Consolidated Complaints Report - After Call and After Email Survey - Public Relations Campaign - Market research on digital trends and profiling of digital users, statistics on usage, and transactions to anticipate and respond to changes in overall trends related to demands of customers and clients in relation to digital services platforms - Security Measures for Digital Banking - Social Media Management Framework - Social Media Risk Management - Use of Social Media metrics/Social Media Analytics - Website Management - Website Analytics - Mainstream media monitoring tool - Customer feedback mechanism

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	Risk is defined as failure of PNB to deliver its mandate to provide appropriate service and protection to its financial consumers.	• People • Policies and Processes • Stakeholders (including customer and regulators)	• Products and Marketing review • Fraud Management Program
Strategic Business Risk	Strategic business risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of the firm's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities. The organization's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes. (BSP Cir. No. 510, dated 03 Feb 2006)		• Regular ALCO reports on latest Financials, monthly CAR projections, weekly performance on deposits, loans, treasury assets (levels, YTD, ADB) • Regular updates on the status of sale of ROPA and other properties as well as NPL reduction • Economic briefings for ALCO, Treasury, and Senior Management by the Bank economist • Corporate Planning Department's banking, industry reports and research studies • Research Division's regular economic reports and forecasting and equities reports • Budget Performance Report (BPR) distributed to concerned sector/group heads and PNB President (KRAs actual performance against targets) • Compliance updates on new, revised regulations • Annual Strategic Planning activities • Performance and monitoring reports and surveys on bank products and services
Information Security Risk/ Cyber Security Risk	Information Security Risk is the risk to organisational operations (including mission, functions, image, and reputation), organisational assets, and individuals due to the potential for unauthorized access, use, disclosure, disruption, modification or destruction of information or information assets that will compromise the Confidentiality, Integrity, and Availability (CIA). This covers data or information being processed, in storage or in transit. Cyber Security Risk is the risk of damage to an organization through its information systems which is associated with financial loss, disruption or damage to an organisation from failure, unauthorised or erroneous use of its information systems. (NIST IR 7298 Revision 2, Glossary of Key Information Security Terms, Page Numbers 98 and 100)		• Enterprise Governance Risk and Compliance (GRC) Solution - Repository of business unit's Information Asset Register (IAR) - Information Security Risk Assessment (ISRA) - Project Risk Assessment (PRA) - IS Checklist • Third Party IS Risk Assessment (TPISRA) • Compliance Self-Assessment • IT/IS/Cyber Key Risk Indicators (KRIs) • Incident Reporting Management • Information Security Policy Formulation • Information Security Management System Implementation • IS & Cyber Security Awareness Campaigns • Anti-phishing campaign and education • Phishing simulation testing • Social Engineering (Vishing, Dumpster Diving) simulation testing Other tools used for managing IS/Cyber security risks are: • Security Information and Events Management (thru 24/7 SOC Service Provider) • Threat Intelligence/Cybersecurity Incident Sharing thru BAP • Threat Detector and Visualizer • DDOS Mitigation (Layer 3, Layer 7, DNS Protection) thru Akamai • Data Loss Prevention Tool • Forensic Tools • Vulnerability Assessment & Penetration Testing (VAPT) Tools thru 3rd Party and follow through on remediation of threats and risks • Firewall • Web Application Firewall • Intrusion Prevention System • Intrusion Detection System • Multi-Factor Authentication • Encryption • Anti-Virus/Anti-Malware • Web Filtering • VPN • Fortify Software Security Center • Endpoint Detection and Response • Virtual Desktop Infrastructure • Public Key Infrastructure

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
			- Managed File Transfer - Privilege Access Management - Mobile Device Management - Network Security Protection/Network Monitoring Tool
Data Privacy Risk	Data Privacy Risk is the risk associated to potential loss due to unauthorized collection, processing or access to personal data. It includes risks that the confidentiality, integrity and/or availability of personal data will not be maintained, or the risk that processing will violate the rights of data subjects or the privacy principles (transparency, legitimate purpose and proportionality). Consequently, the data privacy risks may negatively impact PNB's reputation and may result to financial losses.		- Enterprise-wide data privacy management system implementation - Implementing the enterprise-wide data privacy policy and subpolicies including guidelines and procedures - Playbook simulation - Privacy Impact Assessment (PIA) process implementation - Institutionalisation of data protection and privacy culture within the PNB Group through education and regular awareness programs - Implementation of the Data Sharing Agreement and Data Protection Agreement
Information Technology (IT) Risk	Information Technology (IT) Risk is any potential adverse outcome, damage, loss, violation, failure or disruption associated with the use of or reliance on computer hardware, software, devices, systems, applications and networks. (BSP Circular 808) It is also a business risk that is associated with the use, ownership, operation, involvement, influence, and adoption of IT within the Bank. It consists of IT-related events that could potentially impact the business. IT Risk includes Information Security Risk that could result from non-preservation of any or all the domains of information security; that is, confidentiality, integrity and availability of information assets. (ISACA Risk IT Framework)		- Enterprise Governance Risk and Compliance (GRC) Solution, a platform used in the conduct of IT Risk Assessment (ITRA) - IT/IS/Cyber Key Risk Indicators (KRIs) - IT Risk Awareness Campaigns
Human Resource Risk	Human Resource Risk covers PNB's risk of financial loss due to the inadequate training, inexperience or illegal activities of risk-taking behavior of personnel. This risk is closely related to operations risk and its internal control aspects. It highlights the human side of risk-taking and the role and adequacy of code of conduct, personnel policies, training and development programs, ability to recruit and retain employees through adequate compensation and benefits and ability to sustain adequate workforce through succession planning.	- Risk Identification - Risk Measurement - Risk Evaluation (i.e., Analysis of Risk) - Risk Management (i.e., Monitor, Control or Mitigate Risk)	- Talent Acquisition/Retention and Career Management - Remuneration Management - Performance Appraisal System - Training and Development - Labor Management Relations - Code of Conduct/Personnel Policies - Employee Welfare/Wellness - Employee Engagement Program - Rewards System - Compensation Package Review - Attendance Reports - Performance Appraisal Report - Monitoring of employee's deliberate non-submission of acknowledgement receipts of personnel policies issued by HRG - Grievance Reports/Complaints - Attrition rates, separation reports and exit interview forms - Disciplinary Cases Report - Recruitment Turnaround Time Report - Number of training programs conducted Report - Hiring and Attrition Tracking
Environmental and Social Risk	Environmental and Social Risk is defined as potential financial, legal, and/or reputational negative effect of environmental and social issues on the bank. Issues may include climate risk, both physical and transition risks; environmental pollution; hazards to human health, safety and security; and threats to community, biodiversity, and cultural heritage, among others.		- Sustainability Financing Framework - Loss Events Report - Risk and Control Self-Assessment - Key Risk Indicators - Business Continuity Risk Assessment - Stress Testing - Vendor Assessment/Risk Rating

Asset and Liability Committee

The Asset and Liability Committee (“ALCO”) was established to assist the Bank’s Board of Directors to assess, monitor and review all asset and liability management activities of the Bank relating to (i) interest rate risk; (ii) market/investment risk; (iii) liquidity risk; (iv) credit risk limited to investments; and (v) capital risk.

Maturity (liquidity) risk management

The Bank's policy is to manage its operations with the objective of ensuring that adequate funds are available to meet credit demands of its customers and to repay deposits on maturity.

The Bank maintains diversified liquidity sources to provide it with flexibility in meeting liquidity requirements. Deposits from retail clients which are denominated in both Pesos and U.S. Dollars and generated by the Bank's network of domestic branches are the Bank's primary source of liquidity. The Bank believes it is able to differentiate itself from its peer banks, by having a large and diversified deposit base, with a majority of its deposits held in retail and middle market accounts which are not sensitive to interest rate movements. Further, due to the profile of the deposit account base and its structure for the past years, the Bank has been able to classify a majority of its deposit as "core deposits" (i.e., funds that typically remain in the Bank for the long term). As at 31 December 2023 and 30 June 2024, 64.3% and 63.9%, or ₱596.7 billion and ₱607.0 billion, respectively, of outstanding deposits of the Bank had a maturity period of one month or less.

Other sources of funds include short-term borrowings in the interbank market in the Philippines and abroad, borrowings through the Bank's FCDU to fund its foreign currency-denominated assets, funds from maturing assets and profits from operations.

The Bank's policy is to maintain what it believes is an adequate portion of its portfolio in short-term assets. As at 31 December 2023 and 30 June 2024, the Bank's loans and receivables with remaining maturities of less than one year were 46.4% and 48.0%, respectively, of the Bank's total loans and receivables from customers. The Bank also maintains a significant portion of its asset portfolio in loans, with the Bank's loans and receivables from customers representing 53.5% and 53.1%, respectively, of the Bank's total financial assets as at 31 December 2023 and 30 June 2024. In addition to the foregoing, the Bank's trading and investment account includes securities issued by sovereign issuers (e.g., Government treasury bills, floating rate treasury notes and fixed rate treasury notes).

Of the Bank's ₱ 298.4 billion portfolio of gross trading and investment securities as at 31 December 2023, ₱144.7 billion, or 48.5% % of which, was invested in securities with remaining maturities of one year or less. The gross trading and investment securities account amounted to 24.7% of the Bank's total assets at that time. As at 30 June 2024, the Bank's gross trading and investment securities portfolio amounted to ₱304.0 billion which accounted for 24.2% of the Bank's total assets at that time. As at 30 June 2024, ₱135.4 billion or 44.5% of such trading and investment securities had remaining maturities of one year or less.

Assets of the Bank also include funds due from BSP and other banks as well as interbank loans receivables, which (on a net basis) accounted for 10.4% and 2.6%, respectively, of the Bank's total assets as at 30 June 2024. Due from BSP and other banks are made on a short-term basis, 44.4% of which are available on demand or within one month from 30 June 2024. Interbank loans receivable, and securities held under agreements to resell are made on a short-term basis, 93.6% of which are available or within one month from 30 June 2024.

The Bank's liquidity management plan involves maintaining sufficient and diverse funding capacity to accommodate fluctuations in asset and liability levels despite due to changes in the Bank's business operations or unanticipated events created by customer behaviour or capital market conditions. The Bank also seeks to ensure sufficient liquidity through a combination of active management of liabilities, a liquid asset portfolio comprising substantial deposits in primary and secondary reserves, securing of money market lines and the maintenance of repurchase facilities to pre-empt any unexpected liquidity situations.

Although the Bank adopts what it believes to be a prudent policy on managing liquidity risks, a maturity gap exists between the Bank's long-term assets and short-term liabilities. This is attributable to the Bank's policy of taking advantage of higher yields of long-term assets which is being financed by the lower yields of short-term liabilities. Such strategy generally leads to the average maturity of its financial assets exceeding that of its liabilities. This liquidity risk arising from the mismatch is monitored and controlled by a gap analysis of maturities of relevant assets and liabilities reflected in the MCO report which is reported monthly to the ROC. The interest rate risk arising from the volatilities of the maturing/amortising interest rate gaps are reflected in the EaR report, which is likewise discussed in both ALCO and the ROC. Further, regular stress tests exercises and simulation of the Bank's contingency funding plan are conducted, results of which are subsequently reported to the ROC to determine the impact of scenarios on the Bank's liquidity profile.

Interest rate risk management

The Bank's policy on managing its assets and liabilities is to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. In its lending activities, the Bank, as much as possible, tries to match the terms and interest rate of its loans and investments with those of its fund sources. A large portion of the Bank's funds is in the form of short-term deposit instruments on which it pays rates prevailing in the market. These funds are predominantly short-term in view of the relatively high volatility of domestic interest rates. This volatility is due largely to the fact that Government debt security issues are used extensively by the BSP, particularly in recent years, as instruments of monetary policy.

While domestic interest rates have been deregulated since the early 1980s, the BSP policy influences the interest rate commercial banks charges for Peso-denominated borrowings. Peso treasury bills auctioned every other week by the Philippine Bureau of Treasury set the trend in domestic interest rates. Peso time deposits offered by commercial banks are usually priced at par or up to two percentage points below the treasury bills of the same term.

As at 30 June 2024, 71.1% of the Bank's receivables from customers subject to repricing have a term of less than one year, while 28.9% have a term of more than one year. A majority of the interest rates in the Bank's floating rate loan portfolio are reset at 90-day intervals.

Interest rates on loans are usually set on the basis of the Bank's average or marginal costs of funds which in turn, are largely determined by the movement in the rates of Government treasury bills plus a spread. A majority of the Bank's rate-sensitive assets and liabilities are subject to 30-day to 90-day interest rate resetting which minimises exposure of such assets and liabilities to fluctuations in domestic interest rates.

The Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of a "repricing gap" analysis using the repricing characteristics of its statement of financial position and approved assumptions. To evaluate earnings exposure, interest rate sensitive liabilities in each time band are subtracted from the corresponding interest rate assets to produce a "repricing gap" for the same time band.

The difference in the amount of assets and liabilities maturing or being re-priced over a one year period would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

Accordingly, during a period of rising interest rates, a company with a positive gap is better positioned because the company's assets are refinanced at increasingly higher interest rates increasing the net interest margin of the company over time. During a period of falling interest rates, a company with a positive gap would show assets repricing at a faster rate, which may restrain the growth of its net income or result in a decline in net interest income.

The interest rate risk arising from the volatilities of the maturing/amortising interest rate gaps are reflected in the EAR report, which is likewise discussed in both ALCO and the ROC. The Bank's Board of Directors sets a limit on the level of EAR exposure acceptable to the Bank. Compliance with the EAR limit is monitored monthly by the Bank's Risk Management Group.

For risk management purposes, the repricing gap covering the one-year period is multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such interest rate movement.

The following table sets forth the Bank's repricing gap position as at 31 December 2023:

	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
	<i>(in ₱ millions)</i>					
Financial Assets*						
Due from BSP and other banks	58,150.8	9,072.9	3,369.5	8,901.5	37,159.5	116,654.2
Interbank loans receivable and Securities held under repurchase agreement	98,092.8	5,439.4	733.9	1,062.9	—	105,329.0
Receivables from customers	161,955.8	49,845.3	28,902.0	39,616.4	104,403.6	384,723.1

	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
	(in ₪ millions)					
and other receivables – gross**						
Total financial assets	318,199.4	64,357.6	33,005.4	49,580.8	141,563.1	606,706.3
Financial Liabilities*						
Deposit liabilities						
Savings	158,675.3	56,242.0	27,795.8	49,149.9	249,146.4	541,009.4
Time***	81,037.0	40,011.5	6,280.5	5,894.5	12,528.5	145,752.0
Bonds payable	–	–	–	41,490.9	–	41,490.9
Bills and acceptances payable ..	10,303.1	5,296.9	1,746.8	185.0	2,630.9	20,162.7
Total financial liabilities	250,015.4	101,550.4	35,823.1	96,720.3	264,305.8	748,415.0
Repricing gap	68,184.0	(37,192.8)	(2,817.7)	(47,139.5)	(122,742.7)	(141,708.7)
Cumulative gap	68,184.0	30,991.2	28,173.5	(18,966.0)	(141,708.7)	–

* Financial instruments that are not subject to repricing/roll forward were excluded.

** Receivables from customers excludes residual value of leased assets.

*** Excludes LTNCDs.

The following table sets forth the Bank's repricing gap position as at 30 June 2024:

	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
	(in ₪ millions)					
Financial Assets*						
Due from BSP and other banks ..	58,233.6	16,911.2	4,337.3	8,117.0	43,481.7	131,080.8
Interbank loans receivable and Securities held under repurchase agreement	109,726.7	5,549.5	1,515.8	402.4	–	117,194.4
Receivables from customers and other receivables – gross**	170,167.1	64,609.6	12,914.7	32,224.7	113,701.3	393,617.4
Total financial assets	338,127.4	87,070.3	18,767.8	40,744.1	157,183.0	641,892.6
Financial Liabilities*						
Deposit liabilities						
Savings	153,777.5	81,981.2	27,583.7	49,968.2	253,788.4	567,099.0
Time***	67,410.0	47,517.9	11,213.1	6,737.8	5,422.3	138,301.1
Bonds payable	–	43,949.4	–	–	–	43,949.4
Bills and acceptances payable	11,034.6	–	–	5,233.4	3,499.1	19,767.1
Total Financial liabilities	232,222.1	173,448.5	38,796.8	61,939.4	262,709.8	769,116.6
Repricing gap	105,905.3	(86,378.1)	(20,029.0)	(21,195.3)	(105,526.8)	(127,224.0)
Cumulative gap	105,905.3	19,527.1	(501.9)	(21,697.2)	(127,224.0)	0.0

* Financial instruments that are not subject to repricing/roll forward were excluded.

** Receivables from customers excludes residual value of leased assets.

*** Excludes LTNCDs.

Another measure of the Bank's exposure to fluctuations in interest rates examines the impact of interest rate movements of various magnitudes on its net income. The following table sets forth, as of and for the period indicated, the impact of changes in interest rates on the Bank's repricing gap:

	As at 31 December						As at 30 June	
	2021		2022		2023		2024	
	Statement of Income	Equity	Statement of Income	Equity	Statement of Income	Equity	Statement of Income	Equity
	(₪ millions)							
+50 bps	(76.0)	(76.0)	(352.7)	(352.7)	120.0	120.0	73.3	73.3
-50 bps	76.0	76.0	352.7	352.7	(120.0)	(120.0)	(73.3)	(73.3)
+100 bps	(151.9)	(151.9)	(705.5)	(705.5)	240.0	240.0	146.7	146.7
-100 bps	151.9	151.9	705.5	705.5	(240.0)	(240.0)	(146.7)	(146.7)

Given the repricing position of the assets and liabilities of the Bank as at 30 June 2024, the Bank would expect annualised non-consolidated net interest income to increase by ₱ 146.7 million if interest rates increased by 100 basis points. If interest rates decreased by 100 basis points, the annualised non-consolidated net interest income of the Bank would decrease by ₱146.7 million. The Bank accomplishes the EAR computation on a monthly basis and conducts a quarterly stress test.

In addition to EaR, the Bank also employs Economic value-based (EV-based) measures that assess the present value of the expected net cash flows of assets and liabilities, particularly those that are interest-bearing, discounted to reflect market rates. At the same time that fluctuations in interest rates will affect PNB's earnings, these will also have an impact on the bank's net worth or capital position. In coming up with present values, the relevant risk-free rate shall be used to formulate discount factors. Resulting weighted net positions across tenors are aggregated to determine the Economic Value of Equity ("EVE") per book and per major currency under different shock scenarios.

Delta EVE is the difference between the total net present value of expected asset and liability cashflows when discounted at prevailing market rates and when discounted against shocked interest rates. Delta EVE is computed based on several interest rate shock scenarios (e.g., parallel up, parallel down, short rates up, short rates down, steepening rates, flattening rates). The scenario with the most negative Delta EVE, pertaining to the highest decline in net present value, is compared to the medium to long term Delta EVE trigger, which corresponds to a percentage of the Bank's CET1 capital.

As of 30 June 2024, PNB and the Bank's the maximum negative Delta EVE were at ₱8.52 billion and ₱8.51 billion, respectively, or 6.3% and 5.8% of CET1 capital coming from the parallel up rates scenario.

Foreign currency risk management

Foreign currency liabilities generally consist of foreign currency-denominated deposits made in the Philippines (or which are generated from remittances to the Philippines by expatriates and contract workers who retain for their own benefit, or for the benefit of a third party, foreign currency deposit accounts with the Bank) and foreign currency-denominated borrowings of the Bank. Foreign currency-denominated liabilities are generally used to fund the Bank's foreign currency-denominated loan portfolio. The Bank is currently a net holder of foreign currency, as foreign currency-denominated assets exceed foreign currency-denominated liabilities.

The Bank's policy is to maintain foreign currency exposure within exposure limits approved by the Bank's Board of Directors and within existing regulatory guidelines.

Trading and investment securities

The Bank engages in fixed income securities trading. As at 30 June 2024, the Bank's gross trading and investment securities (which consist of financial assets at FVTPL, financial assets at FVOCI and financial assets at amortised costs) amounted to ₱304,001.3 million or 24.2% of total assets. As at 30 June 2024, 81.5% of the Bank's trading and investment portfolio comprised Government securities while 9.6% comprised privately issued securities. As at 30 June 2024, the Bank's financial assets at FVTPL, financial assets at FVOCI and financial assets at amortised cost amounted to ₱22,572.9 million, ₱166,975.4 million and ₱114,453.1 million, respectively, representing 1.8%, 13.3% and 9.1%, respectively, of the Bank's total assets.

Derivatives

The Bank trades in financial instruments where it either takes positions in traded and over-the-counter instruments, including derivatives, to take advantage of short-term market movements in currencies and interest rates or for hedging open risk positions. The Bank places trading and risk limits (including VaR limits) on the exposure that can be taken at any point in time.

The Bank engages in derivatives for hedging and proprietary trades. Under BSP Circular 594, the Bank is authorised, as a dealer, to enter into "generally authorised derivatives activities" which covers foreign exchange forwards, foreign exchange swaps, currency swaps, interest rate swaps and forward rate agreements. Furthermore, the Bank is also authorised, as an end-user, to enter into principal-protected foreign currency structured products and plain vanilla credit-linked notes referencing the Republic of the Philippines. These derivatives transactions are covered by Bank policies on trading limits related to the Bank's exposure to such instruments at any point in time. The Bank has also obtained from the BSP a "Type 2 Limited Dealer Authority" to engage as a dealer in non-deliverable foreign exchange forwards and interest rate swaps, which are mainly used for the servicing of client requirements and for hedging purposes.

Subsidiaries and Overseas Offices

The risk management functions of the Bank's subsidiaries, representative offices and remittance centres are embedded in their respective offices. The Subsidiaries and Overseas Branch Risk Management Department under the Parent Bank's Enterprise Risk Management Group ("ERMG"), together with the designated risk overseers of such subsidiaries and offices, oversees these offices, helps facilitate their respective risk assessment, risk appetite and risk limits review/setting, portfolio monitoring, credit management review, policy formulation and helps their respective audit observations. The risk exposures of these offices are reported to their respective risk committees, and are also reported to the Parent Bank's ROC, either individually or on a consolidated basis. Moreover, the Parent Bank's ERMG conducts risk awareness programs for the Bank's subsidiaries and overseas offices to improve their understanding and appreciation of risk management processes and requirements.

SELECTED STATISTICAL DATA

The following unaudited information should be read together with the Bank's consolidated financial statements included in this Offering Circular as well as "Description of the Bank's Assets and Liabilities" and "Risk Management" sections.

Average Statements of Financial Position and Related Interest

The following tables show the Bank's average balances, interest earned/incurred and average interest rates for the three years ended 31 December 2021, 2022 and 2023 and for the six months ended 30 June 2023 and 2024.

	For the years ended 31 December								
	2021			2022			2023		
	Average Balance ⁽¹⁾	Interest Income/ Expense	Yield/ Cost (%)	Average Balance ⁽¹⁾	Interest Income/ Expense	Yield/ Cost (%)	Average Balance ⁽¹⁾	Interest Income/ Expense	Yield/ Cost (%)
<i>(P millions, except percentages)</i>									
Interest earning assets									
Due from BSP and other banks	231,387.6	1,248.1	0.5	179,353.1	1,417.7	0.8	140,367.5	2,608.0	1.9
Interbank loans receivable and securities held under agreements to resell	51,711.5	400.4	0.8	64,358.4	954.6	1.5	93,071.5	3,368.5	3.6
Financial assets at FVTPL	16,115.0	632.5	3.9	7,890.0	292.7	3.7	7,873.6	251.9	3.2
Investment securities at amortized cost and FVOCI	230,263.1	5,963.6	2.6	238,431.8	8,154.9	3.4	252,796.0	12,608.2	5.0
Loans and receivables	535,172.7	34,157.8	6.4	543,939.1	34,424.5	6.3	559,483.2	40,757.9	7.3
Total	1,064,649.9	42,402.4	4.0	1,033,972.4	45,244.4	4.4	1,053,591.8	59,594.5	5.7
Interest bearing liabilities									
Deposit liabilities ...	863,315.3	4,813.8	0.6	854,900.6	5,371.7	0.6	872,191.1	13,005.7	1.5
Bonds payable	58,719.9	2,231.9	3.8	55,911.3	2,111.2	3.8	49,965.0	1,660.2	3.3
Bills payable	72,622.3	511.9	0.7	37,668.0	434.0	1.2	21,306.1	335.8	1.6
Total	994,657.5	7,557.6	0.8	948,479.9	7,916.9	0.8	943,462.2	15,001.7	1.6
For the six months ended 30 June									
	2023			2024					
	Average Balance ⁽¹⁾	Interest Income/ Expense	Yield/ Cost ⁽²⁾ (%)	Average Balance ⁽¹⁾	Interest Income/ Expense	Yield/ Cost ⁽²⁾ (%)			
<i>(P millions, except percentages)</i>									
Interest earning assets									
Due from BSP and other banks	135,723.9	1,226.6	1.8	134,443.2	950.3	1.4			
Interbank loans receivable and securities held under agreements to resell	97,740.4	1,131.2	2.3	111,261.7	2,214.8	4.0			
Financial assets at FVTPL	8,290.1	127.0	3.1	15,752.3	290.4	3.7			
Investment securities at amortized cost and FVOCI	240,585.7	5,884.4	4.9	258,347.2	7,888.7	6.1			
Loans and receivables	546,765.4	19,907.7	7.3	577,963.7	21,625.0	7.5			
Total	1,029,105.5	28,276.9	5.5	1,097,768.1	32,969.2	6.0			
Interest bearing liabilities									
Deposit liabilities	852,770.7	5,531.8	1.3	911,628.4	8,077.8	1.8			
Bonds payable	49,887.1	942.6	3.8	42,720.2	729.5	3.4			
Bills payable	18,798.2	187.6	2.0	23,713.6	131.7	1.1			
Total	921,456.0	6,662.0	1.5	978,062.2	8,939.0	1.8			

Notes:

- (1) Averages are based on the sum of the beginning and ending balances divided by two.
- (2) Rates are annualized based on the actual number of days.

Analysis of Changes in Interest Income and Interest Expense – Volume and Rate Analysis

The following tables provide an analysis of changes in the Bank's interest income, interest expense, and net interest income between changes in volume (average balances) and changes in rates for the year ended 31 December 2021 compared with the year ended 31 December 2022, the year ended 31 December 2022 compared with the year ended 31 December 2023 and the six months ended 30 June 2023 compared with the six months ended 30 June 2024. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest earning assets and average interest-bearing liabilities in proportion to absolute volume and rate change. The variance caused by the change in both volume and rate has been allocated in proportion to absolute volume and rate change.

	For the year ended 31 December 2021 compared with the year ended 31 December 2022			For the year ended 31 December 2022 compared with the year ended 31 December 2023		
	Increase (Decrease) due to change in			Increase (Decrease) due to change in		
	Interest Income / Interest Expense	Average Volume	Average Rate	Interest Income / Interest Expense	Average Volume	Average Rate
	(P millions)					
Interest income on:						
Due from BSP and other banks.....	169.6	(280.7)	450.3	1,190.3	(308.2)	1,498.5
Interbank loans receivable and securities held under agreements to resell.....	554.2	97.9	456.3	2,413.9	425.9	1,988.0
Financial assets at FVTPL	(339.8)	(322.8)	(17.0)	(40.8)	(0.6)	(40.2)
Investment securities at amortized cost and FVOCI..	2,191.3	211.6	1,979.7	4,453.3	491.3	3,962.0
Loans and receivables	266.7	559.5	(292.8)	6,333.4	983.7	5,349.7
Interest expense on:						
Deposit liabilities.....	557.9	(46.9)	604.8	7,634.0	108.6	7,525.4
Bonds payable.....	(120.7)	(106.8)	(13.9)	(451.0)	(224.5)	(226.5)
Bills payable	(77.9)	(246.4)	168.5	(98.2)	(188.5)	90.3
Net interest income	3,201.3	(134.6)	3,335.9	21,434.9	1,287.7	20,147.2
	For the six months ended 30 June 2023 compared with the six months ended 30 June 2024					
	Increase (Decrease) due to change in					
	Interest Income / Interest Expense	Average Volume	Average Rate	Term		
	(P millions)					
Interest income on:						
Due from BSP and other banks.....	(276.3)		(11.7)	(268.8)		4.2
Interbank loans receivable and securities held under agreements to resell	1,083.6		157.4	926.1		0.2
Financial assets at FVTPL	163.4		114.9	48.5		(0.1)
Investment securities at amortized cost and FVOCI	2,004.3		436.8	1,556.6		10.9
Loans and receivables.....	1,717.3		1,142.2	524.4		50.7
Interest expense on:						
Deposit liabilities	2,546.0		383.9	2,153.7		8.4
Bonds payable.....	(213.1)		(136.2)	(80.1)		3.2
Bills payable and other borrowings	(55.9)		49.3	(105.9)		0.7
Net interest income	6,969.3		2,136.6	4,754.5		78.2

Cash Flow Mismatch Analysis

The Bank manages its liquidity risk by analysing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. To ensure that funding requirements are met, the Bank manages its liquidity risk by holding what it believes to be a sufficient amount of liquid assets of appropriate quality. It also maintains a balanced loan portfolio that is re-priced on a regular basis. The table below sets forth the Bank's structural liquidity gap position as of 30 June 2024. The analysis is based on the remaining period from the end of the reporting period to the contractual maturity date, or if earlier, the expected date the asset will be realised on the earliest period in which the Bank can be required to pay its liabilities.

As of 30 June 2024						
On demand	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
<i>(P millions, except percentages)</i>						
Cash and Due from BSP ..	127,392.1	—	—	—	—	127,392.1
Due from Other Banks	—	12,724.1	3,822.2	2,577.7	1,818.2	20,942.2
Interbank Loans and Securities Held under	—	99,939.6	16,399.1	864.2	262.8	117,465.7

As of 30 June 2024							
	On demand	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
<i>(P millions, except percentages)</i>							
Agreements to Resell.....							
Financial Assets at FVTPL and FVOCI.....	–	99,338.0	15,218.8	8,202.0	3,394.8	83,835.6	209,989.2
Financial assets at amortised cost	–	875.0	5,557.6	2,310.9	10,127.6	133,400.6	152,271.7
Loans and Receivables.....	–	132,836.2	113,064.7	39,966.8	36,425.3	478,517.9	800,810.9
Total inflows.....	127,392.1	345,712.9	154,062.4	53,921.6	52,028.7	695,754.1	1,428,871.8
Bills Payable	–	–	–	–	5,422.0	6,445.9	11,867.9
Bonds Payable	–	–	43,949.4	–	–	–	43,949.4
Deposits from Other Accounts.....	231,001.3	273,103.3	254,905.5	67,616.3	122,736.1	5,470.2	954,832.7
Other Liabilities	–	26,097.2	2,515.2	981.0	2,392.3	2,029.8	34,015.5
Total outflows	231,001.3	299,200.5	301,370.1	68,597.3	130,550.4	13,945.9	1,044,665.5
Liquidity Gap	(103,609.2)	46,512.4	(147,307.7)	(14,675.7)	(78,521.7)	681,808.2	384,206.3
Cumulative Gap	(103,609.2)	(57,096.8)	(204,404.5)	(219,080.2)	(297,601.9)	384,206.3	
Liquidity gap as % of Total Liabilities	(9.8%)	4.4%	(14.0%)	(1.4%)	(7.5%)	64.7%	36.5%

Notes:

- (1) Classification methodologies are based on PFRS.
- (2) Assets and liabilities are classified into categories as per residual maturity.
- (3) Assets and liabilities that do not mature or have ambiguous maturities are classified as per historical behavioural analysis or management judgment.

Yields, Spreads and Margins

The following table sets out, for the periods indicated, the yields, spreads and interest margins on the Bank's interest-earning assets for the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024.

	For the year ended 31 December			For the six months ended 30 June	
	2021	2022	2023	2023	2024
<i>(P in millions, except percentages)</i>					
Interest income on interest-earning assets.....	42,402.4	45,244.4	59,594.5	28,276.9	32,969.2
Interest expense on interest-bearing liabilities ...	7,557.6	7,916.9	15,001.7	6,662.0	8,939.0
Average interest-earning assets	1,064,649.9	1,033,972.3	1,053,591.8	1,029,105.5	1,097,768.0
Average interest-bearing liabilities	994,657.5	948,479.8	943,462.2	921,456.0	978,062.1
Average total assets	1,210,959.2	1,167,970.9	1,177,853.2	1,154,043.5	1,233,449.2
Average interest-earning assets as a percentage of average total assets	87.9%	88.5%	89.5%	89.2%	89.0%
Average interest-bearing liabilities as a percentage of average total Assets.....	82.1%	81.2%	80.1%	79.8%	79.3%
Average interest-earning assets as a percentage of average interest-bearing liabilities.....	107.0%	109.0%	111.7%	111.7%	112.2%
Yield ⁽¹⁾	4.0%	4.4%	5.7%	2.7%	3.0%
Cost of funds ⁽²⁾	0.8%	0.8%	1.6%	0.7%	0.9%
Spread ⁽³⁾	3.2%	3.6%	4.1%	2.0%	2.1%
Net interest margin ⁽⁴⁾	3.3%	3.6%	4.2%	4.2%	4.4%

Notes:

- (1) Yield is interest income divided by total yearly average interest-earning assets. Averages are based on the total ending balance of the past two years divided by two.
- (2) Cost of funds is interest expense divided by total yearly average interest-bearing liabilities. Yearly averages are based on the total ending balance of the past two years divided by two.
- (3) Spread is the difference between yield and cost of funds.
- (4) Net interest margin is calculated as the difference between interest earned and interest expended divided by the total yearly average interest-earning assets. Yearly averages are based on total ending balance of the past two years divided by two.

Return on Equity and Assets

The following table presents selected financial ratios for the periods indicated.

	As at and for the year ended 31 December			As at and for the six months ended 30 June	
	2021	2022	2023	2023	2024
	<i>(P in millions, except percentages)</i>				
Net income	31,690.0	11,584.0	17,965.8	9,741.7	10,290.2
Average total assets	1,210,959.2	1,167,970.9	1,177,853.2	1,154,043.5	1,233,449.2
Average shareholders' equity	158,603.0	165,564.3	180,527.1	175,843.5	196,964.4
Net income as a percentage of average total assets	2.6%	1.0%	1.5%	1.6%	1.7%
Net income as a percentage of average shareholders' equity ⁽¹⁾	20.0%	7.0%	10.0%	10.3%	10.5%
Average shareholders' equity as a percentage of average total assets	13.1%	14.2%	15.3%	15.2%	16.0%

Note:

(1) Net income divided by average total equity for the period indicated.

DESCRIPTION OF THE BANK'S ASSETS AND LIABILITIES

The following information should be read together with the Bank's consolidated financial statements included in this Offering Circular as well as "Capitalisation and Indebtedness", "Description of the Bank" and "Risk Management". All amounts presented in this section except for Average Daily Balance and Average Yield/Cost have been prepared in accordance with PFRS for the Bank.

ASSETS AND LIABILITIES

Funding

Sources of funding

Deposit liabilities, bills and acceptances payable, bonds payable, and capital funds, which consist of capital stock and capital paid in excess of par value are the sources of funding for the Bank. The Bank's deposit liabilities consist of demand, savings and time deposits, with a majority comprising savings accounts.

As at 30 June 2024, customer deposits accounted for 85.8% of the Bank's total funding sources. The Bank traditionally has most of its deposit liabilities in the form of deposits under savings accounts, reflecting the relative strength of the Bank in the retail segment of the banking market. Although the majority of the Bank's customer deposits are classified under current accounts and savings accounts ("CASA"), the Bank's depositors typically roll over their deposits at maturity, effectively providing the Bank with a source of longer-term funding. As at 31 December 2021, 2022 and 2023 and 30 June 2024, the Bank's total deposit liabilities amounted to ₱894,924.3 million, ₱871,227.7 million, ₱927,970.9 million and ₱949,215.8 million, respectively. For the years ended 31 December 2021, 2022, and 2023 and the six months ended 30 June 2024, the Bank's cost of funding for deposits was 0.5%, 0.6%, 1.4% and 1.7%, respectively.

As at 31 December 2021, 2022 and 2023 and 30 June 2024, the Bank had total bills and acceptances payables amounting to ₱52,953.8 million, ₱14,980.4 million, ₱20,162.6 million and ₱19,767.1 million, respectively, and total equity (including non-controlling interest) of ₱161,222.9 million, ₱169,905.6 million, ₱191,148.6 million and ₱202,780.1 million, respectively.

As at 31 December 2023 and 30 June 2024, the Bank had bonds payable in the amount of ₱41,490.9 million and ₱43,949.4 million, respectively, as a result of its issuance of U.S.\$750 million 3.280% Fixed Rate Notes due 2024 under its U.S.\$2.0 billion Medium Term Note Programme in June 2019.

The following table sets forth an analysis of the Bank's sources of funding and the cost of each funding source:

	As at 31 December						As at 30 June	
	2021		2022		2023		2024	
	Actual	Cost of Funding ⁽¹⁾	Actual	Cost of Funding ⁽¹⁾	Actual	Cost of Funding ⁽¹⁾	Actual	Cost of Funding ⁽¹⁾
<i>(₱ millions, except percentages)</i>								
Deposits by type:								
Demand.....	216,367.8	0.1%	220,043.9	0.1%	228,405.9	0.1%	231,001.3	0.1%
Savings	498,581.5	0.4%	519,940.5	0.3%	541,009.4	1.3%	567,099.0	1.7%
Time and LTNCD.	179,975.0	1.2%	131,243.3	2.3%	158,555.6	4.0%	151,115.5	4.1%
Total.....	894,924.3	0.5%	871,227.7	0.6%	927,970.9	1.4%	949,215.8	1.7%
Deposits by currency:								
Philippine Peso	780,682.5		739,703.1		800,005.3		819,818.2	
Foreign.....	114,241.8		131,524.6		127,965.6		129,397.6	
Total.....	894,924.3		871,227.7		927,970.9		949,215.8	
Deposits by classification:								
Low Cost	714,949.3		739,984.4		769,415.3		798,100.3	
Term	179,975.0		131,243.3		158,555.6		151,115.5	
Total.....	894,924.3		871,227.7		927,970.9		949,215.8	

	As at 31 December						As at 30 June	
	2021		2022		2023		2024	
	Actual	Cost of Funding ⁽¹⁾	Actual	Cost of Funding ⁽¹⁾	Actual	Cost of Funding ⁽¹⁾	Actual	Cost of Funding ⁽¹⁾
<i>(P millions, except percentages)</i>								
Bills and Acceptances Payable								
Philippine Peso	2,289.5		1,097.9		39.8		60.8	
Foreign.....	50,664.3		13,882.5		20,122.8		19,706.3	
Total	52,953.8		14,980.4		20,162.6		19,767.1	
Bonds Payable	53,383.4		58,439.1		41,490.9		43,949.4	
Capital Funds								
Capital stock	61,030.6		61,030.6		61,030.6		61,030.6	
Capital paid in excess of par value	32,116.6		32,116.6		32,116.6		32,116.6	
Total	93,147.2		93,147.2		93,147.2		93,147.2	
TOTAL	1,094,408.7		1,037,793.4		1,082,771.6		1,106,079.5	

Note:

- (1) Cost of funding represents total interest expense for the year, divided by the average liability (sum of beginning and ending balances divided by two) for the respective period, expressed as a percentage.

Deposits

Deposits continue to be the Bank's main funding source. CASA deposits (i.e., demand and savings accounts) can be withdrawn on request by, and without any prior notice from, the customer. As such, CASA deposits represent funding of the shortest term available to the Bank. On the other hand, a customer can withdraw time deposits, together with interest earned on such deposits, after the expiry of the time deposit period which typically ranges between six months and three years. Customers may also request for the withdrawal of their time deposits prior to their maturity dates. However, such pre-termination results in a forfeiture of the interest payable on such deposits.

As at 31 December 2021, 2022 and 2023 and 30 June 2024, the Bank's total deposit liabilities amounted to ₱894,924.3 million, ₱871,227.7 million, ₱927,970.9 million and ₱949,215.8 million, respectively. As a proportion of the Bank's total sources of funding, deposits accounted for 81.8%, 83.9%, 85.7% and 85.8% as at 31 December 2021, 2022 and 2023 and as at 30 June 2024, respectively.

In terms of currency, the Bank's deposits are primarily denominated in Pesos, reflecting the general profile of its customer base. As at 31 December 2021, 2022 and 2023 and 30 June 2024, 87.2%, 84.9%, 86.2% and 86.4%, respectively, of the Bank's deposits were denominated in Pesos.

According to type of deposits, on the other hand, 79.9%, 84.9%, 82.9% and 84.1% of the Bank's outstanding deposits as at 31 December 2021, 2022, 2023 and 30 June 2024, respectively, comprised demand and savings deposits.

The following table presents a more detailed maturity analysis of the deposit base of the Bank as of the dates indicated:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	<i>(in P millions)</i>			
Deposit by Type				
Demand	216,367.8	220,043.9	228,405.9	231,001.3
Savings	498,581.5	519,940.5	541,009.4	567,099.0
Time and LTNCds.....	179,975.0	131,243.3	158,555.6	151,115.5
30-90 days	140,391.0	87,088.9	126,111.5	116,031.4
91-180 days	5,364.7	8,698.9	6,222.4	9,155.8
181 days and longer.....	34,219.3	35,455.5	26,221.7	25,928.3
Total.....	894,924.3	871,227.7	927,970.9	949,215.8

Bills and acceptances payable

As at 31 December 2021, 2022, 2023 and 30 June 2024, bills and acceptances payables amounted to ₱52,953.8 million, ₱14,980.4 million, ₱20,162.6 million and ₱19,767.1 million, respectively. As at 31 December 2021, 2022, 2023 and 30 June 2024, 4.3%, 7.3%, 0.2% and 0.3%, respectively, of the Bank's bills and acceptances payables were denominated in Pesos.

The following table sets forth an analysis of the maturities of the bills and acceptances payable by contractual maturity dates of the Bank, as of the specified dates:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	(in ₱ millions)			
Bills Payable				
Due within one year.....	42,670.5	4,589.2	9,499.3	5,233.8
Due beyond one year.....	3,173.4	3,113.2	1,108.3	6,429.6
Total Bills Payable	45,843.9	7,702.4	10,607.6	11,663.4
Acceptances Outstanding	7,109.9	7,278.0	9,555.0	8,103.7
Total	52,953.8	14,980.4	20,162.6	19,767.1

Bonds Payable

On 27 June 2019, the Bank issued U.S.\$750 million 3.280% Fixed Rate Notes due 2024 under its U.S.\$2.0 billion Medium Term Note Programme. As at 31 December 2023 and 30 June 2024, the Bank's bonds payable amounted ₱41,490.9 million and ₱43,949.4 million, respectively.

Capital funds

As at 31 December 2021, 2022, 2023 and 30 June 2024, the Bank's capital stock of ₱70.0 billion, consisted of 1.75 billion common shares with par value of ₱40.00 each.

Liquidity

The Bank's liquidity management initiatives seek to ensure that the Bank has available funds to meet its present and future financial obligations and to capitalise on business opportunities as they arise. Financial obligations arise from withdrawals of deposits, extensions of loans or other forms of credit, repayments on maturity of borrowed funds and operational needs. The Bank seeks to ensure sufficient liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, the securing of ample money market lines and the maintenance of repurchase facilities to pre-empt any unexpected liquidity situations. The Bank regularly monitors the maturity mismatch between assets and funding sources to ensure that it is kept at manageable levels.

Pursuant to BSP regulations, universal and commercial banks are required to maintain a RRR as a percentage of bank deposits and deposit substitute liabilities of 9.5%. The required reserves must be kept in the form of deposits placed in a demand deposit account with the BSP. Government securities, which may form part of the reserves against deposits/deposit substitute liabilities of banks must bear an interest at the rate of 4.0% per annum, must be non-negotiable, and shall carry BSP support. The BSP also requires banks under the foreign currency deposit and expanded foreign currency deposit systems to maintain asset cover of 100.0% of their FCDU liabilities, except for U.S. dollar-denominated repurchase agreements with the BSP. The BSP allows banks to offset any deficiency in asset cover occurring in one or more days of the week by the excess cover that it may hold in the same week and in the immediately succeeding week. A simple moving average for every two-week reference period shall be used in the measurement of asset cover.

Beginning 25 October 2024, the BSP shall reduce the RRR against demand deposits, NOW accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable CTDs, long-term non-negotiable tax-exempt CTDs, deposit substitutes, Peso deposits lodged under due to foreign banks and Peso deposits lodged under due to head office/branches/agencies abroad of banks (Philippine branch of a foreign bank) applicable to universal and commercial banks, and non-bank financial institutions with quasi-banking functions by 250 basis points, or from the current 9.5% to 7.0%.

As at 31 December 2021, 2022, 2023 and 30 June 2024, the Bank's liquid assets amounted to ₱350,539.9 million, ₱317,788.4 million, ₱365,825.5 million and ₱387,292.3 million, respectively, representing 29.4%, 27.8%, 30.2%

and 30.8%, respectively, of the Bank's total assets as of those dates. As of 30 June 2024, the Bank's reserves on its Peso book stood at 11.5% of total Peso liabilities while the Bank's liquid asset cover stood at 50.8% of total FCDU liabilities. The Bank's liquid assets include cash and other cash items, amounts due from the BSP, amounts due from other banks, interbank loans receivables, securities held under agreements to resell, financial assets at fair value through profit or loss ("FVTPL") and financial assets at fair value through other comprehensive income ("FVOCI").

The following table sets forth information with respect to the Bank's liquidity position as of the dates indicated:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	<i>(P millions, except percentages)</i>			
Liquid Assets.....	350,539.9	317,788.4	365,825.5	387,292.3
Cash and Other Cash Items.....	27,552.8	22,217.9	21,151.4	17,180.5
Due from BSP.....	161,001.9	94,701.4	95,410.4	110,199.0
Due from Other Banks.....	27,222.1	26,010.2	21,243.9	20,881.8
Interbank Loans Receivable.....	32,106.1	16,290.1	35,634.4	33,119.8
Securities Held Under Agreements to Resell.....	15,796.7	64,523.9	69,694.5	84,074.6
Financial Assets Designated at FVTPL.....	11,167.7	7,347.2	10,516.9	22,572.9
Financial Assets at FVOCI.....	75,692.6	86,697.7	112,174.0	99,263.7
Total Assets.....	1,190,784.6	1,145,157.1	1,210,549.4	1,256,349.1
Total Deposits.....	894,924.3	871,227.7	927,970.9	949,215.8
Net Loans*	593,615.1	578,120.3	604,245.1	621,206.3
Financial Ratios				
Liquid Assets to Total Assets.....	29.4%	27.8%	30.2%	30.8%
Liquid Assets to Total Deposit Liabilities.....	39.2%	36.5%	39.4%	40.8%
Net Loans to Total Deposits.....	66.3%	66.4%	65.1%	65.4%

* Receivables from customers (net of unearned and other deferred income and allowance for credit losses as at 31 December 2021 and 2022, and net of allowance for expected credit losses and unearned and other deferred income as at 31 December 2023 and 30 June 2024).

Loan Portfolio

Overview

As at 31 December 2021, 2022, 2023 and 30 June 2024, the Bank's gross loan portfolio as defined and categorised by the BSP (receivables from customers, unquoted debt securities, other receivables, interbank loans and securities held under agreements to re-sell) amounted to ₱695,325.7 million, ₱713,618.3 million, ₱765,315.2 million and ₱792,495.4 million, respectively, representing 58.4%, 62.3%, 63.2% and 63.1%, respectively, of the Bank's total assets as of those dates.

The Bank has implemented different lending limits to be complied with by its credit committees to provide greater control in the Bank's lending operations. Depending on the credit size, credit applications exceeding certain limits must be approved by the Executive Committee and/or the Board of Directors of the Bank for credit approvals. The Bank has also adopted a strategy of selective lending by focusing on industries such as power and other infrastructure, rice/corn trading, and food processing, in which the Bank believes growth prospects remain stable and in which the ratio of NPLs is relatively low. At the same time, the Bank is reducing its exposure to industries with high NPL ratios.

Significant credit exposures as to industry sector

The following table sets forth an industry sector analysis of the Bank's receivables from customers before taking into account allowance for credit losses, as defined and categorised by the BSP:

	As at 31 December						As at 30 June	
	2021		2022		2023		2024	
	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(P millions, except percentages)</i>							
Wholesale and retail trade.....	89,964.6	14.3	94,635.3	15.4	122,888.0	19.1	114,110.1	17.3
Financial intermediaries.....	127,322.5	20.2	123,572.8	20.2	92,281.4	14.4	111,015.9	16.8
Real estate, renting and business activities.....	98,619.8	15.7	96,701.3	15.8	110,728.7	17.3	100,100.0	15.2
Electricity, gas and water.....	72,603.7	11.5	77,908.1	12.7	83,942.3	13.1	83,051.1	12.6
Manufacturing.....	57,374.3	9.1	64,750.8	10.6	63,948.0	10.00	71,141.8	10.8
Transport, storage and								

	As at 31 December						As at 30 June	
	2021		2022		2023		2024	
	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(P millions, except percentages)</i>							
communication	50,593.5	8.0	41,702.7	6.8	46,249.8	7.2	40,709.2	6.2
Construction.....	30,123.8	4.8	30,989.7	5.1	38,833.9	6.1	40,609.5	6.2
Agriculture, hunting and forestry	10,984.1	1.7	6,846.7	1.1	8,187.7	1.3	8,298.7	1.3
Public administration and defence.....	8,668.9	1.4	1,868.7	0.3	4,101.2	0.6	3,820.2	0.6
Others.....	83,171.6	13.3	73,881.9	12.0	70,637.3	10.9	87,054.9	13.0
Total.....	629,426.8	100.0	612,858.0	100.0	641,798.3	100.0	659,911.4	100.0

Wholesale and retail trade, financial intermediaries, real estate, renting and business activities, electricity, gas and water and manufacturing, represent the largest sectors of the Bank's loan portfolio. As at 30 June 2024 these sectors represented 17.3%, 16.8%, 15.2%, 12.6% and 10.8%, respectively, of the Bank's receivables from customers.

Under guidelines established by the BSP, the BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30.0% of the total loan portfolio. The Bank maintains a flexible policy toward its exposure to the Philippine economy, in principle avoiding exposure of more than 10.0% to a particular industrial sub-sector of the economy. The distribution of the Bank's loan portfolio by industry is also subject to seasonal fluctuations.

In addition, the Bank monitors its exposure to specific sectors of the economy to ensure compliance with specific pre-determined lending requirements imposed by law on all Philippine banks. The Bank must comply with legal requirements to make loans available to the agricultural sector and to SMEs. Mandatory credit allocation laws require all Philippine banks to make available 25.0% of their "loanable funds" to the agricultural sector in general, with 10.0% of such funds being made available exclusively to agrarian reform beneficiaries, and to allocate 6.0% of their loan portfolios to small-sized, and 2.0% to medium-sized, enterprises.

Maturity

The following table sets forth an analysis of the Bank's receivables from customers by maturity:

	As at 31 December						As at 30 June	
	2021		2022		2023		2024	
	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(P millions, except percentages)</i>							
Due within one year	221,349.8	35.2	236,492.9	38.6	299,449.2	46.7	318,468.6	48.3
Due over one year	408,077.0	64.8	376,365.1	61.4	342,349.1	53.3	341,442.8	51.7
Total.....	629,426.8	100.0	612,858.0	100.0	641,798.3	100.0	659,911.4	100.0

Loans due within one year primarily consist of loans to corporations for working capital and loans to consumers for general use. Loans with a maturity of between one and five years consist primarily of term loans to corporations and businesses. Loans with a maturity of over five years consist primarily of mortgage loan for property purchases.

Currency

The following table shows an analysis of the Bank's receivables from customers by currency:

	As at 31 December						As at 30 June	
	2021		2022		2023		2024	
	Amount	%	Amount	%	Amount	%	Amount	%
	<i>(P millions, except percentages)</i>							
Philippine Peso.....	537,810.2	85.4	533,127.3	87.0	562,795.9	87.7	572,477.5	86.8
Foreign currency.....	91,616.6	14.6	79,730.7	13.0	79,002.4	12.3	87,433.9	13.2
Total	629,426.8	100.0	612,858.0	100.0	641,798.3	100.0	659,911.4	100.0

As at 30 June 2024, 86.8% of the Bank's receivables from customers was denominated in Pesos with 13.2% being denominated in foreign currency, most of which consisted of U.S. Dollars.

The Bank adopted a policy with respect to foreign currency lending pursuant to which foreign currency denominated loans can only be granted to companies with at least 50.0% of revenues in foreign currency and to importers who have authorisation from the BSP to purchase foreign currency to service their foreign currency-denominated obligations.

Interest rates

Interest rates on loans are generally set on the basis of the Bank's average or marginal cost of funds which in turn is largely referenced to the Bloomberg Valuation Service ("BVAL") plus a spread. BVAL reflects the secondary trading levels of the benchmark government securities, which are affected by the monetary policies of the BSP and other market factors.

As at 30 June 2024, ₱441,898.3 million or 66.9% of the Bank's receivables from customers of ₱660,644.0 million was subject to re-pricing. A majority of the Bank's rate-sensitive assets and liabilities re-price every 30 to 90 days, which limits the Bank's exposure to fluctuations in domestic interest rates.

Size and concentration of loans

The following table sets forth a breakdown of Bank's receivables from customers by principal amount as at 30 June 2024:

Principal Amount	Percentage
Less than 1,000,000	1.3%
1,000,000 to 2,500,000	2.6%
2,500,000 to 5,000,000	2.2%
5,000,000 to 10,000,000	2.4%
10,000,000 to 50,000,000	10.1%
50,000,000 to 100,000,000	6.5%
More than 100,000,000	74.9%
Total	100.0%

The BSP currently imposes a limit on the size of the Bank's financial exposure to any single person or entity or group of connected persons or entities to 25.0% of the Bank's net worth. As at 30 June 2024, the Bank has complied with the single borrower's limit for all of its loans.

As at 30 June 2024, the Bank's single largest corporate borrower accounted for ₱20,750.0 million, or 3.1% of the Bank's outstanding receivables from customers.

As at 30 June 2024, the Bank's ten largest borrowers in the aggregate accounted for ₱152,300.7 million, or 23.1%, of the Bank's outstanding receivables from customers.

Secured and unsecured loans

The following table sets forth the Bank's secured and unsecured receivables from customers according to type of collateral:

	As at 31 December						As at 30 June	
	2021		2022		2023		2024	
	Amount	%	Amount	%	Amount	%	Amount	%
<i>(₱ millions, except percentages)</i>								
Secured								
Real estate mortgage	65,400.3	10.4	61,579.4	10.1	126,721.6	19.7	100,021.9	15.2
Bank deposit hold-out	4,375.5	0.7	3,844.7	0.6	7,439.9	1.2	6,453.7	1.0
Chattel mortgage	23,572.5	3.7	12,560.8	2.1	15,319.9	2.4	15,293.0	2.3
Others	20,528.5	3.3	30,856.6	5.0	1,551.4	0.2	20,799.0	3.1
Unsecured	515,550.0	81.9	504,016.5	82.2	490,765.5	76.5	517,343.8	78.4
Total	629,426.8	100.0	612,858.0	100.0	641,798.3	100.0	659,911.4	100.0

The Bank principally focuses on cash flows in assessing the creditworthiness of borrowers. However, it will seek to minimise credit risk in support of a loan by requiring borrowers to pledge or mortgage collateral to secure the payment of loans. As at 30 June 2024, 21.6% of receivables from customers were extended on a secured basis, and 15.2% were backed by real estate mortgages.

The Bank's general policy in the acceptance of support or security arrangements for loans provides for the guidelines on acceptable and unacceptable forms of collateral. The Bank's maximum loan value for real estate collateral is 60.0% of its appraised value.

Loan Loss Management and Provisioning

Overview

PNB has successfully managed to reduce its NPL ratio from 51.6% in 2002 to 4.5% in 2010 and to 5.9% as at 30 June 2024. PNB's NPLs, as defined by BSP Circular No. 941 dated 20 January 2017, amounted to ₱45,792.8 million as at 30 June 2024 and 31 December 2023. PNB's net NPL ratio was at 2.1% as at 30 June 2024. According to the data from the BSP, net NPL ratios for the Philippine banking system were 2.11%, 1.47%, 1.51% and 1.41% as at 31 December 2021, 2022, 2023 and 30 June 2024, respectively.

For the years ended 31 December 2021, 2022, 2023 and the six months ended 30 June 2023 and 2024, the Bank's provision for impairment, credit and other losses was ₱10,725 million, ₱7,198.1 million, ₱5,923.1 million, ₱1,567.9 million and ₱2,069.4 million, respectively, representing 25.3%, 15.9%, 9.9%, 5.5% and 6.3%, respectively, of the Bank's gross interest income for such periods. As at 30 June 2024, the Bank's NPL coverage was at 85.6% compared to 60.3%, 92.5% and 91.1% as at 31 December 2021, 2022 and 2023, respectively.

Volatile economic conditions may adversely affect the ability of the Bank's borrowers to repay their indebtedness and, as a result, the Bank may experience an increase in NPLs and provisions for probable losses.

Remedial Management Group

The Bank's Remedial Management Group is focused on reducing the level of the Bank's NPLs.

Loan loss classification

BSP regulations require that Philippine banks classify loans based on five different categories corresponding to levels of risk: "pass", "especially mentioned", "substandard", "doubtful" and "loss". This classification depends on management's evaluation of the collectability of the loan, after consideration of prevailing and anticipated economic conditions, collection and credit experience with the specific account, fair market value of collateral, and financial capabilities of any guarantors. Those loans which do not have a greater than normal risk, and for which no loss on ultimate collection is anticipated, are "pass". All other loan accounts, comprising those loan accounts which have a greater than normal risk, are classified as "especially mentioned", "substandard", "doubtful" or "loss" assets.

The Banks has adopted PFRS 9 in preparing its financial statements which changed the Bank's accounting for impairment losses by from incurred loss approach to a forward-looking ECL approach. Thus, it is no longer required that a credit event has occurred before credit losses are recognised. Instead, an entity calculates the ECL for all assets classified under amortised cost and FVOCI, which include, but are not limited to, corporate loans, consumer finance loans, and bonds. In August 2018, the BSP issued Circular No. 1011 which formally adopts PFRS 9 in its prudential loan loss provisioning policy, with certain modifications. The Bank has adopted the said circular as of its effectivity date, which is reflected in the Bank's financial statements and reports to BSP.

With the adoption of PFRS 9, the Bank is also required to classify its loan portfolio based on the 3-stage approach of PFRS 9 that is based on whether there is significant increase in credit risk ("SICR") since initial recognition. Loans which are performing and have not experienced significant increase in credit risk since initial recognition are classified under stage 1 and require 12-month ECL, while loans with significant increase in credit risk since initial recognition but are not yet in default are considered stage 2. Loans which are in default or non-performing are classified under stage 3. Stage 2 and stage 3 loans require lifetime ECL. The stage of the loan is being considered to further classify the loan as to "pass", "especially mentioned", "substandard", "doubtful" or "loss": Stage 1 loans have risk asset classification of "pass", stage 2 loans may be classified as either "especially mentioned" or "substandard", while stage 3 exposures may be classified as "substandard", "doubtful" or "loss".

With the shift to expected credit loss approach, the Bank has developed ECL models for each loan segment. The ECL generally has three major components – probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD"). PD captures the obligor or borrower risk. LGD reflects, in part, how collateral is being managed. EAD is largely the on-balance amount and off-balance amount (for committed lines) in the event of a default. The off-balance amount to be included shall be computed through the credit conversion factor ("CCF").

The Bank performs review of the classification of loan exposures on a monthly basis and for significant exposures, assesses the credit standing based on financial condition, early warning signals and payment behaviour of the borrower. Based on these classifications, the Bank establishes allowances in accordance with the approved ECL

methodologies and discloses its problem loans using criteria required under BSP regulations and these allowances are subject to BSP review and confirmation.

Altogether, the resulting value is called the baseline ECL. In order to compute for the probability-weighted ECL, calibration factors and scenario weights are embedded into the baseline model. Finally, risk management policies complement the application of probability-weighted ECL models. Together, ECL models and their corresponding policies, shall enhance the assessment and monitoring of accounts.

As at 30 June 2024, the Bank's allowance for credit losses on loans was ₱42.7 billion. As a percentage of the Bank's NPL portfolio, such allowance for credit losses was 93.2% as at 30 June 2024 as reflected in the unaudited condensed consolidated financial statements of the Bank as of 30 June 2024 elsewhere in this Offering Circular.

Non-performing loans

Unless otherwise stated, the presentation of the Bank's classification of its loan portfolio and related ratios in this section, including impairment losses and allowance for probable losses are on the basis of BSP guidelines.

Under BSP guidelines, loans are considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Loans which have been foreclosed or have been transferred to the Bank's ROPA are not classified as NPLs.

The table below sets forth details of PNB's NPLs, ROPA, non-performing assets ("NPAs") (as described below), restructured loans and write-offs for loan losses as at 31 December 2021, 2022, 2023 and 30 June 2024:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	<i>(₱ millions, except percentages)</i>			
Non-performing loans (NPLs), gross ⁽¹⁾	64,170	42,005	46,054	45,715
Non-performing loans (NPLs), net ⁽²⁾	31,781	17,990	18,190	16,177
Adjusted loan portfolio ⁽³⁾	660,190	678,573	731,716	761,922
Total non-performing loans to adjusted loan portfolio ⁽⁴⁾	4.8%	2.7%	2.5%	2.1%
Receivables from customers	615,764	600,128	628,842	647,207
ROPA, Gross	13,949	17,104	18,062	18,445
ROPA, Net	10,178	13,265	14,112	14,217
Total assets	1,188,011	1,133,744	1,200,374	1,246,378
Non-performing assets (NPAs) ⁽⁵⁾	76,524	57,421	62,460	62,420
NPAs to total assets	6.4%	5.1%	5.2%	5.0%
Allowance for impairment and credit losses (total) ⁽⁶⁾	47,590	47,771	47,265	47,577
Allowance for credit losses (loans) ⁽⁴⁾	34,733	38,271	41,831	38,958
Allowance for impairment losses (ROPA) ⁽⁶⁾	2,176	2,151	2,294	2,488
Allowance for credit losses (loans) ⁽³⁾ to total	54.1%	91.1%	90.8%	85.2%
non-performing loans, gross				
Allowance for impairment and credit losses (total) to total	62.2%	83.2%	75.7%	76.2%
non-performing assets				
Total restructured loans	45,362	42,692	40,539	40,203
Restructured loans to receivables from customers	7.4%	7.1%	6.4%	6.2%
Loans – written off ⁽⁷⁾	1,430	2,070	1,370	740

Notes:

- (1) Figures pertain to the Parent Bank only.
- (2) Net of NPLs fully covered by allowance for credit losses and consists of the Parent Bank only.
- (3) Including Interbank Loans Receivable and Securities Held Under Agreements to Resell, net of NPLs fully covered by allowance for credit losses and transferred account.
- (4) Based on BSP computation and is based on Parent Bank balances only.
- (5) Sum of Gross NPLs and ROPA (net of depreciation and gross of allowance for impairment losses).
- (6) Amounts are based on PFRS.
- (7) Amounts presented are loans written off from Parent Bank Receivables from Customers.

PNB's NPLs (gross of allowance for impairment losses) was ₱64,170.3 million, ₱42,004.8 million, ₱46,054.3 million and ₱45,715.4 million as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively. However, NPL ratios of PNB based on BSP guidelines, net of valuation reserves was at 2.12% as at 30 June 2024 compared to 2.49% as at 31 December 2023. PNB's gross NPL ratio was at 9.72%, 6.19%, 6.29% and 6.00% as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively.

In order to manage its loan portfolio and reduce its exposure to NPLs, the Bank's practice is to restructure those classified loans which it considers suitable for restructuring. The Bank restructures loans on a case-by-case basis. Restructuring methods used by the Bank have included extending the maturity of loans beyond their original maturity date and providing for rescheduled payments of principal consistent with the expected cash flows on the borrower in question. The Bank will also consider, in certain circumstances, receiving partial repayments of principal in respect of restructured loans. The Bank has also agreed to debt-for-equity swaps but it rarely uses this as a restructuring solution.

In accordance with BSP guidelines, in general, NPLs which are successfully restructured are considered current and no longer non-performing following three consecutive payments of the required amortisation of principal and/or interest. As of 30 June 2024, the Bank had ₱24,726.2 million of restructured loans which were treated as current.

In accordance with BSP guidelines, loans and other assets in litigation are classified as NPAs. The Bank's NPAs principally comprise ROPA and NPLs. The Bank has established the Acquired Assets Management Group to actively manage and, where appropriate, sell its ROPA. The Bank has sold approximately ₱4,925.8 million, ₱1,176.2 million, ₱2,025.6 million and ₱141.7 million of ROPA for the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2024, respectively. These ROPAs were resolved through direct sales and joint ventures.

Sectoral analysis of non-performing loans

The following table sets forth, as of the dates indicated, the Bank's gross NPLs by the respective borrowers' industry or economic activity and as a percentage of the Bank's gross NPLs:

	As at 31 December						As at 30 June	
	2021		2022		2023		2024	
	Amount	%	Amount	%	Amount	%	Amount	%
<i>(₱ millions, except percentages)</i>								
Manufacturing (various)	5,511	8.3	6,105	13.9	6,832	14.6	8,347	18.2
Real estate, renting and business activities	14,121	21.3	13,894	31.6	13,592	29.0	13,534	29.6
Wholesale and retail trade	6,017	9.1	7,991	18.2	8,742	18.7	9,069	19.8
Agriculture, fishing, and forestry	423	0.6	3,749	8.5	3,675	7.8	3,664	8.0
Transport, storage and communication	7,533	11.3	1,618	3.7	1,417	3.0	1,335	2.9
Financial Intermediaries	56	0.1	1,160	2.6	3	0.0	399	0.9
Construction	3,888	5.9	4,417	10.0	9,148	19.5	8,986	19.6
Public administration and defence	58	0.1	57	0.1	138	0.3	51	0.1
Others	28,827	43.3	5,017	11.4	3,289	7.0	408	0.9
Total	66,434	100.0	44,008	100.0	46,836	100.0	45,793	100.0

Top 10 non-performing loans

As at 30 June 2024, the Bank's exposure from its ten largest NPLs range from ₱398.9 million to ₱2,449.8 million, and amounted to ₱8,441.7 million in aggregate. These ten largest NPLs accounted for 1.3% of the Bank's total gross loans and 18.5% of its gross NPLs to customers.

As at 31 December 2023, the Bank's exposure from its ten largest NPLs range from ₱373.5 million to ₱2,449.8 million, and amounted to ₱7,102.8 million in aggregate. These ten largest NPLs accounted for 1.1 % of the Bank's total gross loans and 15.4 % of its gross NPLs to customers.

Acquired Assets Management Group

The Bank's Acquired Assets Management Group ("AAMG") is responsible for the overall disposal and management of the Bank's ROPA. It operates based on the Bank's management's overall directions/plans and strategies. Its sales performance has direct impact on the financial aspects of the Bank.

For the year ended 31 December 2023 and the six months ended 30 June 2024, AAMG was able to systematically manage and dispose 220 and 96 properties, respectively, which has an aggregate market value of ₱5.1 billion and ₱0.3 billion, respectively. These properties are classified into:

Classification	Number of Properties		Aggregate Market Value (in ₱ millions)	
	For the year ended 31 December 2023	For the six months ended 30 June 2024	For the year ended 31 December 2023	For the six months ended 30 June 2024
Commercial	3	2	3,783.3	37.7
Residential	213	92	1,068.1	224.8
Industrial	—	—	—	—
Others	4	2	230.8	4.6
Total	220	96	5,082.2	267.2

For the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2024, AAMG has generated ROPA disposal of ₱4,925.8 million, ₱1,176.2 million, ₱2,025.6 million and ₱141.7 million, respectively.

As part of the Bank's strategy to effectively market and dispose of its ROPA, the Bank's ROPA is categorised into five pool assets:

Pools	Focus
1	Pabahay Bonanza (ROPA < ₱5.0 million in market value)
2	Litigated ROPA/For possible compromise settlements
3	Clean
4	Partially Impeded
5	Joint Ventures

The Bank's strategy in the disposal of its ROPA is as follows:

- Focused selling of high value foreclosed properties;
- Enhancing value of properties through effective property management activities such as consolidation and being in physical possession of such properties, among others; and
- Increasing efforts to generate recurring income for the Bank through leases, including from ROPA, Bank-owned properties, collections from the comprehensive agrarian reform programme ("CARP"), and interest income.

Investment Portfolio

As of 30 June 2024, the Bank's gross trading and investment securities portfolio comprised 24.2% of its total assets. The Bank carries out its investment activities according to various investment and trading policies. These policies set forth delegation of powers, types of instruments, maximum limits on investments in different types of securities, position limits, stop loss limits, duration limits, and minimum acceptable credit spreads.

The table below shows the balances of the Bank's investment securities as of the dates indicated:

	As at 31 December						As at 30 June	
	2021		2022		2023		2024	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	(₱ millions)							
Financial assets at								
FVTPL	11,167.7	11,167.7	7,347.2	7,347.2	10,516.9	10,516.9	22,572.9	22,572.9
Financial assets at								
FVOCI.....	167,987.3	167,987.3	158,183.5	158,183.5	164,531.5	164,531.5	166,975.4	166,975.4
Investment securities at								
amortised cost ⁽¹⁾	93,278.0	94,871.9	114,315.8	111,403.0	123,356.2	123,571.3	114,453.1	111,991.6
Total.....	272,433.0	274,026.9	279,846.5	276,933.7	298,404.6	298,619.7	304,001.4	301,539.9

Note:

(1) Gross of allowance of expected credit losses.

The following table sets out an analysis of the Bank's total investment portfolio (gross of allowances for impairment losses) by maturity as at 30 June 2024:

	Due within one year	Due more than 1 to 5 years	Due more than 5 to 10 years (P millions)	Due more than 10 years	Total
Financial assets at FVTPL.....	10,200.0	9,023.2	2,831.9	517.8	22,572.9
Financial assets at FVOCI.....	49,528.6	44,122.2	37,376.7	35,947.9	166,975.4
Investment securities at amortised cost.....	801.9	18,980.9	56,062.6	38,607.7	114,453.1
Total	60,530.5	72,126.3	96,271.2	75,073.4	304,001.4

Financial Assets at FVTPL

Financial assets at FVTPL are recorded at fair value. Changes in fair value relating to the held for trading positions are recognised in trading and investment securities gains (losses) – net. As at 31 December 2021, 2022 and 2023 and 30 June 2024, the Bank's financial assets at FVTPL amounted to ₱11,167.7 million, ₱7,347.2 million, ₱10,516.9 million and ₱22,572.9 million, respectively.

The following table sets forth, as of the dates indicated, information related to the Bank's financial assets at FVTPL.

	As at 31 December						As at 30 June	
	2021		2022		2023		2024	
	Book/ Market Value	Trading Gains (Losses)	Book/ Market Value	Trading Gains (Losses)	Book/ Market Value	Trading Gains (Losses)	Book/ Market Value	Trading Gains
	(P millions)							
Government.....	7,956.1	0.0	4,371.7	(146.6)	8,174.4	411.8	20,137.3	338.0
Private.....	1,841.5	(825.5)	1,610.7	(64.5)	1,590.5	(12.9)	1,602.4	20.3
Total debt securities.....	9,797.6	(825.5)	5,982.4	(211.1)	9,764.9	398.9	21,739.7	358.3
Equity securities	5.0	2.3	2.9	(0.2)	2.8	(0.2)	2.8	0.0
Derivative assets	1,365.1	(23.5)	1,361.9	0.0	749.2	0.6	830.4	10.8
Total	11,167.7	(846.7)	7,347.2	(211.3)	10,516.9	399.3	22,572.9	369.1

Financial Assets at FVOCI

Financial assets at FVOCI are recorded at fair value. Unrealised gains and losses arising from the fair valuation of financial assets at FVOCI are excluded, net of tax as applicable, from the Bank's reported earnings, and are included in the Bank's statement of comprehensive income as "Changes in net unrealised loss on financial assets at FVOCI". As at 31 December 2021, 2022 and 2023 and 30 June 2024, the Bank's financial assets at FVOCI amounted to ₱167,987.3 million, ₱158,183.5 million, ₱164,531.5 million and ₱166,975.4 million, respectively. The following table sets forth, as of the dates indicated, information related to the Bank's financial assets at FVOCI.

	As at 31 December						As at 30 June	
	2021		2022		2023		2024	
	Book/ Market Value	Trading Gains	Book/ Market Value	Trading Gains (Losses)	Book/ Market Value	Trading Gains	Book/ Market Value	Trading Gains
	(P millions)							
Government securities.....	120,453.6	1,510.1	117,939.8	0.0	124,372.4	0.0	126,404.6	0.0
Private debt securities.....	23,115.5	30.1	15,430.8	(1,058.3)	14,180.6	0.1	14,235.2	7.0
Equity securities	24,418.2	0.0	24,812.9	0.0	25,978.5	0.0	26,335.6	0.0
Total	167,987.3	1,540.2	158,183.5	(1,058.3)	164,531.5	0.1	166,975.4	7.0

Investment Securities at Amortised Cost

After initial measurement, investment securities at amortised cost are recorded at amortised cost using the effective interest method, less allowance for credit losses. As at 31 December 2021, 2022 and 2023 and 30 June 2024, the Bank's financial assets at amortised cost amounted to ₱89,455.8 million, ₱110,468.0 million,

₱123,200.4 million and ₱114,301.1 million, respectively. The following table sets forth, as of the dates indicated, information related to the Bank's financial assets at amortised cost.

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	Book Value	Book Value	Book Value	Book Value
	(₱ millions)			
Government securities.....	34,133.3	78,197.4	104,533.3	101,160.6
Private debt securities	59,144.7	36,118.4	18,822.9	13,292.4
Less allowance for expected credit losses	3,822.2	3,847.8	155.8	151.9
Total	89,455.8	110,468.0	123,200.4	114,301.1

MANAGEMENT

Board of Directors

The overall management and supervision of the Bank is undertaken by its Board of Directors. The Board of Directors is empowered to direct, manage and supervise, under its collective responsibility, the affairs of the Bank. The Executive Officers, subject to control and supervision of the Board, have direct charge of the business activities of the Bank. They are responsible for the implementation of the policies set by the Board in their respective business units. Under the Bank's Amended By-Laws, the Board of Directors consists of fifteen members. There should be at least two Independent Directors or such number of directors that constitutes twenty per cent of the members of the Board, whichever is higher, but in no case less than two.

The table below sets out the members of the Board of Directors as at 30 September 2024:

Name	Position	Citizenship	Age
Lucio C. Tan ⁽¹⁾	Chairman Emeritus	Filipino	90
Edgar A. Cua	Chairperson and Independent Director	Filipino	69
Lucio C. Tan III.....	Vice Chairman	Filipino	31
Florido P. Casuela	Director and President	Filipino	82
Felix Enrico R. Alfiler.....	Director	Filipino	74
Chester Y. Luy	Director	Filipino	55
Estelito P. Mendoza.....	Director	Filipino	94
Shiela T. Pascual	Director	Filipino	61
Wilfrido E. Sanchez	Director	Filipino	87
Eusebio V. Tan.....	Director	Filipino	73
Michael G. Tan.....	Director	Filipino	58
Vivienne K. Tan	Director	Filipino	56
Isabelita M. Papa	Independent Director	Filipino	76
Maria Almasara Cyd N. Tuaño-Amador	Independent Director	Filipino	67
Domingo H. Yap	Independent Director	Filipino	90

Note:

(1) Ceased to be a director of PNB as of 22 September 2023; serves as Chairman Emeritus of the Board of Directors.

The following is a brief description of the business experience of each of the Directors:

Lucio C. Tan, 90, Filipino, was first elected as a Director of the Bank on 8 December 1999, has been serving as Chairman Emeritus since 22 September 2023. He obtained his Bachelor of Science in Chemical Engineering degree from Far Eastern University and Doctor of Philosophy major in Commerce, from University of Sto. Tomas. He also serves as the Chairman and CEO of LT Group, Inc., PAL Holdings, Inc. and MacroAsia Corporation. He is presently the Chairman and CEO of Philippine Airlines, Inc. Asia Brewery, Inc., and Basic Holdings Corporation, Chairman and President of Tangent Holdings Corporation, Trustmark Holdings Corporation, Buona Sorte Holdings, Inc., Asian Alcohol Corporation, Himmel Industries, Inc., Charter House, Incorporated, Foremost Farms, Inc., Progressive Farms, Inc., and Zuma Holdings and Management Corporation, Chairman of Allied Commercial Bank Xiamen, Allied Banking Corporation (Hong Kong) Limited, Allianz PNB Life Insurance, Inc., Eton Properties Philippines, Inc., Fortune Tobacco Corporation, PNB Holdings Corporation, Tanduary Distillers, Inc., Alliedbankers Insurance Corporation, Air Philippines Corporation, PMFTC, Inc., Grandspan Development Corporation, and University of the East, Chairman Emeritus of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc., Founder and Vice Chairman of the Foundation for Upgrading the Standard of Education, Inc., Founder of the Tan Yan Kee Foundation, Inc., of which he is the Chairman and President. Previously, he was the Chairman of Allied Banking Corporation, PNB Life Insurance, Inc., PNB Savings Bank, and Allied Leasing and Finance Corporation and Director of Philippine National Bank. He was chosen as a Lifetime Achievement Awardee by the Dr. Jose P. Rizal Awards for Excellence, Adopted to the Ancient Order of the Chamorri and designated Ambassador-at-Large of the U.S. Island-territory of Guam, Diploma of Merit by the Socialist Republic of Vietnam, Outstanding Manilan for the year 2000, UST Medal of Excellence in 1999, Most

Distinguished Bicolano Business Icon in 2005, 2003 Most Outstanding Member Award by the Philippine Chamber of Commerce and Industry (PCCI), Award of Distinction by the Cebu Chamber of Commerce and Industry, Award for Exemplary Civilian Service of the Philippine Medical Association, Honorary Mayor and Adopted Son of Bacolod City; Adopted Son of Cauayan City, Isabela and Entrepreneurial Son of Zamboanga, Distinguished Fellow during the 25th Conference of the ASEAN Federation of Engineering Association and 2008 Achievement Award for service to the chemistry profession during the 10th Eurasia Conference on Chemical Sciences.

Edgar A. Cua, 69, Filipino, was first elected as an Independent Director of the Bank effective 31 May 2016, has been serving as the Chairman of the Board since 25 April 2023. He obtained his Bachelor of Arts in Economics degree (Honors Program) from the Ateneo de Manila University, a Master of Arts in Economics degree from the University of Southern California, a Master of Planning Urban and Regional Environment degree from the University of Southern California. He also studied Advanced Chinese from the Beijing Language and Culture University and attended the Sustainable Development Training Program at Cambridge University. He is also currently Chairman/Independent Director of Allied Integrated Holdings, Inc. (formerly PNB Savings Bank), Vice Chairman/Independent Director of PNB Capital and Investment Corporation, Independent Director of PNB-Mizuho Leasing and Finance Corp., PNB-Mizuho Equipment Rentals Corporation, PNB International Investments Corporation, and PNB Remittance Company (Canada), Director of Davao Unicar Corporation and Advisor of Peking University Alumni Association of the Philippines, Inc. Previously, he was an Independent Director of Allied Commercial Bank, Xiamen and Vice Chairman/Director of PNB Savings Bank. He has held various managerial and staff positions at the Asian Development Bank (ADB) during a 30-year professional career. He retired in 2015 as Senior Advisor, East Asia Department of the Asian Development Bank (ADB), based in ADB's Resident Mission in Beijing, People's Republic of China (PRC). He also held other managerial positions in ADB included Deputy Director General, East Asia Department, Country Director, ADB Resident Mission in Indonesia and Deputy Country Director, ADB Resident Mission in PRC. and Staff Consultant at SGV & Co.

Lucio C. Tan III, 31, Filipino, was first elected as a Director of the Bank on 27 April 2021, has been serving as Vice Chairman since 30 April 2024. He obtained his Bachelor of Science degree in Electrical Engineering from Stanford University and a Master of Science degree major in Computer Science from Stanford University. He is also currently the President and Chief Operating Officer of LT Group, Inc. and President, Chief Operating Officer of PAL Holdings, Inc. and Director of MacroAsia Corporation. He is also a Director of PNB Holdings Corporation, Philippine Airlines, Inc., Air Philippines Corporation, Lufthansa Technik Philippines, MacroAsia Airport Services Corporation, MacroAsia Catering Services Inc., MacroAsia SATS Food Industries, MacroAsia SATS Inflight Services Corporation, Prior Holdings Corporation, Belton Communities, Inc., Eton City, Inc., First Homes, Inc., ALI Eton Property Development Corporation, Dominion Realty and Construction Corporation, Fortune Tobacco Corporation, REM Development Corp., Shareholdings, Inc., Sipalay Trading Corporation, Qualisure Holdings, Inc., Asia's Merging Dragon Corporation, PMFTC, Inc., and Fortune Landequities and Resources, Inc., Chairman/President of Tanduary Brands International, Inc. and Dunman Holdings Corporation, Vice Chairman and President of Sabre Travel Network (Philippines) Inc., President of Tanduary Distillers, Inc., Vice President of Dunmore Development Corporation and Member of Stanford Tau Beta Pi Engineering Honor Society. Previously, he was Vice Chairman/Director/COO of LT Group, Inc., Director of Victorias Milling Company, Inc., Allied Club, Inc., Asia Cancer Center, Inc., Kaizer Chemical Industries, Inc., and Silangan Holdings, Incorporated, Director/Vice President of PAL Holdings, Inc. and President and COO of Tanduary Distillers, Inc. He has received Stanford University Frederick E. Terman Award (2015), award given to engineering seniors who are at the top 5% of their class, Stanford University Tau Beta Pi Engineering Honor Society (2013), honor given to engineering juniors/seniors who are at the top 1/8 of their class, Stanford University President's Award for Academic Excellence Freshmen Year (2012), award given to freshmen who are at the top 3% of their class and Young Presidents' Organization (Local and International Chapters).

Florido P. Casuela, 83, Filipino, was first elected as a Director of the Bank on 30 May 2006, and as Acting President since 5 July 2022, has been serving as President since 25 April 2023. He obtained his Bachelor of Science degree in Business Administration major in Accounting from the University of the Philippines and Masters in Business Administration degree from the University of the Philippines. He also studied the Advanced Management Program for Overseas Bankers from the Philadelphia National Bank in conjunction with Wharton School of the University of Pennsylvania and Study Tour (Micro Finance Program and Cooperatives), under the Auspices of the United States Agency for International Development. He is a Certified Public Accountant, Economist, Commercial Attaché. He is also currently the Chairman of PNB Securities, Inc., Director of PNB International Investments Corporation, Director of PNB Remittance Company (Canada), Director of PNB RCI Holding Co., Ltd., Director of Allianz PNB Life Insurance, Inc., Director of BancNet, Inc. and Board Member of Fertilizer and Pesticide Authority (*Note: Being represented in the FPA Board by FVP Jonathan Uy*). Previously, he was Director and President of Genbancor Condominium Corporation, President and Vice Chairman of Land

Bank of the Philippines, President and Vice Chairman of PNB Republic Bank (now Maybank Philippines, Inc.), President of Surigao Micro Credit Corporation, Vice Chairman of PNB Savings Bank (now Allied Integrated Holdings, Inc.), Chairman of Casuela Equity Ventures, Inc., Director of Surigao Micro Credit Corporation, Director of PNB Life Insurance, Inc., Director of Manila Electric Corporation, Director of Asean Finance Corporation Ltd. (Singapore), Trustee of Land Bank of the Philippines Countryside Development Foundation, Inc., Senior Adviser of the Bank of Makati (a Savings Bank), Inc., Senior Adviser in the Bangko Sentral ng Pilipinas, Senior Executive Vice President of United Overseas Bank (Westmont Bank), Executive Vice President of PDCP (Producers Bank), Senior Vice President of Philippine National Bank, Special Assistant to the Chairman of the National Power Corporation, First Vice President of Bank of Commerce, Vice President of Metropolitan Bank & Trust Co., Staff Officer, BSP and Audit Staff of Joaquin Cunanan, CPAs (Isla Lipana & Co.). He was one of the ten (10) awardees of the 2001 Distinguished Alumni Award of the UP College of Business Administration and has received the most Outstanding Surigaonon in the field of Banking and Finance, awarded by the Rotary Club – Surigao Chapter.

Felix Enrico R. Alfiler, 74, Filipino, was elected as an Independent Director of the Bank effective 1 January 2012, has been serving as a Board Advisor since 27 April 2021 and as a Director since 29 December 2022. He obtained his Bachelor of Science degree and Masters in Statistics degree from the University of the Philippines. He is also currently Chairman/Director of PNBRCI Holding Co., Ltd., PNB International Investments Corporation, PNB Remittance Company (Canada), and PNB Capital and Investment Corporation. Previously, he was the Chairman/Independent Director of PNB General Insurers Co., Inc., PNB Forex, Inc., PNB Global Remittance and Financial Co., HK, Ltd., PNB Remittance Center, Inc., PNB RCI Holding Company, Ltd., and Summit General Insurance Corporation, Independent Director of Philippine National Bank, PNB Global Remittance and Financial Co., HK, Ltd., PNB Forex, Inc., PNB Holdings Corporation, PNB International Investments Corporation, PNB Remittance Company Canada, Japan-PNB Equipment Rentals, PNB-IBJL Leasing and Finance Corporation and PNB Savings Bank, Senior Advisor to the World Bank Group Executive Board in Washington, D.C., Special Assistant to the Philippine Secretary of Finance for International Operations and Privatization, Director of the BSP, Assistant to the Governor of the Central Bank of the Philippines, Advisor to the Executive Director at the International Monetary Fund, Associate Director at the Central Bank, Head of the Technical Group of the CB Open Market Committee, Monetary Policy Expert in the Economics Sub-Committee of the 1985-1986 Philippine Debt Negotiating Team which negotiated with over 400 private international creditors for the rescheduling of the Philippines' medium- and long-term foreign debts, Advisor at Lazaro Bernardo Tiu and Associates, Inc., President of Pilgrims (Asia Pacific) Advisors, Ltd., President of the Cement Manufacturers Association of the Philippines (CeMAP), Board Member of the Federation of Philippine Industries (FPI), Vice President of the Philippine Product Safety and Quality Foundation, Inc. and Convenor for Fair Trade Alliance.

Chester Y. Luy, 55, Filipino, was appointed as a Board Advisor of the Bank on 11 May 2020, has been serving as a Director since 22 September 2023. He obtained his Bachelor of Science degree in Business Administration (Magna Cum Laude and graduated at the top of B.S. Business Administration Class of 1990) from University of the Philippines and Masters in Management degree from the J.L. Kellogg Graduate School of Management at Northwestern University. Mr. Luy is a Chartered Financial Analyst. He is also currently a Board Advisor of LT Group, Inc., a director of Tanduary Distillers, Inc., Director of Philippine National Bank (Europe) PLC, Director of PNB Global Remittance and Financial Company (HK) Limited and Board Advisor of Eton Properties Philippines, Inc. Previously, he was Board Advisor of Philippine National Bank, Director of PNB-Mizuho Leasing and Finance Corporation, EVP and Head of Strategy Sector and Wealth Management Group and Senior Executive Vice President, Treasurer and Head for the Financial Advisory and Markets Group (comprised of the Treasury and the Wealth Management Group) of Rizal Commercial Banking Corporation. He served in senior leadership roles as Managing Director across a variety of businesses including Investment Banking, Corporate Finance, Credit Risk Analysis, Investment Management, and Wealth Management with several international banks and was based in New York, Singapore and Manila. He held senior leadership roles at JPMorgan, Bank of America Merrill Lynch, Barclays Capital, HSBC, Julius Baer, Bank of Singapore and RCBC. He was a Member of the Singapore Institute of Directors and served on the Board of a Singapore-based Real Estate and Hospitality Entity.

Estelito P. Mendoza, 94, Filipino, was elected as a Director of the Bank effective 1 January 2009. He obtained his Bachelor of Laws degree (cum laude) from the University of the Philippines and Master of Laws degree from Harvard University. He is practicing lawyer for more than sixty (60) years. He is also currently a Director of San Miguel Corporation and Petron Corporation. Previously, he was the Chairman of Prestige Travel, Inc., Director of EastWest Bank, PNB Remittance Center Ltd., PNB Global Remittance & Financial Co., (HK) Ltd., PNB Remittance Company Canada, Meralco, PNB General Insurers, and Philippine Airlines, Inc., Professorial Lecturer of law at the University of the Philippines, Undersecretary of Justice, Solicitor General and Minister of Justice, Member of the Batasang Pambansa and Provincial Governor of Pampanga and Chairman of the Sixth (Legal) Committee, 31st Session of the UN General Assembly and the Special Committee on the Charter of the United

Nations and the Strengthening of the Role of the Organization. He has received his Doctor of Laws degree (*honoris causa*) by Central Colleges of the Philippines, Hanyang University (Seoul, Korea), University of Manila, Angeles University Foundation and the University of the East and Doctor of Humane Letters degree by the Misamis University. He is a recipient of a Presidential Medal of Merit as Special Counsel on Marine and Ocean Concerns and University of the Philippines Alumni Association's 1975 "*Professional Award in Law*" and 2013 "*Lifetime Distinguished Achievement Award*".

Sheila T. Pascual, 61, Filipino, was elected as a Director of the Bank effective 22 November 2019. He obtained his Bachelor of Science in Business Management degree from the Ateneo de Manila University. He is also currently a Director of PAL Holdings, Inc., Director of Allied Commercial Bank, Buona Sorte Holdings Inc., Saturn Holdings, Inc., Tangent Holdings Corporation, Trustmark Holdings Corporation, Philippine Airlines, Inc. and Zuma Holdings and Management Corporation and Business Development Manager of Allied Banking Corporation (Hong Kong) Limited. Previously, he was a Marketing Development Officer of Asia Brewery Incorporated.

Wilfrido E. Sanchez, 87, Filipino, was elected as an Independent Director of the Bank effective 27 April 2021, has been serving as a Director since 30 April 2024. He obtained his Bachelor of Arts degree from the Ateneo de Manila University, Bachelor of Laws degree from the Ateneo De Manila University and Masters of Law degree from Yale Law School. He is also currently an Independent Director of LT Group, Inc., Tax Counsel of Quiason Makalintal Barot Torres Ibarra Sison & Damaso Law Offices, Independent Director of Asia Brewery, Inc., and Tanduay Distillers, Inc., Director of Eton Properties Philippines, Inc., EEI Corporation, Kawasaki Motor Corporation, EMCOR, Inc., K-Servico, Inc., J-DEL Investments and Management Corp., WODEL, Inc., KS Prime Financial Corp., and Trimotors Technology Corp. and Trustee of JVR Foundation, Inc. Previously, he was an Independent Director Philippine National Bank and Eton Properties Philippines, Inc., Vice Chairman/Director of Antonelli Realty Holdings, Inc., Trustee of NYK-TDG Friendship Foundation, Inc., Asian Institute of Management, and Gokongwei Brothers Foundation, Independent Director of Transnational Diversified Corp. and Director of Universal Robina Corp., Transnational Plans, Inc., Center for Leadership & Change, Inc., Adventure International Tours, Inc., Transnational Financial Services, Inc., Amon Trading Corp., Rizal Commercial Banking Corporation, Asiabest Group International Inc., Magellan Capital Holdings Corporation, Joint Research and Development Corporation, and House of Investments, Inc.

Eusebio V. Tan, 73, Filipino, was elected as a Director of the Bank effective 22 September 2023. He obtained his Bachelor of Arts degree major in Economics – Summa Cum Laude (Liberal Arts Accelerated Honors Program) from De La Salle University, Bachelor of Laws degree from Ateneo De Manila University and Master of Laws degree from Columbia Law School, Columbia University New York. He is also currently Of Counsel of Angara Abello Concepcion Regalla & Cruz Law Offices ("**ACCRALAW**") and a Director of PNB Holdings Corporation. Previously, he held various positions in ACCRALAW. He was a Member of Board of Directors of Meritas Law Firms Worldwide, Director/Treasurer of the Integrated Bar of the Philippines – Pasay, Makati, Mandaluyong, San Juan Chapter, President/Vice President/Ex-Officio Director of Integrated Bar of the Philippines – Makati Chapter, Member of Integrated Bar of the Philippines – National Committee on Legal Aid, Member of the Board of Governors/President of Management Association of the Philippines, Member of the Board of Directors/President of Financial Executives Institute of the Philippines, Chairman/Board of Trustees of Philippines-Japan Economic Cooperation Committee, Inc., Member of Philippine Host Committee of Inter-Pacific Bar Association – Conference in Manila, Philippines, Member of Philippine Host Committee of Lawasia – XVTH Conference in Manila, Philippines and President of Rotary Club of Manila (The First Rotary Club in Asia). He was conferred with the award of "The Order of the Rising Sun with Neck Ribbon" by the Emperor of Japan and the Japanese government, General Excellence Gold Medal and Dr. Jose Rizal Honors Society Ring Awardee conferred by the De La Salle University and Second Honors Silver Medal Awardee conferred by the Ateneo de Manila University.

Michael G. Tan, 58, Filipino, was elected as a Director of the Bank effective 9 February 2013. He obtained his Bachelor of Applied Science in Civil Engineering degree major in Structural Engineering from the University of British Columbia, Canada. He is also currently a Director of LT Group, Inc., Victorias Milling Company, Inc. and MacroAsia Corporation, Director, President and Chief Operating Officer of Asia Brewery, Inc., Director of the following companies: Absolut Distillers, Inc., Tanduay Distillers, Inc., Tanduay Brands International, Inc., Shareholdings, Inc., PMFTC Inc., Maranaw Hotel (Century Park Hotel), Pan Asia Securities, Inc., Asia's Emerging Dragon Corporation, Paramount Land Equities, Inc., Saturn Holdings, Inc., Tangent Holdings Corporation, PNB Global Remittance and Financial Company (HK) Limited, Allied Commercial Bank, Allied Banking Corp. (Hong Kong) Limited, Foremost Farms, Inc., Trustmark Holdings Corporation, and Havitas Developments Corporation, Director and Treasurer of Zuma Holdings and Management Corporation, Trustee of Help Educate and Rear Orphans (HERO) Foundation, Inc., Member of ASEAN Business Advisory Council, Vice President of Federation of Filipino Chinese Chambers of Commerce and Industry, Inc., Director of Philippine

Chamber of Commerce and Industry and Member of the Private Sector Advisory Council. Previously, he was the Chairman of PNB Holdings Corporation, Director/President/Chief Operating Officer of LT Group, Inc., Director of Philippine Airlines Inc. Bulawan Mining Corporation, PNB Management and Development Corporation, Alliedbankers Insurance Corporation, PNB Forex, Inc., PNB Savings Bank, Air Philippines Corp., Lucky Travel Corporation, Eton Properties Philippines, Inc., ALI-Eton Development Corporation, and Sabre Travel Network (Philippines), Inc., Director and Treasurer of PAL Holdings, Inc., Trustee of Philippine Airlines Foundation, Inc., Director of Allied Banking Corporation from 30 January 2008 until the ABC's merger with PNB on 9 February 2013 and Honorary Advisor of the sixth edition of the Belt and Road Summit held on September 2021 in Hong Kong. He has received 2021 Stargate People Asia “*People of the Year*” and 2021 4th Mansmith Masters Awards.

Vivienne K. Tan, 56, Filipino, was elected as a Director of the Bank effective 15 December 2017. She obtained her Bachelor of Science - Double Degree in Mathematics and Computer Science from the University of San Francisco, U.S.A., Diploma in Fashion Design and Manufacturing Management from the Fashion Institute of Design and Merchandising, Los Angeles, U.S.A. She is also currently a Director of LT Group, Inc. and MacroAsia Corporation, Director of Eton Properties Philippines, Inc., Philippine Airlines, Inc., and Air Philippines Corporation, Executive Director of Dynamic Holdings Limited, Trustee of University of the East, University of the East Ramon Magsaysay Memorial Medical Center and College of Saint Benilde, Founding Chairperson of the Entrepreneurs School of Asia (ESA) and Founding Trustee of the Philippine Center for Entrepreneurship (Go Negosyo). Previously, she was Board Advisor of LT Group, Inc., Director of PAL Holdings, Director/Executive Vice President/Treasurer/Chief Administrative Officer of Philippine Airlines, Inc., Executive Vice President, Commercial Group and Manager, Corporate Development, of Philippine Airlines, Inc., Director of Bulawan Mining Corporation and PNB Management and Development Corporation, Founder and President of Thames International Business School, Owner of Vaju, Inc. (Los Angeles, U.S.A.), Systems Analyst/Programmer of Fallon Bixby & Cheng Law Office (San Francisco, U.S.A.) and Proponent/Partner of various NGO/social work projects like Gawad Kalinga's GK-Batya sa Bagong Simula, livelihood programs thru Teenpreneur Challenge spearheaded by ESA, Conserve and Protect Foundation's artificial reef project in Calatagan, Batangas, Quezon City, Sikap-Buhay Project's training and mentorship program for micro-entrepreneurs, and as Chairman of Ten Inspirational Entrepreneur Students Award. She is a Recipient of the Ten Outstanding Young Men (TOYM) Award for Business Education and Entrepreneurship (2006), UNESCO Excellence in Education and Social Entrepreneurship Award (2007), Leading Women of the World Award (2007) and “People of the Year”, People Asia Award (2008).

Isabelita M. Papa, 76, Filipino, was elected as an Independent Director of the Bank effective 5 August 2021. She obtained her Bachelor of Science degree in Commerce – Banking & Finance from the University of Sto. Tomas. She is also currently an Independent Director of PNB-Mizuho Leasing and Finance Corporation, PNB-Mizuho Equipment Rentals Corporation, and PNB Capital and Investment Corporation, Sole Proprietor of Isabelita Transport, Consultant of Bankers Association of the Philippines, Co-Chairperson for the Task Force of the ISO 20022 Migration Project and Resource Person for Corporate Governance of the Bankers Institute of the Philippines. Previously, she was Executive Vice President for Operations and Information Technology – Asia United Bank, Director of Rural Bank of Angeles and Cavite United Rural Bank, Senior Vice President/Country Manager of Bank of America N.A., Executive Vice President for Operations of United Overseas Bank Phils., Senior Vice President for Operations of Solidbank Corporation and The International Corporate Bank, Assistant Vice President for International Division of Family Bank & Trust Co., Unit Head/Account Officer of Citibank N.A., Chairperson of SWIFT Users Group, Philippines, Chairperson, Subcommittee on Payments and Funds Transfer of Bankers Association of the Philippines, President / Resource Person for Corporate Governance of Bankers Institute of the Philippines and Member of Catholic Mass Media Awards Committee.

Maria Almasara Cyd N. Tuano-Amador, 67, Filipino, was elected as an Independent Director of the Bank effective 25 April 2023. She obtained her Bachelor of Science in Business Economics degree from the University of Philippines School of Economics, Master of Arts in Economics from the University of Philippines School of Economics, Master of Science in Policy Science from the Graduate Institute of Policy Science in Tokyo, Japan and Doctor of Philosophy in Economics from the Australian National University. She is also currently an Independent Director of Radiowealth Finance Company Inc., PNB International Investments Corporation, and PNB Remittance Company (Canada) and Advisor of the Association of BSP Retirees, Inc., and BSP Compassionate Leaders for Animal Welfare. Previously, she was Deputy Governor of the Resource Management Sector of the Bangko Sentral ng Pilipinas, Head of the BSP Research Academy, Chairperson of the BSP Provident Fund, Vice-Chairperson of the Philippine International Convention Center (“PICC”), Chairperson of the PICC Executive Committee, Director of the Philippine Guarantee Corporation, Director of the Philippine Retirement Authority, Advisory Panel of the ASEAN+3 Macroeconomic Research Office, Assistant Governor of the Monetary Policy Sub-Sector of the Bangko Sentral ng Pilipinas, Managing Director of the Monetary Policy Sub-Sector of the Bangko Sentral ng Pilipinas, Director of the Center for Monetary & Financial Policy of the Bangko

Sentral ng Pilipinas, Senior Advisor/Advisor to the Executive Director of the International Monetary Fund, Washington, D.C., Director of the Department of Economic Research of the Bangko Sentral ng Pilipinas and held positions in various capacities at the Department of Economic Research of the Bangko Sentral ng Pilipinas.

Domingo H. Yap, 90, Filipino, was elected as an Independent Director of the Bank effective 23 August 2019. He obtained his Bachelor of Science degree in Business Administration major in Business Management from San Sebastian College Recoletos. He is also currently Director and President of H-Chem Industries, Inc., DHY Realty and Development Inc., Colorado Chemical Sales Corporation, Universal Paint & Coating Philippines, Inc., AllianceLand Development Corporation, and Kang Ha Association. Previously, he was President of the Federation of Filipino-Chinese Chamber of Commerce and Industries, Inc., Governor of Y's Men Club Philippines, President of Y's Men Club Downtown of Manila and President of Rotary Club of Pasay City.

The Board appointees are:

Leonilo G. Coronel, 78, Filipino, was appointed as a Director of the Bank effective 28 May 2013, has been serving as Vice Chairman since 27 April 2021 and as Board Advisor since 20 April 2024. He obtained his Bachelor of Arts degree major in Economics from the Ateneo de Manila University and took the Advance Management Program of the University of Hawaii. He is also currently an Independent Director of Citicore Fund Managers, Inc. and Citicore Renewable Energy Corp., Director of Software Ventures International and Director of Toyota Pasong Tamo/Toyota Global City/Toyota Angeles City/M2 Car Accessories. Previously, he was the Chairman of PNB-IBJL Leasing and Finance Corporation and PNB-IBJL Equipment Rentals Corporation, Independent Director of Megawide Construction Corporation and DBP-Daiwa Capital Market Philippines, Citicore Real Estate Investment Trust, Executive Director of the Bankers Association of the Philippines and RBB Micro Finance Foundation, Director/Treasurer of Philippine Depository and Trust Corporation, Director of the Philippine Clearing House Corporation, the Philippine Dealing System and the Capital Markets Development Council, Managing Director of BAP-Credit Bureau, President of Cebu Bankers Association, Consultant of Land Bank of the Philippines, Arthur Young, U.S. Aid, Bankers Association of the Philippines and Economic Development Corporation, Country Corporate Officer of Citibank Sri Lanka and worked with Citibank, Manila for twenty (20) years, occupying various positions. He was a Fellow of the Australian Institute of Company Directors in 2002 and a Fellow of Institute of Corporate Directors.

William T. Lim, 83, Filipino, was appointed as a Board Advisor of the Bank on 25 January 2013. He obtained his Bachelor of Science degree in Chemistry from Adamson University. He is also currently President of Jas Lordan, Inc., Director of PNB Securities, Inc., PNB Holdings Corporation, Allied Integrated Holdings, Inc. (formerly PNB Savings Bank), Allied Commercial Bank - Xiamen, and Genbancor Condominium Corporation and Advisor to the Chairman of the Board of Directors of Allianz PNB Life Insurance, Inc. Previously, he was a Board Advisor of PNB Savings Bank, Director of PNB Life Insurance, Inc., BH Fashion Retailers, Inc., and Concept Clothing, Co., Inc., Consultant of Allied Banking Corporation, Director of Corporate Apparel, Inc., Director of Concept Clothing, Director of Freeman Management and Development Corporation and worked with Equitable Banking Corporation for 30 years, occupying various positions, including as VP & Head of the Foreign Department.

Federico C. Pascual, 81, Filipino, was appointed as an Independent Director of the Bank on 27 May 2024, has been serving as Chairman of the Board since 27 April 2021 and as Board Advisor since 25 April 2023. He obtained his Bachelor of Arts degree from Ateneo de Manila University, a Bachelor of Laws degree (Member, Law Honors Society) from University of the Philippines and Master of Laws degree from Columbia University. He is also currently the Chairman of PNB-Mizuho Leasing and Finance Corporation and PNB-Mizuho Equipment Rentals Corporation, Independent Director of Allianz PNB Life Insurance, Inc., Independent Director of PNB International Investments Corporation, President/Director of Tala Properties, Inc. and Woldingham Realty, Inc., Director of Apo Reef World Resort, Sarco Land Resources Ventures Corporation, SCTEX Development and Franchisers Corporation, and Hermosa Golden Rainbow Corporation and Partner of the University of Nueva Caceres Bataan Branch. Previously, he was Chairman/Independent Director of PNB General Insurers Co., Inc. and PNB Capital and Investment Corporation, Independent Director of PNB Holdings Corporation and PNB Savings Bank, President and General Manager of Government Service Insurance System, President and CEO of Allied Banking Corporation and PNOC Alternative Fuels Corporation, Various positions with PNB for twenty (20) years, including Acting President, CEO and Vice Chairman, President and Director of Philippine Chamber of Commerce and Industry, Chairman of National Reinsurance Corporation, Co-Chairman of the Industry Development Council of the Department of Trade and Industry, Treasurer of BAP-Credit Guarantee, Director of San Miguel Corporation, Philippine Stock Exchange, Manila Hotel Corporation, Cultural Center of the Philippines, CITEM, Bankers Association of the Philippines, Philippine National Construction Corporation, Allied Cap Resources HK, Oceanic Bank SF, USA, AIDSISA Sugar Mill, PDCP Bank, Equitable PCIB, Bankard,

Philippine International Trading Corporation, and Philippine National Oil Corporation and Chairman and President of Alabang Country Club.

Lourdes A. Salazar, 68, Filipino, was appointed as a Board Advisor of the Bank on 25 April 2023. A Certified Public Accountant, she obtained her Bachelor of Science in Commerce degree major in Accounting (BSC in Accounting) from University of Santo Tomas and Bachelor of Laws (LLB) degree from University of the East. She is also currently the Chief Executive Officer & Director of Allied Banking Corporation (Hong Kong) Limited, a restricted license bank, Trustee of Allied Banking Corporation (Hong Kong) Limited Provided Fund, Director of ACR Nominees Limited, Director & Shareholder of Aposal Realty Corporation, Trustee & Special Projects Adviser of The Hong Kong Bayanihan Trust, Chairman of The DTC Association (The Hong Kong Association of Restricted License Banks and Deposit-taking Companies), Honorary Member of The Philippine Chamber of Commerce in Hong Kong, Member representing DTCA of The Hong Kong General Chamber of Commerce, Member representing DTCA of The Deposit-taking Companies Advisory Committee, Hong Kong Monetary Authority and Honorary Advisor of The Hongkong Institute of Bankers. Previously, he was Independent Non-Executive Director of Allied Banking Corporation (Hong Kong) Limited, a restricted license bank, Independent Non-Executive Director of Dynamic Holdings Limited (HK Stock Code 29), Executive Director of The Philippine Chamber of Commerce in Hong Kong and Member of HK Qualifications Framework Banking Industry Training Advisory Committee. She has received Banaag Award – The Philippine Presidential Citation for Filipino Individuals and Organizations Overseas in recognition of her diligence in initiating and effecting projects to promote the professional and socio-cultural advancement of Filipino entrepreneurs, overseas workers, and other sectors of the Filipino community in Hong Kong.

Carmen K. Tan, 82, Filipino, was appointed as a Director of the Bank on 31 May 2016, has been serving as a Board Advisor since 22 September 2023. She is also currently a Director of LT Group, Inc. MacroAsia Corporation and PAL Holdings, Inc., Vice Chairman of Philippine Airlines, Inc. and Director of Air Philippines Corporation, Asia Brewery, Inc., Buona Sorte Holdings, Inc., Cosmic Holdings Corporation, The Charter House, Inc., Dominion Realty and Construction Corporation, Eton City, Inc., Foremost Farms, Inc., Fortune Tobacco Corporation, Himmel Industries, Inc., Manufacturing Services & Trade Corp., Progressive Farms, Inc., PMFTC, Inc., Shareholdings Inc., Sipalay Trading Corp., Tanduay Distillers, Inc., Tangent Holdings Corporation, Trustmark Holdings Corp., Alliedbankers Insurance Corporation, Zuma Holdings and Management Corp., Grandspan Development Corp., Basic Holdings Corp., Saturn Holdings, Inc., Paramount Land Equities, Inc., Interbev Philippines, Inc., Waterich Resources Corp., and REM Development Corp. She is also the Trustee of Tan Yan Kee Foundation and Member of Tzu Chi Foundation.

Florencia G. Tarriela, 77, Filipino, was appointed as a Director of the Bank on 29 May 2001, has been serving as Chairman of the Board since 24 May 2005, as Independent Director since 30 May 2006 and as Board Advisor since 27 April 2021. She obtained her Bachelor of Science in Business Administration degree major in Economics from University of the Philippines and her Master in Economics degree from the University of California, Los Angeles, where she topped the Masters Comprehensive Examination. She is also currently an Independent Director of LT Group, Inc., Independent Director of Nickel Asia Corporation, Director of PNB International Investments Corp., Columnist for “Business Options” of the Manila Bulletin and “FINEX Folio” of Business World, Director/Vice President of Tarriela Management Company and Director/Vice President/Assistant Treasurer of Gozon Development Corporation, Life Sustaining Member of the Bankers Institute of the Philippines, Trustee of Tulay sa Pag-unlad, Inc. (TSPI) Development Corporation, TSPI MBAI and Director of Financial Executive Institute of the Philippines (FINEX). Previously, she was Chairman/Independent Director of Philippine National Bank, PNB Capital and Investment Corporation, PNB-Mizuho Leasing and Finance Corporation, and PNB-Mizuho Equipment Rentals Corporation, Director of PNB Capital and Investment Corporation, Director of Eton Properties Philippines Inc., Independent Director of PNB Life Insurance, Inc., Director of Bankers Association of the Philippines, Undersecretary of Finance, Alternate Monetary Board Member of the BSP, Land Bank of the Philippines and the Philippine Deposit Insurance Corporation, Deputy Country Head, Managing Partner and first Filipina Vice President of Citibank N.A., Country Financial Controller of Citibank NA Philippines for 10 years and President, Bank Administration Institute of the Philippines. She was chosen as 2014 Most Outstanding Citibank Philippines Alumni awardee for community involvement and 2018 Go Negosyo Woman Intrapreneur Awardee.

The directors of the Bank are elected at the annual shareholders’ meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified.

Executive Officers

The following is a list of the Bank's Executive Officers as at 31 July 2024:

Position	Name	Age	Citizenship
President	Florido P. Casuela	82	Filipino
Executive Vice President & Sector Head of Enterprise Services Sector	Jose German M. Licup	58	Filipino
Executive Vice President & Sector Head of Financial Mngt, Strategy & Sustainability Sector	Francis B. Albalate	53	Filipino
Executive Vice President & Sector Head of Global Banking & Markets Sector	Roberto D. Baltazar	60	Filipino
Executive Vice President, Group Head & Chief Compliance Officer of Global Compliance Group	Isagani A. Cortes	57	Filipino
First Senior Vice President & Sector Head of Consumer Finance Sector	Celeste Marie V. Lim	47	Filipino
First Senior Vice President & Group Head of Corporate Banking Group	Allan L. Ang	49	Filipino
First Senior Vice President, Chief Credit Officer & Group Head of Credit Management Group	Nanette O. Vergara	64	Filipino
First Senior Vice President, Chief Information Security Officer & Data Protection Officer of Enterprise Risk Management Group.	Roland V. Oscuro	61	Filipino
First Senior Vice President & Group Head of Global Markets Group	Noel C. Malabag	52	Filipino
First Senior Vice President & Group Head of Information Technology	Michael M. Morillos	55	Filipino
First Senior Vice President & Deputy Head of Institutional Banking Sector	Humildad M. Santelices	56	Filipino
First Senior Vice President & Group Head of International Banking & Remittance Group .	Mariana F. Caculitan	58	Filipino
First Senior Vice President & Chief Legal Counsel of Legal Group	Manuel C. Bahena, Jr.	62	Filipino
First Senior Vice President & Corporate Treasurer of Office of the Corporate Treasurer	Maria Paz D. Lim	63	Filipino
First Senior Vice President & Group Head of Operations Group	Reynaldo C. Burgos	55	Filipino
First Senior Vice President & Group Head of Remedial Accounts Management Group	Mariza L. Tiburcio	53	Filipino
First Senior Vice President & Sector Head of Retail Banking Sector	Carlo S. Dimaala	56	Filipino
Senior Vice President & Group Head of Acquired Assets Administration Group	Christian Jerome O. Dobles	57	Filipino
Senior Vice President & Group Head of Acquired Assets Disposal Group	Nixon S. Ngo	55	Filipino
Senior Vice President & Group Head of Branch Banking Group-Luzon	Bernabe R. Punsalan	58	Filipino
Senior Vice President & Group Head of Consumer Finance Sales Group	Philip S. Pabelico	51	Filipino
Senior Vice President, Chief Security Officer	Roderick R. Soriano	54	Filipino

Position	Name	Age	Citizenship
& Group Head of Corporate Security Group			
Senior Vice President & Group Head of Digital Innovations Group	Damasen Paul C. Cid	57	Filipino
Senior Vice President & Group Head of Marketing Group	Jennifer Y. Ng	50	Filipino
Senior Vice President & Group Head of RBS Sales & Support Group	Ma. Theresa P. Del Rosario	56	Filipino
Senior Vice President, Chief Trust Officer & Group Head of Trust Banking Group	Joy Jasmin R. Santos	51	Filipino
Senior Vice President & Group Head of Wealth Management Group	Maria Teresa C. Velasco	52	Filipino
First Vice President, Deputy Chief Financial Officer & Controller of Accounting & Controllership Group	Mark S. Pantallon	44	Filipino
First Vice President & Group Head of Branch Banking Group-Metro Manila	Shirley T. Ching	65	Filipino
First Vice President & Group Head of Branch Banking Group-Vis/Min	John Hilarion C. Salas	55	Filipino
First Vice President & Corporate Secretary of Corporate Secretary's Office	Ruth Pamela E. Tanghal	56	Filipino
First Vice President, Group Head & Chief Risk Officer of Enterprise Risk Management Group	Juliet S. Dytoc	54	Filipino
First Vice President of Human Resource Group	Lotus R. Altavas	49	Filipino
First Vice President & Chief Audit Executive of Internal Audit Group	Analisa I. San Pedro	47	Filipino
First Vice President, Deputy Chief Audit Executive & Division Head of Head Office, Overseas, Subsidiaries Audit Division	Samuel G. Lazaro	52	Filipino
First Vice President & Group Head of Luzon Commercial Banking Group	Charlito T. Alonso	56	Filipino
First Vice President & Group Head of Metro Manila Commercial Banking Group	Kelvin S. Aquilino	54	Filipino
First Vice President & Group Head of VisMin Commercial Banking Group	Aaron L. Astor	53	Filipino
Vice President & Group Head of Administration Group	Michael Joseph S. Pangan	56	Filipino
Vice President & Group Head of Business Development & Management Group	Sheila O. Caeg-Bilog	50	Filipino
Vice President & Group Head of Consumer Finance & Payments Services Group	Joel D. Tirona	44	Filipino
Officer-In-Charge of Human Resource Group.	Socorro D. Corpus	72	Filipino

Compensation of Directors and Executive Officers

The annual compensation of executive officers consists of a 16-month guaranteed cash emolument. Directors, on the other hand, are entitled to a reasonable per diem for each Board or Board committee meeting attended.

Information as to the aggregate compensation during the last two fiscal years and to be paid in the ensuing fiscal year 2024 to the Bank's President and four other most highly compensated executive officers and all other officers as a group are as follows:

Year ended 31 December	Salary ⁽¹⁾	Bonuses
	(₱ millions)	
2024 (estimated).....	4,523.3	1,515.9
2023.....	4,149.8	1,390.7
2022.....	3,997.7	1,304.4

Note:

- (1) Inclusive of salaries paid to the President and the four other highest paid executive officers, amounting to ₱85.1 million and ₱85.0 million for the years ended 31 December 2022 and 2023, and expected salaries to be paid to the President and the four other highest paid executive officers for the year ending 31 December 2024 in the amount of ₱92.7 million.

The total per diem given to the Board of Directors of the Bank for the years ended 31 December 2022 and 2023 amounted to ₱62.7 million and ₱71.3 million, respectively. The Bank expects to pay total per diem to the Board of Directors in the amount of ₱126.7 million for the year ending 31 December 2024.

The Directors receive fees, bonuses and allowances that are already included in the amounts stated above. Aside from the said amounts, they have no other compensation plan or arrangement with the Bank.

The executive officers receive salaries and bonuses that are included in the amounts stated above. Aside from the foregoing, they have no other compensation plan or arrangement with the Bank.

Involvement of the Bank, the Directors and Executive Officers in Certain Legal Proceedings

The Bank and some of its subsidiaries are, and may in the future be, parties to various legal proceedings in connection with the ordinary course of their operations. None of such legal proceedings, either individually or in the aggregate, are expected to have a material adverse effect on the Bank and its subsidiaries or their financial condition.

Neither the Directors nor any of the Executive Officers have, for a period covering the past five years, reported: (i) any petition for bankruptcy filed by or against a business to which they are related as a general partner or executive officer, save for Director Lucio C. Tan III, as detailed below; (ii) any criminal conviction by final judgement or being subject to a pending criminal proceeding, domestic or foreign, other than cases which arose in the ordinary course of business in which they may have been impleaded in their official capacity; (iii) being subject to any order, judgement, or decree, of a competent court, domestic or foreign, permanently or temporarily enjoining, barring, suspending or limiting their involvement in any type of business, securities, commodities or banking activities; and (iv) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Philippine Securities and Exchange Commission or comparable foreign body, or a domestic or foreign Exchange or other organised trading market or self-regulatory organisation, to have violated a securities or commodities law or regulation, and the judgement has not been reversed, suspended, or vacated.

On 3 September 2021, PAL filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. Director Lucio C. Tan III has remained a Director of PAL and PNB since then. The Order confirming the Debtor's Plan of Rehabilitation was entered on 17 December 2021 and the Plan took effect on 31 December 2021. PAL completed a parallel filing before Branch CXI (111), Pasay City, Special Commercial Court and an Order for the recognition of the foreign proceeding under the Financial Rehabilitation Act of the Philippines was made on 22 October 2021.

Corporate Governance

The Bank believes that compliance with the principles of good corporate governance begins with the Board of Directors. The Board of Directors is primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk management strategy, corporate governance and corporate values. Compliance with the highest standards in corporate governance principally starts with the Board of Directors

which has the responsibility to foster the long-term success of the Bank and secure its sustained competitiveness and profitability in accordance with its fiduciary responsibility. In the same manner, every employee of the entire organisation is expected to embrace the same degree of commitment to the desired level of corporate standards.

The Bank's Board of Directors is composed of 15 individuals of proven competence, integrity, and probity. These individuals determine the Bank's purposes, vision and mission, and strategies to carry out its objectives, ensure compliance with all relevant laws, regulations and codes of best business practices, adopt a system of internal checks and balances, and install a process of selection to ensure a mix of competent directors and officers.

To ensure the Bank's compliance with the principles of good corporate governance, members of the Board have been selected as members of the standing committees constituted pursuant to the corporation's Code on Corporate Governance, the Bank's By-Laws and other regulatory standards. These are the Board Audit and Compliance Committee, Corporate Governance and Sustainability Committee, Risk Oversight Committee, Board Oversight Related Party Transactions ("RPTs") Committee, Executive Committee, Board IT Governance Committee, Trust Committee, Board Strategy and Policy Committee and the Board Overseas Offices Oversight Committee. In addition, the Philippine Code of Corporate Governance for Publicly Listed Companies requires the Bank, as a publicly listed company, to have at least three independent directors or such number as to constitute at least one-third of the members of the Board, whichever is higher. As of August 29, 2024, Edgar A. Cua, Domingo H. Yap, Isabelita M. Papa, Maria Almasara Cyd N. Tuano-Amador and Protacio T. Tacandong serve as the Bank's five independent directors, in compliance with such code. Effective August 30, 2024, Protacio T. Tacandong resigned from the Board. To comply with the 45-day rule on the replacement of a member of a board, as of the date of this Offering Circular, the Bank is in the process of vetting potential directors.

The Corporate Governance and Sustainability Committee, which assists the Board in the performance of its governance responsibilities, including the functions of the nominations and remuneration committee, ensures the Board's effectiveness and adherence to corporate governance principles and guidelines and the selection of members of the Board and senior executives of the Bank as well as the appointment in the respective Board committees. The Board Audit and Compliance Audit Committee has oversight responsibility relating to the integrity of the Bank's financial statements, internal controls and compliance with legal and regulatory requirements.

Recognising the importance of the role of independent directors, the Board has elected the independent directors to act as Chairman of the Board and Chairman of the four Board control committees namely: the Board Audit and Compliance Committee, Corporate Governance and /Sustainability Committee, Risk Oversight Committee, and the Board Oversight Related Party Transaction Committee. The independent directors are also members of the Board IT Governance Committee, Trust Committee, Board Strategy and Policy Committee, Board Overseas Offices Oversight Committee and non-voting members to the Executive Committee. In these Board committees, the five independent directors of the Bank play an active role in the formulation of the business strategies and priorities of the Bank, its subsidiaries and affiliates. The Board and its committees continue to review and strengthen the corporate governance policies to adopt consistency in the corporate governance framework in the Bank, its subsidiaries and affiliates.

The Bank actively promotes the safety and soundness of its operations through a compliance system that fully adheres to banking laws, rules and regulations and to maintain an environment that is governed by high standards and best practices of good corporate governance. This is achieved primarily through the formulation of policies and procedures, an organizational structure and an effective compliance program that will support the Bank's compliance system. To further strengthen good corporate governance, the Board of Directors appointed the Chief Compliance Officer as the Corporate Governance Executive tasked to assist the Board and the Corporate Governance and Sustainability Committee in the discharge of their corporate governance oversight functions.

Finally, the ASEAN Corporate Governance Scorecard ("ACGS") Golden Arrow Awards bestowed the highest recognition in corporate governance to publicly listed companies across the ASEAN region. PNB was recognized based on scores derived from the 2023 ACGS assessment results, which assessed the Bank for the year 2022 and 2023. Prior to this, the Bank also received the *Four Golden Arrows Award* for the years 2020 and 2021. The Bank also earned a three-arrow recognition for 2019.

Board Committees

Specific responsibilities of the Board are delegated to its committees. Currently, the Bank has nine committees which are: the Corporate Governance and Sustainability Committee, the Board Audit and Compliance Committee, the Risk Oversight Committee, the Board Oversight Related Party Transactions (RPT) Committee, the Executive

Committee, the Trust Committee, the Board Strategy and Policy Committee, the Board IT Governance Committee and the Board Overseas Offices Oversight Committee. A brief description of the functions and responsibilities of the key committees are set out below:

Executive Committee

The Board Executive Committee is responsible for the review, discussion, approval and/or endorsement to Board, of the following: (a) management proposals on credit facilities; investment in financial assets; and borrowings and capital raising, updates and reports on credit, transactional, administrative and other matters; and (b) policies, procedures, and manuals of products and services other than personnel policies, as proposed or initiated by the Bank's management. It also provides oversight and focus on specific areas to ensure long-term viability of the Bank's domestic and foreign offices and subsidiaries consistent with the Bank's strategic goals.

Board Audit and Compliance Committee

The Board Audit & Compliance Committee ("BACC") is responsible in assisting the Board in the performance of its oversight responsibility relating to financial reporting process, systems of internal control, audit process and monitoring of compliance with applicable laws, rules and regulations. The BACC also provides oversight functions over internal and external auditors and ensures that they act independently from each other; provides oversight to compliance functions and/or oversees the compliance program; conducts annual independent audit of the Bank's financial statements, the engagement of the external auditors and the evaluation of the external auditor's qualifications, independence and performance. Moreover, the BACC oversees the compliance by the Bank with legal and regulatory requirements, including the Bank's disclosure controls and procedures. The BACC also investigates significant issues/concerns and escalates results to the Board.

Risk Oversight Committee

The Risk Oversight Committee ("ROC") is created to assist the board in overseeing the risk profile and approves the risk management framework of the Bank and its related allied subsidiaries and affiliates. It is mandated to set risk appetite, approve frameworks, policies & processes for managing risk, and accept risks beyond the approval discretion provided to the Bank's management. It has the authority to direct the Bank's management to submit regular reports on current risk exposures on credit, market, interest rate, liquidity, operational, legal, compliance, strategic, reputation, technology and other risks as well as to address such risks.

Corporate Governance/Nomination/Remuneration and Sustainability Committee

The Corporate Governance/Remuneration/Nomination and Sustainability Committee is tasked to assist the Board in the performance of its corporate governance responsibilities, including the functions of the Nomination, Remuneration and Sustainability Committees, ensuring compliance with and proper observance of corporate governance principles and global practices. It oversees the implementation of the corporate governance framework and periodically reviews the framework to ensure that it remains appropriate in light of material changes to the Bank's size, complexity and business strategy, as well as its business and regulatory environments.

Board Oversight RPT Committee

The Board Oversight RPT Committee ("BORC") is created to assist the Board in performing its oversight functions in monitoring and managing potential conflicts of interest of stockholders, Board members, Management, and other stakeholders. The BORC oversees the evaluation of RPTs that present the risk of potential abuse and ensure that rules and regulations are considered to properly and effectively implement the Bank's RPT policy guidelines. It exercises sound and objective judgement on the RPTs for the best interest of the Bank and that the processes and approvals are conducted at arm's length basis.

Trust Committee

The Trust Committee, a special committee reporting directly to the Board of Directors, is primarily responsible for overseeing the fiduciary activities of the Bank. It ensures that fiduciary activities are conducted in accordance with applicable laws, rules and regulations, and prudent practices. The Trust Committee is also responsible for the initial review of assets placed under the custody of the Bank's Trust Banking Group as trustee or fiduciary; investment, reinvestment and disposition of funds or property; and review and approval of transactions between trust and/or fiduciary accounts, among others.

Board IT Governance Committee

The Board IT Governance Committee (“**BITGC**”) is created to assist the Board in performing its oversight functions in reviewing, approving and monitoring the IT Risk Management Framework and IT Strategic Plan of the Bank. It reviews and endorses for approval of the Board the Enterprise IT Strategic Plans of the Bank, its subsidiaries and affiliates. The BITGC also reviews and monitors significant IT concerns and corrective actions arising from regulatory examinations, internal audits and external reviews.

Board Strategy & Policy Committee

The Board Strategy and Policy Committee (“**BSPC**”) is the governing board committee exercising authority and delegating to the Bank’s management the implementation of the Board approved strategic plans and policies. The BSPC reviews, evaluates, approves and/or endorses for Board approval new products, amendments to products, marketing programs, and policies, procedures and manuals pertaining thereto. It also performs oversight function on the business plans, initiatives, risk and regulatory compliance; and reviews the strategic objectives and business priorities, direction, overall plans, result areas that relates to the thrusts and programs of the Bank.

Board Overseas Offices Oversight Committee

The Board Overseas Offices Oversight Committee (“**BOOOC**”) assists the Board of Directors in overseeing the overseas offices in relation to operational, legal and regulatory risks to ensure its long-term viability consistent with the Bank’s strategic goals and risk profile. It reviews the formulation of policy guidelines and procedures to ensure the quality of compliance and risk management of the different business legal vehicles by focusing on key risk areas. It also reviews actions taken in relation to regulators’ recommendations, changes in laws, and regulatory environment for each of the overseas business legal vehicle, in coordination with the respective entity Board of Directors, other Board Committees and Senior Management Sector/Group Heads that provide oversight support to the overseas offices.

Compliance with Corporate Governance Practices

A sound and effective compliance regime is the cornerstone of PNB’s strength and market presence. The Bank adheres to the values of integrity, ethics, and good governance in the conduct of its business and affairs, exercising prudence in arriving at decisions, enforcing internal discipline and a system of checks and balances in its operating processes, and upholding transparency and accountability to its various stakeholders, including customers, investors, stockholders, and regulators.

The Global Compliance Group (“**GCG**”) is responsible for the timely identification and mitigation of risks that erode the franchise value of PNB such as risks of legal or regulatory sanctions, material financial loss, or loss of reputation because of its failure to comply with laws, rules, related self-regulatory organization standards, and codes of conduct applicable to PNB’s operations. Compliance risk management is an integral part of PNB’s culture: under the risk governance framework, risk management is the responsibility share and shared accountability of all employees, management and the Board of Directors.

GCG is headed by the Chief Compliance Officer (“**CCO**”) who functionally reports to the BACC, and administratively to the President and CEO. GCG is independent from the line of business and is composed of five (5) divisions: Financial Crime Risk, Regulatory Compliance Risk, Compliance Assurance, Compliance Operations and Corporate Governance. GCG through the CCO, oversees the overall design and effective implementation of the Compliance Program which serves as the authoritative codification of GCG’s powers, mandate, authority, and formal status within the organization. The program further fosters adherence to banking laws, rules and regulations, and is ultimately aimed to promote the safety and soundness of PNB’s operations.

Due to the high risk of money laundering, terrorist financing/weapons of mass destruction, proliferation financing, bribery, and corruption locally and overseas, the mitigation of financial crime risks is crucial in preserving the integrity of the financial system.

A robust financial crime compliance effort provides added protection to the Bank from the risks associated to existing and potential customers. Appropriate governance on all matters pertaining to financial crimes are properly implemented as these concerns are timely presented to the BACC for its approval or notation. This is to ensure that the Bank shall not be used as a conduit for money laundering and terrorist financing by having adequate controls, systems, policies, and mechanisms in place.

The Financial Crime Risk Division (“**FCRD**”) encompasses five key areas: anti-money laundering, counter terrorist financing, sanctions, anti-bribery and corruption, and tax transparency, and this was expanded to cover not only money laundering, but also other forms of financial crime. To mitigate the risks, FCRD ensures an end-to-end robust control framework in place and is embedded enterprise wide. The FCRD also provide training to upskill and retool employees and to keep them abreast in the changes in policies and procedures set forth by legislation, regulations, banking guidance, and global best practices. The FCRD provides advisory support to the Bank’s business and other support units.

The Regulatory Compliance Risk Division (“**RCRD**”) ensures adherence to banking laws, rules, regulations and guidelines issued and mandated by the Bank’s various regulators. The division observes ongoing dissemination of regulatory issuances to various units through he appointed Compliance Officer Designates. It also provides advisory support to the Bank’s business and other support units.

The Compliance Assurance Division’s primary responsibility is to review and assess a business unit’s compliance with applicable rules and regulations, prescribed practices, internal policies and procedures, or ethical standards in relation to regulatory and money laundering/terrorist financing risks.

FAMILY RELATIONSHIPS

Chairman Emeritus Lucio C. Tan and Board Advisor Carmen K. Tan are spouses. Directors Sheila T. Pascual and Vivienne K. Tan are children of Chairman Emeritus Lucio C. Tan and Board Advisor Carmen K. Tan, while Director Lucio C. Tan III is the grandson of Chairman Emeritus Lucio C. Tan and Board Advisor Carmen K. Tan. Mr. Michael G. Tan is a son of Chairman Emeritus Lucio C. Tan.

RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has loans and other transactions with its subsidiaries and affiliates, and with certain DOSRI.

Under the Bank's policy, these loans and other transactions are made substantially on the same terms as other individuals and businesses of comparable risk. Under BSP Circular 423, the amount of direct credit accommodations to each of the Bank's DOSRI, 70% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. The total outstanding loans, other credit accommodations, and guarantees made to DOSRI generally should not exceed 100% of the Bank's net worth or 15% of the Bank's total loan portfolio, whichever is lower. As at 30 June 2024, the Bank was in compliance with such BSP regulations.

Information related to transactions with related parties and with certain DOSRI is shown under Note 33 of the consolidated financial statements of the Bank as of and for the years ended 31 December 2021, 2022 and 2023 included in this Offering Circular.

DOSRI LOANS AND DEPOSITS

The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts as of the period indicated:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	<i>(P millions, except percentages)</i>			
Total outstanding DOSRI loans.....	4,606.1	39.0	2.7	2.2
Percentage of DOSRI loans to total loans	0.7%	0.0%	0.0%	0.0%
Percentage of unsecured DOSRI loans to total DOSRI loans	0.0%	1.6%	0.0%	0.0%
Percentage of past due DOSRI loans to total DOSRI loans	0.0%	3.5%	45.4%	2.4%
Percentage of non-performing DOSRI loans to total DOSRI loans.....	0.0%	3.5%	43.1%	2.4%

BSP Circular No. 560, issued on 31 January 2007, as amended by BSP Circular No. 914, issued on 23 June 2016 provides the rules and regulations that govern loans, other credit accommodations, and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, other credit accommodations, and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.0% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion shall not exceed 5.0% of such net worth. Further, the total outstanding loans, credit accommodations, and guarantees to all subsidiaries and affiliates shall not exceed 20.0% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer, and/or stockholder of the lending institution, except where such director, officer, or stockholder sits in the board of directors or is appointed officer of such corporation as representative of the bank/quasi-bank as reported to the BSP. As at 31 December 2021, 2022, and 2023 and 30 June 2024, the total outstanding loans, other credit accommodations, and guarantees to each of the Bank's subsidiaries and affiliates did not exceed 10.0% of the Bank's net worth, and the unsecured portion did not exceed 5.0% of such net worth.

BSP Circular No. 654, issued on 12 May 2009, provides a separate individual limit (25.0% of the net worth of the lending bank/quasi-bank) to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation, subject to the following conditions: (a) the unsecured portion thereof shall not exceed 12.5% of such net worth when the project is already operational, (b) such project finance loans are for the purpose of undertaking initiatives that are in line with the priority programs and projects of the government; (c) the lending bank shall ensure that the standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of a borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents; (d) the lending bank shall consider its total project finance exposures in complying with the BSP guidelines in managing credit limits, large exposures and credit risk concentration; (e) the subsidiary or affiliate is not a related interest of any of the director, officer, and/or stockholder of the lending bank; and (f) the total outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall be subject to the aggregate limits for related party transactions. Such subsidiaries and affiliates should not be related interests of any of the director, officer, and/or stockholder of the lending bank/quasi-bank, except where such director, officer, or stockholder sits in the board of directors or is appointed officer of such corporation as representative of the bank/quasi-bank. As at 31 December 2021, 2022, and 2023 and at 30 June 2024, the Bank had no subsidiary nor affiliate engaged in energy and power generation.

The balances as at 31 December 2022 and 2023 and the six months ended 30 June 2024 in respect of subsidiaries included in the Bank's financial statements are as follows:

	As at 31 December		As at 30 June
	2022	2023	2024
	<i>(P millions)</i>		
Loans and receivables	14,698.1	14,161.9	13,641.8
Deposit liabilities	9,479.7	10,026.2	9,682.8

The income and expenses for the years ended 31 December 2022 and 2023 and the six months ended 30 June 2024 in respect of subsidiaries included in the Bank's financial statements are as follows:

	Year ended 31 December		Six months ended 30
	2022	2023	June
		(P millions)	2024
Interest income	943.6	1,275.9	691.1
Interest expense	206.2	244.9	99.7

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

The significant inter-company transactions and outstanding balances of the Bank with its subsidiaries were eliminated in consolidation. The Bank is not a subsidiary of any corporation and had no transactions with promoters.

THE PHILIPPINE BANKING INDUSTRY

This information presented in this section has been extracted from publicly available documents from various sources, including officially prepared materials from the Government, and has not been prepared or independently verified by the Issuer, the Lead Arrangers, the dealers or any of their affiliates or advisers. None of the Issuer, the Lead Arrangers, the Dealers or any of their affiliates or advisers make any representations as to the accuracy or completeness of this information.

Introduction

The banking industry in the Philippines is composed of universal banks, commercial banks, rural banks, thrift banks (including savings and mortgage banks, private development banks and stock savings and loan associations), cooperative banks and Islamic banks.

According to BSP's report on the Physical Network of the Philippine Banking System, as at 24 August 2024, the commercial banking sector, comprising universal and commercial banks, consisted of 44 head offices, of which 22 were universal banks and 22 were commercial banks. Of the 22 universal banks, 13 were private domestic banks, three were government banks and six were branches of foreign banks. Of the 22 commercial banks, two were private domestic banks, two were subsidiaries of foreign banks and 18 were branches of foreign banks.

Commercial banks are organised primarily to accept drafts and to issue letters of credit, discount and negotiate promissory notes, drafts, bills of exchange and other evidence of indebtedness, accept or create demand deposits, receive other types of deposits and deposit substitutes, buy and sell foreign exchange and gold and silver bullion, and lend money on a secured or unsecured basis. Universal banks are banks that have authority, in addition to commercial banking powers, to exercise the powers of investment houses, to invest in the equity of business not related to banking, and to own up to 100% of the equity in a thrift bank, a rural bank, or a financial allied or non-allied enterprise. A publicly listed universal or commercial bank may own up to 100% of the voting stock of only one other universal or commercial bank.

Thrift banks primarily accumulate the savings of depositors and invest them, together with their capital, in loans secured by bonds, mortgages in real estate and insured improvements thereon, chattel mortgage, bonds and other forms of security or in loans for personal and household finance, secured or unsecured, or in financing for home building and home development, in readily marketable debt securities, in commercial papers and accounts receivables, drafts, bills of exchange, acceptances or notes arising out of commercial transactions. Thrift banks also provide short-term working capital and medium-and long-term financing for businesses engaged in agriculture, services, industry, and housing as well as other financial and allied services for its chosen market and constituencies, especially for SMEs and individuals. As at 30 June 2024, there were 42 thrift banks (including microfinance-oriented banks), based on BSP's report on the Physical Network of the Philippine Banking System.

Rural banks are organised primarily to make credit available and readily accessible in the rural areas on reasonable terms. Loans and advances extended by rural banks are primarily for the purpose of meeting the normal credit needs of farmers and fishermen, as well as the normal credit needs of cooperatives and merchants. As at 30 June 2024, there were 386 rural and cooperative banks, based on BSP's report on the Physical Network of the Philippine Banking System.

Specialised government banks are organised to serve a particular purpose. The existing specialised banks are the Development Bank of the Philippines ("**DBP**"), Land Bank of the Philippines ("**LBP**"), and AI-Amanah Islamic Investment Bank of the Philippines ("**AAIIB**"). DBP was organised primarily to provide banking services catering to the medium-and long-term needs of agricultural and industrial enterprises, particularly in rural areas and preferably for small-and medium-sized enterprises. LBP primarily provides financial support in all phases of the Philippines' agrarian reform program. In addition to their special functions, DBP and LBP are allowed to operate as universal banks. AAIIB was organised to promote and accelerate the socio-economic development of the Autonomous Region of Muslim Mindanao through banking, financing and investment operations and to establish and participate in agricultural, commercial and industrial ventures based on Islamic banking principles and rulings.

During the past decade, the Philippine banking industry has been marked by two major trends – the liberalisation of the industry, and mergers and consolidation.

Foreign bank entry was liberalised in 1994, enabling foreign banks to invest in up to 60% of the voting stock of an existing bank or a new banking subsidiary, or to establish branches with full banking authority. This led to the establishment of 10 new foreign bank branches in 1995. Republic Act No. 8791 or the General Banking Law

of 2000 (the “**General Banking Law**”) further liberalised the industry by providing that the Monetary Board may authorise foreign banks to acquire up to 100% of the voting stock of one domestic bank within seven years from the effectivity of said law on 13 June 2000 or until 13 June 2007. Under the General Banking Law, any foreign bank, which prior to the effectiveness of the said law availed itself of the privilege to acquire up to 60% of the voting stock of a domestic bank, may further acquire voting shares of such bank to the extent necessary for it to own 100% of the voting stock thereof. As at 24 August 2024, there were 24 foreign banks with branches and two foreign banks with subsidiaries in the Philippines, based on BSP’s report on the Physical Network of the Philippine Banking System, and as at 24 August 2024, they accounted for 5.4% of the total resources of the Philippine banking system. Under RA 10641 and BSP Circular No. 858, Series of 2014 dated 21 November 2014 which amended the relevant provisions of the MORB implementing RA 10641, established, reputable and financially sound foreign banks may be authorised by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing or owning up to 100% of the voting stock of an existing domestic bank (including banks under receivership or liquidation, provided no final court liquidation order has been issued); (b) by investing in up to 100% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches and sub-branches with full banking authority. The foreign bank applicant must also be widely owned and publicly listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. Such established subsidiaries and branches of foreign banks shall be allowed to perform the same functions and enjoy the same privileges of, and be subject to the same limitations imposed upon, a Philippine bank of the same category. Privileges shall include the eligibility to operate under a universal banking authority subject to compliance with existing rules and regulations. Notwithstanding the entry of foreign banks, the BSP is mandated to adopt necessary measures to ensure that at all times the control of 60% of the resources or assets of the entire banking system is held by domestic banks, which are majority-owned by Filipinos.

The liberalisation of foreign ownership regulations in banks has allowed the emergence of foreign and local banks with foreign ownership in the market. This has led to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea, Shinhan Bank, Yuanta Commercial Bank, United Overseas Bank, Hua Nan Commercial Bank, Bank of Taiwan, and Land Bank of Taiwan being granted new licences, and also equity investments by Bank of Tokyo-Mitsubishi UFJ into Security Bank, Cathay Life into Rizal Commercial Banking Corporation and Woori Bank into Wealth Development Bank. As of June 2024, there are 24 branches of foreign banks in the Philippines.

The BSP has also been encouraging mergers and consolidations in the banking industry, seeing this as a means to create stronger and more globally competitive banking institutions. To encourage this trend, the BSP offered various incentives to merging or consolidating banks. On 11 October 2012, BSP Circular No. 771 was issued in order to grant incentives for investors who purchase a controlling stake in a bank. Accordingly, the coverage of relief incentives for mergers and consolidations now includes the purchase and acquisition of a majority of all of the outstanding shares of stock of a bank. Based on BSP data, since the new package of incentives took effect in September 1998, there have been an increasing number of mergers, acquisitions, and consolidations of banks. However, while recent mergers increased market concentrations, BSP studies showed that they were not enough to pose a threat to the overall competition levels since market share remained relatively well dispersed among the remaining players.

Pursuant to the liberalisation, and to the mergers and consolidation trend, the BSP issued BSP Circular No. 902, Series of 2016 dated 15 February 2016 to implement the phased lifting of the moratorium on the grant of new banking licence or establishment of new domestic banks. As provided in the Circular, the suspension of the grant of new banking licences or the establishment of new banks under the MORB was lifted under a two-phased approach. Under Phase 1 of the liberalisation, the grant of new universal/commercial banking licence was allowed in connection with the upgrading of an existing domestic thrift bank. Under Phase 2, the moratorium on the establishment of new domestic banks was fully lifted and locational restrictions were fully liberalised from 1 January 2018.

As of 31 December 2023, seven digital banks have been granted a Certificate of Authority by the BSP to operate in the Philippines: Tonik Digital Bank Inc. (TONDB), Maya Bank Inc. (MAYA), Overseas Filipino Bank Inc. (OFBank), the digital bank subsidiary of state-owned Land Bank of the Philippines (LANDBANK), UNObank Inc. (UBI), UnionDigital Bank Inc. (UDB) and GoTyme Bank Corporation (GTYME).

The following table sets out a comparison, based on publicly available data, of the five largest Philippine private domestic commercial banks in terms of assets as of 31 March 2024:

Name	Market Capitalisation ¹	Total Equity ²	Total Assets ² (in ₱ millions, except number of branches)	Loans and Receivables - net ²	Customer deposits ²	No. of Branches ³
BDO Unibank, Inc.	675,820.5	523,189.4	4,375,916.7	2,818,239.1	3,536,174.8	1,700
Metropolitan Bank & Trust Co.	303,800.4	333,234.4	3,271,008	1,338,683.5	2,116,019.7	949
Land Bank of the Philippines	-	276,833.0	3,268,437	1,411,592.4	2,880,877.6	683
Bank of the Philippine Islands	627,906.5	401,058.3	3,033,331	1,936,067.5	2,384,019.0	839
China Banking Corp.	107,653.6	148,358.3	1,627,195	681,426.5	1,087,883.8	648

Notes:

- (1) Market Capitalisation as at 30 June 2024 based on data from Bloomberg.
- (2) Financial data taken from each bank's published balance sheet disclosed to the BSP as at 31 March 2024.
- (3) Data for a number of branches (including branches of subsidiaries) was taken from each bank's annual report disclosed to PSE as at 31 December 2023, except for Land Bank of the Philippines which was based on its 2022 Annual Report.

According to the results of the Q1 2024 Senior Bank Loan Officers' Survey conducted by BSP, most of the respondent banks maintained their credit standards for loans to businesses and consumers. The diffusion index approach, however, reflected a net tightening of lending standards for loans to businesses and an unchanged credit standards for loans to households.

The BSP issued BSP Circular No. 839, Series of 2014 dated 27 June 2014 which adopts a prudential real estate stress test limit ("REST Limit") for universal and commercial banks, thrift banks on a solo and consolidated basis on their aggregate real estate exposures. The REST Limit combines macro prudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response.

The prudential REST Limits which shall be complied with at all times by universal and commercial banks are 6% of CET1 capital ratio and 10% of risk based capital adequacy ratio, on a solo and consolidated basis, under the prescribed write-off rate. For thrift banks, the prudential REST Limits which shall be complied with at all times are 6% of CET1 capital, for thrift banks that are subsidiaries of universal and commercial banks, 6% of Tier 1 capital, for stand-alone thrift banks, and 10% of risk-based capital adequacy ratio for all thrift banks.

On 20 August 2020, the BSP issued Circular No. 1093, expanding the real estate loan limit for universal and commercial banks (UKBs) from 20% to 25%. The REST Limit has also been amended to apply to the following real estate exposures: commercial real estate loans, investment in debt securities issued by land developers/construction companies and other corporate borrowers, such as real estate brokers, real estate lessors, property management companies, for purposes of financing real estate activities, and investments in equity securities issued by land developers/construction companies and other corporate borrowers, such as real estate brokers, real estate lessors and property management companies, for purposes of financing real estate activities. Under this circular, the manner of computing the REST Limit was revised to remove residential real estate for own occupancy as well as land developers and construction companies for the development of socialized and low-cost housing which was included in the previous regulations. The real estate exposures shall not include loans and investments in debt and equity securities the proceeds of which are used to finance infrastructure projects for public use.

On 29 October 2014, the BSP issued Circular No. 854, Series of 2014, which increased the minimum capital requirement for all bank categories: universal, commercial, thrift, rural, and cooperative banks to strengthen the banking system. Below are the amended minimum capital requirements for banks.

Bank Category/Network Size	Existing Minimum Capitalisation (₱)	Reviewed Minimum Capitalisation (₱)
Universal Banks	4.95 billion**	
Head Office only		3.00 billion
Up to 10 branches *		6.00 billion
11 to 100 branches*		15.00 billion
More than 100 branches*		20.00 billion
Commercial Banks	2.40 billion**	
Head Office only		2.00 billion
Up to 10 branches*		4.00 billion
11 to 100 branches*		10.00 billion
More than 100 branches*		15.00 billion

Bank Category/Network Size	Existing Minimum Capitalisation (₱)	Reviewed Minimum Capitalisation (₱)
Thrift Banks		
Head Office in:		
Metro Manila.....	1.00 billion**	
Cebu and Davao cities.....	500 million**	
Other Areas.....	250 million**	
Head Office in the National Capital Region (NCR)		
Head Office only		500 million
Up to 10 branches*		750 million
11 to 50 branches*		1.00 billion
More than 50 branches*		2.00 billion
Head Office in All Other Areas Outside NCR		
Head Office only		200 million
Up to 10 branches*		300 million
11 to 50 branches*		400 million
More than 50 branches*		800 million
Rural and Cooperative Banks		
Head Office in:		
Metro Manila.....	100 million**	
Cebu and Davao cities.....	50 million**	
Other cities	25 million**	
1st to 4th class municipalities.....	10 million**	
5th to 6th class municipalities	5 million**	
Head Office in NCR		
Head Office only		50 million
Up to 5 branches*		50 million
6 to 10 branches*		120 million
More than 10 branches*		200 million
Head Office in All Other Areas Outside NCR (All Cities up to 3rd Class Municipalities)		
Head Office only		20 million
Up to 10 branches*		30 million
11 to 50 branches*		40 million
More than 50 branches*		80 million
Head Office in All Other Areas Outside NCR (4th to 6th Class Municipalities)		
Head Office only		10 million
Up to 10 branches*		15 million
11 to 50 branches*		20 million
More than 50 branches*	1.0 billion	40 million
Digital banks	1.0 billion	1.0 billion

* Inclusive of Head Office

** With no distinction for network size

The amendment became effective in November 2014.

BANKING REGULATION AND SUPERVISION

The following description is a summary of certain sector specific laws and regulations in the Philippines, which are applicable to the Bank. The information detailed in this chapter has been obtained from publications available in the public domain. The regulations set out below may not be exhaustive, and are only intended to provide general information to the investors and are neither designed nor intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.

Introduction

RA No. 7653 (the New Central Bank Act of 1993), as amended by RA No. 11211, (the “**New Central Bank Act**”), and RA No. 8791 (the General Banking Law of 2000) (“**General Banking Law**”) vest the BSP, which exercises its powers through the Monetary Board, with the authority to regulate and supervise financial intermediaries in the Philippines. Financial intermediaries include banks or banking institutions such as universal banks, commercial banks, thrift banks (composed of savings and mortgage banks, stock savings and loan associations, and private development banks), rural banks, co-operative banks as well as branches and agencies of foreign banks in the Philippines, and digital banks. Entities performing quasi-banking functions, trust companies, building and loan associations, non-stock savings, loan associations and other non-deposit accepting entities such as operators of payment systems, virtual asset service providers and entities engaged in money service business operations, while not considered banking institutions, are also subject to regulation by the Monetary Board.

The supervisory power of the BSP under the New Central Bank Act extends to the subsidiaries and affiliates of banks and quasi-banking institutions engaged in allied activities. A subsidiary is defined as a corporation with more than 50% of its voting stock owned by a bank or quasi-bank. An affiliate is defined as a corporation whose voting stock, to the extent of 50% or less is owned by a bank or quasi-bank or which is related or linked to such institution or intermediary through common stockholders or such other factors as determined by the Monetary Board. In this regard, the MORB (as defined below) defines an affiliate as an entity linked directly or indirectly to a bank by means of: (a) ownership, control (as defined under the relevant portion of the MORB), or power to vote, of at least 20% of the outstanding voting stock of the entity, or vice-versa; (b) interlocking directorship or officership, where the concerned director or officer owns, controls (as defined under the relevant portion of the MORB), or has the power to vote of at least 20% of the outstanding voting stock of the entity; (c) common stockholders owning at least 10% of the outstanding voting stock of the bank and at least 20% of the outstanding voting stock of the entity; (d) management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the entity; and (e) permanent proxy or voting trusts in favour of the bank constituting at least 20% of the outstanding voting stock of the entity, or vice-versa.

In the exercise of its power of supervision under the General Banking Law, the BSP may issue rules of conduct or standards of operation for uniform application, conduct examination to determine compliance with laws and regulations, oversee compliance with such rules and regulations and inquire into the solvency and liquidity of the covered entities. Section 7 of the General Banking Law provides that the BSP in examining a bank shall have the authority to examine an enterprise which is owned or majority-owned or controlled by a bank. Section 28 of the New Central Bank Act provides that there shall be an interval of at least 12 months between regular examinations. A vote of at least five members of the Monetary Board may authorise a special examination.

As a general rule, no restraining order or injunction may be issued by a court to enjoin the BSP from exercising its powers to examine any institution subject to its supervision. The BSP may compel any officer, owner, agent, manager or officer-in-charge of an institution subject to its supervision or examination to present books, documents, papers or records necessary in its judgement to ascertain the facts relative to the true condition of the institution as well as the books and records of persons and entities relative to or in connection with the operations, activities or transactions of the institution under examination, to the extent permitted by law. The refusal of any officer, owner, agent, manager, director or officer-in-charge of an institution subject to the supervision or examination of the BSP to make a report or permit an examination is criminally punishable under Section 34 of the New Central Bank Act. In addition to the general laws such as the General Banking Law and Republic Act No. 9160 or the AMLA, as amended, among others, banks must likewise comply with letters, circulars and memoranda issued by the BSP some of which are contained in the MORB.

The MORB is the principal source of rules and regulations to be complied with and observed by banks in the Philippines. The MORB contains regulations that include those relating to the organisation, management and administration, deposit and borrowing operations, loans, investments and special financing programme, and trust

and other fiduciary functions of the relevant bank. Supplementing the MORB are rules and regulations promulgated in various circulars, memoranda, letters, notices and other directives issued by the Monetary Board.

The MORB and other regulations are principally implemented by the Financial Supervision Sector of the BSP (“FSS”). The FSS is responsible for ensuring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines (including Government credit institutions, their subsidiaries and affiliates, non-bank financial intermediaries, and subsidiaries and affiliates of non-bank financial intermediaries performing quasi-banking functions, non-bank financial intermediaries performing trust and other fiduciary activities under the General Banking Law, non-stock and savings loans associations under RA No. 3779 or the Savings and Loan Association Act, and pawnshops under PD No. 114 or the Pawnshop Regulation Act).

Permitted Activities

A universal bank, such as the Bank, in addition to the general powers incidental to corporations, has the authority to exercise (i) the powers of a regular commercial bank; (ii) the powers of an investment house; and (iii) the power to invest in non-allied enterprises. In addition, a universal bank may own up to 100% of the equity in a thrift bank, a rural bank or a financial allied enterprise. A publicly listed universal or commercial bank may own up to 100% of the voting stock of only one other universal or commercial bank. A universal bank may also own up to 100% of the equity in a non-financial allied enterprise.

In addition to those functions specifically authorised by the General Banking Law and the MORB, banking institutions in general (other than building and loan associations) are allowed to (i) receive in custody funds, documents and valuable objects; (ii) rent out safety deposit boxes; (iii) act as financial agents and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities; and (iv) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business. Financial intermediaries are also allowed to a certain extent to invest in allied (both financial and non-financial) or non-allied undertakings (applicable only to universal banks), or both.

Financial allied undertakings include leasing companies, banks, investment houses, financing companies, credit card companies, and financial institutions catering to small- and medium-scale industries, including venture capital companies, companies engaged in stock brokerage/securities dealership and companies engaged in foreign exchange dealership/brokerage.

The total equity investments of a universal bank in all enterprises, whether allied or non-allied, are not permitted to exceed 50.0% of its net worth. Its equity investment in any one enterprise, whether allied or non-allied, is not permitted to exceed 25.0% of the net worth of the bank. Net worth is defined as the total unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by the BSP.

Regulation relating to capital structure

Pursuant to the General Banking Law, no entity may operate as a bank without the permit of the BSP through the Monetary Board. The Philippine SEC will not register the incorporation documents of any bank or any amendments thereto without a Certificate of Authority issued by the Monetary Board.

A bank can only issue par value stocks and it must comply with the minimum capital requirements prescribed by the Monetary Board. A bank cannot purchase or acquire its own capital stock or accept the same as security for a loan, except when authorised by the Monetary Board. Any stock so purchased or acquired must be sold within six months from the time of its purchase or acquisition.

On 20 October 2014, the Monetary Board decided to increase the minimum capital requirement for all bank categories including universal, commercial, thrift, rural and cooperative banks. This is in line with the BSP’s efforts of further strengthening the banking system. Under this regulation, the minimum capital for universal and commercial banks will be tiered based on network size as indicated by the number of branches. In accordance with BSP Circular No. 854, universal banks are required to have capital accounts of at least ₱3 billion for head office only, ₱6 billion for head office with up to 10 branches (inclusive of head office), ₱15 billion for head office with 11 to 100 branches (inclusive of head office), and ₱20 billion for head office with more than 100 branches (inclusive of head office). Commercial banks are required to have capital accounts of at least ₱2 billion for head office only, ₱4 billion for head office with up to 10 branches (inclusive of head office), ₱10 billion for head office with 11 to 100 branches (inclusive of head office), and ₱15 billion for head office with more than 100 branches

(inclusive of head office). Thrift banks with head office in Metro Manila are required to have capital accounts of at least ₱500 million for head office only, ₱750 million for head office with up to ten branches (inclusive of head office), ₱1 billion for head office with 11 to 50 branches (inclusive of head office), and ₱2 billion for head office with more than 50 branches (inclusive of head office). In August 2022, the BSP issued Circular No. 1151 wherein the BSP adjusted the minimum capitalisation for rural banks. Under these new guidelines, rural banks with head office only (without regard to the location of the head office) are required to have capital accounts of at least ₱50 million, ₱50 million for head office with up to four branches, ₱120 million for head office with five to nine branches, and ₱200 million for head office with more than nine branches. Further, in April 2023, the BSP issued Circular No. 1173 wherein the BSP modified the minimum capitalisation of conventional banks with Islamic banking units. This BSP Circular provides that the minimum capitalisation requirements for a universal bank shall apply to an Islamic Bank. A conventional bank that is a commercial bank or a subsidiary of a universal or commercial bank, which complies with the minimum capital requirements applicable to its respective banking category, may be allowed to operate an Islamic banking unit within a reasonable transitory period not exceeding five years reckoned from the date of BSP approval; provided, that, after the transitory period, such conventional bank shall have the minimum capitalisation requirement applicable to an Islamic Bank. These minimum levels of capitalisation may be changed by the Monetary Board from time to time. For purposes of these requirements, the BSP issued BSP Circular No. 1027 on 28 December 2018 which states that the term capital shall be synonymous to unimpaired capital and surplus, combined capital accounts and net worth and shall refer to the total of the unimpaired paid-in capital, surplus and undivided profits, less:

- treasury stock;
- unbooked allowance for probable losses (including allowance for credit losses and impairment losses) and other capital adjustments as may be required by the BSP;
- total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI granted by the bank;
- total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates;
- total outstanding unsecured loans, other credit accommodations and guarantees granted to related parties as defined in item “n”, Section 131 of the MORB, that are not at an arm’s length terms as determined by the appropriate supervising department of the BSP;
- deferred tax assets that rely on future profitability of the bank to be realised net of any (a) allowance for impairment; and (b) associated deferred tax liability if the conditions cited in PAS 12 on income taxes are met; *provided*, that, if the resulting figure is a net deferred tax liability, such excess cannot be added to net worth;
- reciprocal investment in equity of other banks or enterprises, whether foreign or domestic, if the other bank or enterprise has a reciprocal equity investment in the investing bank, the deduction shall be the (a) investment of the bank; or (b) the reciprocal investment of the other bank or enterprises, whichever is lower; and
- in the case of rural/cooperative banks, the government counterpart equity, except those arising from conversion of arrearages under the BSP rehabilitation programme.

According to BSP Circular No. 1027 dated 28 December 2018, deposits for stock subscription recognised as equity pursuant to Section X128 of the MORB shall be added to capital.

On 15 July 2014, Republic Act No. 10641, otherwise known as an “Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the purpose Republic Act No. 7721” (**RA 10641**), further liberalised the industry by providing that the Monetary Board may authorise foreign banks to acquire up to 100% (previously 60%) of the voting stock of one domestic bank. Under RA 10641, established, reputable and financially sound foreign banks may be authorised by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing or owning up to 100% of the voting stock of an existing bank; (b) by investing in up to 100% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches with full banking authority. The foreign bank applicant must be established, reputable and financially sound. Additionally, such foreign bank must be widely owned and publicly listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its

country of origin. A foreign bank branch authorised to do banking business in the Philippines under RA 10641 may open up to five sub-branches as may be approved by the Monetary Board. Locally incorporated subsidiaries of foreign banks authorised to do banking business in the Philippines under RA 10641 shall have the same branching privileges as domestic banks of the same category. Privileges shall include the eligibility to operate under a universal banking authority subject to compliance with existing rules and regulations. Notwithstanding the entry of foreign banks, the BSP is mandated to adopt necessary measures to ensure that at all times the control of 60% of the resources or assets of the entire banking system is held by domestic banks, which are majority-owned by Filipinos.

Under RA 10641, the Monetary Board was authorised to issue such rules and regulations as may be needed to implement the provisions of RA 10641. On 6 November 2014, the Monetary Board issued Resolution No. 1794 providing for the Implementing Rules and Regulations of RA 10641 and on 21 November 2014, the BSP issued BSP Circular No. 858, amending the relevant provisions of the MORB, accordingly. On 15 February 2016, BSP issued BSP Circular No. 902, Series of 2016 to implement the phased lifting of the moratorium on the grant of new banking licence or establishment of new domestic banks pursuant to its policy to promote a competitive banking environment.

Stockholdings of family groups or related interests in banks are also regulated. The individuals related to each other within the fourth degree of consanguinity or affinity, whether legitimate, illegitimate or common-law, shall be considered family groups or related interests and must be fully disclosed in all transactions by such an individual with the bank. Moreover, two or more corporations owned or controlled by the same family group or same group of persons shall be considered related interests, which must be fully disclosed in all transactions with the bank.

A bank cannot declare dividends greater than its accumulated net profits on hand deducting therefrom its losses and bad debts. A bank cannot also declare dividends, unless at the time of declaration, it has complied with the following:

- clearing account with BSP is not overdrawn;
- liquidity floor requirement for government funds;
- minimum capitalisation requirement and risk-based capital ratios as provided under applicable and existing capital adequacy framework;
- the CCB requirement as defined in Appendix 59, Part III of the MORB for universal and commercial banks and their subsidiary banks and quasi-banks;
- higher loss absorbency requirement in accordance with the D-SIB Framework as provided under Section 128 of the MORB for universal and commercial banks and their subsidiary banks and quasi-banks; or
- has not committed any unsafe or unsound banking practice as defined under existing regulations and/or major acts or omissions as determined by BSP to be grounds for suspension of dividend distribution, unless this has been addressed by the bank as confirmed by the Monetary Board or the Deputy Governor, of the appropriate section, as may be applicable, upon recommendation of the appropriate supervising department of the, BSP.

Banks are required to ensure compliance with the minimum capital requirements and risk-based capital ratios even after the dividend distribution.

Regulations with respect to branches

Section 20 of the General Banking Law provides that universal and commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision of law allows banks, with prior approval from the Monetary Board, to use any or all of their branches as outlets for the presentation and/or sale of financial products of their allied undertakings or investment house units. In line with this, BSP Circular No. 854 Series of 2014 provides various minimum capitalisation requirements for branches of banks, depending on the number of branches (e.g., ranging from a minimum of ₱6 billion for up to ten branches of universal banks to a maximum of ₱20 billion for more than 100 branches of universal banks). For a discussion on the breakdown of minimum capital requirements for banks, please see “—*Regulation relating to capital structure.*”

Subject to compliance with the requirements provided in BSP Circular No. 624, issued on 13 October 2008, which provides for BSP's branching policy and guidelines, the Bank may apply to the BSP for the establishment of branches outside its principal or head office. Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Pursuant to BSP Circular No. 759, issued on 30 May 2012, which liberalised the policy on the establishment of branches by removing the limit set on the number of branches allowed to be applied for by a bank, once approved, a branch should be opened within three years from the date of approval. Pursuant to BSP Circular No. 505, issued on 22 December 2005, banks are allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Manila, Parañaque, Pasay, Pasig and Quezon and the municipality of San Juan, Metro Manila. However, this branching restriction was liberalised pursuant to BSP Circular No. 728, issued on 23 June 2011. Phase 1 of the liberalisation allowed private domestically incorporated universal and commercial banks and thrift banks with limited branch networks in the eight cities or "restricted areas" in Metro Manila until 30 June 2014 to apply for and establish branches in said restricted areas. In Phase 2, branching in the "restricted" areas was opened to all banks except rural banks and cooperative banks. However, branches of microfinance-oriented banks and microfinance-oriented branches of regular banks' branches that will cater primarily to the credit needs of Barangay Micro Business Enterprises duly registered under the Barangay micro business enterprises Act of 2002 (**Republic Act No. 9178**) may be established anywhere upon the fulfilment of certain conditions. BSP Circular No. 759 further liberalised its policy on the establishment of branches by removing the limit set on the number of branches allowed to be applied for by a bank. At present, pursuant to BSP Circular No. 932 (2016), all banks, including rural and cooperative banks, as a general rule are allowed to establish branches anywhere in the Philippines, including in cities previously considered restricted areas.

In BSP Circular No. 987, Series of 2017, the BSP approved the guidelines on the establishment of branch-lite units amending relevant provisions of the MORB. A branch-lite unit refers to any permanent office or place of business of a bank, other than its head office or a branch which performs limited banking activities and records its transactions in the books of the head office or the branch to which it is annexed.

Regulations with respect to management of banks

The board of directors of a bank must have at least five and a maximum of 15 members. According to the Revised Corporation Code, the board of banks and quasi-banks must have independent directors comprising at least 20% of such board. The Revised Corporation Code also requires a compliance officer. In addition to the requirements under Section 31 of the Revised Corporation Code, material contracts of a corporation vested with public interest entered into with one or more of its directors, trustees, officers or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least 2/3 of the members of the board, with at least majority of the independent directors approving the same.

Under the MORB, at least one-third but not less than two members of the board of directors of universal and commercial banks shall be independent directors. Meanwhile, SEC Memorandum Circular No. 19, Series of 2016, on the Code of Corporate Governance for Publicly-Listed Companies requires the board of directors of publicly-listed companies, such as the Bank, to have two independent directors, or such number as to constitute at least one-third of the members of the Board, whichever is higher. In case of merged or consolidated banks, the number of directors shall not exceed 21. An independent director is a person who is not an officer or employee of a bank, its subsidiaries or affiliate or related interests. The Revised Corporation Code likewise requires independent directors, apart from shareholdings and fees received from the bank, to be free from any business or other relationship which could, or could reasonably be perceived to materially interfere with the exercise of independent judgment in carrying out their responsibilities as a director. Foreigners are allowed to have board seats to the extent of the foreign participation in the equity of the bank.

The Monetary Board shall issue regulations that provide for the qualifications and disqualifications to become a director or officer of a bank. After due notice to the board of directors of a bank, the Monetary Board may disqualify, suspend or remove any bank director or officer who commits or omits act which renders him or her unfit for the position.

Monetary Board may regulate the payment by the bank of compensation, allowances, bonus, fees, stock options and fringe benefits to the bank officers and directors only in exceptional cases such as when a bank is under conservatorship, or is found by the Monetary Board to be conducting business in an unsafe or unsound manner or when the Monetary Board deems it to be in unsatisfactory condition.

Except in cases allowed under the Rural Bank Act, no appointive or elective public official, whether full time or part time, may serve as officer of any private bank, except if the service is incidental to financial assistance provided by government or government owned and controlled corporation or when allowed by law.

On 22 August 2017, the BSP issued BSP Circular No. 971, prescribing the Guidelines on Risk Governance for *Bangko Sentral* Supervised Financial Institutions (“**BSFIs**”), and requiring the appointment of a Chief Risk Officer (“**CRO**”) in universal and commercial banks to head the risk management function. In addition to overseeing the risk management function, the CRO shall also support the board of directors in the development of the risk appetite of the BSFI and for translating the risk appetite into a risk limits structure. The appointment, dismissal and other changes to the CRO requires the prior approval of the board of directors. Pursuant to this Circular, prospective directors have the burden of proving that they possess all the qualifications and none of the disqualifications listed in the MORB and must submit proof to the BSP of their qualifications. An elected director must be fit and proper for the position, taking into consideration his integrity/probity, physical/mental fitness, educational/financial literacy/training and other competencies relevant to the job. Each director must also have attended a seminar on corporate governance, subject to certain exemptions. Members of the board of directors may not be appointed as corporate secretary or chief compliance officer of the institution.

On the same date, the BSP also issued BSP Circular No. 972, prescribing the Enhanced Guidelines in Strengthening Compliance Frameworks for BSFIs, and requiring the appointment of a Chief Compliance Officer (“**CCO**”). The CCO is tasked to oversee the identification and management of the BSFI’s compliance risk and shall supervise the compliance function staff. Additionally, the board of directors should ensure that a compliance programme is defined for the BSFI and that compliance issues are resolved expeditiously. For this purpose, a board-level committee, chaired by a non-executive director, shall oversee the compliance programme.

On 4 January 2018, BSP Circular No. 989 was issued providing the Guidelines on the Conduct of Stress Testing Exercises. Stress testing is a tool to evaluate the potential effects of specified changes in risk factors. The Board of Directors must consider the results in capital and liquidity planning and setting risk appetite, among others. Banks have a period of two years from effectivity date to gradually change their stress testing practices until it is in compliance with the circular’s requirements.

BSP Circular No. 1076, Series of 2020 also provides a list of those prohibited to become officers of a bank, including any appointive or elective official, whether full time or part time, except in cases where such service is incidental to the financial assistance provided by the government or government-owned or controlled corporations, or in cases allowed under existing laws.

On 23 August 2022, the BSP issued Circular No. 1149 which provided for guidelines on prudent conduct of investment activities and the minimum practices that a bank should establish for the management and control of risks associated with its investments. The guidelines cover all of a bank’s investments in the trading and banking books, excluding (a) investments that grant control over an enterprise and are accounted for using the equity method; (b) transactions in derivatives involving standalone contracts; and (c) receivables arising from repurchase agreements. Under the circular, a bank is mandated to institute a risk management system to manage the risks arising from its investment activities. This system includes having (1) board and senior management oversight; (2) policies, procedures, and limits that provide a framework for managing investment activities; (3) risk measurement, monitoring and management information systems; and (4) internal controls and audit.

On 28 November 2022, the BSP issued Circular No. 1160, series of 2022 which provides for a framework for *Bangko Sentral*-Supervised Institutions (“**BSIs**”) to manage risks and potential harms to Financial Consumers and institutionalise consumer protection. This framework applies to all financial products created, developed, offered, or marketed by a BSI. Thus, BSIs must comply with the framework by (1) having a consumer protection risk management system (2) establishing board and senior management oversight; (3) maintaining consumer protection standards of conduct; and (4) providing appropriate design and delivery of financial products and services.

Regulations with respect to bank operations

A universal bank, such as the Bank, may open branches or offices within or outside the Philippine subject to the prior approval by the BSP. A bank and its branches and offices shall be treated as one unit. A bank, with prior approval of BSP, may likewise use any of its branches as outlets for presentation and/sale of financial products of its allied undertakings or investment house units.

The Monetary Board shall prescribe the minimum ratio which the net worth of a bank must bear to its total risk assets which may include contingent accounts. In connection thereto, the Monetary Board may require that the ratio be determined on the basis of the net worth and risk assets of a bank, its subsidiaries, financial or otherwise and prescribe the composition and the manner of determining the net worth and total risk assets of bank and their subsidiaries. To ensure compliance with the set minimum ratio, the Monetary Board may limit or prohibit the

distribution of net profits by such bank and require that such net profit be used to increase the capital accounts of the bank until the minimum requirement has been met. It may also restrict or prohibit acquisition of major assets and the making of new investments by the bank.

A universal bank has the authority to: (i) perform activities allowed for commercial banks; (ii) exercise powers of an investment house; and (iii) invest in non-allied enterprise.

On 7 February 2019, the BSP issued Circular No. 1031, setting forth additional guidelines for the classification of licences/authorities based on the types of licences issued for permissible activities; and providing for corresponding amendments to the licensing requirements of the BSP. The Circular provides that a Type C licence is required for the issuance of bonds and commercial paper.

On 22 February 2019, the BSP issued Circular No. 1033, which governs electronic payment and financial services (“EPFS”) offered by BSFIs. EPFS are classified as basic EPFS, which are limited to services allowing only receipt of funds or access to information, and advanced EPFS, which enable customers to send funds and initiate other financial transactions. BSFIs intending to offer advanced EPFS must obtain a Type A/B licence, while those intending to offer only basic EPFS must obtain a Type C licence. Once granted a licence, a BSFI must comply with the regulations set forth in the Circular.

On 25 July 2019, the BSP issued Circular No. 1042 on the *Guidelines on Investment Activities of BSFIs*. These cover all of a BSFI’s investments in the trading and banking books. It provides the fundamental elements of a BSFI’s risk management framework as well as the supervisory expectations on the management of major risks that are inherent in investment activities.

On 7 February 2023, the BSP issued Circular No. 1166, which made changes to the rules on the issuance of e-money and operations of e-money issuers in the Philippines (including rules on liquidity, capitalisation, load limit, and guidelines on reporting and sanctions). The new guidelines set forth in this BSP Circular covers BSFIs that issue E-money and engage in E-money business in the Philippines. E-money issued under closed-loop electronic wallet systems is not covered by the guidelines.

Capital adequacy requirements

The Philippines adopted capital requirements based on the Basel Capital Accord in July 2001.

On 1 July 2007, the BSP issued BSP Circular No. 538, which is the implementing guideline of the revised International Convergence of Capital Measurement and Capital Standards known as Basel II.

In December 2010, a new update to the Basel Accords, known as Basel III, was issued by the BCBS containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios. To align with the international standards, the BSP adopted part of the Basel Committee’s eligibility criteria to determine eligibility of capital instruments to be issued by Philippine banks and quasi-banks as Hybrid Tier 1 capital and Tier 2 with the issuance of BSP Circular No. 709 effective from 1 January 2011, as amended by BSP Circular No. 716.

In January 2012, the BSP announced that the country’s universal and commercial banks, including their subsidiary banks and quasi-banks, will be required to adopt in full the capital adequacy standards under Basel III with effect from 1 January 2014. It aims to replace Basel II, to further strengthen the local bank’s loss absorption capacity and encourage banks to rely more on core capital instruments like CET1 and Tier 1 issues.

This thus allowed local banks one full year for a parallel run of the old and new guidelines prior to the effectiveness of the new standards in 2014, marking an accelerated implementation compared to the Basel Committee’s staggered timeline that stretches from January 2013 to January 2017. On 15 January 2013, the BSP issued the implementing guidelines for the adoption on 1 January 2014 of the revised capital standards under the Basel III accord for universal and commercial banks.

The guidelines set new regulatory ratios for banks to meet specific minimum thresholds for CET1 capital and Tier 1 capital in addition to the capital adequacy ratio. The BSP maintained the minimum capital adequacy ratio at 10.0% and set a minimum CET1 ratio of 6.0% and a minimum Tier 1 capital ratio of 7.5%. The new guidelines also introduced a CCB of 2.5% which shall be made up of CET1 capital.

In addition, banks which issued capital instruments from 2011 will be allowed to count these instruments as Basel III-eligible until end-2015. However, capital instruments that are not eligible in any of the three components of capital were derecognised from the determination of the regulatory capital on 1 January 2014.

On 29 October 2014, the Monetary Board approved the guidelines for the implementation of higher capital requirements on D-SIBs by the BSP under Basel III. Banks deemed to be D-SIBs by the BSP are required to maintain capital surcharges to enhance their loss absorbency and thus mitigate any adverse side effects both to the banking system and to the economy should any of the D-SIBs fail. The assessment started in 2014 with the BSP informing banks confidentially of their D-SIB status in 2015. To determine the banks' systemic importance, the BSP will assess and assign weights using the indicator-based measurement approach based on the following: size, interconnectedness, substitutability, and complexity. Depending on how they score against these indicators and the buckets to which the scores correspond, the D-SIBs will have varying levels of additional loss absorbency requirements ranging from 1.0% to 2.5%. Aside from the added capital pressure, D-SIBs may be put at an undue disadvantage compared to G-SIBs given that this framework was patterned for regional/global banks and thus may not be appropriate for local banks. The phased-in compliance started on 1 January 2017 and became fully effective on 1 January 2019.

On 12 February 2016, the Monetary Board approved the guidelines on the submission of a recovery plan by D-SIBs which shall form part of the D-SIBs' ICAAP submitted to the BSP on the 31st of March each year. The recovery plan identifies the course of action that a D-SIB should undertake to restore its viability in cases of significant deterioration of its financial condition in different scenarios. At the latest, the recovery plan shall be activated when the D-SIB breaches the total required CET1 capital, the higher loss absorbency ("HLA") capital requirement and/or the minimum liquidity ratios as may be prescribed by the BSP. As a pre-emptive measure, the recovery plan should use early warning indicators with specific levels (i.e., quantitative indicators supplemented by qualitative indicators) that will activate the recovery plan even before the above-said breaches happen. This preparatory mechanism, including the operational procedures, monitoring, escalation and approval process should be clearly defined in the recovery plan. The ICAAP document which includes the first recovery plan was submitted on 30 June 2016 and will be re-submitted on the 31st of March each year.

In addition, Basel III capital rules for banks include setting up a CCyB wherein banks may be required by the relevant regulator to build up the required level of capital during boom times and draw down on the buffer in the event of an adverse turn in the cycle or during periods of stress, thus helping to absorb losses. The CCyB will require banks to hold additional common equity or other fully loss-absorbing capital in amounts ranging from 0% to 2.5% of the risk-weighted assets. On 6 December 2018, the BSP issued guidelines on CCyB. BSP Circular No. 1024 imposes a CCB of 2.5% and a CCyB of 0% subject to upwards adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed 2.5%. Any increase in the CCyB rate shall be effective 12 months after its announcement, while decreases shall be effective immediately. The circular further provides that the HLA requirement shall be on top of the combined requirement for CCB and CCyB. Under the Bank for International Settlements ("BIS"), the CCyB became fully effective on 1 January 2019.

On 27 September 2019, the BSP issued Circular No. 1051 which amended the framework for dealing with D-SIBs provided under BSP Circular No. 856. Under BSP Circular No. 1051, the minimum HLA requirement for the lower bucket shall be 1.5% of risk-weighted assets at all times. For the higher populated bucket, the HLA requirement shall range from above 1.5% to 2% of risk-weighted assets. An empty top bucket with an HLA requirement of 2.5% of risk-weighted assets shall also be maintained. The differentiated HLA requirement for D-SIBs slotted under the higher-populated bucket is to be based on the ranking of a bank's overall systemic importance through the use of the indicator-based measurement approach. An equation is provided in BSP Circular No. 1051 for computing the additional loss absorbency requirement for D-SIBs slotted under the higher-populated bucket.

Bucket	Score Range	Minimum additional HLA requirement (CET1 capital as a percentage of risk-weighted assets)
3 (empty)	B-C	2.5%
2	A-B	>1.5% to 2.0%
1	Cut-off point – A	1.5%

The HLA requirement shall also be on top of the combined requirement for CCB and CCyB, as determined under BSP Circular No. 1051. Restrictions on distributions are provided under BSP Circular No. 1051, depending on the CCyB rate of the bank. However, payments which do not result in the depletion of CET1 capital are not considered capital distributions. The total CET1 capital requirement for D-SIBs will be as follows:

A. CCyB rate is at 0%:

Bucket	Minimum CET1 Requirement (a)	CCB (b)	CCyB (c)	D-SIB HLA Requirement (d)	Total Additional CET1 Requirement (b+c+d)	Total Required CET1 (a+b+c+d)
3 (empty)	6.0%	2.5%	0%	2.5%	5%	11.0%
2*	6.0%	2.5%	0%	2%	4.5%	10.5%
1	6.0%	2.5%	0%	1.5%	4.0%	10.0%

*Assuming an HLA requirement of 2%.

B. CCyB rate is at 2.5%:

Bucket	Minimum CET1 Requirement (a)	CCB (b)	CCyB (c)	D-SIB HLA Requirement (d)	Total Additional CET1 Requirement (b+c+d)	Total Required CET1 (a+b+c+d)
3 (empty)	6.0%	2.5%	2.5%	2.5%	7.5%	13.5%
2*	6.0%	2.5%	2.5%	2.0%	7.0%	13.0%
1	6.0%	2.5%	2.5%	1.5%	6.5%	12.5%

*Assuming an HLA requirement of 2%.

Transitional arrangements for the HLA requirement will be implemented. In the case of banks included in the first list of D-SIBs (to be released in June 2015 based on December 2014 data), compliance with the HLA requirement was phased-in on 1 January 2017, with full compliance on 1 January 2019. Under BSP Circular No. 856, BSP should have issued a list of D-SIBs by 31 December 2021. However, in 2022, the BSP decided not to issue the list of D-SIBs to minimise potential misrepresentation of the list as an endorsement of selected banks. After the phase-in period, banks identified as D-SIBs will have 18 months to comply with the required HLA.

Data Cut-Off	Release of D-SIBs List	Compliance Period
December 2014	June 2015	Phased in: 1 January 2017 – 1 January 2019
December 2015	June 2016	Phased in: 1 January 2018 – 1 January 2019
December 2016	June 2017	1 January 2019 – 31 December 2019
December 2017	June 2018	1 January 2020 – 31 December 2020
December 2018	June 2019	1 January 2021 – 31 December 2021

BSP Circular No. 1051 likewise imposes capital distribution constraints should a D-SIB's capital fall within a specified range (subject to phased-in implementation and other provisions of the circular):

A. CCyB rate is at 0%

Restrictions on Distributions	Level of CET1 Capital	
	Bucket 1	Bucket 2*
No distribution (until the minimum CET1, the combined requirement for CCB and CCyB, and more than 50% of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with)	<=9.25%	<=9.50%
50% of earnings may be distributed (if the minimum CET1, the combined requirement for CCB and CCyB), and more than 50% of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with.	>9.25%. – 10.0%	>9.50%. – 10.5%

*Assuming an HLA requirement of 2%

B. CCyB rate is at 2.5%

Restrictions on Distributions	Level of CET1 Capital	
	Bucket 1	Bucket 2*
No distribution (until the minimum CET1, the combined requirement for CCB and CCyB, and more than 50% of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with)	<=11.75%	<=12.00%

50% of earnings may be distributed (if the minimum CET1, the combined requirement for CCB and CCyB), and more than 50% of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with.	>11.75%. – 12.50%	>12.00%. – 13.00%

*Assuming an HLA requirement of 2%.

A D-SIB will not be subject to any restriction on distribution if the following conditions are met:

- (a) Positive retained earnings as of the preceding quarter and compliance with the regulatory requirements for the declaration of dividends;
- (b) Compliance with the total required CET1 and D-SIBS HLA requirement (under the circular) before distribution; and
- (c) Compliance with minimum capital ratios after distribution.

D-SIBs are also to be subjected to greater supervisory requirements such as additional disclosures and reports in its ICAAP. These requirements may lead to the Bank having to hold even higher minimum levels of capital compared with the levels above, should it be designated as a D-SIB by the BSP.

In May 2015, the BSP approved the guidelines for the implementation of the Basel III leverage ratio (computed as banks' Tier 1 capital divided by its total on-book and off-book exposure). On 9 June 2015, the BSP issued BSP Circular No. 881 on the implementing guidelines and accordingly, amending the relevant provisions of the guidelines. Under the guidelines, universal and commercial banks are required to maintain a minimum leverage ratio of 5%, which is more stringent than the 3% minimum leverage ratio under Basel III by 1 January 2017 (which compliance period was extended to 1 January 2018 based on BSP Circular No. 943 issued in 2017 and further extended to 30 June 2017 pursuant to BSP Circular No. 990). While this has no material impact given that Philippine banks' ratios are above the required minimum, the leverage ratio along with other pending components of Basel III point to an increasing regulatory burden on banks. Additional requirements imposed under Basel III include the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The LCR requires banks to hold a sufficient level of High-Quality Liquid Assets (HQLAs) to enable them to withstand a 30-day liquidity stress scenario. Banks have been required to meet an LCR threshold of 100% beginning on 1 January 2019. The NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. As of 1 January 2020, the minimum 100% NSFR became effective for subsidiary banks and quasi-banks of universal and commercial banks. Compliance with these ratios may also further increase competition among banks for deposits as well as high-quality liquid assets. While both ratios are intended to strengthen banks' ability to absorb shocks and minimise negative spillovers to the real economy, compliance with these ratios may further increase competition among banks for deposits as well as HQLAs.

Reserve requirements

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to BSP on the amount of any deficiency.

The BSP regularly issues circulars adjusting the rates of required reserves against deposit and deposit substitute liabilities in local currency which banks are required to maintain. Based on the latest BSP Circulars in relation to the changes in the rates of reserve requirements (i.e., BSP Circular Nos. 1175, 1176 and 1185), universal and commercial banks are required to maintain regular reserves of: (a) 9.5% against demand deposits, negotiable order of withdrawal ("NOW") accounts, savings deposits (excluding basic deposit accounts), time deposit, negotiable certificates of time deposits ("CTDs"), long-term negotiable tax exempt CTDs, deposit substitutes, Peso deposits lodged under due to foreign banks, and Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank); (b) 0% against deposit substitutes evidenced by repurchase agreements; and (c) 4% against long-term negotiable certificates of time deposits. The reserve requirements against deposit and deposit substitute liabilities (i.e., demand deposits, NOW accounts, savings deposits, time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs and deposit substitutes) in local currency for the other types of banks, with effect from 30 June 2023, are as follows: (a) 6% for digital banks; (b) 2% for thrift banks; and (c) 1% for rural and cooperative banks. BSP Circular 1176 also provides that digital banks are required to maintain reserves of 6% against Peso deposits lodged under due to foreign banks, and Peso deposits lodged under due to

head office/branches/agencies abroad (Philippine branch of a foreign bank). In addition, universal, commercial, digital and thrift banks are also required to maintain regular reserves of: (a) 1% against green, social sustainable bonds as defined under the relevant regulations of the Philippine SEC or other relevant regional or international standards acceptable to the market (Sustainable Bonds) issued within one year from 6 January 2024; (b) 0% for Sustainable Bonds issued one year after 6 January 2024, effective for another 12 months, (c) 3% against bonds other than Sustainable Bonds; and (d) 0% against basic deposit accounts as defined under Section 213 of the MORB and for interbank call loan transactions (“**IBCL**”).

On 24 September 2024, the BSP announced that it will again reduce RRRs to support its continuing efforts to reduce distortions in the financial system, lower intermediation costs, and promote better pricing for financial services. Beginning 25 October 2024, the RRR against demand deposits, NOW accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable CTDs, long-term non-negotiable tax-exempt CTDs, deposit substitutes, Peso deposits lodged under due to foreign banks and Peso deposits lodged under due to head office/branches/agencies abroad of banks (Philippine branch of a foreign bank) applicable to (i) universal and commercial banks and non-bank financial institutions with quasi-banking functions, shall be reduced from 9.5% to 7.0%, (ii) digital banks shall be reduced from 6.0% to 4.0%, (iii) thrift banks shall be reduced from 2.0% to 1.0%, and (iv) rural and cooperative banks shall be reduced from 1.0% to 0.0%.

On 23 April 2020 and 27 May 2020, the BSP issued Circular Nos. 1083 and 1087 which modified the composition of required reserves under Section 252 of the MORB. The foregoing BSP Circulars provided allowable modes of alternative compliance with required reserves against deposit and deposit substitute liabilities, subject to specific conditions. These modes include certain Peso-denominated loans granted to micro, small, and medium enterprises (“**MSMEs**”) as well as certain Peso-denominated loans granted to large enterprises. The required reserves and the alternative modes of compliance for the current period (reference reserve week) are computed based on the corresponding levels of deposit and deposit substitute liabilities of the previous week. Banks can use the specified loans as allowable alternative compliance with reserve requirements until 31 December 2021.

According to BSP Memorandum No. M-2020-029, issued on 23 April 2020, MSME loans used as alternative compliance with reserve requirements must be temporarily reported by universal banks under “Investments in Bonds and Other Debt Instruments”.

Agricultural and Fisheries Financing

Republic Act No. 11901, otherwise known as the “Agricultural, Fisheries and Rural Development Financing Enhancement Act of 2022” (“**Agri-Agra Law**”), lapsed into law on July 28, 2022 and repealed Republic Act No. 10000 or The Agri-Agra Reform Credit Act of 2009.

The Agri-Agra Law mandates all banking institutions, whether private or government, to set aside at least 25% of their total loanable funds for agriculture and fisheries credit in general.

Compliance with this requirement may be satisfied by lending to rural community beneficiaries, to finance agricultural and fishery-related activities. The law gives more flexibility to the banks in extending credit to the agriculture and agrarian reform sectors, as the law removed the required allocation of credit between the agrarian reform beneficiaries (10%) and agricultural beneficiaries (15%) under the Agri-Agra Law.

Banks may also comply through the following methods:

1. Actual extension of loans to rural community beneficiaries (gross of allowance for credit losses), for purposes of financing agricultural, fishery and rural development activities;
2. Purchase of eligible loans listed above on a “without recourse” basis from other banks and financial institutions;
3. Purchase of eligible securities (gross of allowance for credit losses but net of unamortized premium or discount), to wit:
 - a. Invest in debt securities, provided that the proceeds therefrom will be used to finance agricultural, fishery and rural development activities;
 - b. Investments in sustainable finance instruments;
 - c. Invest in shares of stock of the rural finance institutions (“**RFIs**”), Philippine Crop Insurance Corporation or in companies that primarily engage in agricultural, fishery or rural development;

- d. Investments in unsecured subordinated debt securities that meet the definition of regulatory capital and are issued by banks that are RFIs;
 - e. Investments in MSMEs of farmers, fisherfolk, agrarian reform beneficiaries, agrarian reform communities, settlers, agricultural lessees, amortizing owners, farmworkers, fishworkers, owner cultivators, compact farmers, and tenant farmers by way of purchase of their securities through an organized market, initial public offering, follow-on offering, or through registered crowdfunding intermediaries;
4. Grant of loans and other credits (gross of allowances for credit losses), to wit:
- a. Placements in deposit accounts and/or fixed term deposit products with RFIs;
 - b. Wholesale lending granted by banks to RFIs;
 - c. Rediscounting facility granted by banks to other banks covering eligible AFRD financing;
 - d. Actual extension of loans intended for the construction and upgrading of infrastructure;
 - e. Actual extension of loans to agri-business enterprises that maintain agricultural commodity supply-chain arrangements directly with qualified rural community beneficiaries;
 - f. Agricultural value chain financing (“AVCF”), including financing to electronic platforms that will facilitate AVCF and supply chain financing transactions among actors in agriculture that benefits rural communities;
 - g. Actual extension of sustainable finance in the form of loans; or
 - h. Purchase of eligible loans listed under (4)(d) to (4)(g) on a “without recourse” basis from other banks and FIs.

Banks which fail to comply or only partially comply with the minimum requirements shall be penalized by the BSP with an annual monetary penalty of 0.5% of the amount of non-compliance or under-compliance computed on a quarterly basis. Additionally, the BSP may impose administrative sanctions. The provisions related to the mandatory credit quota of 25% shall cease to be effective ten years from the approval of Republic Act No. 11901 or in 2032.

The law also provides that banks which are unable to directly lend to rural community beneficiaries may invest in debt and equity securities, undertake agricultural value chain financing, and grant agri-business loans to fund agricultural and community-enhancing activities, among others.

Liquidity requirements

Local banks face liquidity requirements, namely, the LCR and the NSFR, under Basel III. The LCR requires banks to hold sufficient levels of HQLAs to enable them to withstand a 30 day-liquidity stress scenario. Meanwhile, the NSFR requires that banks’ assets and activities are structurally funded with long-term and more stable funding sources. While both ratios are intended to strengthen banks’ ability to absorb shocks and minimise negative spillovers to the real economy, compliance with these ratios may also further increase competition among banks for deposits as well as HQLAs.

In March 2016, the Monetary Board approved the LCR framework with an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. On 1 January 2018, banks were required to meet the LCR threshold of 90%, which was increased to 100% commencing on 1 January 2019. On 8 February 2018, the BSP issued BSP Circular No. 996 which amended the LCR framework and extended its coverage to subsidiaries of universal and commercial banks and quasi-banks on both solo (head office and branches/other offices) and consolidated (parent bank and subsidiary financial allied undertakings) bases.

On 15 March 2019, BSP issued BSP Circular No. 1035 which introduced certain amendments to the Basel III LCR Framework and Minimum Liquidity Ratio Framework, including the (i) extension of the observation period of the minimum Basel III LCR requirement to 31 December 2019 for subsidiary banks and quasi-banks of universal and commercial banks; (ii) adoption of the 70% LCR floor for subsidiary banks and quasi-banks during the observation period; and (iii) amendment of the formula for the minimum liquidity ratio. The subsidiary banks and quasi-banks of universal and commercial banks are required to comply with the minimum LCR of 100% starting 1 January 2020.

On 6 June 2018, the BSP issued BSP Circular No. 1007 which sets out the guidelines on the adoption of the Basel III Framework on Liquidity Standards – NSFR. The guidelines require that covered entities maintain an NSFR of at least 100% at all times. The framework applies to all universal and commercial banks, their subsidiary banks and quasi-banks. The Circular provides for an observation period until 31 December 2018, during which NSFR Reports must be submitted. Should a covered entity be unable to meet the minimum NSFR for a period of two consecutive weeks, it must immediately adopt a board-approved stable funding build-up plan. On 15 March 2019, the Monetary Board approved the extension of the observation period for the NSFR of the subsidiary banks and quasi banks of universal and commercial banks until 31 December 2019, moving the effectivity dates of said ratios to 1 January 2020. During the extended observation period, subsidiary banks and quasi-banks of universal and commercial banks are required to comply with a 70% LCR and NSFR, which increased to 100% on 1 January 2020. Both the LCR threshold and the NSFR threshold are now at 100%, following the full implementation of the provisions of BSP Circular Nos. 1035 and 1034, respectively. The Monetary Board also approved enhancements to the LCR and minimum liquidity ratio guidelines, including netting of cash inflows and outflows to and from the same derivative counterparty for the LCR framework, counting interbank placements as eligible liquid assets, adjusting qualifying liabilities through conversion factors to retail current and regular savings deposits worth ₱500,000 and below and certain liability accounts. The internationally agreed start date for the phase-in of liquidity requirements is 1 January 2015.

On 13 February 2020, the BSP issued Memorandum No. M-2020-003, which provided guidelines for the electronic submission of the Basel III NSFR Report and LCR Report. It mandated that all subsidiary banks and quasi-banks adhere to these guidelines for the live implementation of the NSFR and LCR reports starting with the reporting period ending 31 January 2020. This directive aligns with BSP Circular Nos. 1034 and 1035, both dated 15 March 2019, concerning amendments to the Basel III Framework on Liquidity Standards – Net Stable Funding Ratio and the amendments to the Basel III Liquidity Coverage Ratio Framework and Minimum Liquidity Ratio Framework.

On 4 May 2020, the BSP issued Memorandum Circular No. M-2020-039, allowing universal and commercial banks, along with their subsidiary banks and quasi-banks, to utilise their built-up CCB and LCR buffer during a health emergency, subject to the following conditions:

- A bank or quasi-bank drawing down its 2.5% minimum CCB will not be considered in breach of the Basel III risk-based capital adequacy framework but will face restrictions on making distributions such as dividends (for banks incorporated and established under Philippine laws), profit remittance (for foreign bank branches), share buybacks, discretionary payments on other Tier 1 capital instruments, or discretionary bonus payments to staff.
- A bank or quasi-bank may use its stock of liquid assets to meet liquidity demands in response to the current circumstances, even if this causes its LCR to fall below the 100% minimum requirement. If a bank or quasi-bank records a shortfall in its stock of HLA for three Banking Days within any two-week rolling calendar period, leading to an LCR below 100%, it must notify the BSP on the Banking Day immediately following the occurrence of the third liquidity shortfall.

Banks and quasi-banks have been given a reasonable period to restore their Basel III capital conservation and liquidity buffers after the COVID-19 pandemic. Non-compliance with the minimum CAR and NSFR requirements due to the pandemic will be assessed by the BSP on a case-by-case basis.

Credit risk management

In October 2014, the BSP issued BSP Circular No. 855 which provides for new guidelines on sound credit risk management practices. BSP Circular No. 855 mandates banks to establish appropriate credit risk strategy and policies, processes and procedures, including a cashflow-based credit evaluation process, and tighter provisioning guidelines. These are seen to increase costs as banks may have to upgrade their risk management systems and provisioning requirements.

Additionally, BSP Circular No. 855 sets the collateral value (“CV”) for a loan backed up by real estate to only 60% of its appraised value. Banks will still be allowed to lend more than 60% of the CV; however, the portion above 60% will be considered unsecured, thus requiring banks to set up loan loss provisions accordingly. The CV ruling should not be mistaken for the loanable value, which is the loan amount extended by banks to its borrowers. The current industry practice is a loan-to-value ratio of 70%-80%, which some banks may continue to grant provided that they have strict and consistent lending standards, adequate capital buffer and provisions. This new

ruling, along with other BSP regulations intended to avert a property bubble, could result in an overall slowdown in lending to the real estate sector as banks adjust to these rulings.

To better monitor the banking industry's exposure to the property sector, the BSP in September 2012 approved the guidelines that effectively widened the scope of banks' real estate exposures to include mortgages and loans extended to the following: individuals to finance the acquisition/construction of residential real estate for own occupancy as well as land developers and construction companies for the development of socialised and low-cost housing. Securities investments issued for purposes of financing real estate activities are also included under the new guidelines. Banks were required to submit the expanded report starting end-December 2012.

Further, on 27 June 2014, the BSP issued BSP Circular No. 839 requiring banks to undergo real estate stress tests while setting prudential limits for banks' real estate exposures to ensure that they have adequate capital to absorb potential losses to the property sector. Universal and commercial banks as well as thrift banks must meet a capital adequacy ratio of 10% of qualifying capital after adjusting for the stress test results. Further, universal and commercial banks and their thrift bank subsidiaries are required to maintain a level of CET1 capital that is at least 6% of qualifying capital after factoring in the stress scenario. In addition, banks are mandated to submit quarterly reports of their real estate exposures, in line with the new real estate stress test capital requirements.

On 10 October 2017, the BSP issued BSP Circular No. 976 which approved amendments to the expanded report on the real estate exposure of banks, and required the submission of a report on project finance exposures to enable the BSP to gather more granular information regarding these exposures. It also clarified the definition of loans to finance infrastructure projects for public use that are currently exempt from the 20% limit on real estate loans. On 20 August 2020, the BSP issued Circular No. 1093, expanding the real estate loan limit for UKBs from 20% to 25%. The REST Limit has also been amended to apply to the following real estate exposures: commercial real estate loans; investment in debt securities issued by land developers/construction companies and other corporate borrowers, such as real estate brokers, real estate lessors and property management companies, for purposes of financing real estate activities; and investments in equity securities issued by land developers/ construction companies and other corporate borrowers, such as real estate brokers, real estate lessors and property management companies, for purposes of financing real estate activities. Notably, under this circular, the manner of computing the REST Limit was revised to remove residential real estate for own occupancy as well as land developers and construction companies for the development of socialised and low-cost housing which was included in previous regulations of the BSP. The real estate exposures shall not include loans and investments in debt and equity securities the proceeds of which are used to finance infrastructure projects for public use.

On 23 November 2017, the BSP issued BSP Circular No. 983 that prescribes the reduction in the reserve requirement rate on repurchase transactions, as well as sets forth the features of the repurchase programme that shall be eligible for the zero reserve rate requirement. Deposit substitutes evidenced by repurchase agreements covering government securities that are transacted in an organised market under the Government Securities Repo Program shall be subject to the reserve requirement of 0% beginning the first week of December 2017.

On 28 April 2020, the BSP issued Memorandum No. M-2020-034, which relaxed the credit risk weight for loans to MSMEs under the BSP's risk-based capital adequacy frameworks. Banks' exposure to qualified MSMEs, those meeting the criteria, and current MSME exposures that do not qualify as a highly diversified MSME portfolio, will only be assigned a credit risk weight of 50%, reduced from the previous 75%. This relaxation in the credit risk weight for loans to MSMEs under the BSP's risk-based capital adequacy frameworks was effective until 30 June 2023, as stipulated by Memorandum No. M-2022-041 issued by the BSP on 23 September 2022.

Limitations on operations

The Single Borrower's Limit

Except as prescribed by the Monetary Board for reasons of national interest, the total amount of loan, credit accommodations and guarantees (determined on the total credit commitment) that may be extended by a bank to any person or entity shall at no time exceed 25.0% of the net worth of the bank. The basis for determining compliance with the single borrower's limit ("SBL") is the total credit commitment of the bank to or on behalf of the borrower. The total amount of loans, credit accommodations and guarantees above may be increased for specific circumstances as laid out in the relevant provision of the BSP MORB.

BSP Circular 779 issued on 9 January 2013, amended the BSP MORB provisions on Regulations on Single Borrower's Limit. The amendments allowed for increases (on top of the 25% as already mentioned) on the amount of loans, credit accommodations and guarantees that a bank may issue to a borrower.

The following are the increases that are conditional: (a) an additional 10% of the net worth of the bank as long as the additional liabilities are secured by shipping documents, trust or warehouse receipts or other similar documents which cover marketable, non-perishable goods which must be fully covered by insurance, (b) an additional 25% of the net worth of the bank provided that: (i) the additional loans, credit accommodations and guarantees are used to finance the infrastructure and/or development projects under the Public- Private Partnership Program of the government duly certified by the Secretary of Socio-Economic Planning; (ii) these additional liabilities should not exceed 25% of the net worth of the bank; and (iii) the additional 25% shall only be allowed for a period of six years from 6 December 2010; (c) an additional 15% of the net worth of the bank provided that the additional loans, credit accommodations and guarantees are used to finance oil importation of oil companies which are not subsidiaries or affiliates of the lending bank which is also engaged in energy and power generation, for a period of three years from 3 March 2011 or until 3 March 2014; (d) an additional 25.0% of the net worth of the bank, provided that the additional loans, credit accommodations and guarantees are granted to entities, which act as value chain aggregators of the lending banks' clients, and/or economically-linked entities that are also actors/players in the value chain, which shall only be for a period of three years from 14 March 2016, subject to review after said period; and (e) an additional 15% of the net worth of the bank, provided that the additional loans, credit accommodations and guarantees are used to finance eligible green or sustainable projects that meet any of the principles or categories in (i) Tier II of the 2022 Strategic Investment Priority Plan (green ecosystems, health related activities, defence related activities, industrial value chain, and food security related activities) approved in Memorandum Order No. 61 dated 24 May 2022; (ii) Republic of the Philippines Sustainable Finance Framework; (iii) Philippine Sustainable Finance Guiding Principles; (iv) ASEAN Taxonomy for Sustainable Finance; or (v) implementing regulations of the Philippine Sustainable Finance Taxonomy Guidelines, among other requirements.

The above SBL shall not apply to (a) loans and other credit accommodations secured by obligations of the BSP or of the Government; (b) loans and other credit accommodations fully guaranteed by the Government as to the payment of principal and interest; (c) loans and other credit accommodations secured by U.S. Treasury Notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted rating agencies; (d) loans and other credit accommodations to the extent covered by the hold-out on or assignment of deposits maintained in the lending bank and held in the Philippines; (e) loans, credit accommodations and acceptances under letters of credit to the extent covered by margin deposits; and (f) other loans or credit accommodations which the Monetary Board may from time to time specify as non-risk items. On 5 July 2017, the BSP issued BSP Circular No. 965, approving the guidelines on the exclusion from the SBL of banks and quasi-banks' short-term exposures to clearing and settlement banks arising from payment transactions.

On 30 April 2018, the BSP issued BSP Circular No. 1001 which provided for a separate individual limit of 25.0% of the net worth of the lending bank for loans, credit accommodations and guarantees granted by a bank to an entity for the purpose of project finance. The applicability of the separate individual limit shall be subject to the following conditions: (a) the unsecured portion shall not exceed 12.5% of the net worth of the lending bank when the project is already operational; (b) such project finance loans are for the purpose of undertaking initiatives that are in line with the priority programmes and projects of the government; (c) the lending bank shall ensure that the standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of a borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts and assignment of project documents; (d) the lending bank shall consider its total project finance exposures in complying with the guidelines in managing large exposures and credit risk concentrations; (e) the subsidiary or affiliate is not a related interest of any of the director, officer and/or stockholder of the lending bank; and (f) the total outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall be subject to the aggregate limits for related party transactions.

In an effort to mitigate the adverse effects of the COVID-19 pandemic on the operations of BSFIs, on 19 March 2020, the BSP issued Memorandum No. M-2020-011, which temporarily increased the SBL ceiling to 30% in response to the COVID-19 situation. This adjustment was effective until 31 December 2022 pursuant to BSP Memorandum No. M-2022-004.

On 22 July 2020, the BSP issued Circular No. 1091, excluding debt securities held by market makers from the SBL for 90 days from the date of acquisition if acquired between 1 August 2020, and 31 July 2021, and for 60 days if acquired after 1 August 2021.

On 5 January 2023, the BSP issued Circular No. 1164, outlining minimum operational requirements for credit risk transfer agreements. This BSP Circular provides for the definition of credit risk transfer and clarifies that loans and other credit accommodations or portions thereof covered by an effective credit risk transfer arrangement in

the form of a guarantee or credit derivative that complies with the minimum operational requirements provided under the MORB shall be excluded from the total credit commitment of the bank to a borrower in reckoning compliance with the SBL. Meanwhile, the portion of the loans and other credit accommodations that is not covered by an effective credit risk transfer arrangement, if any, shall still form part of the credit commitment of the bank to the borrower in reckoning compliance with the SBL.

Limitation on DOSRI Transactions

No director or officer of any bank shall directly or indirectly, for himself or as the representative or agent of others, borrow from such bank nor shall he become a guarantor, endorser or surety for loans from such bank to others, or in the manner be an obligor or incur any contractual liability to the bank except with the written approval of the majority of all the directors of the bank, excluding the director concerned.

After due notice to the board of directors of the bank, the office of any officer or director who violates the DOSRI limitation may be declared vacant and such erring officer or director shall be subject to the penal provisions of the New Central Bank Act. The total outstanding loans, other credit accommodations, and guarantees to each of the bank's DOSRI shall be limited to an amount equivalent to their respective unencumbered deposits and book value of their paid-in capital contribution in the bank, provided that unsecured loans, other credit accommodations and guarantees to each of the bank's DOSRI shall not exceed thirty percent (30%) of their respective total loans, other credit accommodations and guarantees. The limitation excludes (a) loans, credit accommodations and guarantees secured by assets which the Monetary Board considers as non-risk; (b) loans, other credit accommodations and advances to officers in the form of fringe benefits granted in accordance with existing regulations; (c) loans, other credit accommodations and guarantees extended by a Coop Bank to its cooperative shareholders; and (d) the portion of loans and other credit accommodations covered by guarantees of international/regional institutions/multilateral financial institutions where the Philippine Government is a member/shareholder, such as the International Finance Corporation and the Asian Development Bank.

On 2 June 2016, the Monetary Board approved the revisions to prudential policy on loans, other credit accommodations and guarantees granted to DOSRIs. The Monetary Board approved the exclusion of loans, other credit accommodation and guarantees granted by a bank to its DOSRI for the purpose of project finance from the 30% unsecured individual ceiling during the project gestation phase, provided, that the bank shall ensure that standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of the borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts and assignment of project documents.

On 23 June 2016, the BSP issued BSP Circular No. 914, Series of 2016 amending the prudential policy on loans, other credit accommodations, and guarantees granted to DOSRI, subsidiaries and affiliates. BSP Circular No. 914 has raised the ceilings on the exposures of subsidiaries and affiliates of banks to priority programmes particularly infrastructure projects under the Philippine Development Plan / Public Investment Program ("**PDP/PIP**") needed to support economic growth. The exposures to subsidiaries and affiliates in PDP/PIP projects will now be subject to higher individual and unsecured limits of 25% instead of 10% and 12.5% instead of 5% of the net worth of the lending bank, respectively, subject to conditions. Further, the circular also provides for a refined definition of "related interest" and "affiliates" to maintain the prudential requirements and preempt potential abuse in a borrowing transaction between the related entities. The circular also amends the capital treatment of exposures to affiliates by weighing the risk of both the secured and unsecured loans granted to the latter.

Limitations on Loans and Credit Accommodations

As a general rule, loan and other credit accommodation against real estate shall not exceed 70% of the appraised value of the real estate security plus 70% of the appraised value of the insured improvements, and such loans shall not be made unless title to the real estate rests with the mortgagor. In the case of universal and commercial banks, the loan values of real estate given as security for any loan granted will be reduced from 70% to not more than 60% of the appraised value of the real estate security and the insured improvements, except the following which are allowed a maximum value of 70% of the appraised value, except for the following which shall be allowed a maximum value of 70% of the appraised value of the insured improvements: (a) residential loans not exceeding ₱3.5 million to finance the acquisition or improvement of residential units; and (b) housing loans extended by or guaranteed under the Government's "National Shelter Program", such as the Expanded Housing Loans Program of the Home Development Mutual Fund and the mortgage and guaranty and credit insurance program of the Home Insurance and Guaranty Corporation. Prior to lending on an unsecured basis, a bank must investigate the borrower's financial position and ability to service the debt and must obtain certain documentation from the borrower, such as financial statements and tax returns. Any unsecured lending should be only for a time period

essential for completion of the operations to be financed. Likewise, loans against chattels and intangible properties shall not exceed 75% of the appraised value of the security and such loans may be made to the title-holder of the unencumbered chattels and intangible properties or his assignee.

On 4 February 2008, the BSP issued Circular No. 600 removing interbank loans from the total loan base to be used in computing the aggregate limit on real estate loans and amending the inclusions and exclusions to be observed in the computation.

On 10 October 2017, the BSP issued Circular No. 976 which approved amendments to the expanded report on the real estate exposure of banks and required the submission of a report on project finance exposures to enable the BSP to gather more granular information regarding these exposures. It also clarified the definition of loans to finance infrastructure projects for public use that are currently exempt from the 20% limit on real estate loans.

On 27 October 2017, the BSP issued BSP Circular No. 978 which provided for exclusion of the portion of loans and other credit accommodation covered by guarantees of international/regional institutions/multilateral financial institutions where the Philippine Government is a member/shareholder, from the ceilings on total outstanding loans, other credit accommodations and guarantees granted to banks' subsidiaries and affiliates. BSP Circular No. 978 excluded the following in determining compliance with the ceilings provided under BSP Circular No. 914: (1) loans, other credit accommodations and guarantees secured by assets considered as non-risk under existing BSP regulations; (2) IBCLs; and (3) the portion of loans and other credit accommodations covered by guarantees of international/regional institutions/multilateral financial institutions where the Government is a member/shareholder, such as the International Finance Corporation and the Asian Development Bank.

Limitation on Investments

The total investment of a universal bank in equities of allied and non-allied enterprises shall not exceed 50% of its net worth. Moreover, the equity investment in any one enterprise, whether allied or non-allied, shall not exceed 25% of the net worth of the universal bank. Net worth for this purpose is defined as the total unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by BSP. The Monetary Board must approve such acquisition of equities. Further, the BSP may impose conditions on any approval of a major investment and has the authority to seek corrective action.

A universal bank can own up to 100% of the equity in a thrift bank, a rural bank or a financial or non-financial allied enterprise. A publicly listed universal bank, such as the Bank, may own up to 100% of the voting stock of only one other universal or commercial bank. However, with respect to a non-allied enterprise, the equity investment in such enterprise by a universal bank shall not exceed 35% of the total equity in the enterprise nor shall it exceed 35% of the voting stock in that enterprise.

A bank's total investment in real estate and improvements including bank equipment shall not exceed 50% of the combined capital accounts. Further, the bank's investment in another corporation engaged primarily in real estate shall be considered as part of the bank's total investment in real estate, unless otherwise provided by the Monetary Board.

The limitation stated above shall not apply with respect to real estate acquired by way of satisfaction of claims. However, all these properties must be disposed of by the bank within a period of five years or as may be prescribed by the Monetary Board.

On 26 November 2019, the BSP issued Memorandum No. M-2019-028, requiring all BSP-supervised financial institutions to take the enumerated preventive measures against illegal investment schemes, including "Ponzi Scheme(s)."

On 4 February 2021, the BSP issued Circular No. 1109, reducing the minimum size of each investment management account and expanding the securities eligible as an investment outlet for commingled funds under investment management. On 23 August 2022, the BSP issued Circular No. 1149 which provides guidelines on the integration of sustainability principles in investment activities of banks. This Circular requires banks to consider environmental and social risks in defining credit risk appetite and ensure that such investment does not contribute to sectors considered to have harmful effects to the environment or society. The Circular covers all of a bank's investments in the trading and banking books but does not apply to a bank's (a) investments that grant control over an enterprise and are accounted for using the equity method; (b) transactions in derivatives involving stand-alone contracts; and (c) receivables arising from repurchase agreements.

Prohibition to act as Insurer

A bank is prohibited from directly engaging in insurance business as the insurer.

Permitted Services

In addition to the operations incidental to its banking functions, a bank may perform the following services:

- receive in custody funds, documents and valuable objects;
- act as financial agent and buy and sell, by order of and for the account of their customers, shares, evidence of indebtedness and all types of securities;
- upon prior approval of the Monetary Board, act as the managing agent, adviser, consultant or administrator of investment management/advisory/consultancy accounts; and
- rent out safety deposit boxes.

BSP Circular No. 1003, issued on 16 May 2018, outlined the Guidelines on the Establishment and Operations of Bank and Non-Bank Credit Card Issuers to implement Republic Act No. 10870, also known as the Philippine Credit Card Industry Regulations Law.

The Framework for Basic Deposit Accounts, found in BSP Circular No. 992 dated 1 February 2018, was issued, with a view towards promoting account ownership among the unbanked by imposing no minimum maintaining balance and an opening amount of not more than ₱100.00. It also supports the National Retail Payments System, which aims to promote digital payments in the country. On 5 October 2018, BSP issued Memorandum No. M2018-27, prescribing guidelines on the electronic submission of the updated reports arising from Circular No. 992.

BSP Circular No. 1049, Series of 2019, which implements RA No. 11127 on The National Payment Systems Act, allows banks to function as an Operator of Payment Systems (“OPS”). Banks can register as an OPS by notifying the BSP of their OPS activities.

An OPS is a person that performs any of the following functions:

- maintains the platform that enables payments or fund transfers, regardless of whether the source and destination accounts are maintained with the same or different institutions;
- operates the system or network that enables payments or fund transfers to be made through the use of a payment instrument;
- provides a system that processes payments on behalf of any person or the government; and
- such other activities similar to the foregoing.

On 19 July 2024, the BSP issued Circular No. 1198 on the Regulatory Framework for Merchant Payment Acceptance Activities. Under this Circular, entities, including banks, are required to secure an authority from the BSP prior to engaging in merchant acquisition in the Philippines or providing the service of accepting and processing payment transactions on behalf of a merchant under an agreement, resulting in a transfer of funds to the merchant. Based on this Circular, banks with concurrent OPS licences that are engaged in or intending to engage in merchant payment acceptance activities are expected to adhere to the more stringent requirements between the guidelines under BSP Circular 1198 and the applicable provisions of the MORB.

Anti-Money Laundering Act of 2001

The AMLA, as amended, requires covered institutions such as banks, including their subsidiaries and affiliates, to provide for customer identification, record keeping and reporting of covered and suspicious transactions.

On 15 February 2013, RA No. 10365, which took effect on 7 March 2013, expanded the AMLA covered institutions and crimes. Additions to the enumeration of covered persons include jewellery selling agents for transactions in excess of ₱1 million; company service providers, or those who form companies for third parties, hold positions as directors or corporate secretaries for third parties, provide business addresses or engage in

correspondence or act as nominee shareholders for others. Likewise, the following persons were added to the list: persons who (a) manage their client's money, security or other assets; (b) manage bank or securities accounts; (c) organise funds for the creation, operation or management of companies; (d) create, operate or manage entities or relationships; or (e) buy and sell business entities. The 2016 Revised Implementing Rules and Regulations of the AMLA was approved by the AMLC on 21 December 2016. On 15 March 2017, the BSP issued BSP Circular No. 950 to amend the MORB in order to effectively implement the provisions of the AMLA, as amended, and the revised implementing rules and regulations of the AMLA, as amended.

In July 2017, RA No. 10927 further expanded the coverage of AMLA to include cash transactions with or involving real estate developers or brokers exceeding ₱7.5 million, and casinos for a single casino cash transaction involving an amount in excess of ₱5 million or its equivalent in any other currency.

Covered transactions are single transactions in cash or other equivalent monetary instrument involving a total amount in excess of ₱500,000.00 within one Banking Day, and for covered persons under Section 3(a)(8), a single casino transaction involving an amount in excess of ₱5 million or its equivalent in any other currency.

Suspicious transactions are transactions with covered institutions such as a bank, regardless of the amount involved, where any of the following circumstances exists:

- there is no underlying legal or trade obligation, purpose or economic justification;
- the customer or client is not properly identified;
- the amount involved is not commensurate with the business or financial capacity of the client;
- the transaction is structured to avoid being the subject of reporting requirements under the AMLA;
- there is a deviation from the client's profile or past transaction;
- the transaction is related to an unlawful activity or offence under the AMLA; and
- similar or analogous transactions to the above.

Failure by any responsible official or employee of a bank to maintain and safely store all records of all transactions of the bank, including closed accounts, for five years from date of transaction/closure of account shall be subject to a penalty of six months to one year imprisonment and/or fine of ₱500,000.00.

Malicious reporting of completely unwarranted or false information relative to money laundering transaction against any person is punishable by six months to four years imprisonment and a fine of not less than ₱100,000.00 and not more than ₱500,000.00.

In compliance with the law, banks, their officers and employees are prohibited from communicating directly or indirectly to any person, entity or the media, the fact that a covered or suspicious transaction has been reported or is about to be reported, the contents of the report, or any information relating to such report. Neither may such report be published or aired in any manner or form by mass media, electronic mail or other similar devices. A violation of this rule is deemed a criminal act.

Money laundering is committed by any person who, knowing that any monetary instrument or property represents, involves, or relates to the proceeds of any unlawful activity:

- transacts said monetary instrument or property;
- converts, transfers, disposes of, moves, acquires, possesses or uses said monetary instrument or property;
- conceals or disguises the true nature, source, location, disposition, movement or ownership of or rights with respect to said monetary instrument or property;
- attempts or conspires to commit money laundering offenses referred to in the first, second or third bullet above;

- aids, abets, assists in or counsels the commission of the money laundering offenses referred to in the first, second or third bullet above;
- performs or fails to perform any act as a result of which the person facilitates the offense of money laundering referred to in the first, second or third bullet above; and
- knowingly fails to disclose and file with AMLC any monetary instrument or property required to be disclosed and filed.

Under AMLA, banks, as covered persons, are required to report to the AMLC all covered transactions and suspicious transactions within a period of five working days from occurrence thereof, unless the AMLC prescribes a different period not exceeding 15 working days. The Court of Appeals of the Philippines (“**Court of Appeals**”), upon verified ex-parte application by the AMLC and after determination that probable cause exists that any monetary instrument or property is in any way related to an unlawful activity as defined in the AMLA, has the authority to issue a freeze order which shall be effective immediately, and which shall not exceed six months depending upon the circumstances of the case. However, if no case is filed against a person whose account has been frozen within the period determined by the Court of Appeals (but not exceeding six months), the freeze order shall be deemed automatically lifted, provided that a freeze order is without prejudice to an asset preservation order which the relevant trial court may issue upon the same assets. Further, a freeze order or asset preservation order shall be limited only to the amount of cash or monetary instrument or value of property which the court finds probable cause to consider as proceeds of the predicate crime.

BSP Circular No. 495 issued on 20 September 2005, as amended by BSP Circular 527 issued on 28 April 2006, required all universal and commercial banks to adopt an electronic money laundering transaction monitoring system by 14 October 2007. The said system should, at the minimum, be able to detect and raise to the bank’s attention transactions and/or accounts that qualify either as “covered transactions” or “suspicious transactions” as defined under AMLA.

BSP Memorandum No. M2012-017 issued on 4 April 2012, as affirmed by BSP Circular No. 950 issued on 15 March 2017 likewise requires all covered banking institutions to comply with the anti-money laundering risk rating system (“**ARRS**”), a supervisory system that aims to ensure that mechanisms to prevent money laundering and terrorist funding are in place and effectively implemented in banking institutions. Under the ARRS, each institution is rated based on the following factors: (a) efficient board of directors and senior management oversight; (b) sound anti-money laundering policies and procedures embodied in a money laundering and terrorist financing prevention programme duly approved by the board of directors; (c) robust internal controls and audit; and (d) effective implementation. BSP Circular No. 950, further provides for specific requirements on having a risk-based approach to customer identification by covered institutions, an ongoing monitoring of customers, accounts, and transactions and a policy of non-discrimination against certain types of customers.

Institutions that are subject to AMLA are also required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for a minimum of five years from the date of a transaction, unless a case has been filed involving the account. The records must then be retained and safely kept beyond the five-year period until it is officially confirmed by the AMCL Secretariat that the case has been resolved, decided or terminated with finality. Records of closed accounts must also be kept for five years after their closure.

On 22 November 2018, the AMLC approved the 2018 Implementing Rules and Regulations of the AMLA prescribing, among others, the guidelines on identifying and recording beneficial ownership. In relation thereto, on 14 January 2019, BSP issued Circular Letter No. CL-2019-002, addressed to all BSFIs of the guidelines issued by the AMLC on digitisation of customer records and identification of beneficial owners.

Moreover, the Implementing Rules and Regulations of the Anti-Money Laundering Act of 2001 requires compliance officers which will oversee the Anti-Money Laundering Programme. This is also reflected in the amendments to the Revised Corporation Code mandating banks to elect a compliance officer.

On 29 January 2020, the AMLC issued AMLC Regulatory Issuance (“**ARI**”) A, B and C No. 1 (2020), which amends certain provisions of the 2018 Implementing Rules and Regulations of Republic Act No. 9160, as amended.

The ARI added provisions on immediate family members and close associates of politically-exposed persons and expanded the definition of a customer or client to include juridical persons. Such resolution also provided that the

suspicious transaction report shall cover all transactions, whether completed or attempted, and shall be promptly filed within the next working day from the occurrence thereof.

On 18 July 2020, Republic Act No. 11479, otherwise known as the “Anti-Terrorism Act of 2020” (“**Anti-Terrorism Act**”) became effective. The Anti-Terrorism Act repealed Republic Act No. 9372 or the Human Security Act to provide stricter penalties and regulations against the inimical acts of terrorism. Section 35 of the Anti-Terrorism Act authorizes the AMLC, either upon its own initiative or at the request of the Anti-Terrorism Council, to investigate: (a) any property or funds that are in any way related to financing of terrorism or violation of Sections 4, 6, 7, 10, 11, or 12 of the Anti-Terrorism Act; and (b) property or funds of any person or persons in relation to whom there is probable cause to believe that such person or persons are committing or attempting or conspiring to commit, or participating in or facilitating the financing of the aforementioned sections.

Accordingly, the AMLC is authorized to inquire into or examine deposits and investments with any banking institution or non-bank financial institution and their subsidiaries and affiliates without a court order. It also provides penalties to any person who maliciously, or without authorization, examines deposits, placements, trust accounts, assets, or records in a bank or financial institution and any employee, official, or a member of the board of directors of a bank or financial institution, who after being duly served with the written order of authorization from the Court of Appeals, refuses to allow the examination of the deposits, placements, trust accounts, assets, and records of a terrorist or an outlawed group of persons, organization, or association.

On 23 November 2020, the BSP issued Memorandum No. M-2020-084, which introduced the money laundering/terrorist/proliferation financing risk assessment system (“**MRAS**”) for BSP-supervised financial institutions. The MRAS employs a four-point rating scale to categorise the net risk of money laundering, terrorist financing, and proliferation financing, ranging from low, moderate, above average, to high. The MRAS replaces the previous ARRS that was used for BSP-supervised financial institutions. On 29 April 2024, the BSP issued Circular No. 1193 which amended the relevant regulations of the BSP on money laundering/terrorist/proliferation financing reporting and notification requirements. The Circular was issued to enable the BSP to have timely and accurate information on significant risk events arising from money laundering/terrorist/proliferation financing-related activities and/or transactions, as part of its risk-based anti-money laundering and countering terrorism and proliferation financing supervision.

On 29 January 2021, the AMLA was further amended to include violations under the SRC and Strategic Trade Management Act. It also includes tax deficiencies in excess of ₱25,000,000. The AMLC is also empowered to issue ex parte freeze orders in cases of violations involving terrorist financing.

On 30 March 2023, the BSP issued Circular No. 1170 which provided amendments on the regulations relating to the banks’ conduct of customer due diligence. Under this Circular, banks are required to use a risk-based approach in conducting customer due diligence. It also provides regulations on eKYC using digital identity (ID) systems.

On 4 July 2023, the Office of the President issued Memorandum Circular No. 33, adopting the National Anti-Money Laundering/Counter-Terrorism Financing/Counter-Proliferation Financing Strategy 2023-2027. This strategy outlines seven strategic objectives designed to address the risks and deficiencies in the Philippines’ AML/CTF systems. Each objective includes action plan items to be completed by relevant government agencies. The strategy aims to respond to findings from the Asia Pacific Group on Money Laundering and the FATF, which placed the Philippines on the Grey List, or “Jurisdictions Under Increased Monitoring,” after a 12-month observation period due to the country’s failure to make tangible progress on key FATF recommendations. By reorganising the National AML/CTF Coordinating Committee and implementing the National Anti-Money Laundering/Counter-Terrorism Financing/Counter-Proliferation Financing Strategy 2023-2027, the Philippine government aims to enhance the effectiveness of its AML, CTF, and CPF measures and facilitate the country’s removal from the FATF Grey List.

Revised Corporation Code

The Revised Corporation Code was signed into law on 20 February 2019 and became effective on 8 March 2019. Among the salient features of the Revised Corporation Code are:

- Corporations are granted perpetual existence, unless the articles of incorporation provide otherwise. Perpetual existence shall also benefit corporations whose certificates of incorporation were issued before the effectivity of the Code, unless a corporation, upon a vote of the majority of the stockholders of the outstanding capital stock notifies the Securities and Exchange Commission (Commission) that it elects to retain its specific corporate term under its current Articles of Incorporation.

- A corporation vested with public interest must submit to its shareholders and to the Commission an annual report of the total compensation of each of its directors or trustees, a director or trustee appraisal or performance report and the standards or criteria used to assess each director or trustee.
- Banks, quasi-banks, pawnshops, non-stock savings and loan associations (“NSSLA”), and corporations engaged in money service business, preneed trust and insurance companies, and other required financial institutions, must have at least 20% of independent directors on the Board, in accordance with the Securities and Regulation Code. This requirement also applies to other corporations engaged in businesses imbued with public interest, as may be determined by the Commission.
- The Code allows the creation of a “One Person Corporation”. However, it expressly prohibits banks and quasi-banks, preneed, trust, insurance, public and publicly listed companies, among others, from being incorporated as such. This restriction also applies with respect to incorporations as Close Corporations.
- Material contracts between the Corporation and its own directors, trustees, officers or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least two-thirds (2/3) of the entire membership of the Board, with at least a majority of the independent directors voting to approve the same.
- The right of stockholders to vote in the election of directors or trustees, or in shareholders’ meetings, may now be done through remote communication or in absentia if authorized by the corporate by-laws. However, as to corporations vested with public interest, these votes are deemed available, even if not expressly stated in the corporate by-laws. The shareholders who participate through remote communication or in absentia are deemed present for purposes of quorum. When attendance, participation and voting are allowed by remote communication or in absentia, the notice of meetings to the stockholders must state the requirements and procedures to be followed when a stockholder or member elects either option.
- As to amendments made to the by-laws of any bank, banking institution, building and loan association, trust company, insurance company, public utility, and other corporations governed by special laws, the Code requires that a prior certificate of the appropriate government agency to the effect that such bylaws or amendments are in accordance with law, must be submitted.
- A favourable recommendation by the appropriate government agency is likewise required for banks or banking institutions, building and loan associations, trust companies, insurance companies, public utilities, and other corporations governed by special laws, before the Commission approves any merger or consolidation; or any voluntary dissolution.
- In the case of transfer of shares of listed companies, the Commission may require that these corporations whose securities are traded in trading markets, and which can reasonably demonstrate their capability to do so, to issue their securities or shares of stock in uncertificated or scripless form in accordance with the Rules of the Commission.

The Revised Corporation Code refers to the Philippine Competition Act in the case of covered transactions under said law involving the sale, lease, exchange, mortgage, pledge, or disposition of properties or assets; increase or decrease in the capital stock, incurring, creating or increasing bonded indebtedness; or mergers or consolidations covered by the Philippine Competition Act thresholds.

The Philippine Competition Act

RA No. 10667, or the Philippine Competition Act (“PCA”) was signed into law on 21 July 2015 and took effect on 8 August 2015. This is the first anti-trust statute in the Philippines and it provides the competition framework in the Philippines. The PCA was enacted to enhance economic efficiency and promote free and fair competition in trade, industry and all commercial economic activities. To implement its objectives, the PCA provides for the creation of a Philippine Competition Commission (the “PCC”), an independent quasi-judicial agency with five commissioners. Among its powers are to: conduct investigations, issue subpoenas, conduct administrative proceedings, and impose administrative fines and penalties. To conduct a search and seizure, however, the PCC must still apply for a warrant with the relevant court.

The PCA prohibits and imposes sanctions on: (a) anti-competitive agreements between or among competitions; (b) mergers and acquisitions which have the object or effect of substantially preventing, restricting or lessening competition; and (c) practices which are regarded as abuse of dominant position, by engaging in conduct that would substantially prevent, restrict or lessen competition, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing, and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to certain exceptions.

On 3 June 2016, the PCC issued the Implementing Rules and Regulations of the PCA (“**IRR**”). Under the IRR, as amended by Memorandum Circular No. 01-2024 effective 1 March 2024, as a general rule, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity (“**UPE**”) of at least one of the acquiring or the acquired entities, including the entities that the UPE controls, directly or indirectly, exceeds ₱7.8 billion (“**Size of Party**”) exceed ₱1 billion; and (b) the value of the transaction exceeds ₱3.2 billion, as determined in the IRR (“**Size of Transaction**”). Said thresholds shall also apply to joint venture transactions under the IRR.

As provided in MC No. 18-001, the thresholds shall be automatically adjusted commencing on 1 March 2019 and on the 1st of March every succeeding year, using as index the Philippine Statistics Authority’s official estimate of the nominal gross domestic product growth of the previous calendar year rounded up to the nearest hundred million. The revised thresholds, however, shall not apply to mergers or acquisitions pending review by the PCC; notifiable transactions consummated before the effectivity of the memorandum circular; and transactions already subject of a decision by the PCC.

Violations of the PCA and the IRR have severe consequences. Under the PCA and the IRR, a transaction that meets the thresholds and does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of 1% to 5% of the value of the transaction. Criminal penalties for entities that enter into anti-competitive agreements, as defined, include: (a) a fine of not less than ₱50 million but not more than ₱250 million; and (b) imprisonment for two to seven years for directors and management personnel who knowingly and wilfully participate in such criminal offences. Pursuant to PCC Memorandum Circular No. 21-001 dated 19 January 2021, which adjusts the schedule of fines for violations of the 2017 Rules of Procedure and the Rules of Merger Procedure, administrative fines of ₱100 million to ₱270 million may be imposed on entities found violating prohibitions against anti-competitive agreements and abuse of dominant position. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities. Commitment of acts such as, failure to comply with a ruling, order, or decision of the PCC or the disclosure, publication, transfer, copying or dissemination of confidential information may amount to a fine of ₱55,000 up to ₱2.2 million.

On 15 September 2017, the PCC published the 2017 Rules of Procedure (“**Rules of Procedure**”) which apply to investigations, hearings and proceedings of the PCC, except to matters involving mergers and acquisitions unless otherwise provided. It prescribes procedures for fact-finding or preliminary inquiry and full administrative investigations by the PCC. The Rules of Procedure also include non-adversarial remedies such as the issuance of binding rulings, show cause orders and consent orders.

On 23 November 2017, the PCC published the 2017 Rules on Merger Procedures (the “**Merger Rules**”) which provides the procedure for the review or investigation of mergers and acquisition pursuant to the IRR. The Merger Rules provides, among others, that parties to a merger that meets the thresholds in Section 3 of Rule 4 of the IRR are required to notify the PCC within 30 days from the signing of definitive agreements relating to the notifiable merger.

On 28 May 2019, the PCC approved the Expedited Merger Rules which apply when: (1) there are no actual or potential horizontal or vertical (including complementary) relationships in the Philippines between the acquiring entity and the acquired entity and the entities it controls; (2) the merger is a global transaction where the acquiring and acquired entities identified in the definitive agreement are foreign entities (foreign parents), and their subsidiaries in the Philippines act merely as manufacturers or assemblers of products with at least 95% of such products exported to the foreign parents, subsidiaries, affiliates or third parties located outside the Philippines, provided that the remaining 5% of product sales in a market in the Philippines is minimal in relation to the entirety of such Philippine product market; (3) the candidate relevant geographic market of the merger is global and the acquiring and acquired entities have negligible or limited presence in the Philippines; and (4) joint ventures, whether incorporated or not, were formed purely for the construction and development of a residential and/or commercial real estate development project.

Data Privacy Act

RA No. 10173, otherwise known as the Data Privacy Act of 2012 (“**Data Privacy Act**”), was signed into law on 15 August 2012, to govern the processing of all types of personal information (i.e., personal, sensitive, and privileged information) in the hands of the government or private natural or juridical person through the use of an Information and Communications System (“**ICT**”), which refers to a system for generating, sending, receiving, storing or otherwise processing electronic data messages or electronic documents and includes the computer system or other similar device or through which data is recorded, transmitted or stored and any procedure related to the recording, transmission or storage of electronic data, electronic message, or electronic document. While the law expressly provides that it does not apply to certain types of information, including those necessary for banks and other financial institutions under the jurisdiction of BSP to comply with the AMLA and other applicable laws, the said law applies to all other personal information obtained by banks for other purposes. It mandated the creation of a National Privacy Commission, which shall administer and implement the provisions of the Data Privacy Act and ensure compliance of the Philippines with international standards set for data protection. The Philippines recognises the need to protect the fundamental human right of privacy and of communication, while ensuring free flow of information to promote innovation and growth. It also identifies the vital role of information and communications technology in nation building and its inherent obligation to ensure that personal information in ICT in the government and in the private sector is secured and protected.

The Data Privacy Act seeks to protect the confidentiality of “personal information”, which is defined as “any information, whether recorded in material form or not, from which the identity of an individual is apparent or can be reasonably and directly ascertained by the entity holding the information, or when put together with other information would directly and certainly identify an individual”. The law provides for certain rights of a data subject or an individual whose personal information is being processed. The law imposes certain obligations on “personal information controllers” and “personal information processors”. It also provides for penal and monetary sanctions for violations of its provisions.

Financial Institutions Strategic Transfer Act

Under Republic Act No. 11523, otherwise known as the Financial Institutions Strategic Transfer (“**FIST Act**”), a FISTC is a corporation organized under the laws of the Philippines that is authorized to invest in the NPA of credit-granting institutions, such as banks, financing companies, investment houses, lending companies, insurance companies, accredited microfinance nongovernmental organizations, government financial institutions, government-owned or controlled corporations, other institutions licensed by the BSP to perform quasi-banking functions and credit-granting activities, and engage in other related activities (“**FISTC**”). The FIST Act is applicable to assets that have become non-performing on or before 31 December 2022.

Pursuant to said law, NPAs of financial institutions may be transferred to a FISTC after notice to but without the consent of the borrower. Such transfers from financial institutions to FISTCs and those from a FISTC to a third party, dation in payment by a borrower, a third party in favor of a financial institution or in favor of a FISTC are exempt from the following taxes:

- (a) Documentary stamp tax on such transfer of NPAs and dation in payment under the Tax Code;
- (b) Capital gains tax imposed on the transfer of lands and/or other assets treated as capital assets as defined under Section 39(A)(1) of the Tax Code;
- (c) Creditable withholding income taxes imposed on the transfer of land and/or buildings treated as ordinary assets pursuant to Revenue Regulations No. 2-98, as amended; and
- (d) Value-added tax on the transfer of NPAs, or gross receipts tax the Tax Code, whichever is applicable.

All sales or transfers of NPAs from a financial institution to a FISTC or transfers by way of dation in payment by the borrower or by a third party to a financial institution shall be entitled to the privileges enumerated herein for a period of not more than two years from the effectivity of the fist law. Transfers from a FISTC to a third party of NPAs acquired by the FISTC within such two-year period, or within such extended period, or transfers by way of dation in payment by a borrower to a FISTC shall enjoy the privileges enumerated above for a period of not more than five years from the date of acquisition by the FISTC. Properties acquired by a FISTC from government financial institution or government operated and controlled corporations which are devoted to socialized or low-cost housing shall not be converted to other uses.

The BSP issued Circular No. 1117 Series of 2021 implementing the FIST Act. It provides for the guidelines governing the sale/transfer and investment transactions of banks, and other institutions licensed by the BSP to perform quasi-banking functions and credit-granting activities pursuant to the FIST Act. The Circular sets out the

provisions that the BSFIs must comply with in the sale/transfer transactions of non-performing assets for purposes of availing the tax exemptions and incentives/privileges under the FIST Act.

Electronic Banking Operations

The BSP has prescribed prudential guidelines in the conduct of electronic banking, which refer to systems that enable bank customers to avail themselves of a bank's products and services through a personal computer (using direct modem dial-in, internet access, or both) or a telephone. Applicant banks must prove that they have in place a risk management process that is adequate to assess, control and monitor any risks arising from the proposed electronic banking activities.

Under BSP Circular No. 542, dated 1 September 2006, the BSP released the new guidelines on the protection of electronic banking customers. These guidelines set specific requirements in the following areas: (a) oversight by a bank's board of directors, and other concerned officers over its electronic banking activities; (b) the development of a risk management policy and internal controls over its electronic banking activities; (c) the implementation of a consumer awareness programme for the customers of banks; (d) development of policy on disclosures and transparencies, and the availability of electronic banking services; and (e) the development of complaint resolution procedure for unauthorised transactions in electronic banking. Private domestic banks with a BSP-approved electronic banking facility may accept payment of fees and other charges of a similar nature for the account of the departments, bureaus, offices and agencies of the government as well as all government-owned and controlled corporations. The funds accepted shall be treated as deposit liabilities subject to existing regulations on government deposits and shall not exceed the minimum working balance of such government entities.

BSP Circular No. 808, dated 22 August 2013, required BSP-supervised institutions to migrate their entire payment network to the more secure Europay, MasterCard and Visa ("**EMV**") chip-enabled cards. In 2014, BSP Circular No. 859 set out the EMV Implementation Guidelines which shall govern the implementation for debit cards in any card-accepting devices/terminals. The deadline set for compliance with the migration to the EMV was initially set for 1 January 2017. However, pursuant to BSP Memorandum No. M-2017-019 issued on 9 June 2017, BSFIs are required to fully comply with the EMV requirement by 30 June 2018. Failure to do so is considered a serious offence and will subject these institutions to monetary sanctions provided under the relevant provision of the MORB.

On 22 February 2019, the BSP issued BSP Circular No. 1033 introducing certain amendments to the regulations on electronic banking services and other electronic operations, particularly electronic payment and financial services ("**EPFS**"). EPFS are products and services that enable customers to receive payments or initiate financial transactions and other related services through an electronic device. BSP Circular No. 1033 requires the prior approval of the BSP to offer EPFS and certain reportorial requirements must be submitted to the BSP.

On 2 December 2020, the BSP issued BSP Circular No. 1105 which provided the Guidelines on Establishment of Digital Banks. While digital banks have no physical branch, sub-branch or branch-lite unit, digital banks are required to maintain a principal or head office in the Philippines to serve as the main point of contact for stakeholders, including the BSP and other regulators. Pursuant to the accelerated digitalization in the financial industry, the BSP issued Memorandum No. M-2022-016 on 22 March 2022, which provides the controls and processes supporting the operation, connectivity, and endpoint security of Application Programming Interface ("**API**") and the good practices for API management.

On 21 January 2022, the BSP issued BSP Circular No. 1135, providing for the Guidelines on the Settlement of Electronic Payments Under the National Retail Payment System ("**NRPS**") Framework in line with the BSP's goal to ensure the efficiency of payment systems in the country. Under this Circular, the BSP requires BSFIs participating in an Automated Clearing House ("**ACH**") for electronic payments to ensure that the ACH provides certainty of settlements of the multilateral clearing obligations of the clearing participants.

On 7 February 2023, the BSP issued Circular No. 1166 which amended the regulations on electronic money ("**E-Money**") and operations of E-Money issuers ("**EMIs**") in the Philippines. The Circular clarified that the E-Money issued under closed-loop electronic wallet systems is not covered by the regulations and provides additional guidelines which shall govern the issuance and operations of E-Money, including the regulations on minimum systems and controls required from EMIs, consumer protection regulations, minimum disclosure requirements, liquidity requirements and capital requirements, among others.

National Payment Systems Act

On 30 October 2018, Congress enacted RA No. 11127 on the *Act Providing for the Regulation and Supervision of Payment Systems*. R.A. No. 11127 seeks to regulate payment systems, recognising that they are crucial parts of the financial infrastructure of the country. The law defines payment systems as the set of payment instruments, processes, procedures, and participants that ensures the circulation of money or movement of funds. Meanwhile, the same law defines operators as persons who provide clearing or settlement services in a payment system, or define, prescribe, design, control, or maintain the operational framework of the payment system.

Under RA No. 11127, all OPS must register with the BSP. Furthermore, the Philippine SEC can no longer register the charter documents of any operator of a designated payment system (“**DPS**”), or any amendment thereto, or otherwise issue to an operator a licence to do business in the Philippines, unless accompanied by a certificate of authority from the Monetary Board under its seal. The law also grants the BSP the power to designate a new payment system if it determines that an existing payment system is posing or has the potential to pose a systemic risk, or the designation is necessary to protect the public interest.

On 9 September 2019, the BSP issued BSP Circular No. 1049 which implements the provisions of RA No. 11127. It requires banks, acting as payment systems operators, to register with the BSP through notification without having to separately file an application or pay registration fees. The BSP will then issue the registering bank with a Provisional Certificate of Registration. Thereafter, the BSP will issue the bank a Certificate of Registration, if warranted, provided that the documents submitted by the bank meet all regulatory requirements. BSP Circular No. 1068, issued on 26 December 2019, extended the deadline for the registration of existing payment systems operations from 1 October 2019, as originally provided in Circular No. 1049, to 1 April 2020.

The BSP implemented the Payment System Oversight Framework (“**PSOF**”) on 7 July 2020 through the issuance of BSP Circular No. 1089, which addresses the need for comprehensive regulation over payment systems and other financial market infrastructures through cooperative oversight and periodic assessment. The PSOF follows a risk-based oversight approach mainly through the designation of payment systems. In the event that the operator of a DPS fails to satisfy regulatory expectations, resulting in a threat to the safety, efficiency and reliability of the system, the PSOF empowers the BSP to appoint a manager to administer the operation of the DPS. On 14 September 2021, the BSP mandated the adoption of the Principles for Financial Market Infrastructures (“**PFMI**”) pursuant to the PSOF. The PFMI is a set of international standards designed to strengthen financial market infrastructures and make them more resilient to financial crises and participant defaults.

In line with the phased-in implementation of RA No. 11127, the BSP issued BSP Circular No. 1127 on the *Governance Policy for Operators of Payment Systems* on 17 September 2021, which is patterned after its other existing corporate governance standards. It prescribes the regulatory expectations on governance arrangements and standards of OPS as well as the criteria for qualification of its directors and officers.

On 1 March 2022, the BSP issued Circular No. 1138 which establishes the regulatory reporting standards for OPS. The circular requires an OPS to establish a reporting system that will aggregate all pertinent data and produce the reports required by the BSP under both business-as-usual and stressed conditions (i.e., emergency conditions for OPS such as a crisis, national or public health emergencies, weather-related events, or sudden closures of markets and/or clearing agencies where the transactions therein are processed through an OPS for eventual settlement) in a timely manner. The circular also specifies sanctions that may be imposed on an OPS for non-compliance with reporting requirements. It also prescribes non-monetary penalties such as the disqualification or suspension of the Chief Executive Officer for at least one month to one year in the case of unsubmitted reports. The top official and members of the board may also be disqualified from the industry for further offences and the Monetary Board will have the power to designate a manager to take over the operations.

Guidelines for Virtual Asset Service Providers (VASP) in the Philippines

On 26 January 2021, the BSP issued Circular No. 1108, relating to the Guidelines for Virtual Asset Service Providers (“**VASP**”) in the Philippines. This Circular amended the regulations relating to Virtual Currency Exchanges which were replaced by or renamed as VASPs. Under said guidelines, entities considered as engaging in the business of VASPs are required to secure a Certificate of Authority to operate as a money service business with a VASP licence and are required to observe the capitalisation requirements of either ₱50 million or ₱10 million, for VASPs with or without safekeeping and/or administration services as defined in said Circular, respectively.

The Financial Products and Services Consumer Protection Act

RA No. 11765 or the *Financial Products and Services Consumer Protection Act* (“**FCPA**”) was signed into law on 6 May 2022. The FCPA expanded the powers of financial regulators such as the BSP and imposed duties on financial service providers such as banks. Violation of the FCPA will result in the imposition of enforcement actions, penalties and/or administrative sanctions from the BSP. On 28 November 2022, the Monetary Board issued Circular No. 1160 which provides for the implementing guidelines for the FCPA with respect to BSFIs. Based on this Circular, banks must meet the following standards in dealing with financial consumers:

- Disclosure and Transparency;
- Protection of Client Information;
- Fair Treatment;
- Effective Recourse; and
- Protection of Consumer Assets against Fraud and Misuse.

Pursuant to the FCPA, the BSP may, in addition to the enforcement actions under the MORB, restrict the ability of banks to collect excessive or unreasonable interests, fees or charges, including other interests, fees and charges that are covered under Republic Act No. 10870, otherwise known as the Philippine Credit Card Industry Regulation Law, and order required accounting and disgorgement of profits obtained, or losses avoided, as a result of a violation of the FCPA, its IRR and other existing laws, rules, and regulations under its jurisdiction, including reasonable interest.

The Anti-Financial Account Scamming Act

RA No. 12010, or the Anti-Financial Account Scamming Act (“**AFASA**”), was signed into law on 20 July 2024 to combat financial cybercrimes, safeguard the interests of financial consumers, and uphold the integrity of the financial system.

The AFASA authorises the BSP to investigate violations of the law, apply for cybercrime warrants, and collaborate with law enforcement agencies in the investigation of cases covered by the law. It also provides the BSP with limited authority to examine and investigate bank accounts, e-wallets, and other financial accounts that are involved in the prohibited acts under the law, which includes engaging in money muling activities and social engineering schemes.

Under the AFASA, money muling activities are prohibited, which includes the following acts for the purpose of obtaining, receiving, depositing, transferring, or withdrawing proceeds that are known to be derived from crimes, offences, or social engineering schemes:

- using, borrowing or allowing the use of a Financial Account;
- opening a financial account under a fictitious name or using the identity or identification documents of another;
- buying or renting a Financial Account;
- selling or lending a Financial Account; or
- recruiting, enlisting, contracting, hiring, utilising or inducing any person to perform the acts mentioned in the first to fourth bullets of this subsection.

Meanwhile, social engineering schemes are committed by a person who obtains sensitive identifying information of another person, through deception or fraud, resulting in unauthorised access and control over the person’s Financial Account, by performing any of the following acts:

- misrepresenting oneself as acting on behalf of an Institution, or making false representations to solicit another person’s sensitive identifying information; or
- using electronic communications to obtain another person’s sensitive identifying information.

The aforementioned acts shall be considered as economic sabotage when committed under any of the following circumstances:

- by a group of three or more persons conspiring or confederating with one another;
- against three or more persons individually or as a group;
- using a mass mailer; or
- through human trafficking.

Under the AFASA, financial institutions have the obligation to employ adequate risk and fraud management systems to ensure that their clients' financial accounts are protected and temporarily hold funds subject of a disputed transaction within a period prescribed by the BSP, which shall not exceed 30 days, unless otherwise extended by a court of competent jurisdiction.

Related Party Transactions

BSP Circular No. 895, dated 14 December 2015, announced the approval of guidelines strengthening oversight and control standards for managing related party transactions of banks and their non-bank financial subsidiaries and affiliates. The guidelines highlight that while transactions between and among the entities within the same group create financial, commercial and economic benefits, higher standards should be applied to protect the interests of all stakeholders. It is emphasised that related party transactions are generally allowed for as long as these are done on an arm's length basis referring to the process involved in handling the transaction as well as the economic terms of the transaction.

Under the guidelines, the board, as an oversight body, shall have overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations. The board is expected to approve an overarching policy on the handling of related party transactions that should cover the scope of its related party transactions policy, guidelines in ensuring arm's length terms, management of conflicts of interest, materiality thresholds and limits, whistleblowing mechanisms, and restitution of losses and other remedies for irregular related party transactions. Further, banks that are part of conglomerates are required to create a related party transactions committee responsible for the continuing identification and review of existing relations between and among businesses and counterparties, and for ensuring that related party transactions are processed in the regular course of business, and are priced fairly. The guidelines now explicitly require that the annual reports adequately disclose relevant information on the governance of related party transactions and specific details of exposures to related parties.

BSP Circular No. 969, dated 22 August 2017, further codified the BSP's thrust to strengthen oversight over related party transactions by enhancing corporate governance guidelines which include improvement of the duties and responsibilities of the related party transactions committee of BSP supervised financial institutions.

On 25 April 2019, the Philippine SEC issued Memorandum Circular No. 10, series of 2019 (Rules on Material Related Party Transactions for Publicly Listed Companies), mandating additional disclosure/reportorial requirements for material related party transactions ("MRPTs") amounting to 10% or higher of a publicly listed company's total assets. The circular requires all publicly listed companies to submit to the Philippine SEC a policy on MRPTs. Advisement Reports on MRPTs shall also be filed with the Philippine SEC in accordance with the circular within three calendar days after the execution of a covered transaction. Finally, a summary of MRPTs entered into by the company during the reporting year shall be disclosed in the company's Integrated Annual Corporate Governance Report ("I-ACGR") submitted annually on the 30th of May.

Taxation for Banks

Banks are subject to regular corporate income tax, based on their taxable income at a tax rate of 25%.

Taxable net income refers to items of income specified under Section 32 (A) of the Tax Code less the items of allowable deductions under Section 34 of the Tax Code or those allowed under special laws.

A minimum corporate income tax equivalent to 2% of the gross income of a bank is payable beginning on the fourth year of operations of the bank only if the minimum corporate income tax is greater than the regular corporate income tax. Any excess minimum corporate income tax paid over the regular corporate income tax can be carried forward as tax credit for the three immediately succeeding years. For purposes of minimum corporate

income tax, the bank's gross income means: (a) gross receipts less sales returns, allowances, discounts and cost of services, including interest expense; and (b) income derived from other businesses except income exempt from income tax and income subject to final tax.

Net operating loss carry-over ("**NOLCO**") can be claimed as a deduction against taxable income within three years after NOLCO is incurred.

An improperly accumulated earning tax equivalent to 10% of improperly accumulated taxable income of a corporation is not applicable to banks.

Since banks are in the regular business of lending, interest income derived by banks from lending activities which is generally considered passive income by non-banks is considered ordinary income of banks subject to 30% corporate income tax. Banks may also claim interest expense as tax deduction if such expense complies with the requirements laid down in Revenue Regulations No. 13-00. The amount of interest expense which banks may claim as tax deduction shall be reduced by an amount equal to 33% of the banks' interest income that is subject to final tax.

The Tax Code does not allow banks to deduct interest expense or bad debts arising from transactions with the following:

- an individual who directly or indirectly owns more than 50% in value of the outstanding capital stock of the bank;
- a corporation, more than 50% in value of the outstanding capital stock of which is owned directly or indirectly, by or for the same individual in the bullet above, either as a personal holding company or a foreign personal holding company.

Pursuant to Revenue Regulations No. 05-99 (as amended by Revenue Regulations No. 25-02), in order for banks to claim bad debts as tax deductions, they must submit a written approval from the BSP stating that the indebtedness can be written off from the banks' books of accounts at the end of the taxable year, subject to the final determination by the BIR that bad debts being claimed by the banks are worthless and uncollectible. However, on 29 October 2014, the BSP issued Circular No. 855 which provides that notice of write-off of problem credits shall be submitted in the prescribed form to the BSP through the appropriate Central Point of Contact within 30 business days after every write-off with a sworn statement signed by the President of the financial institution or officer of equivalent rank that the write-off did not include transactions with DOSRI and was undertaken in accordance with board-approved internal credit policy. Based on the said circular, a notice to the BSP would suffice, and that BSP approval with respect to a write-off of a bad debt not related to a DOSRI transaction, is no longer required.

The banks' passive income such as interest income earned from bank deposits is subject to final withholding tax.

Banks are subject to percentage tax or GRT, which is a tax levied on the gross receipts of banks and non-bank financial intermediaries. On 13 June 2016, the BIR issued Revenue Memorandum Circular No. 62-2016 ("**RMC 62-2016**") seeking to clarify the tax treatment of GRT, which is passed on by banks through contractual stipulations to their clients. RMC 62-2016 provides that if under a contract the GRT is passed on to the client, such passed-on GRT should be treated as gross income characterised as other fees and charges and should itself be subject to a 7% GRT.

ROPA of banks are considered as ordinary assets. The income derived from their sale is subject to the regular corporate income tax. Moreover, the transaction is subject to a 6% creditable withholding tax based on the highest among the zonal value, value in the tax declaration or selling price, which shall be withheld by the buyer and can be used as a credit against the bank's taxable income in the year that the gain is realised.

The Tax Code provides for a final tax at fixed rates for the amount of interest, yield or benefit derived from deposit substitutes which shall be withheld and remitted by the payor of the said interest, yield or benefit. This rule does not apply to gains derived from trading, retirement or redemption of the debt instrument, which is subject to regular income tax rates, except those instruments with maturity of more than five years as these are exempt from income tax.

To be considered as a deposit substitute, the debt instrument must have been issued or endorsed to 20 or more individuals at any one time at the time of the original issuance in the primary market or at the issuance of each tranche in the case of instruments sold or issued in tranches.

IBCLs with a maturity period of not more than five days and used to cover deficiency in reserves against deposit liabilities are not considered deposit substitutes and are not subject to documentary stamp tax except if they have a maturity of more than seven days.

FCDU transactions with non-residents of the Philippines, offshore banking units (“OBUs”), FCDUs of local banks and branches of foreign banks (i.e., offshore income) are tax-exempt, while interest income from foreign currency loans granted by FCDUs of depository banks to residents other than OBUs or other depository banks under the expanded system is subject to 10% final tax. All other income of FCDUs is taxable at the regular corporate income tax rate of 30%.

On 19 December 2017, the President of the Philippines signed into law the TRAIN Law which took effect on 1 January 2018. The TRAIN Law amends certain provisions of the Tax Code and is the first package of the Comprehensive Tax Reform Programme (“CTRP”) of the Duterte administration. The relevant changes of the TRAIN Law are incorporated in the section titled “*Taxation*” beginning on page 234 of this Offering Circular.

On 14 February 2019, the President signed into law the Tax Amnesty Act of 2019 or Republic Act No. 11213 (“**Tax Amnesty Law**”), which was intended to complement the provisions of the TRAIN Law. Said Tax Amnesty Law covered only estate tax amnesty for estates of decedents who died on or before 31 December 2017, and whose estate taxes have remained unpaid or have accrued as of 31 December 2017 and tax amnesty on delinquencies covering all national internal revenue taxes for taxable year 2017 and prior years.

On 26 March 2021, the second package of the CTRP, Republic Act No. 11534, otherwise known as the CREATE Act, was signed into law, amending provisions of the Tax Code, as amended, relating to, among others, corporate income tax, lowering corporate income taxes and modernising fiscal incentives in a bid to complement the expected incremental revenues from the first package.

The salient provisions of the CREATE Act include:

- reduction in corporate income tax (“**CIT**”) from the current 30% to 20% for MSMEs and to 25% for other corporate taxpayers by 1 July 2020;
- reduction in the minimum corporate income tax rate to 1% effective 1 July 2020 until 30 June 2023;
- effective 1 July 2020, a period of four to seven years during which export enterprises may enjoy the 5% special corporate income tax rate based on the gross income earned in lieu of all national and local taxes;
- extension of the applicability of the net operating loss carryover for losses incurred during the first three years from the start of commercial operation by registered projects or activities, from the current three to five consecutive taxable years immediately following the year of such loss;
- net capital gains derived by resident foreign corporations on the sale of shares of stock of domestic corporations not traded on the Philippine stock exchange will be subject to a final tax of 15%, increased from the current rate of 5% on the first ~US\$2,000 and 10% on the excess thereof;
- Regional Operating Headquarters will be subject to regular CIT rates effective 1 January 2022, increased from the current 10% rate on taxable income;
- Qualified Registered Business Enterprises (“**RBE**”) will be granted an income tax holiday for four to seven years, depending on the assigned RBE category level. After the income tax holiday period, a special corporate income tax rate of 5% beginning 1 July 2020 will be imposed on gross income earned in lieu of all national and local taxes. The duration of the special corporate income tax is five to ten years depending on the assigned Registered Business Enterprises tier level; and
- in lieu of the special corporate income tax, enhanced deductions may be granted for a period of five to ten years depending on the assigned Registered Business Enterprises category level.

See also “*Investment Considerations—Risks Relating to the Bank and its Business—Changes in the regulatory regimes or guidelines may adversely affect the Bank’s businesses, financial condition and results of operations*”

The other tax reform packages that the government hopes to implement include tax amnesty (estate, general), as well as “sin” (e.g., alcohol, gaming), property, passive income and financial intermediaries, and luxury taxes. The

fourth package under the CTRP relating to passive income and financial intermediaries proposes to impose (i) a single final withholding tax rate of 15% on interest income regardless of currency, maturity, issuer and other differentiating factors, (ii) a single rate of 15% on interest income, dividends and capital gains, (iii) a single gross receipt tax of 5% on banks, quasi-banks, and certain non-bank financial intermediaries across all types of income (lending and non-lending), except dividends, equity shares and net income of subsidiaries, (iv) uniform taxation of 2% of premium for pre-need, pension, life and HMO insurance, (v) removal of IPO tax, and (vi) gradually reduce the stock transaction tax until it reaches zero by 2026 and removal of the transaction tax on listed and traded debt instruments by 2026, and exemption of non-monetary documents from DST.

On 5 January 2024, President Marcos signed into law RA No. 11976 or the Ease of Paying Taxes Act (“**EOPTA**”). The EOPTA provides for amendments to the Tax Code relating to the filing and payment of taxes, shifting the value-added tax base for sale of services and use or lease of properties, from gross receipts to gross sales, and creation of new classifications of taxpayers depending on gross sales, among others.

Currently pending in the Senate is the Passive Income and Financial Intermediary Taxation Act (“**PIFITA**”), which is the fourth package of the CTRP (based on House Bill No. 4339 from the House of Representatives). The PIFITA, in its current form, proposes (i) the removal of the preferential tax treatment of the expanded foreign currency deposit system, (ii) a single final withholding tax rate of 20% on interest income regardless of currency, maturity, issuer and other differentiating factors, (iii) a single gross receipt tax of 5% on banks, quasi-banks and certain non-bank financial intermediaries across all types of income (lending and non-lending), except dividends, equity shares and net income of subsidiaries, (which will remain exempt), (iv) uniform taxation of 2% of premium for pre-need, pension, life and HMO insurance, and (v) the gradual reduction of the stock transaction tax until it reaches 0.1%. To become law, the PIFITA would have to be approved by the Senate. It is currently subject to review and potential amendment within the legislature of the Philippines. If approved by the legislature, the PIFITA would be submitted to the President of the Philippines, who may veto the measure, approve it or allow it to lapse into law.

Amendments to Existing Requirements for Issuances of Bank Securities

On 26 November 2019, the BSP issued Circular No. 1062 amending the provisions of the MORB to relax certain requirements on the issuance of long-term negotiable certificates of time deposit, bonds and commercial papers. Under the amendments, universal banks, commercial banks or investment houses that are related parties of the issuing bank may serve as the underwriter or arranger of the issuance, subject to the following conditions:

- that there are other third party underwriters or arrangers that are not related in any manner to the issuing bank;
- that the objective conduct of the due diligence review is not undermined; and
- that the appropriate safeguards and controls as provided under Section 136 of the MORB on related party transactions shall be instituted to prevent conflict of interest on the said arrangement.

Further, the underwriter or arranger that is a related party of the issuing bank may be a holder of the bonds or commercial papers, provided that it is part of the underwriting agreement.

Moratorium on the Issuance of Long-Term Negotiable Certificates of Time Deposit (“LTNCTDs”)

On 15 November 2019, BSP issued Circular No. 1059 imposing an indefinite moratorium on the issuance of LTNCTDs beginning 1 January 2021. LTNCTDs that have been approved but remain unissued as of 31 December 2020 may still be issued, provided that this is done within the period allowed by the BSP. Requests for authority to issue LTNCTDs will only be accepted by the appropriate supervising department of the BSP until 30 September 2020.

Other Regulations

Set out below are other regulations applicable to banks operating in the Philippines:

- *Implementation of Basel III Framework on Liquidity Standards.* On 10 March 2016, the BSP issued BSP Circular No. 905 which provided guidelines for the implementation of Basel III framework on Liquidity Standards as it relates to LCR and Disclosure Standards. The Monetary Board approved the LCR framework with an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. Beginning on 1 January 2018, the LCR threshold that banks will

be required to meet will be 90.0%, which was increased to 100.0% commencing on 1 January 2019. On 3 November 2017, the BSP issued BSP Circular No. 981 which amended the guidelines on liquidity risk management. The banks have until 1 September 2018 to develop or make appropriate changes to their policies and procedures, provided that banks complete a gap analysis of the requirements in BSP Circular No. 981 vis-à-vis their existing risk management systems by 31 March 2018, the result of such gap analysis shall be documented and made available for review of the BSP. On 8 February 2018, the BSP issued BSP Circular No. 996 which amended the LCR framework and extended its coverage to subsidiaries of universal and commercial banks and quasi-banks on both solo (head office and branches/other offices) and consolidated (parent bank and subsidiary financial allied undertakings) bases.

On 15 March 2019, BSP issued Circular No. 1035 to introduce certain amendments to the Basel III LCR Framework and Minimum Liquidity Ratio Framework. Circular No. 1035: (i) extended the observation period of the minimum Basel III LCR requirement to 31 December 2019 for subsidiary banks and quasi-banks of universal and commercial banks, (ii) adopted the 70% LCR floor for subsidiary banks and quasi-banks during the observation period, and (iii) amended the formula for minimum liquidity ratio.

- Implementation of Basel III Framework for Dealing with D-SIBs.* On 29 October 2014, the BSP issued BSP Circular No. 856 which provided the guidelines for implementing the Framework for dealing with D-SIBs under Basel III. Banks deemed as D-SIBs by the BSP will be imposed with capital surcharge to enhance their loss absorbency and thus mitigate any adverse side effects both to the banking system and to the economy should any of the D-SIBs fail. To determine the banks' systemic importance, the BSP will assess and assign weights using the indicator-based measurement approach based on the following: size, interconnectedness, substitutability, and complexity. Depending on how they score against these indicators and the buckets to which the scores correspond, the D-SIBs will have varying levels of additional loss absorbency requirements ranging from 1% to 2.5%. Aside from the added capital pressure, D SIBs may be put at an undue disadvantage compared to G-SIBs given that this framework was patterned for regional/global banks and which may not thus be appropriate for local banks. The phased-in compliance started on 1 January 2017 and will become fully effective on 1 January 2019. On 12 February 2016, the Monetary Board approved the guidelines on the submission of a recovery plan by DSIBs which shall form part of the DSIBs' ICAAP submitted to the BSP every 31 March of each year. The recovery plan identifies the course of action that a DSIB should undertake to restore its viability in cases of significant deterioration of its financial condition in different scenarios. At the latest, the recovery plan shall be activated when the DSIB breaches the total required CET1 capital, the HLA capital requirement and/or the minimum liquidity ratios as may be prescribed by the BSP. As a pre-emptive measure, the recovery plan should use early warning indicators with specific levels (i.e., quantitative indicators supplemented by qualitative indicators) that will activate the recovery plan even before the above-said breaches happen. This preparatory mechanism, including the operational procedures, monitoring, escalation and approval process should be clearly defined in the recovery plan. The ICAAP document, which includes the first recovery plan, was submitted on 30 June 2016 and will be re-submitted on the 31st of March of each year.
- Regulations Governing the Derivatives Activities of Banks.* In line with the policy of the BSP to support the development of the Philippine financial market by providing banks and their clients with expanded opportunities for financial risk management and investment diversification through the prudent use of derivatives, BSP Circular No. 594 was issued by the BSP in January 2008 amending the existing regulations governing the derivatives activities of banks and trust entities. Furthermore, BSP Circular No. 688 issued by the BSP in May 2010 prescribes guidelines on the determination of the credit risk weighted assets for banks that will engage in derivatives activities as end-users for hedging purposes and/or under limited-use authority. The BSP also issued BSP Circular No. 891 on 9 November 2015 amending the sales and marketing guidelines for derivatives under the MORB. Banks must ensure that the financial products (e.g., debt and equity securities, hybrid securities, derivatives, securitisation structures and similar products with substantial investment characteristics) it recommends to a client are appropriate for that client through a client suitability process which involves obtaining client information, classifying a client according to financial sophistication and risk tolerance and conducting a suitability review. Any informational or promotional presentation must be undertaken only by personnel who are knowledgeable on the products involved and are qualified based on qualification standards established by the bank. Any disclosures regarding its products and services must meet the bank's standards to ensure that its clients understand the nature of the financial transaction. The BSP may bring about timely corrective actions and impose sanctions on the bank and responsible persons, which may include warning, reprimand, suspension, removal, and disqualification of concerned directors, officers, and employees. In February 2017, BSP issued Memorandum No. M-2017-004 advising all banks and quasi-banks that cross-border derivative transactions involving non-centrally cleared derivatives shall

be subject to margin requirements pursuant to the policy framework adopted by the BCBS and the International Organisation of Securities Commissions. The framework requires all covered entities that engage in non-centrally cleared derivatives to exchange initial and variation margins. Assets collected as collateral for margin purposes should be highly liquid and should, after the application of an appropriate haircut, be able to hold their value in times of distress. As an initial step, banks and quasi-banks should make a determination of the transactions that will be subject to margin requirements implemented in other jurisdictions and assess whether they will be able to comply with the margin requirements implemented in other jurisdictions and assess whether they will be able to comply with the pertinent legal and operational arrangements.

The BSP subsequently issued Circular No. 1119 on 7 June 2021, which added the following derivatives activities that may be engaged in by UBs and KBs in without need of prior BSP approval:

1. Originate, distribute, or act as market maker for the following financial derivatives as long as the bank complies with applicable market conventions and mechanisms for transparency and disclosure, and observes the provisions of the MORB and other pertinent securities laws, rules, and regulations:
 - a. Deliverable foreign exchange (“FX”) forwards, FX swaps, currency swaps, and analogous financial futures;
 - b. Non-deliverable FX forwards and FX swaps; and
 - c. Interest rate swaps, forward rate agreements, and analogous financial futures.
2. As end-user, enter in any financial derivatives transactions for the purpose of hedging its own risks;
3. As end-user, enter into financial derivatives transactions in order to take positions for its own account in the financial instruments mentioned in item (1);
4. Global peso notes booked under the regular banking units; and
5. Transactions involving warrants issued under the Republic of the Philippine’s “Paired Warrants Program.”

RBUs and expanded foreign currency deposit units (“EFCUDs”) of UBs and KBs may now invest, for their own account, in different structured products (“SPs”) as long as, among others, the total carrying value of all investments in SPs shall not exceed 100% of the bank’s qualifying Tier 1 capital. For activities not expressly listed above, a bank needs to apply for prior BSP approval of additional derivatives authority. A bank applying for additional derivatives authority/ies must have and maintain a risk management system commensurate to the additional authority/ies being applied for.

- *Amendments to UITF Regulations.* In September 2004, the BSP issued BSP Circular No. 447 (as amended by BSP Circular No. 675 2009, BSP Circular No. 676 2009, Memorandum No. M-2010-033 2010, BSP Circular No. 767 2012, BSP Circular No. 852 2014, BSP Circular No. 876 2015 and BSP Circular No. 907 2016) which provided guidelines for the launching and offering of new products to be known as UITFs, and was intended to completely phase out common trust funds or convert them into UITFs within two years from the date of the circular. UITFs are open-ended pooled trust funds denominated in any acceptable currency that are to be operated and administered by trust entities. Eligible assets of UITFs include bank deposits, securities issued by or guaranteed by the Government or the BSP, tradable securities issued by the government of a foreign country, exchange listed securities, marketable instruments that are traded in an organised exchange, loans traded in an organised market, loans arising from repo agreements which are transacted through an exchange recognised by the Philippine SEC and such other tradable investments outlets/categories as the BSP may allow. These assets are subject to mark-to-market valuation on a daily basis. The stated objective of the BSP is to align the operation of pooled funds with international best practices and enhance the credibility of pooled funds to investors. In January 2008, the BSP issued BSP Circular No. 593 to improve risk disclosure on investing in UITFs, by requiring banks to conduct a client suitability assessment to profile the risk-return orientation and suitability of the client to the specific type of UITF that he wants to participate in, and to update the client’s profile at least every three years. In December 2009, the BSP issued BSP Circular No. 676 allowing cross-currency investment for Peso trust,

other fiduciary and investment management accounts, including Peso UITFs. In September 2012, the BSP issued BSP Circular No. 767 to include investments by UITFs in units/shares in collective investment schemes as an allowable investment and recognising UITF structures such as feeder funds and fund-of-funds. On 21 October 2014, the BSP issued BSP Circular No. 852, amending the UITF Regulations. Through this circular, the BSP strengthened the disclosure requirements for UITFs by prescribing the use of the Key Information and Investment Disclosure Statement and online posting of UITF information via a website. On 10 March 2016, the BSP issued BSP Circular No. 907 to amend certain exposure limits, and allowable investment and valuation on UITFs invested in feeder fund and fund-of-funds. UITF investments shall only be limited to bank deposits and collective investment schemes (e.g., target fund, exchange-traded funds), subject to such target fund not being structured or similarly structured as a feeder fund or a fund-of-funds. On 14 March 2018, BSP issued BSP Circular No. 999 which further amended the allowable investment and valuation of UITFs invested in feeder fund or fund-of-funds. Under the circular, offshore/global funds which use financial derivatives for EPM may be allowed as target fund, provided that financial derivatives are not extensively or primarily used as an investment strategy of the target fund and that the risk level of the target fund remain consistent with the objective and risk profile of the investor fund. Alternatively, the target fund shall comply with the relevant regulatory requirements of its home jurisdiction as regards the use of financial derivatives for EPM.

On 5 September 2022, the BSP issued Circular No. 1152 which further modified the guidelines for creation of UITFs. The BSP delineated between different kinds of UITFs (money market funds, fixed income funds, multi-asset funds, equity funds, and distributing funds). Trust Entities (“TEs”) are now allowed to create, administer, and manage UITFs with prior approval or notification to the BSP. Prior BSP approval is needed if the TE will create, for the first time, a fixed income fund, multi-asset fund, equity fund, fund-of-funds, feeder fund, multi-class fund, or distributing fund. If the TE will create a UITF that is the same category as any of its existing ones, then only prior notification to the BSP is needed. UITFs will need to be governed by a written trust agreement drawn by the trustee which shall be approved by the board of directors and submitted to the BSP for approval or notification, as the case may be. Further, any amendment to a UITF shall be the subject of a written notification to the BSP if the amendment involves any of the following aspects:

- A. Investment objectives, policies, or strategies;
- B. Risk profile;
- C. Benchmark;
- D. Target investors of a multi-class fund;
- E. Target fund/s of a feeder fund or a fund-of-funds;
- F. Income distribution policy of a distributing class/fund;
- G. Basis of the NAVPu computation;
- H. Fees and other charges to the fund;
- I. Custodian;
- J. Investment manager, if separate from the trustee; and/or
- K. Merger of funds.

On 9 August 2023, the BSP issued Circular No. 1178 which provided for guidelines on the use of benchmarks for UITFs. These guidelines require the trustee to include a benchmark in the presentation of a UITF. Under the guidelines, a valid benchmark for a UITF has the following characteristics:

- a. Has a clearly defined objective;
- b. Appropriately reflects the market or sector it aims to represent;
- c. Is comprised of sufficiently diversified financial instruments that are liquid;
- d. Is objectively and consistently calculated;
- e. Is a total return benchmark; and
- f. Reflects returns that are net of taxes.

The trustee must ensure that its chosen benchmark reflects the investment mandate, objective, or strategy of the UITF and possesses the characteristics of a valid benchmark. It must also ensure that the underlying securities of the benchmark are identifiable and priced in accordance with BSP guidelines or international financial reporting standards on the valuation of assets. Trustees are required to prepare a Key Information and Investment Disclosure Statement (“**KIDS**”) which shall contain the key features of the UITF, the fund performance against a benchmark, and the fund's prospective and outstanding

investments. The KIIDS shall be updated and made available to participants at least every calendar quarter and made publicly available not later than forty-five (45) calendar days from the reference period.

In presenting the fund performance against a benchmark, the following minimum information shall be disclosed in the KIIDS:

- a. The description and key characteristics of the benchmark, and its use relative to the fund's objective or investment strategy (e.g., whether the fund aims to track the performance of the benchmark or to outperform the same);
- b. For a customized benchmark (i.e., a benchmark created by the trustee via the combination of multiple benchmarks), the description of each component benchmark and its corresponding weight as well as the rebalancing frequency, if any;
- c. If the benchmark is managed or administered by a related party of the trustee, how the trustee and the benchmark manager/administrator manage existing and potential conflicts of interest;
- d. If there are misalignments between the risk-return profile and/or characteristics of the UITF and those of the benchmark, the reason/s for and the extent of the misalignments; and

If there has been a change in the benchmark, the date the benchmark was changed, as well as the description of and reason for the change in the benchmark. These details and the illustrative presentation of performance against the old and new benchmarks shall be disclosed in the KIIDS for a minimum of one (1) year from the date of adoption of the new benchmark.

- *Limit on Real Estate Loans of Universal Banks.* In February 2008, the BSP issued BSP Circular No. 600 removing interbank loans from the total loan base to be used in computing the aggregate limit on real estate loans, and amending the inclusions and exclusions to be observed in the computation. On 10 October 2017, the BSP issued BSP Circular No. 976 which approved amendments to the expanded report on the real estate exposure of banks, and required the submission of a report on project finance exposures to enable the BSP to gather more granular information regarding these exposures. It also clarified the definition of loans to finance infrastructure projects for public use that are currently exempt from the 20.0% limit on real estate loans.
- *Exemption of Paired ROP Warrants from Capital Charge for Market Risk.* In connection with the Government's Paired Warrants Program, the BSP issued BSP Circular No. 605 in March 2008 exempting warrants paired with ROP Global Bonds from capital charge for market risk to the extent of a bank's holdings of bonds paired with warrants equivalent to not more than 50.0% of total qualifying capital.
- *Guidelines on Securities Borrowing and Lending Transactions.* Guidelines by the PSE on SBL govern SBL transactions between local/foreign borrowers and local/foreign lenders. BSP Circular No. 611, Series of 2008, provides guidelines on SBL transactions in the PSE involving borrowings by foreign entities of PSE-listed shares from local investors/lenders. In May 2008, the BSP Monetary Board authorised the issuance of BSP Registration Documents to cover the PSE-listed shares of stock borrowed by foreign entities from local investors and lenders. This will allow foreign borrowers to purchase foreign exchange from the banking system for remittance abroad using the Peso sales proceeds of the borrowed shares including the related income from the SBL transaction, such as rebates or shares in the income earned on the reinvestment of the cash collateral, interest and dividends earned on the Peso-denominated government securities and PSE-listed shares used as collateral.
- *Reclassification of Financial Assets between Categories.* The BSP issued BSP Circular No. 628 dated 31 October 2008, amending BSP Circular No. 626 dated 23 October 2008 and the Resolution of the Monetary Board No. 1423 dated 30 October 2008, which approved the guidelines governing the reclassification of financial assets between categories. Financial Institutions shall be allowed to reclassify all or a portion of their financial assets from "held for trading" or "available for sale" categories to the "available for sale" or "held to maturity" or "unquoted debt securities classified as loans" categories effective 1 July 2008. Any reclassification made in periods beginning on or after 15 November 2008 shall take effect from the date when the reclassification is made.
- *Valuations of Government Securities Held by Banks.* In October 2013, the BSP amended the rules on valuations of government securities held by banks to reflect actual market rates, with the guideline applying to both benchmark and non-benchmark securities. Under BSP Circular No. 813, the weighted average of done or executed deals shall be used as the basis for valuation. In the absence of weighted average done deals for benchmark bonds, the simple average bids shall be used. In the absence of both weighted done

deals and simple average bids for non-benchmark securities, interpolated yields derived from reference rates in accordance with BSP-approved guidelines shall be used.

- *Segregation of Customer Funds and Securities Received by Banks.* On 14 August 2015, the BSP issued BSP Circular No. 885 requiring the segregation of customer funds and securities received by banks in the performance of their securities brokering functions. Banks are required to institute adequate risk management systems and controls to ensure protection of customer funds and securities, proper segregation of functions, and prevention of conflict of interest situations that may arise in the conduct of securities brokering activities within the bank. Banks must also make and keep current books and records relating to customer funds and securities and submit monthly reportorial requirements.
- *Creation of Personal Management Trust.* On 18 August 2016, the BSP issued BSP Circular No. 920 allowing for the creation of the personal management trust (“PMT”), which is a living trust arrangement that seeks to meet the estate planning and asset management needs of individuals. The trustor may or may not nominate a third party beneficiary. It is supposed to serve as a more flexible tool in the management of an individual’s financial affairs. Upon the effectivity of the circular, all living trust accounts (“LTAs”) were discontinued and all those that remained valid were automatically considered as PMT.
- *Clearing of Cheques via Electronic Presentment.* On 7 September 2016, the BSP issued BSP Circular No. 924, amending the MORB in view of the clearing of cheques via electronic presentment, which shall be implemented by the Philippine Clearing House Corporation (“PCHC”). On 20 January 2017, the BSP began the electronic clearing of cheques. Under this new system, only digital images of the cheques and their electronic payment information shall be required to be transmitted to the paying bank. The clearing time was reduced to just one Banking Day, as against three Banking Days previously, since no physical delivery of cheques will be needed.
- *Effective Reporting System Generation and Timely Submission of Reports.* On 26 June 2017, the BSP amended the MORB through BSP Circular No. 963, Series of 2017, which issuance instituted governance processes in accordance with the BSP’s expectation that banks establish an effective reporting system generation and timely submission of reports. Said reports must comply with the standards prescribed by the BSP, and the banks that fail to do so (i.e., filed an erroneous report, delayed report, or did not submit at all) are meted with certain sanctions that can be aggravated by habitual violations. It further provided that banks had until 31 December 2017 to make the necessary preparations to their systems and processes in order to comply with the new provision. Its full implementation started on 1 January 2018.
- *Additional Requirements for the Issuance of Bonds and Commercial Papers.* On 9 August 2018, the BSP issued additional requirements for the issuance by banks of bonds and commercial papers. Circular No. 1010 provides that a bank may issue bonds and/or commercial papers without prior BSP approval, provided that the following conditions are met:
 - (1) the bank must have a CAMELS composite rating of at least “3” and a “Management” rating of not lower than “3”.
 - (2) the bank has no major supervisory concerns in governance, risk management systems, and internal controls and compliance system;
 - (3) the bank/quasi-bank has complied with directives and/or is not subject of specific directives and/or enforcement actions by the BSP; and
 - (4) the bonds issued are enrolled and/or traded in a market which is organised in accordance with the Philippine SEC rules and regulations.

Further, the issuing bank, including its subsidiaries, affiliates, and the wholly or majority-owned or -controlled entities of such subsidiaries and affiliates, except for its trust departments or related trust entities, is prohibited from holding or acting as a market maker of the bank’s listed/traded bonds or commercial papers. Likewise, the registry bank, including the underwriter/arranger of the issuance, shall be a third party with no subsidiary/affiliate relationship with the issuing bank and which is not related to the issuing bank in any manner that would undermine its independence.

- *Guidelines on the Adoption of PFRS 9.* On 14 August 2018, the BSP issued Circular No. 1011 which provides guidelines on the adoption of PFRS 9. The Circular provides that where there are differences between the

BSP regulation and PFRS 9, as when more than one option are allowed or certain limits are prescribed, then the option or limit prescribed by the BSP should be adopted. The circular further provides that with respect to the preparation of prudential reports, banks should adopt in all respect the PFRS, except in the following cases:

- (1) In preparing consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries shall be consolidated with the financial statements of the parent bank on a line-by-line basis, while insurance and non-financial allied subsidiaries shall be accounted for using the equity method. Investments in financial/non-financial allied/non-allied associates and joint ventures shall be accounted for using the equity method in accordance with the provisions of PAS 28.
 - (2) In preparing solo/separate financial statements, investments in financial/nonfinancial allied/non-allied subsidiaries/associates, including insurance subsidiaries/associates, shall be accounted for using the equity method as described in PAS 28.
 - (3) Banks shall recognise adequate and timely allowance for credit losses at all times. In this respect, banks shall adopt the principles provided under the enhanced standards on credit risk management in measuring credit losses in the BSP Manual.
- *Marking to market of financial instruments.* BSP Circular No. 1021 dated 15 November 2018 provides that financial instruments that are required to be classified and measured at fair value, within the scope of PFRS 9 shall be marked-to-market in accordance with the provisions of PFRS 13 on Fair Value Measurement and the related rules and regulations issued by the Securities and Exchange Commission.
 - *Adoption of National Retail Payment System (“NRPS”) Framework.* On 6 November 2017, in line with BSP’s adoption of the NRPS framework consistent with its regulations on risk management, the BSP issued Circular No. 980, which requires BSFIs to ensure that the retail payment systems they participate in demonstrate sound risk management and effective and efficient interoperability. The NRPS framework covers all retail payment-related activities, mechanisms, institutions and users. Under this framework, sound governance shall be performed by a payment system management body (“PSMB”), which is duly recognised and overseen by BSP. In the absence of a PSMB, the functions of providing sound governance to the retail payment system participated in by BSFIs shall be discharged by BSP.
 - *Guidelines on Liquidity Risk Management.* On 3 November 2017, the BSP issued Circular No. 981, amending the guidelines on liquidity risk management and the related amendments to the MORB. Among the highlights of the said changes were the additional guidelines relative to Foreign Currency Management, Intraday Liquidity Management, Intragroup Liquidity Management, Collateral Management, Liquidity Stress Testing, Contingency Funding Plans, Factors to Consider in Developing a Funding Strategy, and Factors to Consider in Developing Cash Flow Projections. Banks shall have until 1 September 2018 to develop or make appropriate changes to their policies and procedures, provided that they complete a gap analysis of the requirements of the said BSP Circular vis-à-vis their existing risk management systems by 31 March 2018.
 - *Enhanced Guidelines in Information Security Management.* On 9 November 2017, BSP issued Circular No. 982, providing enhanced guidelines on information security risk management of BSFIs in view of the rapidly evolving technology and cyber-threat landscape in which they operate. The amendments highlight the role of the BSFIs’ board and senior management in spearheading sound information security governance and strong security culture within their respective networks. Likewise, BSFIs are mandated to manage information security risks and exposures within acceptable levels through a dynamic interplay of people, policies, processes, and technologies following a continuing cycle (i.e., identify, prevent, detect, respond, recover and test phases). The new guidelines also recognise that BSFIs are at varying levels of cyber-maturity and cyber-risk exposures which may render certain requirements restrictive and costly vis-à-vis expected benefits. Thus, the IT profile classification has been expanded from two to three, namely: “Complex”, “Moderate” and “Simple” to provide greater flexibility in complying with the requirements.
 - *Guidelines on the Conduct of Stress Testing Exercises.* On 4 January 2018, BSP issued Circular No. 989, which defined minimum prudential requirements on stress testing and supplement the relevant provisions on stress testing provided under the risk management guidelines that were earlier issued by BSP. It provides that a board of directors should consider the results of stress testing exercises in capital and liquidity planning, in setting risk appetite, and in planning for business continuity management, and, in the case of

DSIBs, in developing recovery plans. These expectations are consistent with the earlier issued guidelines on corporate governance under Circular No. 969.

- *Basic Deposit Accounts.* BSP Circular No. 992, issued on 1 February 2018, requires banks to establish a basic deposit account which refers to interest or non-interest-bearing account designed to promote financial inclusion. The basic deposit account shall have an opening amount of not more than ₱100.00 and no minimum maintaining balance but with a maximum balance of not more than ₱50,000.00. If the depositor exceeds the ₱50,000.00 maximum balance, the bank shall convert the basic deposit account to a regular deposit account. The basic deposit account shall have no dormancy charges and has no reserve requirement. On 1 March 2018, the BSP issued Circular No. 998, clarifying the guidelines on the basic security deposit requirements. The circular provides that, as security for the faithful performance of its trust and other fiduciary duties, the basic security deposit shall be at least 1% of the book value of the total trust, other fiduciary and investment management assets, and at no time shall be less than ₱500,000.00; further, as security for the faithful performance of its investment management activities, the basic security deposit shall be at least 1% of the book value of the total investment management assets, and at no time less than ₱500,000.00. The Circular also prescribes the methodology in determining compliance with the basic security deposit for the faithful performance of trust and other fiduciary business and investment management activities, and amends the compliance period to require banks, that are authorised to engage in trust and other fiduciary business and investment management activities, to comply with the basic security deposit requirement on a quarterly basis, as well as, at the time of withdrawal, replacement or redemption of the government securities deposited with the BSP within the quarter period. On 15 February 2019, the BSP issued Circular No. 1032 amending the guidelines on the basic security deposit requirement. The circular provided that the trustee or fiduciary/investment manager shall ensure compliance with the required basic security deposit. Any deficiency must be corrected through the immediate posting of additional securities. Trustees or fiduciary/investment managers shall submit quarterly reports on compliance with the basic security deposit requirement and report on the basic security deposit transactions.
- *Electronic Banking Services and Other Electronic Operations.* On 22 February 2019, the BSP issued BSP Circular No. 1033, which classifies electronic payments and financial services (“**EPFS**”) into basic and advanced and establishes guidelines for the licencing of EPFS. Further, BSFIs that are licensed to offer funds transfer services shall make these interoperable by participating in automated clearing houses.
- *Reserves against trust and other fiduciary accounts (“**TOFA**”).* BSP Circular No. 1025 dated 13 December 2018 provides that in addition to the basic security deposit, banks authorised to engage in trust and other fiduciary business shall maintain reserves on TOFA-others, except accounts held under (1) administratorship; (2) trust under indenture; (3) custodianship and safekeeping; (4) depository and reorganisation; (5) employee benefit plans under trust; (6) escrow; (7) personal trust (testamentary trust); (8) executorship; (9) guardianship; (10) life insurance trust; (11) pre-need plans (institutional/individual); (12) Personal Equity And Retirement Account (“**PERA**”); (13) legislated and quasi-judicial trust; and (14) specialise institutional accounts under trust.
- *Currency Rate Risk Protection programme (“**CRPP Facility**”) and the Implementing Guidelines.* On 24 September 2018, and 5 October 2018, the BSP issued Circular No. 1014 and 1015, respectively, revising the guidelines on the CRPP Facility. The CRPP Facility is a non-deliverable U.S. dollar/Peso forward contract between BSP and a universal/commercial bank in response to the request of bank clients desiring to hedge their eligible foreign currency obligations. Transactions under the CRPP facility are considered part of banks’ Generally Authorised Derivatives Activities. Under the CRPP Facility, only the net difference between the contracted forward rate and the prevailing spot rate shall be settled in Pesos at maturity of the contract. Should the eligible obligation be denominated in a foreign currency other than the U.S. dollar, the CRPP contract shall be denominated in U.S. dollar equivalent using the exchange rate indicated in the BSP Reference Exchange Rate Bulletin on deal date. The BSP shall have supervisory enforcement actions or right to deploy its range of supervisory tools to promote adherence to the requirements set forth in the guidelines. Any violation of the guidelines, including wilful delay in the submission, non-submission and/or wilful making of a false or misleading statement in the notarised certification required to be submitted therein to the BSP Sections shall constitute grounds for the imposition on the bank of penalties.
- *Adoption of Policy Framework on the Grant of Regulatory Relief to Banks/Quasi-Banks Affected by Calamities.* On 10 October 2018, the BSP issued Circular No. 1017, which provides the policy framework on the grant of regulatory relief measures to banks/quasi-banks affected by calamities. Under the framework, banks/quasi-banks may avail of the regulatory relief packages, including the provision of financial assistance

to officers who are affected by the calamity even in the absence of BSP approved purposes, for a period of one year from the date of declaration of state of calamity.

- *Technology and Cyber-Risk Reporting and Notification Requirements.* On 31 October 2018, the BSP issued Circular No. 1019, which amended provisions relating to the technology and cyber-risk reporting and notification requirements for BSFIs. The amendments were made to enable the BSP to have ready access to accurate, timely, and actionable information regarding BSFI's technology risk profiles as well as the evolving cyber-threat environment for a more responsive, proactive and effective banking supervision.
- *Amendments to the FX Manual.* On 5 February 2019, the BSP issued Circular No. 1030, which amended provisions of the Manual of Regulations on Foreign Exchange Transactions in furtherance of the BSP's aim of liberalising the regulations applicable to (among others) inward investments. The issuance expanded the scope of the categories of inward foreign investments such that the presence of control and significant degree of influence between the investor and the investee firm is considered for certain types of investments to be categorised as direct investment or portfolio investment. It also established a grace period to register existing investments that are unregistered as of the effectivity date of the issuance.
- *Revised Framework on the Selection of External Auditors.* On 20 May 2019, the BSP issued Circular No. 1040, which revised the framework on selection of external auditors for BSP Supervised Financial Institutions in accordance with the cooperative arrangement among the BSP, SEC, Insurance Commission and the PDIC.
- *Rules and Regulations on the Registration of Operators of Payment Systems.* On 9 September 2019, Circular No. 1049 was issued approving the rules and regulation on the registration of operators of payment systems to implement Republic Act No. 11127 or the National Payment Systems Act. These rules and regulations form part of the newly created Manual of Regulations for Payment Systems.
- *Guidelines on Voluntary Surrender of a Banking Licence.* On 18 September 2019, Circular No. 1050 issued the guidelines on voluntary surrender of banking licence in case of voluntary dissolution and liquidation, or to convert into a non-bank entity.
- *Amendments to the Framework for Dealing with Domestic Systematically Important Banks (DSIBs).* BSP Circular No. 1051 dated 27 September 2019 amended the MORB's provision on DSIBs to change the number of indicators to characterize a D-SIB from ten to nine. The circular also provides for a framework for dealing with D-SIBs, including the guidelines on data requirements and reports, schedule of restriction on distribution of dividends during the phased-in implementation period of the Higher Loss Absorbency requirement, and recovery plan.
- *Amendments to the Prudential Requirements and Guidelines on the Public Offering and Listing of Bank Shares for Universal Banks.* On 15 November 2019, Circular No. 1060 was issued amending the prudential requirements on the public offering and listing of bank shares for universal banks. The amendments are aimed at supplementing the enhanced corporate governance frameworks of the BSP by encouraging dispersed shareholdings on banks.
- *Amendment of the Requirements on the Issuance of Long-Term Negotiable Certificates of Time Deposit (LTNCTDs), Bonds and Commercial Papers.* On 26 November 2019, Circular 1062 was issued amending the provisions of the Manual to relax certain requirements on the issuance of LTNCTDs, Bonds and Commercial Papers. Of note is the amendment expanding the entities that are now prohibited from holding the LTNCTDs, Bonds and Commercial Papers.
- *Report on Intraday Liquidity of Universal and Commercial Banks ("UBs/KBs") and their Subsidiary Banks/Quasi-Banks ("QB").* On 3 December 2019, Circular No. 1064 was issued amending the Manual to implement and adopt the report on intraday liquidity for universal banks and their subsidiary thrift banks/quasi-banks. The report is aimed at appropriately monitoring the intraday liquidity position of BSP supervised financial institutions, their sources of intraday liquidity, and their ability to meet payment and settlement obligations on a timely basis under both normal and stressed conditions. The reporting requirements are also intended to facilitate the sound management of intraday liquidity risk as well as provide sufficient understanding and allocation of resources to effectively manage the same.
- *Amendments to Regulations on Financial Audit of Banks.* On 7 February 2020, Circular No. 1074 was issued amending regulations on the financial audit of BSP supervised financial institutions which aim to enhance

the quality of information channelled to the supervisory process and ultimately promote fairness, transparency and accuracy in financial reporting. Amendments pertain to changes in prescribed formats of statements in the financial statements, changes in deadline of report submissions to the BSP, new and amended disclosure requirements to the financial statements, among others.

- *Amendments to the Regulations on the Disqualifications and Watch listing of Directors/Officers.* On 18 February 2020, Circular No. 1076 was issued to strengthen the disqualification and watch listing of directors and officers of banks and other financial institutions. The amendments aim to further promote the integrity of the financial system and better protect the interest of the public.
- *Sustainable Finance Framework.* On 29 April 2020, the BSP issued Circular No. 1085 which requires Philippine banks to integrate environmental, social and governance principles into their corporate strategy, risk management practices and bank operations. Banks have three years to fully comply with the provisions of the BSP's ESG requirements.
- *Guidelines on the Establishment of Digital Banks.* On 2 December 2020, the BSP issued Circular No. 1105 which approved the inclusion of digital banks as a distinct classification of banks and the corresponding guidelines for their establishment.
- *Guidelines on Reputational Risk Management.* On 16 April 2021, the BSP issued Circular No. 1114 which sets out the guidelines on the supervising expectations and minimum prudential requirements in managing reputational risk. BSFIs shall comply with the standards within a period of one year from the effectivity of this issuance.
- *Environmental and Social Risk Management Framework.* On 26 October 2021, the BSP issued Circular No. 1128 which approved the guidelines that shall govern the integration of environmental and social risks in the enterprise-wide risk management frameworks of banks.
- *Expansion of Eligible Participants for Monetary Operations and for BSP Securities in the Secondary Market.* On 23 November 2021, the BSP issued Circular No. 1130 to operationalise the inclusion of digital banks as eligible participants for the BSP's monetary operations and of trust entities as eligible participants of BSP Securities in the secondary market.
- *Amendments to the Rules on Cross-Border Transfer of Local and Foreign Currencies.* The BSP issued Circular No. 1146 Series of 2022 which allows a person to import or export, or bring into or take out of the Philippines, or electronically transfer legal tender Philippine notes and coins, checks, money order and other bills of exchange drawn in Peso against banks operating in the Philippines in an amount not exceeding ₱50,000.00 without prior authorisation by the BSP. In excess of such ₱50,000.00 limit, a prior written authorisation from the BSP is required. In case of physical cross-border transfer of Philippine currency, there must be a declaration of the whole amount brought into or taken out of the Philippines. For foreign currency, a person who brings into or takes out of the Philippines foreign currency or other foreign currency denominated bearer monetary instruments in excess of \$10,000.00 or its equivalent must declare the whole amount brought into or taken out of the Philippines.
- *Conduct of Customer Due Diligence.* On 30 March 2023, the BSP issued Circular No. 1170 which provides for amendments to existing rules on the conduct of customer due diligence by banks and non-banks. This includes "Know Your Customer" or e-KYC guidelines on the use of digital IDs and other minimum information or documents required for customer identification. BSP defines "e-KYC" as the use of electronic or digital methods in customer identification and verification process. In conducting customer due diligence, a risk-based approach shall be undertaken depending on the type of customer, business relationship, nature of the product, or transaction/activity.
- *Maharlika Investment Fund Act of 2023.* On 18 July 2023, RA No. 11954 was enacted which provides that for the first and second fiscal years upon effectivity of the law, 100% of the BSP's total declared dividends will be remitted to the National Government for the capitalisation of the Maharlika Investment Corporation ("MIC"), in the amount not exceeding ₱50,000,000,000.00 for the initial subscription of the National Government to the capitalisation of the MIC. Thereafter, the dividends of the BSP shall be remitted to the National Government to fund the increase in the capitalisation of the BSP.
- *Guidelines on Disclosure to the Public.* On 21 December 2023, the BSP issued Circular No. 1186, Series of 2023 amending Section 175 of the MORB on public disclosures. Under this issuance, domestic banks have

the option to publish their quarterly balance sheets and consolidated balance sheets in printed or online versions of newspapers of general circulation or upload them on their website and share for a period of at least one year. In addition, the banks may also display a tabletop standee with QR codes in a conspicuous place at their head offices, all their branches, and other offices, or through digital/electronic means. Each bank's board of directors is given the duty to ensure that information shared with the public is supported by an effective internal control structure, has undergone review and approval, and is compliant with the process and quality of reporting required under Section 171 of the MORB.

- *Creation of Manual of Regulations for Payment Systems.* On 18 January 2024, the BSP issued Circular No. 1191, Series of 2024, creating the Manual of Regulations for Payment Systems (“**MORPS**”). This issuance consolidates regulations governing payment systems, providing a comprehensive framework to ensure their safety, efficiency, and reliability. It outlines the responsibilities of payment system operators, including risk management, consumer protection, and compliance with regulatory requirements. The MORPS aims to enhance the oversight and supervision of payment systems, aligning with international best practices and promoting the integrity and stability of the financial system.
- *Amendments to foreign exchange regulations covering foreign investments:* On 11 April 2024, the Monetary Board approved amendments to the Manual of Regulations on Foreign Exchange Transactions (“**FX Manual**”) to facilitate access to FX resources and streamline procedures. The amendments under BSP Circular No. 1192 includes, among others: (a) the clarification that applications and registration of foreign/foreign currency loans/borrowings, inward investments and other FX transactions filed with the BSP shall be free of charge; (b) the grant of authority to authorised agent banks and authorised agent bank forex corporations (AABs) to sell FX to non-resident tourists and balikbayan to the extent of the amount of FX shown to have been sold for Pesos by the non-residents to AABs; and (c) allowing foreign investments registerable with registering AABs (e.g., non-resident investments in government securities, securities listed at the Philippine Stock Exchange) to be registered upon reporting by the registering authorised agent bank to the BSP, subject to compliance with the applicable guidelines under FX Manual; (d) dispensing with the issuance of the Bangko Sentral Registration Document (“**BSRD**”) for the aforesaid foreign investments registered with the BSP through the registering AABs; and (e) streamlining the reporting forms/procedures pertaining to these foreign investments.
- *Consumer Redress Mechanism Standards for Account-to-Account Electronic Fund Transfers under the National Retail Payment System Framework.* On 1 June 2024, the BSP issued Circular No. 1195, establishing the Consumer Redress Mechanism Standards for account-to-account electronic fund transfers (“**EFTs**”) under the National Retail Payment System (“**NRPS**”) Framework. This Circular mandates all BSP-supervised institutions offering EFTs to provide timely recourse mechanisms for consumer issues, ensuring immediate credit within 2-3 seconds for instant EFTs and refunds within one hour for rejected transactions. It covers all domestic EFTs, including Person-to-Person (P2P), Person-to-Merchant (P2M), and Person-to-Biller (P2B) payments but excludes product/service delivery disputes. The Circular also details the requirements for EFT notifications, return of funds, collection, and return of EFT fees, and communication during service disruptions. Compliance is required by 31 December 2024, aiming to enhance trust in digital payments.
- *Amendments to foreign exchange regulations covering reporting guidelines and penalty provisions:* On 17 July 2024, the BSP issued Circular No. 1197, introducing stricter penalties and new reporting guidelines for FX transactions. Banks can now face fines up to ₱1 million per transactional violation and ₱100,000 per day for ongoing violations. The guidelines define non-compliant reports as erroneous, delayed, or unsubmitted, with fines based on the classification of reports. The Circular also outlines the notification process for violations and appeals. These measures aim to ensure timely reporting, accountability, and protect the value of the Peso. Compliance with Circular No. 1197 is required by 31 December 2024.
- *Regulatory Framework for Merchant Payment Acceptance Activities.* On 19 July 2024, the BSP issued Circular No. 1198, Series of 2024 which set the minimum standards that operators of payment systems (OPS) must follow if they want to engage in the business of accepting and processing payment transactions on behalf of their partner sellers. For digital payments to thrive, minimum standards and good practices must be established to: (i) safeguard the funds received from customers of merchants; and (ii) protect the rights and interests of end-users (i.e., merchants) that deal with OPS that engage in merchant payment acceptance activities (“**MPAA**”). Under this circular, an authority from the BSP must be obtained prior to engaging in merchant acquisition in the Philippines; An OPS engaged in or intending to engage in MPAA other than merchant acquisition shall register with the BSP.

TAXATION

The information provided below does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Notes. In particular, the information does not consider any specific facts or circumstances that may apply to a particular purchaser. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or of any person acquiring, selling or otherwise dealing with the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. The statements do not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules.

Prospective purchasers of Notes are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of Notes, including the effect of any state or local taxes, under the tax laws applicable in the Philippines and each country of which they are residents.

Philippine Taxation

The following is a general description of certain Philippine tax aspects of the Notes. It is based on the present provisions of the National Internal Revenue Code of 1997 as amended (the “**Tax Code**”), the regulations promulgated thereunder and judicial and ruling authorities in force as of the date of this Offering Circular, all of which are subject to changes occurring after such date, which changes could be made on a retroactive basis. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes. Each prospective Noteholder should consult with his own tax advisors as to the laws of other applicable jurisdictions and the specific tax consequences of acquiring, holding and disposing of the Notes.

As used herein, the term “*resident alien*” refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a “*non-resident alien*” is an individual who is neither a citizen nor a resident of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a “*non-resident alien doing business in the Philippines*”, otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a “*non-resident alien not doing business in the Philippines*”. A “*resident foreign corporation*” is a foreign corporation engaged in trade or business in the Philippines; and a “*non-resident foreign corporation*” is a foreign corporation not engaged in trade or business in the Philippines.

On 1 January 2018, Republic Act No. 10963, otherwise known as the TRAIN Law, took effect. The TRAIN Law, which contained an initial package of the tax reforms, amended various provisions of the Tax Code, including those on ordinary income tax of individuals, capital gains tax on the sale and disposition of shares of stock, estate tax, donor’s tax, and documentary stamp tax.

On 11 April 2021, Republic Act No. 11534, otherwise known as the CREATE took effect amending fiscal incentives and providing for a uniform tax rate of 15% imposed on capital gains from sale of shares of stock not traded in the stock exchange, on all types of taxpayers.

Other salient provisions of the CREATE Act include:

- reduction in corporate income tax from the current 30% to 20% for MSMEs and to 25% for other corporate taxpayers by 1 July 2020;
- reduction in the minimum corporate income tax rate to 1% effective 1 July 2020 until 30 June 2023; after 30 June 2023, the rate of minimum corporate income tax (“**MCIT**”) shall be 2% of the gross income as of the end of the taxable year;
- effective 1 July 2020, a period of four to seven years during which export enterprises may enjoy the 5% special corporate income based on the gross income earned in lieu of all national and local taxes;
- extension of the applicability of the net operating loss carryover for losses incurred during the first three years from the start of commercial operation by registered projects or activities, from the current three to five consecutive taxable years immediately following the year of such loss;

- net capital gains derived by resident foreign corporations on the sale of shares of stock of domestic corporations not traded on the Philippine stock exchange will be subject to a final tax of 15%, increased from the current rate of 5% on the first ₱100,000 (approximately U.S.\$2,000) and 10% on the excess thereof;
- Regional Operating Headquarters will be subject to regular corporate income tax rates effective 1 January 2022, increased from the current 10% rate on taxable income;
- Qualified Registered Business Enterprises (“RBE”) will be granted an income tax holiday for four to seven years, depending on the assigned RBE category level. After the income tax holiday period, a special corporate income tax rate of 5% beginning 1 July 2020 will be imposed on gross income earned in lieu of all national and local taxes. The duration of the special corporate income tax is five to ten years depending on the assigned RBE tier level; and
- in lieu of the special corporate income tax, enhanced deductions may be granted for a period of five to ten years depending on the assigned RBE category level.

On 22 January 2024, Republic Act No. 11976, otherwise known as the Ease of Paying Taxes Act (“EOPT”) took effect. The EOPT amended various provisions of the Tax Code relating to the filing and payment of taxes and other provisions intended to protect the taxpayer’s rights, modernize tax administration, and adopt best practices.

Currently pending in the Senate is the Package 4 of the Comprehensive Tax Reform Program (House Bill No. 4339) or more commonly known as PIFITA, a proposed tax reform measure which aims to: (1) remove of the preferential tax treatment of the expanded foreign currency deposit system; (2) adopt a single gross receipts tax of 5% imposed on banks, quasi-banks, and certain financial intermediaries; (3) harmonize business taxes on financial intermediaries; and (4) rationalize documentary stamp tax rates. In relation to debt instruments, HB No. 4339 seeks to introduce a uniform final withholding tax rate on interest income on deposit substitutes and interest income on long-term deposits or investments of 20% (as opposed to a range between 20% to 25%), unless a treaty rate applies. However, before HB No. 4339 can become a law, it must be considered and approved by the Senate and signed into law by the President.

Corporate Income Tax

Under the CREATE Act, a domestic corporation is subject to a tax of 25% of its taxable income from all sources within and outside the Philippines effective 1 July 2020, provided that domestic corporations with net taxable income not exceeding ₱5,000,000.00 and with total assets not exceeding ₱100,000,000.00 (excluding land on which the particular business entity’s office, plant, and equipment are situated during the taxable year for which the tax is imposed) (referred to as micro, small, and medium enterprises, or MSMEs), shall be taxed at 20%. Taxable net income refers to items of income specified under Section 32 (A) of the Philippine Tax Code, less itemized deductions under Section 34 of the Tax Code or those allowed under special laws, or the optional standard deduction equivalent to an amount not exceeding 40% of the corporation’s gross income.

Passive income of a domestic corporations are taxed as follows: (a) gross interest income from Philippine currency bank deposits and yield from deposit substitutes, trust funds and similar arrangements as well as royalties from sources within the Philippines which are generally taxed at the lower final withholding tax rate of 20% of the gross amount of such income; and (b) interest income from a depository bank under the expanded foreign currency deposit system which is subject to a final tax at the rate of 15% of such income.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of 31 December 2020, even though some of the provisions have retroactive effect to 1 July 2020. The passage of the CREATE Act into law on 26 March 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended 31 December 2020 continued to be computed and measured using the applicable income tax rates as of 31 December 2020 (i.e., 30% regular corporate income tax / 2% MCIT) for financial reporting purposes.

Beginning 1 July 2020 and until 30 June 2023, a minimum corporate income tax of 1% of the gross income as of the end of the taxable year was imposed on domestic corporations beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, when the minimum corporate income tax is greater than the ordinary corporate income tax, provided that after 30 June 2023, the rate of minimum corporate income tax shall be 2% of the gross income as of the end of the taxable year. Any excess of the minimum corporate income tax, however, over the ordinary corporate income tax shall be carried forward

and credited against the latter for the three immediately succeeding taxable years. Likewise, subject to certain conditions, the minimum corporate income tax may be suspended with respect to a corporation which suffers losses (1) on account of a prolonged labour dispute, or (2) because of force majeure, or (3) because of legitimate business reverses.

Documentary Stamp Taxes

Under Republic Act No. 10963, which amended certain provisions of the Tax Code, a documentary stamp tax is imposed upon every original issue of debt instruments such as bonds and notes, at the rate of ₱1.50 on each ₱200, or fractional part thereof, of the issue price of such debt instruments; provided, that for such debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be proportionate to the ratio of the number of days of the term such instrument to 365 days. The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted or transferred when the obligation or right arises from Philippine sources, the property is situated in the Philippines, or where the object of the contract is located or used in the Philippines. The issuance of the Notes, whether to residents or non-residents, will be subject to Philippine documentary stamp tax, which shall be for the account of the Bank.

As of the date of this Offering Circular, no documentary stamp tax is imposed on a subsequent sale or disposition of the Notes.

Under the Tax Code, any income of non-residents, whether individuals or corporations, and of depository banks under the expanded foreign currency deposit system, from foreign currency transactions with depository banks under the expanded foreign currency deposit system is exempt from income tax. Accordingly, if the Notes are issued or booked by the Bank's foreign currency deposit unit, the principal, interest income and other amounts payable on the Notes received by non-resident aliens, whether or not engaged in trade or business within the Philippines, non-resident foreign corporations and depository banks under the expanded foreign currency deposit system, is not subject to withholding tax in the Philippines.

Interest on the Notes

Any income of non-residents, whether individuals or corporations, and of depository banks under the expanded foreign currency deposit system, from foreign currency transactions with depository banks under the expanded foreign currency deposit system is exempt from income tax. Accordingly, if the Notes are issued or booked by the Bank's foreign currency deposit unit, the principal, interest income and other amounts payable on the Notes received by non-resident aliens, whether or not engaged in trade or business within the Philippines, non-resident foreign corporations and depository banks under the expanded foreign currency deposit system, is not subject to withholding tax in the Philippines.

On the other hand, the interest income on the Notes, which are considered as deposit substitutes if held by 20 or more individual or corporate lenders at any time, received by residents other than depository banks under the expanded foreign currency system, such as resident individual citizens of the Philippines, resident alien individuals, domestic corporations and resident foreign corporations, from a depository bank under the expanded foreign currency deposit system shall, however, be subject to a final income tax at the rate of 15% of such interest income.

Note, however, that, among the changes proposed by HB No. 4339 is the removal of the preferential tax treatment of the expanded foreign currency deposit system.

Sale or other Disposition of the Notes

Any gain, profit or income from sale or disposition of personal property will generally be considered as Philippine-sourced income only if sold within the Philippines. If the Noteholder is a non-resident foreign corporation, and presumably the situs of any transfer involving the Notes will be facilitated in and take place outside the Philippines, any gain, profit or income from any sale or disposition of the Notes outside the Philippines will generally not be considered as Philippine-sourced income insofar as the Philippine-sourced Taxpayers are concerned and thus the receipt by said taxpayers of any gain from sale of the Notes outside the Philippines will not be subject to Philippine tax.

On the other hand, since resident citizens and domestic corporation are subject to Philippine tax on their income whether these are Philippine-sourced income or not, their realisation of any gain, profit or income from sale or disposition of the Notes will generally be subject to Philippine tax. A holder of the Notes will recognise a gain or

loss upon the sale or other disposition (including a redemption at maturity or otherwise) of the Notes in an amount equal to the difference between the amount realised from such disposition and such holder's basis in the Notes.

Under Section 32(B)(7)(g) of the Tax Code, however, gains realised from the sale, exchange or retirement of bonds, debentures, and other certificates of indebtedness with an original maturity date of more than five years as measured from the date of the issuance of such bonds, debentures or other certificates of indebtedness ("**Long-Term Bonds**") are exempt from income tax. If the Notes will be construed by the Philippine tax authority as Long-Term Bonds, gains realised by resident citizens and domestic corporations from the sale or transfer of the Notes will be exempt from Philippine tax.

If the Notes are not Long Term Bonds, or will not be construed by the Philippine tax authority as Long-Term Bonds, any gain realised by resident citizens and domestic corporation from the sale or transfer of the Notes will form part of their taxable income subject to ordinary income tax rates under the Tax Code at graduated rates from 5%-35% for resident citizens and 30% for domestic corporations (or 2% MCIT, as the case may be). Additionally, in the case where the seller of the Notes (i) is a resident citizen, (ii) is not a dealer in securities, and (iii) has held the Notes for a period of more than 12 months prior to the sale, only 50.0% of any capital gain will be recognised and included in said seller's gross taxable income for Philippine tax purposes.

Estate and Gift Taxes

The Notes will be considered as intangible personal property situated in the Philippines and will form part of the gross estate of any individual holder. As such, the transfer of the Notes upon the death of an individual holder to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at a fixed rate of 6% of the net estate.

Individual and corporate holders, whether or not citizens or residents of the Philippines, who transfer shares of stock by way of gift or donation are liable to pay Philippine donors' tax at the fixed rate of 6% based on the total gifts in excess of ₱250,000 exempt gifts made during the calendar year, whether the donor is a stranger or not.

Estate and gift taxes will not be collected in respect of intangible personal property such as the Notes (i) if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (ii) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

Taxation outside the Philippines

The tax treatment of a non-resident holder of any of the Notes by jurisdiction outside the Philippines will vary depending on the tax laws applicable to such holder by reason of domicile or business activities and may vary depending upon such holder's situation. Each holder of any of the Notes should consult its own tax adviser as to the particular tax consequences on such holder acquiring, owning and disposing of the Notes, including the applicability and effect of any state, local and national laws.

SUBSCRIPTION AND SALE

The Dealers have, in an amended and restated Programme Agreement (such amended and restated Programme Agreement as modified and/or supplemented and/or restated from time to time, the “**Programme Agreement**”) dated 9 October 2024, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of The Notes*”. The Issuer will pay each relevant Dealer a commission as may be agreed between them in respect of Notes subscribed by it. The Issuer has agreed, unless otherwise agreed in respect of an issue of Notes, to pay all expenses incidental to the performance of their respective obligations under the Dealer Agreement. The commissions in respect of an issue of Notes on a syndicated basis may be stated in the applicable Pricing Supplement. The Notes may also be sold by the Issuer through the Dealers, acting as the Issuer’s agents. The Dealers may also offer and sell Notes through certain of their affiliates. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith. The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Where the Issuer agrees to sell to the Dealer(s), who agree to subscribe and pay for, or to procure subscribers to subscribe and pay for, Notes at an issue price set forth in the applicable Pricing Supplement (less commissions, if any, in connection with such issue of Notes), the Notes may be reoffered and resold by the relevant Dealer(s) at a price different from their Issue Price, including (without limitation) at prevailing market prices, or at prices related thereto, at the time of such reoffer and resale, in each case as may be determined by the relevant Dealer(s).

In order to facilitate the offering of any Tranche of the Notes, the Dealer or Dealers (if any) named as Stabilising Managers for persons acting on behalf of any Stabilising Manager(s) in the applicable Pricing Supplement and participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect, which support the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level higher than that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. There is no assurance that the Stabilising Manager(s) or persons acting on behalf of a Stabilising Manager will undertake stabilisation action. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Under the laws and regulations of the United Kingdom any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant tranche of Notes and 60 days after the date of the allotment of the relevant tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

The Dealers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Dealers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its subsidiaries, jointly controlled entities or associated companies from time to time. In the ordinary course of their various business activities, the Dealers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Issuer or its subsidiaries, jointly controlled entities or associated companies, including any Tranche of Notes issued under the Programme, may be entered into at the

same time or proximate to offers and sales of Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Notes. Each Tranche of Notes issued under the Programme may be purchased by or be allocated to any Dealer or an affiliate for asset management and/or proprietary purposes but not with a view to distribution.

In connection with each Tranche of Notes issued under the Programme, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the Issuer or its subsidiaries or associates at the same time as the offer and sale of each Tranche of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Tranche of Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Tranche of Notes).

Important Notice to CMIs (including private banks)

This notice to CMIs (including private banks) is a summary of certain obligations the SFC Code imposes on CMIs, which require the attention and cooperation of other CMIs (including private banks). Certain CMIs may also be acting as OCs for the relevant CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the Issuer, a CMI or its group companies would be considered under the SFC Code as having an Association with the Issuer, the CMI or the relevant group company. CMIs should specifically disclose whether their investor clients have any Association when submitting orders for the relevant Notes. In addition, private banks should take all reasonable steps to identify whether their investor clients may have any Associations with the Issuer or any CMI (including its group companies) and inform the relevant Dealers accordingly.

CMIs are informed that, unless otherwise notified, the marketing and investor targeting strategy for the relevant CMI Offering includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals, in each case, subject to the selling restrictions and any MiFID II product governance language or UK MiFIR product governance language set out elsewhere in this Prospectus and/or the applicable Pricing Supplement.

CMIs should ensure that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). CMIs should enquire with their investor clients regarding any orders which appear unusual or irregular. CMIs should disclose the identities of all investors when submitting orders for the relevant Notes (except for omnibus orders where underlying investor information may need to be provided to any OCs when submitting orders). Failure to provide underlying investor information for omnibus orders, where required to do so, may result in that order being rejected. CMIs should not place “X-orders” into the order book.

CMIs should segregate and clearly identify their own proprietary orders (and those of their group companies, including private banks as the case may be) in the order book and book messages.

CMIs (including private banks) should not offer any rebates to prospective investors or pass on any rebates provided by the Issuer. In addition, CMIs (including private banks) should not enter into arrangements which may result in prospective investors paying different prices for the relevant Notes. CMIs are informed that a private bank rebate may be payable as stated above and in the applicable Pricing Supplement or otherwise notified to prospective investors.

The SFC Code requires that a CMI disclose complete and accurate information in a timely manner on the status of the order book and other relevant information it receives to targeted investors for them to make an informed decision. In order to do this, those Dealers in control of the order book should consider disclosing order book updates to all CMIs.

When placing an order for the relevant Notes, private banks should disclose, at the same time, if such order is placed other than on a “principal” basis (whereby it is deploying its own balance sheet for onward selling to investors). Private banks who do not provide such disclosure are hereby deemed to be placing their order on such a “principal” basis. Otherwise, such order may be considered to be an omnibus order pursuant to the SFC Code. Private banks should be aware that placing an order on a “principal” basis may require the relevant affiliated

Dealer(s) (if any) to categorise it as a proprietary order and apply the “proprietary orders” requirements of the SFC Code to such order and will result in that private bank not being entitled to, and not being paid, any rebate.

In relation to omnibus orders, when submitting such orders, CMIs (including private banks) that are subject to the SFC Code should disclose underlying investor information in respect of each order constituting the relevant omnibus order (failure to provide such information may result in that order being rejected). Underlying investor information in relation to omnibus orders should consist of:

- the name of each underlying investor;
- a unique identification number for each investor;
- whether an underlying investor has any “Associations” (as used in the SFC Code);
- whether any underlying investor order is a “Proprietary Order” (as used in the SFC Code); and
- whether any underlying investor order is a duplicate order.

Underlying investor information in relation to omnibus order should be sent to the relevant Dealer(s) named in the applicable Pricing Supplement.

To the extent information being disclosed by CMIs and investors is personal and/or confidential in nature, CMIs (including private banks) agree and warrant: (A) to take appropriate steps to safeguard the transmission of such information to any OCs; and (B) that they have obtained the necessary consents from the underlying investors to disclose such information to any OCs. By submitting an order and providing such information to any OCs, each CMI (including private banks) further warrants that they and the underlying investors have understood and consented to the collection, disclosure, use and transfer of such information by any OCs and/or any other third parties as may be required by the SFC Code, including to the Issuer, the relevant regulators and/or any other third parties as may be required by the SFC Code, for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. CMIs that receive such underlying investor information are reminded that such information should be used only for submitting orders in the relevant CMI Offering. The relevant Dealers may be asked to demonstrate compliance with their obligations under the SFC Code, and may request other CMIs (including private banks) to provide evidence showing compliance with the obligations above (in particular, that the necessary consents have been obtained). In such event, other CMIs (including private banks) are required to provide the relevant Dealers with such evidence within the timeline requested.

United States

- (a) In respect of Notes offered or sold in reliance on Category 1 as specified in the applicable Pricing Supplement and the Notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States, and the Notes may not be offered or sold within the United States except in certain transactions exempt from or not subject to, the registration requirements of the Securities Act. Each Dealer has represented and agreed, and each Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, any Notes constituting part of its allotment except in accordance with Rule 903 of Regulation S under the Securities Act or the securities laws of any state or other jurisdiction of the United States or pursuant to another exemption from the registration requirements of the Securities Act. Terms used in this paragraph (a) have the same meanings given to them by Regulation S. Accordingly, if Category 1 is specified in the applicable Pricing Supplement, the Notes are being offered and sold only outside the United States in offshore transactions in reliance on, and in compliance with, Regulation S under the Securities Act.
- (b) In respect of Notes offered or sold in reliance on Category 2 as specified in the applicable Pricing Supplement and the Notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States, and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from or not subject to, the registration requirements of the Securities Act. Subject to paragraph (f) below, each Dealer has represented and agreed, and each Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account

or benefit of, U.S. persons except in accordance with Regulation S of the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph (b) have the meanings given to them by Regulation S under the Securities Act.

- (c) The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder. The applicable Pricing Supplement will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.
- (d) In addition, until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.
- (e) Each Dealer has further represented and agreed, and each Dealer appointed under the Programme will be required to represent and agree, that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Note, and, in respect of Notes offered or sold in reliance on Category 2 as specified in the applicable Pricing Supplement, it and they have complied and will comply with the offering restrictions requirement of Regulation S.
- (f) Each issue of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issue and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement. The relevant Dealer has agreed that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

Prohibition of sales to EEA Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the applicable Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
 - (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”); and
- (b) the expression an “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

If the Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, in relation to each Member State of the European Economic Area, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the final terms in relation thereto to the public in that Member State except that it may make an offer of such Notes to the public in that Member State:

- (A) if the Pricing Supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Member State (a “**Non-exempt Offer**”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, provided that any such prospectus has subsequently been completed by final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable, and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (B) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;
- (C) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (D) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Notes referred to in (B) to (D) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision:

- the expression “**an offer of Notes to the public**” in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes; and
- the expression “**Prospectus Regulation**” means Regulation (EU) 2017/1129.

United Kingdom

Prohibition of sales to UK Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to UK Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the applicable Pricing Supplement in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
 - (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“**EUWA**”); or
 - (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or
 - (iii) not a qualified investor as defined in Article 2 of the UK Prospectus Regulation; and
- (b) the expression an “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

If the Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to UK Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the final terms in relation thereto

to the public in the United Kingdom except that it may make an offer of such Notes to the public in the United Kingdom:

- (A) if the Pricing Supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to section 86 of the FSMA (a “**Public Offer**”), following the date of publication of a prospectus in relation to such Notes which has been approved by the Financial Conduct Authority, provided that any such prospectus has subsequently been completed by final terms contemplating such Public Offer, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable, and the Issuer has consented in writing to its use for the purpose of that Public Offer;
- (B) at any time to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;
- (C) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (D) at any time in any other circumstances falling within section 86 of the FSMA,

provided that no such offer of Notes referred to in (B) to (D) above shall require the Issuer or any Dealer to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision:

- the expression “**an offer of Notes to the public**” in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes; and
- the expression “**UK Prospectus Regulation**” means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.

Other regulatory restrictions

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the “**FIEA**”) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to

others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

Unless the Pricing Supplement in respect of any Notes specifies “Singapore Sales to Institutional Investors and Accredited Investors only” as “Not Applicable”, each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

If the Pricing Supplement in respect of any Notes specifies “Singapore Sales to Institutional Investors and Accredited Investors only” as “Not Applicable”, each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes, except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”), other than (i) to “professional investors” as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “C(WUMPO)”) or which do not constitute an offer to the public within the meaning of the C(WUMPO); and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

Philippines

THE NOTES BEING OFFERED OR SOLD HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES

REGULATION CODE OF THE PHILIPPINES AND ITS IMPLEMENTING RULES AND REGULATIONS, AS AMENDED (THE “**SRC**”). ACCORDINGLY, THE NOTES HAVE NOT BE REGISTERED WITH, AND THE BANK HAS NOT SOUGHT A CONFIRMATION OF SUCH EXEMPTION FROM, THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION (PHILIPPINE SEC).

Any offer or sale of the Notes within the Philippines is subject to registration under the SRC and its implementing rules and regulations, as amended, unless such offer or sale is made under circumstances in which the Notes qualify as exempt securities or pursuant to an exempt transaction or transactions. The Notes, being securities issued by a bank registered as such under the laws of the Republic of the Philippines, constitute exempt securities within the meaning of Subsection 9.1(e) of the SRC, and as such are not required to be registered under the provisions thereof before they can be sold or offered for sale or distribution in the Philippines. Any sale or offer of the Notes, however, can only be made in accordance with the applicable regulations of the *Bangko Sentral ng Pilipinas* and the Philippine Securities and Exchange Commission.

People’s Republic of China

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell any of the Notes in the People’s Republic of China (for such purposes, not including Hong Kong, Macau SAR or Taiwan) or to residents of the People’s Republic of China unless such offer or sale is made in compliance with all applicable laws and regulations of the People’s Republic of China.

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and any applicable Pricing Supplement and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the Trustee and any of the other Dealers shall have any responsibility therefore.

None of the Issuer, the Trustee, or any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Dealers or any affiliate of any Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such dealer or such affiliate on behalf of the Issuer in such jurisdiction.

With regard to each Tranche of Notes issued under the Programme, the relevant Dealer will be required to comply with any additional restrictions agreed between the Issuer and the relevant Dealer and set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorisation

1. The update of the Programme and the issue of Notes have been duly authorised by resolutions of the Board of Directors of the Issuer dated 24 May 2024. The Issuer has agreed to obtain from time to time all necessary consents, approvals and authorisations for the update of the Programme and the issue of Notes under the Programme.

Listing

2. Approval-in-principle has been granted by the SGX-ST for permission to deal in, and quotation of, any Notes to be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List.

Admission to the Official List and any quotation of any Notes on the SGX-ST are not to be taken as an indication of the merits of the Issuer, the Programme or the Notes. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that any of the Global Notes representing such Notes is exchanged for definitive Notes. In addition, in the event that any of the Global Notes is exchanged for definitive Notes, for so long as such Notes are listed on the SGX-ST, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

Bearer Notes, Receipts, Coupons and Talons

3. Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend on its face: “ANY UNITED STATES PERSON (AS DEFINED IN THE INTERNATIONAL REVENUE CODE OF THE UNITED STATES) WHO HOLDS THIS OBLIGATION MAY BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(J) AND 1287(A) OF THE INTERNAL REVENUE CODE”.

Clearing systems

4. The Notes to be issued under the Programme may be accepted for clearance through Euroclear and Clearstream. The appropriate Common Code and ISIN in relation to the Notes of each Tranche will be specified in the applicable Pricing Supplement. If the Notes are to be cleared through any additional or alternative clearing system, the appropriate information will be specified in the applicable Pricing Supplement.

No significant change

5. Save as disclosed in this Offering Circular, there has been no material adverse change in the financial or trading position or prospects of the Bank since 30 June 2024.

Litigation

6. The Bank is not involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Bank is aware) which may have or have had in the 12 months preceding the date of this Offering Circular a significant effect on the financial position of the Bank.

Accounts

7. The auditors of the Issuer for the years ended 31 December 2021, 2022 and 2023 were SyCip Gorres Velayo & Co. (SGV), independent auditors. Such auditors have audited and rendered an unqualified audit report on the Bank's consolidated financial statements as of 31 December 2021, 2022 and 2023 and for the financial years then ended, and have reviewed the unaudited interim condensed consolidated financial statements as of 30 June 2024 and for the six months ended 30 June 2023 and 2024.

Available Documents

8. For so long as Notes may be issued pursuant to this Offering Circular, the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the office of the Trustee with respect to documents under (a), (b), (e) and (f) below; or the registered office of the Bank:
- (a) the Trust Deed (which includes the form of the Global Notes, the Notes in definitive form, the Coupons, the Receipts and the Talons);
 - (b) the Agency Agreement;
 - (c) the Articles of Incorporation of the Bank;
 - (d) copies of the Bank's most recent audited financial statements;
 - (e) each Pricing Supplement (save that a Pricing Supplement related to an unlisted Series of Notes will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Bank and the relevant Paying Agent as to its holding of Notes and identity); and
 - (f) a copy of this Offering Circular together with any supplement to this Offering Circular.

INDEX TO THE FINANCIAL STATEMENTS

	<u>Page</u>
Unaudited Interim Condensed Consolidated Financial Statements as at 30 June 2024 and for the six months ended 30 June 2024 and 2023	
Independent Auditors' Report	F-3
Statements of Financial Position	F-4
Statements of Income	F-6
Statements of Comprehensive Income	F-7
Statements of Changes in Equity	F-8
Statements of Cash Flows.....	F-9
Notes to Financial Statements	F-11
Audited Consolidated Financial Statements as at 31 December 2023 and 2022 and for the years ended 31 December 2021, 2022 and 2023	
Independent Auditors' Report	F-47
Statements of Financial Position	F-53
Statements of Income	F-54
Statements of Comprehensive Income	F-55
Statements of Changes in Equity.....	F-56
Statements of Cash Flows.....	F-58
Notes to Financial Statements	F-60
Audited Consolidated Financial Statements as at 31 December 2022 and 2021 and for the years ended 31 December 2020, 2021 and 2022	
Independent Auditors' Report	F-194
Statements of Financial Position	F-200
Statements of Income	F-201
Statements of Comprehensive Income	F-202
Statements of Changes in Equity.....	F-203
Statements of Cash Flows.....	F-205
Notes to Financial Statements	F-207

Philippine National Bank and Subsidiaries

Unaudited Interim Condensed Consolidated
Financial Statements
As at June 30, 2024 and for the six-months
ended June 30, 2024 and 2023

*(With Comparative Audited Statement of
Financial Position as at December 31, 2023)*

and

Report on Review of Interim Condensed
Consolidated Financial Statements



A member firm of Ernst & Young Global Limited

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Stockholders and the Board of Directors
Philippine National Bank and Subsidiaries

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Philippine National Bank and Subsidiaries (the Group), which comprise the interim consolidated statement of financial position as at June 30, 2024 and the related interim consolidated statements of income, interim consolidated statements of comprehensive income, interim consolidated statements of changes in equity and interim consolidated statements of cash flows for the six-month periods ended June 30, 2024 and 2023, and other explanatory information. Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

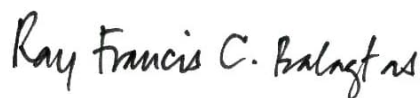
Scope of review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with PAS 34, *Interim Financial Reporting*.

SYCIP GORRES VELAYO & CO.



Ray Francis C. Balagtas
Partner

CPA Certificate No. 108795

Tax Identification No. 216-950-288

BOA/PRC Reg. No. 0001, April 16, 2024, valid until August 23, 2026

BIR Accreditation No. 08-001998-107-2023, September 12, 2023, valid until September 11, 2026

PTR No. 10079900, January 5, 2024, Makati City

September 4, 2024



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT JUNE 30, 2024****(With Comparative Audited Figures as at December 31, 2023)****(In Thousands)**

	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
ASSETS		
Cash and Other Cash Items	₱17,180,496	₱21,151,391
Due from Bangko Sentral ng Pilipinas (Note 6)	110,198,990	95,410,350
Due from Other Banks (Note 20)	20,881,818	21,243,856
Interbank Loans Receivable (Notes 20 and 22)	33,119,845	35,634,440
Securities Held Under Agreements to Resell	84,074,590	69,694,538
Trading and Investment Securities		
Financial Assets at Fair Value Through Profit or Loss (FVTPL) (Note 7)	22,572,918	10,516,864
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) (Notes 7 and 20)	166,975,375	164,531,492
Investment Securities at Amortized Cost (Note 7)	114,301,137	123,200,427
Loans and Receivables (Note 8)	631,845,637	616,710,746
Property and Equipment (Note 9)	10,353,049	10,754,018
Investment in an Associate	3,193,400	3,199,124
Investment Properties (Note 10)	14,691,108	14,579,558
Deferred Tax Assets (Note 18)	7,958,540	6,981,726
Intangible Assets (Note 11)	1,259,204	1,301,726
Goodwill (Note 11)	10,184,843	10,184,843
Other Assets (Note 12)	7,558,132	5,454,301
TOTAL ASSETS	₱1,256,349,082	₱1,210,549,400

LIABILITIES AND EQUITY**LIABILITIES****Deposit Liabilities (Notes 14 and 20)**

Demand	₱231,001,337	₱228,405,865
Savings	567,099,016	541,009,449
Time	138,301,096	145,752,061
Long Term Negotiable Certificates of Deposit	12,814,379	12,803,543

	949,215,828	927,970,918
Financial Liabilities at FVTPL	833,079	555,811

Bills and Acceptances Payable (Notes 20 and 22)	19,767,087	20,162,603

Bonds Payable (Notes 14, 20 and 22)	43,949,434	41,490,871

Lease Liabilities (Notes 20 and 22)	3,664,553	3,832,884

Accrued Taxes, Interest and Other Expenses (Note 20)	9,250,288	10,465,373

Income Tax Payable	1,006,425	180,364

Other Liabilities (Note 12)	25,882,292	14,741,922

TOTAL LIABILITIES	1,053,568,986	1,019,400,746

(Forward)



	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		
Capital Stock (Note 16)	₱61,030,594	₱61,030,594
Capital Paid in Excess of Par Value	32,116,560	32,116,560
Surplus Reserves (Notes 8 and 16)	4,825,736	4,677,930
Surplus	102,047,423	91,979,317
Net Unrealized Losses on Financial Assets at FVOCI (Note 7)	(1,201,458)	(1,722,653)
Remeasurement Losses on Retirement Plan	(2,732,683)	(2,728,542)
Accumulated Translation Adjustment	2,525,097	1,999,668
Other Equity Reserves	248,830	248,830
Share in Aggregate Reserves on Life Insurance Policies	135,151	24,246
Other Equity Adjustment	13,959	13,959
	199,009,209	187,639,909
NON-CONTROLLING INTERESTS	3,770,887	3,508,745
TOTAL EQUITY	202,780,096	191,148,654
TOTAL LIABILITIES AND EQUITY	₱1,256,349,082	₱1,210,549,400

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Earnings Per Share)
(Unaudited)

	For the Six Months Ended June 30		For the Quarters Ended June 30	
	2024	2023	2024	2023
INTEREST INCOME ON				
Loans and receivables (Notes 8 and 20)	₱21,625,024	₱19,907,723	₱11,019,301	₱10,315,862
Investment securities at amortized cost and financial assets at FVOCI (Note 7)	7,888,653	5,884,413	4,025,278	2,960,445
Interbank loans receivable and securities held under agreements to resell	2,214,841	1,131,209	1,170,519	623,145
Deposits with banks and others (Notes 6 and 20)	950,260	1,226,611	486,853	507,553
Financial assets at FVTPL (Note 7)	290,359	126,980	183,646	74,813
	32,969,137	28,276,936	16,885,597	14,481,818
INTEREST EXPENSE ON				
Deposit liabilities (Notes 14 and 20)	8,077,796	5,531,831	4,109,536	2,817,503
Bonds payable (Notes 14 and 20)	729,499	942,571	372,141	409,803
Bills payable and other borrowings (Note 20)	131,660	187,604	66,996	91,794
	8,938,955	6,662,006	4,548,673	3,319,100
NET INTEREST INCOME	24,030,182	21,614,930	12,336,924	11,162,718
Service fees and commission income (Notes 16 and 20)	3,002,120	3,719,115	1,477,216	1,880,306
Service fees and commission expense	728,126	587,256	386,055	299,537
NET SERVICE FEES AND COMMISSION INCOME	2,273,994	3,131,859	1,091,161	1,580,769
OTHER INCOME				
Net gains on sale or exchange of assets (Notes 9 and 10)	506,130	2,933,497	255,501	293,460
Foreign exchange gains - net	500,482	905,588	163,132	539,664
Trading and investment securities gains – net (Note 7)	376,134	74,146	191,157	52,506
Equity in net earnings of an associate	241,940	161,052	101,062	90,506
Miscellaneous	715,637	467,115	441,605	166,446
TOTAL OTHER INCOME	2,340,323	4,541,398	1,152,457	1,142,582
TOTAL OPERATING INCOME	28,644,499	29,288,187	14,580,542	13,886,069
PROVISION FOR (REVERSAL OF) IMPAIRMENT, CREDIT AND OTHER LOSSES (Note 13)	2,069,411	1,567,946	1,449,655	(46,760)
OPERATING EXPENSES				
Compensation and fringe benefits	5,421,951	5,256,110	2,620,694	2,629,925
Taxes and licenses	2,602,295	2,511,947	1,207,423	1,103,399
Depreciation and amortization	1,668,165	2,014,303	809,880	1,084,198
Occupancy and equipment-related costs	464,717	434,343	265,669	196,833
Miscellaneous (Note 16)	4,147,078	4,697,417	2,058,032	1,959,438
TOTAL OPERATING EXPENSES	14,304,206	14,914,120	6,961,698	6,973,793
INCOME BEFORE INCOME TAX	12,270,882	12,806,121	6,169,189	6,959,036
PROVISION FOR INCOME TAX (Note 18)	1,980,689	3,064,378	1,185,320	2,024,164
NET INCOME	₱10,290,193	₱9,741,743	₱4,983,869	₱4,934,872
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company (Note 19)	₱10,215,912	₱9,755,546	₱4,952,760	₱4,956,471
Non-controlling Interests	74,281	(13,803)	31,109	(21,599)
NET INCOME	₱10,290,193	₱9,741,743	₱4,983,869	₱4,934,872
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 19)	₱6.70	₱6.39	₱3.25	₱3.25

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

(Unaudited)

	For the Six Months Ended June 30		For the Quarters Ended June 30	
	2024	2023	2024	2023
NET INCOME	₱10,290,193	₱9,741,743	₱4,983,869	₱4,934,872
OTHER COMPREHENSIVE INCOME (LOSS)				
<i>Items that recycle to profit or loss in subsequent periods:</i>				
Net change in unrealized gains on debt securities at FVOCI, net of tax	484,163	1,264,934	552,494	327,301
Share in changes in net unrealized gains on financial assets at FVOCI of an associate	(236,068)	262,385	(598,460)	29,177
	248,095	1,527,319	(45,966)	356,478
Accumulated translation adjustment	716,836	(677,330)	845,225	(206,678)
	964,931	849,989	799,259	149,800
<i>Items that do not recycle to profit or loss in subsequent periods:</i>				
Net change in unrealized gains on equity securities at FVOCI	273,100	1,278,489	273,100	—
Share in the changes in aggregate reserves (losses) on life insurance policies	110,905	(11,383)	96,407	(5,014)
Remeasurement gains (losses) on retirement plan	(4,141)	18,612	4,035	15,640
	379,864	1,285,718	373,542	10,626
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	1,344,795	2,135,707	1,172,801	160,426
TOTAL COMPREHENSIVE INCOME	₱11,634,988	₱11,877,450	₱6,156,670	₱5,095,298
ATTRIBUTABLE TO:				
Equity Holders of the Parent Company	₱11,369,300	₱11,932,477	₱5,981,771	₱5,067,270
Non-controlling Interests	265,688	(55,027)	174,899	28,028
	₱11,634,988	₱11,877,450	₱6,156,670	₱5,095,298

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

(Unaudited)

For the Six Months Ended June 30, 2024													
Equity Attributable to Equity Holders of the Parent Company													
	Capital Stock (Note 16)	Capital Paid in Excess of Par Value	Surplus Reserves (Notes 8 and 16)	Surplus	Net Unrealized Losses on Financial Assets at FVOCI (Note 7)	Remeasurement Losses on Retirement Plan	Accumulated Translation Adjustment	Other Equity Reserves	Share in Aggregate Reserves on Life Insurance Policies	Other Equity Adjustment	Total	Non- Controlling Interests	Total Equity
Balance at January 1, 2024	₱61,030,594	₱32,116,560	₱4,677,930	₱91,979,317	(₱1,722,653)	(₱2,728,542)	₱1,999,668	₱248,830	₱24,246	₱13,959	₱187,639,909	₱3,508,745	₱191,148,654
Total comprehensive income (loss) for the period	—	—	—	10,215,912	521,195	(4,141)	525,429	—	110,905	—	11,369,300	265,688	11,634,988
Dividends by subsidiaries to non- controlling interests	—	—	—	—	—	—	—	—	—	—	—	(3,546)	(3,546)
Reversal of general loan loss reserves under BSP Circular 1011	—	—	147,806	(147,806)	—	—	—	—	—	—	—	—	—
Balance at June 30, 2024	₱61,030,594	₱32,116,560	₱4,825,736	₱102,047,423	(₱1,201,458)	(₱2,732,683)	₱2,525,097	₱248,830	₱135,151	₱13,959	₱199,009,209	₱3,770,887	₱202,780,096

For the Six Months Ended June 30, 2023													
Equity Attributable to Equity Holders of the Parent Company													
	Capital Stock (Note 16)	Capital Paid in Excess of Par Value	Surplus Reserves (Notes 8 and 16)	Surplus	Net Unrealized Losses on Financial Assets at FVOCI (Note 7)	Remeasurement Losses on Retirement Plan	Accumulated Translation Adjustment	Other Equity Reserves	Share in Aggregate Reserves (Losses) on Life Insurance Policies	Other Equity Adjustment	Total	Non- Controlling Interests	Total Equity
Balance at January 1, 2023	₱61,030,594	₱32,116,560	₱4,929,242	₱73,748,748	(₱5,959,275)	(₱2,222,945)	₱2,314,447	₱248,830	₱136,096	₱13,959	₱166,356,256	₱3,549,378	₱169,905,634
Total comprehensive income (loss) for the period	—	—	—	9,755,546	2,805,808	15,196	(632,690)	—	(11,383)	—	11,932,477	(55,027)	11,877,450
Dividends by subsidiaries to non- controlling interests	—	—	—	—	—	—	—	—	—	—	—	(1,780)	(1,780)
Reversal of general loan loss reserves under BSP Circular 1011	—	—	(574,194)	574,194	—	—	—	—	—	—	—	—	—
Balance at June 30, 2023	₱61,030,594	₱32,116,560	₱4,355,048	₱84,078,488	(₱3,153,467)	(₱2,207,749)	₱1,681,757	₱248,830	₱124,713	₱13,959	₱178,288,733	₱3,492,571	₱181,781,304

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

For the Six Months Ended June 30

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱12,270,882	₱12,806,121
Adjustments for:		
Provision for impairment, credit and other losses (Note 13)	2,069,411	1,567,946
Net gains on sale or exchange of assets (Notes 9 and 10)	(506,130)	(2,933,497)
Depreciation and amortization	1,668,165	2,014,303
Amortization of discount, net on investment securities	(2,123,236)	(1,111,518)
Unrealized foreign exchange (gains) losses on bonds, bills and acceptances payable	2,124,809	(981,527)
Equity in net earnings of an associate	(241,940)	(161,052)
Gain on financial assets at FVTPL (Note 7)	(369,127)	(74,174)
Amortization of transaction costs on borrowings	37,137	37,639
Loss (gain) on sale of financial assets at FVOCI (Note 7)	(7,007)	28
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Interbank loans receivable	2,227,211	2,304,962
Financial assets at FVTPL	(11,686,927)	(3,894,159)
Loans and receivables	(17,476,325)	(1,525,833)
Other assets	(1,538,677)	(2,234,695)
Increase (decrease) in:		
Financial liabilities at FVTPL	277,267	(207,459)
Deposit liabilities	21,234,074	21,629,136
Accrued taxes, interest and other expenses	(1,143,460)	476,803
Other liabilities	11,120,430	799,554
Net cash generated from operations	17,936,557	28,512,578
Income taxes paid	(1,936,564)	(2,313,508)
Net cash provided by operating activities	15,999,993	26,199,070
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of:		
Financial assets at FVOCI	409,487,500	265,256,122
Investment securities at amortized cost	56,425,853	33,091,531
Investment properties	456,594	4,202,053
Property and equipment	47,679	35,803
Return of investment from an associate	122,500	—
Acquisitions of:		
Financial assets at FVOCI	(409,385,834)	(229,742,533)
Investment securities at amortized cost	(47,197,904)	(59,927,735)
Software cost (Note 11)	(515,108)	(445,143)
Property and equipment (Note 9)	(212,511)	(126,675)
Net cash provided by investing activities	9,228,769	12,343,423

(Forward)



	For the Six Months Ended June 30	
	2024	2023
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bills and acceptances payable (Note 22)	₱86,003,810	₱73,670,828
Settlement of bills and acceptances payable (Note 22)	(86,091,871)	(73,431,860)
Settlement of bonds payable (Note 22)	–	(16,560,000)
Payment of principal portion of lease liabilities (Note 22)	(592,326)	(474,880)
Net cash used in financing activities	(680,387)	(16,795,912)
NET INCREASE IN CASH AND CASH EQUIVALENTS	24,548,375	21,746,581
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	21,151,391	22,217,915
Due from Bangko Sentral ng Pilipinas	95,410,350	94,701,360
Due from other banks	21,243,856	26,010,183
Interbank loans receivable (Note 22)	30,955,766	9,782,452
Securities held under agreements to resell	69,694,538	64,523,863
	238,455,901	217,235,773
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	17,180,496	16,545,526
Due from Bangko Sentral ng Pilipinas	110,198,990	90,815,339
Due from other banks	20,881,818	21,157,436
Interbank loans receivable (Note 22)	30,668,382	27,469,266
Securities held under agreements to resell	84,074,590	82,994,787
	₱263,004,276	₱238,982,354
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	₱30,625,957	₱26,243,931
Interest paid	9,346,829	6,122,906

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousand Pesos Except When Otherwise Indicated)

1. Corporate Information

Philippine National Bank (PNB or the Parent Company) is a universal bank established in the Philippines in 1916. On June 21, 1989, PNB's shares were listed with the Philippine Stock Exchange (PSE). As of June 30, 2024 and December 31, 2023, the shares of PNB are held by the following:

	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
LT Group, Inc. (LTG) (indirect ownership through its various holding companies)	59.83%	59.83%
PCD Nominee Corporation*	14.29%	14.44%
Other stockholders owning less than 10% each	25.88%	25.73%
	100.00%	100.00%

* Acts as a trustee-nominee for PNB shares lodged under the PCD system

PNB's immediate parent company, LTG, and ultimate parent company, Tangent Holdings Corporation, are also incorporated in the Philippines.

The Parent Company provides a full range of banking and other financial services, which include deposit-taking, lending, bills discounting, trade finance, foreign exchange dealings, investment banking, treasury operations, fund transfers, remittance and trust services, through its 631 domestic branches as of June 30, 2024 and December 31, 2023. As of the same dates, the Parent Company has 72 and 73 overseas branches, representative offices, remittance centers and subsidiaries, respectively, in 17 jurisdictions in Asia, North America and Europe.

The subsidiaries of the Parent Company are engaged in a number of diversified financial and related businesses such as remittance, banking, leasing, stock brokerage, foreign exchange trading and/or related services. The Parent Company and the subsidiaries are collectively referred hereinto as the Group.

The principal place of business of the Parent Company is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City, Metro Manila, Philippines.

2. Preparation of the Interim Financial Statements

2.1 Basis of Preparation of the Unaudited Interim Consolidated Financial Statements

The accompanying unaudited interim consolidated financial statements of the Group as of June 30, 2024 and for the six months ended June 30, 2024 and 2023 have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. These are for inclusion in the Offering Circular prepared by the Group for the bond issuance of the Parent Company. The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as of and for the year ended December 31, 2023 prepared under the Philippine Financial Reporting Standards (PFRS).



2.2 Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the audited annual consolidated financial statements as of and for the year ended December 31, 2023, except for the adoption of the following amended standards, which became effective beginning January 1, 2024.

Unless otherwise indicated, the adoption of these new standards did not have an impact on the consolidated financial statements of the Group.:

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- Amendments to PAS 7, *Statement of Cash Flows*, and PFRS 7, *Financial Instruments: Disclosures – Supplier Finance Arrangements*
- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*

2.3 Significant Judgments and Estimates

The significant judgments and assumptions made in the unaudited interim condensed consolidated financial statements of the Group are consistent with the most recent annual financial statements issued, unless otherwise indicated.

2.3.1 Impairment of Goodwill

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is written down for impairment where the recoverable amount is insufficient to support its carrying value. The recoverable amount of the cash generating units (CGU) is determined based on a value-in-use (VIU) calculation, which considers the present value of cash flow projections from approved financial covering a three-year period. The assumptions used in the calculation of VIU are sensitive to estimates of future cash flows from business, interest margins, discount rates, projected long-term growth rates (derived based on the forecast local gross domestic product) used to extrapolate cash flows beyond the budget period.

Estimating future earnings involves judgment which takes into account past and actual performance and expected developments in the respective markets and in the overall macro-economic environment. The Group revisits its business plan and applies judgment to reassess the projections of future cash flows as of June 30, 2024, considering various economic scenarios and recovery outlook.

The carrying values of the Group's goodwill, accumulated impairment losses, and key assumptions used in determining VIU are disclosed in Note 11.2.

2.4 Seasonality or Cyclicalities of Interim Operations

Seasonality or cyclicalities of interim operations is not applicable to the Group's type of business.



3. Financial Risk Management

3.1 Risk Management Framework

The Parent Company's Board of Directors (BOD), through the Risk Oversight Committee (ROC), exercises oversight and provides guidance to an experienced Senior Management team who works closely with their teams in managing risk. There is a rich risk culture, which seamlessly flows through not only within PNB, but also across the Group's subsidiaries and affiliates.

The BOD has delegated specific responsibilities to various board committees, which are integral to PNB's risk governance framework and allow executive management, through management committees, to evaluate the risks inherent in the business and to manage them effectively.

Executive officers are assigned to various management committees that provide the leadership and execution of the vision and policies approved by the BOD. PNB's business strategies are driven for most part by the day-to-day directions decided by these management committees with approvals and notation by the various board level committees.

The PNB Board ROC is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management. The approach to managing risk is outlined in PNB's Enterprise Risk Management Framework (ERMF), which creates the context for setting policies and standards, and establishing the right practices throughout the PNB Group. It defines the risk management processes and sets out the activities, tools, and organizational structure to ensure material risks are identified, measured, monitored and managed.

The Risk Management Framework includes:

- a comprehensive risk management approach;
- a detailed structure of limits, guidelines and other parameters used to govern risk-taking;
- a clear delineation of lines of responsibilities for managing risk;
- an adequate system for measuring risk;
- effective internal controls and a comprehensive monitoring and risk-reporting process; and
- adherence to standards and regulations.

The Management Risk Committee (MRC) was created as a forum ensuring that PNB's ERMF is operationalized, and that Senior Management has an enterprise-level view of all material risks and that risk-mitigating actions properly determined and effectively executed. Mainly composed of PNB's Sector and Group heads, the MRC will be responsible for reviewing and monitoring enterprise level risks and assessing risk responses proposed or taken by the relevant risk owner, and for providing inputs to the ERMF process. The committee shall periodically assess that PNB's risk appetite statements are aligned with the business strategy and the overall objectives.

The Enterprise Risk Management Group (ERMG) is primarily responsible for the monitoring of risk management functions to ensure that a robust risk-oriented organization is maintained. ERMG is independent from the business lines and is organized as follows:

- Credit Risk Management Division;
- Market, Liquidity and Interest Rate Risk Management Division;
- Operational and Fraud Risk Management Division;
- Integrated Risk Management Division;



- Office of the Chief Information Security Officer and Data Protection Officer
 - IT/IS Project Risk Management and Governance Division
 - Cyber Security Operations Division
 - Data Privacy Department

Each unit monitors the implementation of the processes and procedures that support the policies for risk management applicable to the organization. These policies clearly define the kinds of risks to be managed, set forth the organizational structure and provide appropriate training necessary to manage and control risks. The policies also provide for the validation, audits and compliance testing, to measure the effectiveness and suitability of the risk management structure.

ERMG also functions as the Secretariat to the MRC and ROC which meets monthly to discuss the immediate previous month's total risk profile according to the material risks defined by PNB. Further, each risk division engages with all levels of the organization among its business and support groups. This ensures that the risk management and monitoring is embedded at the moment of origination.

The PNB ERMF banks on a dynamic process that supports the development and implementation of the strategy of PNB. The process revolves around methodically addressing risks associated with the business lines of PNB. With regular reviews and updates, the ERMF has served PNB well and has been resilient through economic cycles. The organization has placed a strong reliance on this risk governance framework and the three-line model, which are fundamental to PNB's aspiration to be world-class at managing risk:

1. The *first line roles* are the lines of business who are directly involved in managing risks. This entails the proactive self-identification of risks as well as the design and implementation of appropriate controls. Within the business lines, a culture of open communication is key to sustainable risk-return thinking. Discussions about new products, existing and new positions, and other issues must be broad and not just limited to meeting financial targets. Data and information availability are a must to ensure that front office and top management undertake relevant and timely decisions with respect to risk taking. Finally, limits and other basic controls must be respected. For example, limit setting and limit monitoring shall be done within prescribed policies and procedures, front-liners who manage clients and handle cash shall be subject to mandatory leaves, and segregation of duties should be clear and enforced.
2. The *second line roles* are the support units who provide expertise and insight to the first line in managing risks. For the Bank, second line roles include the Enterprise Risk Management Group (ERMG) and Global Compliance Group (GCG): ERMG implements the risk management framework and assists risk owners in reporting adequate risk-related information to the ROC. ERMG manages the overall information security, cyber security and data privacy risks of the Bank in terms of confidentiality, integrity and availability of information of its customers as well as other stakeholders. ERMG also manages risks to Information Technology and Project Management. GCG ensures that a strong compliance program is in place, effectively monitored, and aligned with the risks of the Bank's individual business processes. The second line roles may also recommend implementation of action plans, corrective actions or service recovery in managing the risk impact and prevent recurrence. *Note: ERMG reports to the ROC, while GCG reports to the Board Audit and Compliance Committee (BACC).*



3. The *third line role* is the internal audit function which provides independent and objective assurance and advise on the adequacy and effectiveness of Bank's control, governance and risk management processes. It reports its findings to Management and the BACC to promote and facilitate continuous improvement. Internal audit's independence from the responsibilities of management is critical to its objectivity, authority, and credibility. It is established through accountability to the governing body, unfettered access to people, resources and data needed to complete its work; and freedom from bias or interference in the planning and delivery of audit services.

All roles, when working together, collectively contribute to the creation and protection of value when they are aligned with each other and with the prioritized interests of the Bank and its stakeholders. Alignment of activities is achieved through communication, cooperation, and collaboration. This ensures the reliability, coherence, and transparency of information needed for risk-based decision making.

The risk management system and the directors' criteria for assessing its effectiveness are revisited on an annual basis and limit settings are discussed with the business units and presented to the ROC for endorsement for final BOD Approval.

In line with the integration of the BSP required ICAAP and risk management processes, PNB currently monitors 11 Material Risks (3 for Pillar 1 and 8 for Pillar 2). These material risks are as follows:

Pillar 1 Risks:

1. Credit Risk (includes Counterparty and Country Risks);
2. Market Risk; and
3. Operational Risk.

Pillar 2 Risks:

1. Credit Concentration Risk;
2. Interest Rate Risk in Banking Book (IRRBB);
3. Liquidity Risk;
4. Reputational Risk;
5. Strategic Business Risk;
6. Information Security/ Cyber Security / Data Privacy Risk;
7. Information Technology Risk; and
8. Human Resource Risk

Pillar 1 Risk Weighted Assets are computed based on the guidelines set forth in BSP Circular No. 538, Series of 2006 using the Standard Approach for Credit and Market Risks and Basic Indicator Approach for Operational Risks. Discussions that follow below are for Pillar 1 Risks with specific discussions relating to Pillar 2 risks mentioned above:

3.2 Risk Categories and Definitions

Under our ERM framework, all risk-taking business units, including domestic and foreign subsidiaries, shall perform comprehensive assessment of all material risks. This is accomplished annually, and/or more often, as needed. The process includes:

- Identifying all inherent risks by each business unit;
- Prioritizing the most significant risks based on the business impact;
- Quantifying the potential losses of each of these significant risks;



- Providing various risk mitigation and control measures to manage these identified risks; and
- Consolidating risk assessment results and potential losses for capital computation.

The identification of risks revolves around the monitoring of risk categories as defined by BSP for supervision purposes. These key risks, namely: credit, market, interest rate, liquidity, operational, compliance, strategic, and reputational risks, are not only monitored under their separate and distinct components, but also monitored across all interrelated business risks.

We broadly classify and define risks into the following categories and manage the risks according to their characteristics. These are monitored accordingly under the enterprise ICAAP 2024 program:

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
Credit Risk (including Credit Concentration Risks and Counterparty Risks)	Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty's failure to perform and meet the terms of its contract. Credit concentration risk arises from excessive exposures to individual counterparties, groups of related counterparties and groups of counterparties with similar characteristics (e.g., counterparties in specific geographical locations, economic or industry sector). Its potential loss implications are large enough relative to a bank's capital, total assets, or overall risk level, to threaten a financial institution's health or ability to maintain its core operations. It is inherent in a bank's assets, liabilities or off-balance sheet items, through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories. The potential for loss reflects the size of the position and the extent of loss given a particular adverse	▪ Loan Portfolio Analysis ▪ Credit Dashboards ▪ Credit Review ▪ Credit Model Validation	▪ Trend Analysis (Portfolio/ Past Due and Non-Performing Loan Levels) ▪ Monitoring and Compliance to Credit limits (statutory/ regulatory and internal limits) ▪ Stress Testing/Rapid Portfolio Reviews ▪ Credit Risk Rating (CRR) Migration ▪ Tracking of movements of loan portfolio ▪ Concentrations and Demographics Review ▪ Monitoring of large exposure ▪ Monitoring of credit risk concentrations ▪ Counterparty Limits Monitoring ▪ Credit Risk Dashboard (Bankwide, Consumer, Overseas and Subsidiaries, ROPA and SCR) ▪ Capital Adequacy Ratio (quarterly report) ▪ Review of adequacy of loan loss reserves and impairment loss ▪ Specialized Credit Monitoring on Real Estate ▪ Credit Review ▪ Credit Model Validation



Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	circumstance (<i>BSP MORB Sec 301.6, Series of 2009; BCBS</i>)		
Market Risk	Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution's overall portfolio, both on or off-balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and position taking in interest rate, foreign exchange, equity, and commodities market. (<i>BSP Cir. No. 544, Series of 2006</i>)	▪ Value at Risk Utilization ▪ Results of Marking to Market ▪ Risks Sensitivity/ Duration Report ▪ Exposure to Derivative/ Structured Products	▪ VaR Limit ▪ Stop Loss Limit ▪ DV01/PV01 ▪ FX Position Limit ▪ Management Action Triggers for FVOCI ▪ Duration Analysis ▪ ROP Exposure Limit ▪ Limit to Derivatives & Structured products ▪ Exception Report on Traders' Limit ▪ Exception Report on Rate Tolerance ▪ Stress testing / Scenario analysis ▪ BSP Uniform Stress Testing ▪ Monthly validation/ preparation of the Market Risk Weighted Exposures in the CAR Report ▪ Backtesting
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 they come due, without incurring unacceptable losses or costs. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. (<i>BSP Cir. No. 981</i>)	▪ Funding Liquidity Plan ▪ Liquidity Ratios ▪ Large Fund Providers ▪ Maximum Cumulative Outflow (MCO) ▪ Liquid Gap Analysis ▪ Interbook Lending	▪ MCO Limit ▪ Liquid Assets Monitoring ▪ Liquidity Stress Testing ▪ Large Fund Provider Analysis ▪ Contingency Planning ▪ Lending from FCDU and RBU Books Limit ▪ TPR Computation
Interest Rate Risk in the Banking Books (IRRBB)	Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. It arises from differences between	▪ Interest Rate Gap Analysis ▪ Earnings at Risk (EaR) Measurement ▪ Cashflow based	▪ EAR Limit ▪ Balance Sheet Profiling ▪ Repricing Gap Analysis ▪ Cashflow based Economic Value of Equity (EVE) ▪ Stress testing



Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships among different yield curves affecting financial institution (FI) activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-related options embedded in FI products (options risk). The amount at risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. <i>(BSP Cir. No. 1044, Series of 2019)</i>	Economic Value of Equity	▪ BSP Uniform Stress Testing
Operational Risk	Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes Legal Risk but excludes Strategic and Reputational Risk. Operational Risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs. <i>(BSP Circular 900, dated 18 January 2016)</i>	▪ Risk Identification ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk) Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: Risk Identification – Risk Maps Risk Measurement and Analysis – ICAAP Risk Assessment	▪ Internal Control ▪ Board Approved Operating Policies and Procedures Manuals ▪ Board Approved Product Manuals ▪ Loss Events Report (LER) ▪ Risk and Control Self-Assessment (RCSA) ▪ Key Risk Indicators (KRI) monitoring ▪ Fraud Risk Monitoring ▪ Legal Risk Review ▪ Business Continuity Program and Disaster Recovery Plans ▪ Business Continuity Playbooks ▪ Business Impact Analysis (BIA) and Business Continuity Risk Assessment (BCRA) ▪ Crisis Management Plan ▪ Business Continuity Drills and Testing



Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
			▪ Vendor Risk Assessment and Vendor Management Risk Monitoring ▪ Statistical Analysis ▪ Awareness Campaign ▪ Risk and Control Trainings
Included in the Operational Risks:			
Reputational Risk	Reputational risk is the risk to earnings, capital, and liquidity arising from negative perception on the Bank of its customers, shareholders, investors, and employees, market analysts, the media, and other stakeholders such as regulators and other government agencies, that can adversely affect the Bank's ability to maintain existing business relationships, establish new businesses or partnerships, or continuously access varied sources of funding". (BSP Circular 1114, dated 08 April 2021). Reputational Risk also covers Customer Franchise Risk and Consumer Protection Risk. Customer Franchise Risk is defined in PNB's Policy on ICAAP, as the failure to find, attract, and win new clients, nurture and retain those PNB already has, and entice former clients back into the fold as well as the failure to meet client's expectation in delivering PNB's products and services. Consumer Protection Risk is defined as failure of PNB to	▪ Risk Identification ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk) Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: ▪ Risk Identification – Risk Maps ▪ Risk Measurement and Analysis – ICAAP Risk Assessment Major Factors considered: ▪ Products ▪ Technology ▪ People ▪ Policies and Processes ▪ Stakeholders (including customer and regulators)	▪ Customer Engagement and Consolidated Complaints Report ▪ After Call and After Email Survey ▪ Public Relations Campaign ▪ Market research on digital trends and profiling of digital users, statistics on usage, and transactions to anticipate and respond to changes in overall trends related to demands of customers and clients in relation to digital services platforms ▪ Security Measures for Digital Banking ▪ Social Media Management Framework ▪ Social Media Risk Management ▪ Use of Social Media metrics/Social Media Analytics ▪ Website Management ▪ Website Analytics ▪ Mainstream media monitoring tool ▪ Customer feedback mechanism ▪ Products and Marketing review ▪ Fraud Management Program



Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	deliver its mandate to provide appropriate service and protection to its financial consumers.		
Strategic Business Risk	Strategic business risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of the firm's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities. The organization's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes. <i>(BSP Cir. No. 510, dated 03 Feb 2006)</i>		▪ Regular ALCO reports on latest Financials, monthly CAR projections, weekly performance on deposits, loans, treasury assets (levels, YTD, ADB) ▪ Regular updates on the status of sale of ROPA and other properties as well as NPL reduction ▪ Economic briefings for ALCO, Treasury, and Senior Management by the Bank economist ▪ Corplan's banking, industry reports and research studies ▪ Research Division's regular economic reports and forecasting and equities reports ▪ Budget Performance Report (BPR) distributed to concerned sector/group heads and PNB President (KRAs actual performance against targets) ▪ Compliance updates on new, revised regulations ▪ Annual Strategic Planning activities ▪ Performance and monitoring reports and surveys on bank products and services



Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
Information Security/ Cyber Security Risk	Information Security (Infosec) risk is the risk to organizational operations (including mission, functions, image, and reputation), organizational assets, and individuals due to the potential for unauthorized access, use, disclosure, disruption, modification or destruction of information or information assets that will compromise the Confidentiality, Integrity, and Availability (CIA). This covers data or information being processed, in storage or in transit. Cyber Risk is the risk of damage to an organization through its information systems which is associated with financial loss, disruption or damage to the reputation of an organization from failure, unauthorized or erroneous use of its information systems. (NIST IR 7298 Revision 2, Glossary of Key Information Security Terms, Page Numbers 98 and 100)		▪ Enterprise Governance Risk and Compliance (GRC) Solution. - Repository for the business units' Information Asset Register (IAR) - Information Security Risk Assessment (ISRA) - Project Risk Assessment (PRA) - IS Checklist ▪ Third-party IS Risk Assessment ▪ Compliance Self-Assessments ▪ IT/IS/Cyber Key Risk Indicators (KRIs) ▪ IS & Cyber Security Awareness Campaigns ▪ Anti-Phishing Campaign and Education ▪ Phishing Simulation Testing Other tools used for managing IS/Cyber security risks are: ▪ Security Information and Events Management (thru 24/7 SOC Service Provider) ▪ Threat Intelligence / Cybersecurity Incident Sharing thru BAP ▪ Threat Detector and Visualizer ▪ DDOS Mitigation (Layer 3, Layer 7, DNS Protection thru Akamai) ▪ Data Loss Prevention ▪ Forensic Tools ▪ VAPT Tools thru 3rd Party ▪ Firewall ▪ Web Application Firewall ▪ Intrusion Prevention System ▪ Multi-factor Authentication ▪ Encryption



Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
			▪ Anti-Virus/Anti-Malware ▪ Web Filtering ▪ VPN ▪ Fortify Software Security Center ▪ Endpoint Detection and Response ▪ Virtual Desktop Infrastructure ▪ Public Key Infrastructure ▪ Managed File Transfer ▪ Privilege Access Management ▪ Mobile Device Management
Data Privacy Risk	Data Privacy (DP) Risk is the risk associated to potential loss due to unauthorized collection, processing, or access to personal data. It includes risks that the confidentiality, integrity and/or availability of personal data will not be maintained, or the risk that processing will violate the rights of data subjects or the general privacy principles (transparency, legitimate purpose and proportionality). Consequently, the data privacy risks may negatively impact the Bank's reputation and may result to financial losses.		▪ Enterprise-wide data privacy management system implementation ▪ Implementing the enterprise-wide data privacy policy and sub-policies including guidelines and procedures ▪ Playbook simulation ▪ Privacy Impact Assessment (PIA) process implementation ▪ Institutionalization of data protection and privacy culture within the PNB Group through education and awareness programs - Implementation of the Data Sharing Agreement and Data Protection Agreement



Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
Information Technology Risk	Information Technology Risk is any potential adverse outcome, damage, loss, violation, failure or disruption associated with the use of or reliance on computer hardware, software, devices, systems, applications and networks. (BSP Circular 808) It is also a business risk that is associated with the use, ownership, operation, involvement, influence and adoption of IT within PNB. It consists of IT-related events that could potentially impact the business. IT Risk includes Information Security Risk that could result from non-preservation of any or all of the domains of information security; that is, confidentiality, integrity and availability of information asset. <i>(ISACA Risk IT Framework)</i>		▪ Enterprise Governance Risk and Compliance (GRC) Solution, platform for conducting IT Risk Assessment (ITRA) ▪ IT/IS/Cyber Key Risk Indicators (KRIs) ▪ IT Risk Awareness Campaigns
Human Resource Risk	Human Resource Risk covers PNB's risk of financial loss due to the inadequate training, inexperience or illegal activities of risk-taking behavior of personnel. This risk is closely related to operations risk and its internal control aspects. It highlights the human side of risk-taking and the role and adequacy of code of conduct, personnel policies, training and development programs, ability to recruit and retain employees through adequate compensation and benefits and ability to	▪ Risk Identification ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk)	▪ Talent Acquisition/Retention and Career Management ▪ Remuneration Management ▪ Performance Appraisal System ▪ Training and Development ▪ Labor Management Relations ▪ Code of Conduct/Personnel Policies ▪ Employee Welfare/Wellness ▪ Employee Engagement Program ▪ Rewards System ▪ Compensation Package Review ▪ Attendance Reports



Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	sustain adequate workforce through succession planning.		▪ Performance Appraisal Report ▪ Monitoring of employee's deliberate non-submission of acknowledgement receipts of personnel policies issued by HRG ▪ Grievance Reports/ Complaints ▪ Attrition rates, separation reports and exit interview forms ▪ Disciplinary Cases Report ▪ Recruitment Turnaround Time Report ▪ Number of training programs conducted Report ▪ Hiring and Attrition Tracking

4. Fair Value Measurement

The Group uses the following methods and assumptions in estimating the fair value of its assets and liabilities:

Assets and Liabilities	Fair value methodologies
Cash equivalents	At carrying amounts due to their relatively short-term maturity
Derivatives	Based on either: • quoted market prices; • prices provided by independent parties; or • prices derived using acceptable valuation models
Debt securities	For quoted securities – based on market prices from debt exchanges For unquoted securities ¹ – estimated using either: • quoted market prices of comparable investments; or • discounted cash flow methodology
Equity securities	For quoted securities – based on market prices from stock exchanges For unquoted securities – estimated using either: • quoted market prices of comparable investments ²; or • adjusted net asset value method ³ and applying a discount for lack of marketability
Loans and receivables	For loans with fixed interest rates – estimated using the discounted cash flow methodology ⁴ For loans with floating interest rates – at their carrying amounts
Investment properties	Appraisal by independent external and in-house appraisers based on highest and best use of the property (i.e., current use of the properties) ⁵ using either: • market data approach ⁶; or • replacement cost approach ⁷



Assets and Liabilities	Fair value methodologies
Short-term financial liabilities	At carrying amounts due to their relatively short-term maturity
Long-term financial liabilities	For quoted debt issuances – based on market prices from debt exchanges For unquoted debt issuances – estimated using the discounted cash flow methodology ⁸

Notes:

- ¹ using interpolated PHP BVAL rates provided by the Philippine Dealing and Exchange Corporation (for government securities) and PHP BVAL rates plus additional credit spread (for corporate/private securities)
- ² using the most relevant multiples (e.g., earnings, book value)
- ³ measures the company's value by adjusting the carrying value of its assets to their fair values, and then subtracting the fair value of its liabilities
- ⁴ using the current incremental lending rates for similar loans
- ⁵ considering other factors such as size, shape and location of the properties, price per square meter, reproduction costs new, time element, discount, among others
- ⁶ using recent sales of similar properties within the same vicinity and considering the economic conditions prevailing at the time of the valuations and comparability of similar properties sold
- ⁷ estimating the investment required to duplicate the property in its present condition
- ⁸ using the current incremental borrowing rates for similar borrowings

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to their fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level of input that is significant to their fair value measurement is unobservable

As of June 30, 2024 and December 31, 2023, the Group held the following assets and liabilities measured at fair value, and at cost but for which fair values are disclosed:

	June 30, 2024				
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	₱20,137,329	₱11,935,024	₱8,202,305	₱–	₱20,137,329
Private debt securities	1,602,379	415,790	1,186,589	–	1,602,379
Derivative assets	830,432	–	830,432	–	830,432
Equity securities	2,778	2,778	–	–	2,778
Financial assets at FVOCI:					
Government securities	126,404,645	61,037,141	65,367,504	–	126,404,645
Private debt securities	14,235,191	4,126,618	10,108,573	–	14,235,191
Equity securities	26,335,539	762,415	494,915	25,078,209	26,335,539
	₱189,548,293	₱78,279,766	₱86,190,318	₱25,078,209	₱189,548,293
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	₱833,079	₱–	₱833,079	₱–	₱833,079

(Forward)



June 30, 2024					
	Carrying Value	Level 1	Level 2	Level 3	Total
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost*	₱114,301,137	₱69,373,675	₱42,617,924	₱—	₱111,991,599
Receivables from customers**	621,315,548	—	—	586,868,542	586,868,542
	₱735,616,685	₱69,373,675	₱42,617,924	₱586,868,542	₱698,860,141
Nonfinancial Assets					
Investment property:					
Land***	₱12,217,561	₱—	₱—	₱29,889,693	₱29,889,693
Buildings and improvements***	2,473,547	—	—	4,703,671	4,703,671
	₱14,691,108	₱—	₱—	₱34,593,364	₱34,593,364
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	₱138,301,096	₱—	₱—	₱138,099,062	₱138,099,062
LTNCDs	12,814,379	—	12,747,585	—	12,747,585
Bonds payable	43,949,434	—	43,648,479	—	43,648,479
Bills payable	11,663,339	—	—	11,285,999	11,285,999
	₱206,728,248	₱—	₱56,396,064	₱149,385,061	₱205,781,125

* Net of expected credit losses and other deferred credits

** Net of expected credit losses and unearned and other deferred income

*** Net of impairment losses

December 31, 2023					
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	₱8,174,405	₱2,633,602	₱5,540,803	₱—	₱8,174,405
Private debt securities	1,590,489	914,210	676,279	—	1,590,489
Derivative assets	749,199	—	749,199	—	749,199
Equity securities	2,771	2,771	—	—	2,771
Financial assets at FVOCI:					
Government securities	124,372,410	46,682,566	77,689,844	—	124,372,410
Private debt securities	14,180,552	6,944,140	7,236,412	—	14,180,552
Equity securities	25,978,530	200,709	1,014,081	24,763,740	25,978,530
	₱175,048,356	₱57,377,998	₱92,906,618	₱24,763,740	₱175,048,356
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	₱555,811	₱—	₱555,811	₱—	₱555,811
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost*	₱123,200,427	₱24,840,676	₱98,730,596	₱—	₱123,571,272
Receivables from customers**	604,188,788	—	—	623,817,129	623,817,129
	₱727,389,215	₱24,840,676	₱98,730,596	₱623,817,129	₱747,388,401

(Forward)



	December 31, 2023				
	Carrying Value	Level 1	Level 2	Level 3	Total
Nonfinancial Assets					
Investment property:					
Land***	₱12,359,795	₱—	₱—	₱26,228,453	₱26,228,453
Buildings and improvements***	2,219,763	—	—	7,975,404	7,975,404
	₱14,579,558	₱—	₱—	₱34,203,857	₱34,203,857
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	₱145,752,061	₱—	₱—	₱145,538,240	₱145,538,240
LTNCDs	12,803,543	—	12,586,489	—	12,586,489
Bonds payable	41,490,871	—	40,625,938	—	40,625,938
Bills payable	10,607,626	—	—	10,559,411	10,559,411
	₱210,654,101	₱—	₱53,212,427	₱156,097,651	₱209,310,078

* Net of expected credit losses and other deferred credits

** Net of expected credit losses and unearned and other deferred income

*** Net of impairment losses

As of June 30, 2024 and December 31, 2023, there were no transfers between Level 1 and Level 2 fair value measurements.

The following table summarizes the significant unobservable inputs to calculate the fair value of Level 3 financial assets at FVOCI of the Group as of June 30, 2024 and December 31, 2023, and the range of values indicating the highest and lowest level input used in the valuation techniques.

	Significant Unobservable Input	June 30, 2024		December 31, 2023	
		-2%	+2%	-2%	+2%
Equity securities	Discount for lack of marketability	₱594,978	(₱594,978)	₱588,436	(₱588,436)

For certain unquoted equity securities, the Group imputes a discount for lack of marketability which is a valuation consideration often based on observed data and empirical evidence. Certain valuation studies suggest that private companies typically sell at a lower transaction pricing multiples than similar public companies.

5. Segment Information

5.1 Business Segments

The Group's operating businesses are determined and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit.

The Group's business segments follow:

- Retail Banking - principally handling individual customer's deposits, and providing consumer type loans, credit card facilities and fund transfer facilities;
- Corporate Banking - principally handling loans and other credit facilities and deposit accounts for corporate and institutional customers;



- Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of Treasury bills, government securities and placements, and acceptances with other banks, through treasury and wholesale banking; and
- Other Segments - include, but not limited to, trust, leasing, remittances, and other support services. Other support services of the Group comprise of operations and finance.

Transactions between segments are conducted at prevailing market rates on an arm's length basis. Interest is credited to or charged against business segments based on market rates which approximate the marginal cost of funds.

For management purposes, business segment report is done on a quarterly basis. Business segment information provided to the BOD, the chief operating decision maker (CODM), is based on the reportorial requirements under Regulatory Accounting Principles of the Bangko Sentral ng Pilipinas (BSP), which differ from PFRS due to the manner of provisioning for impairment and credit losses, measurement of investment properties, and the fair value measurement of financial instruments. The report submitted to CODM represents only the results of operation for each of the reportable segment.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment revenues pertain to the net interest margin and other operating income earned by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

The Group has no significant customer which contributes 10.00% or more of the consolidated revenue.

Business segment information of the Group follows:

For the Six Months Ended June 30, 2024 (Unaudited)						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	(P1,082,202)	P14,777,404	P10,288,852	P-	P46,128	P24,030,182
Inter-segment	12,898,139	(6,098,440)	(6,799,699)	-	-	-
Net interest margin after inter-segment transactions	11,815,937	8,678,964	3,489,153	-	46,128	24,030,182
Other income	2,455,751	883,478	844,610	1,401,567	(242,963)	5,342,443
Segment revenue	14,271,688	9,562,442	4,333,763	1,401,567	(196,835)	29,372,625
Other expenses	6,632,078	3,664,089	696,970	452,410	(196,835)	11,248,712
Segment result	P7,639,610	P5,898,353	P3,636,793	P949,157	P-	18,123,913
Unallocated expenses						5,853,031
Net income before income tax						12,270,882
Income tax						1,980,689
Net income						10,290,193
Non-controlling interests						74,281
Net income for the period attributable to equity holders of the Parent Company						P10,215,912
Other segment information						
Capital expenditures	P133,033	P26,629	P1,652	P5,100	P-	P166,414
Unallocated capital expenditures						561,205
Total capital expenditures						P727,619
Depreciation and amortization	P524,245	P237,248	P11,374	P73,260	P-	P846,127
Unallocated depreciation and amortization						822,038
Total depreciation and amortization						P1,668,165
Provision for (reversal of) impairment, credit and other losses	P14,966	P2,054,052	P315	P78	P-	P2,069,411



As of June 30, 2024 (Unaudited)						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱790,381,029	₱250,267,729	₱148,015,498	₱90,463,325	(₱22,778,499)	₱1,256,349,082
Segment liabilities	₱775,219,264	₱190,979,555	₱70,255,270	₱40,137,046	(₱23,022,149)	₱1,053,568,986
* The eliminations and adjustments column mainly represent the RAP to PFRS adjustments						
For the Six Months Ended June 30, 2023 (Unaudited)						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	(₱533,877)	₱14,474,663	₱7,621,703	₱31,264	₱21,177	₱21,614,930
Inter-segment	14,594,127	(8,192,814)	(6,401,313)	—	—	—
Net interest margin after inter-segment transactions	14,060,250	6,281,849	1,220,390	31,264	21,177	21,614,930
Other income	2,524,914	3,949,245	812,590	1,193,058	(219,294)	8,260,513
Segment revenue	16,585,164	10,231,094	2,032,980	1,224,322	(198,117)	29,875,443
Other expenses	6,224,264	3,648,535	470,612	(154,134)	(198,117)	9,991,160
Segment result	₱10,360,900	₱6,582,559	₱1,562,368	₱1,378,456	₱—	19,884,283
Unallocated expenses						7,078,162
Net income before income tax						12,806,121
Income tax						3,064,378
Net income from continuing operations						9,741,743
Net income from discontinued operations						—
Net income						9,741,743
Non-controlling interests						(13,803)
Net income for the period attributable to equity holders of the Parent Company						₱9,755,546
Other segment information						
Capital expenditures	₱77,329	₱3,499	₱4,524	₱5,079	₱—	₱90,431
Unallocated capital expenditures						481,387
Total capital expenditures						₱571,818
Depreciation and amortization	₱600,667	₱228,089	₱8,702	₱167,327	₱—	₱1,004,785
Unallocated depreciation and amortization						1,009,518
Total depreciation and amortization						₱2,014,303
Provision for (reversal of) impairment, credit and other losses	₱269,066	₱1,882,860	(₱55,529)	(₱528,451)	₱—	₱1,567,946
As of December 31, 2023 (Audited)						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱681,077,435	₱296,973,331	₱162,833,376	₱91,208,829	(₱21,543,571)	₱1,210,549,400
Segment liabilities	₱655,716,486	₱277,504,592	₱73,979,402	₱34,548,168	(₱22,347,902)	₱1,019,400,746
* The eliminations and adjustments column mainly represent the RAP to PFRS adjustments						

5.2 Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in four principal geographical areas of the world. The distribution of non-current assets, liabilities, credit commitments, capital expenditures, and revenues by geographic region of the Group follows:

	Non-Current Assets*		Liabilities		Credit Commitments	
	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
Philippines	₱501,640,259	₱483,441,271	₱1,016,304,899	₱981,819,485	₱47,807,638	₱46,642,445
Asia (excluding Philippines)	15,200,155	15,782,479	33,398,184	31,573,388	—	—
USA and Canada	2,538,728	2,486,207	3,747,761	5,895,426	—	—
United Kingdom	86,704	328	118,142	112,447	—	—
	₱519,465,846	₱501,710,285	₱1,053,568,986	₱1,019,400,746	₱47,807,638	₱46,642,445

* Gross of allowance for impairment and credit losses and unearned and other deferred income



	Capital Expenditures		Revenues*	
	June 30, 2024 (Unaudited)	June 30, 2023 (Unaudited)	June 30, 2024 (Unaudited)	June 30, 2023 (Unaudited)
Philippines	₱726,409	₱570,178	₱36,140,722	₱34,585,870
Asia (excluding Philippines)	238	1,640	1,656,813	1,362,056
USA and Canada	972	—	452,724	532,828
United Kingdom	—	—	61,321	56,695
	₱727,619	₱571,818	₱38,311,580	₱36,537,449

* Revenues include the following income items: "Interest income", "Service fees and commission income", and "Other income"

6. Due from Bangko Sentral ng Pilipinas

This account consists of:

	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
Demand deposit	₱93,198,990	₱78,372,794
Overnight deposit facility (ODF)	15,000,000	15,000,000
Term deposit	2,000,000	2,037,556
	₱110,198,990	₱95,410,350

For the six months ended June 30, 2024 and 2023, Due from BSP bears annual interest rates ranging from 6.0% to 6.6% and from 5.0% to 6.7% respectively.

7. Trading and Investment Securities

This account consists of:

	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
Financial assets at FVTPL	₱22,572,918	₱10,516,864
Financial assets at FVOCI	166,975,375	164,531,492
Investment securities at amortized cost	114,301,137	123,200,427
	₱303,849,430	₱298,248,783

7.1 Financial Assets at FVTPL

This account consists of:

	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
Government securities	₱20,137,329	₱8,174,405
Private debt securities	1,602,379	1,590,489
Derivative assets	830,432	749,199
Equity securities	2,778	2,771
	₱22,572,918	₱10,516,864



The nominal interest rates of debt securities at FVTPL range from:

	For the Six Months Ended June 30	
	2024	2023
Government securities	0.6% - 12.1%	1.4% - 9.3%
Private debt securities	2.1% - 9.0%	4.9% - 6.9%

7.2 Financial Assets at FVOCI

This account consists of:

	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
Government securities	₱126,404,645	₱124,372,410
Private debt securities	14,235,191	14,180,552
Equity securities		
Quoted	1,159,570	1,049,195
Unquoted (Note 20)	25,175,969	24,929,335
	₱166,975,375	₱164,531,492

Unquoted equity securities include the Parent Company's retained 49.00% interest in PNB Holdings Corporation (PNB Holdings) amounting to ₱24.8 billion as of June 30, 2024 and ₱24.6 billion as of December 31, 2023 (refer to Note 20). The Group determines its fair value using the net asset value method after applying a 16.50% discount for lack of marketability by referring to a number of recent initial public offerings. On June 23, 2023, the PNB BOD approved and confirmed the plan for PNB to sell 14% of its stake in PNB Holdings through private placement.

The effective interest rates of debt securities at FVOCI range from:

	For the Six Months Ended June 30	
	2024	2023
Government securities	0.6% - 17.2%	0.2% - 19.1%
Private debt securities	1.0% - 6.4%	0.5% - 6.4%

As of June 30, 2024 and December 31, 2023, net unrealized losses on financial assets at FVOCI amounted to ₱1.2 billion and ₱1.7 billion, respectively.



7.3 Investment Securities at Amortized Cost

This account consists of:

	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
Government securities	₱101,160,680	₱104,533,382
Private debt securities	13,292,375	18,822,880
	114,453,055	123,356,262
Less allowance for credit losses (Note 13)	151,918	155,835
	₱114,301,137	₱123,200,427

The effective interest rates of investment securities at amortized cost range from:

	For the Six Months Ended June 30	
	2024	2023
Government securities	0.8% - 7.5%	0.8% - 7.5%
Private debt securities	1.8% - 8.3%	0.8% - 8.3%

7.4 Interest Income on Investment Securities at Amortized Cost and FVOCI

This account consists of:

	For the Six Months Ended June 30	
	2024 (Unaudited)	2023 (Unaudited)
Financial assets at FVOCI	₱4,617,742	₱2,433,971
Investment securities at amortized cost	3,270,911	3,450,442
	₱7,888,653	₱5,884,413

7.5 Trading and Investment Securities Gains (Losses) - net

This account consists of:

	For the Six Months Ended June 30	
	2024 (Unaudited)	2023 (Unaudited)
Financial assets at FVTPL		
Government securities	₱337,992	₱77,830
Private debt securities	20,274	(4,156)
Equity securities	6	(94)
Derivatives	10,855	594
Financial assets at FVOCI		
Private debt securities	7,007	(28)
	₱376,134	₱74,146



8. Loans and Receivables

This account consists of:

	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
Receivables from customers (Note 20):		
Loans and discounts	₱627,464,047	₱607,065,797
Credit card receivables	15,300,164	15,232,845
Customers' liabilities on letters of credit and trust receipts	8,310,608	8,688,649
Customers' liabilities on acceptances	8,158,854	9,533,137
Lease contracts receivable	–	8,399
Bills purchased	1,410,371	1,949,627
	660,644,044	642,478,454
Other receivables:		
Accrued interest receivable (Note 20)	8,399,090	8,179,147
Sales contract receivables (Note 20)	2,288,032	3,760,162
Accounts receivable (Note 20)	3,586,653	5,180,198
Miscellaneous	357,005	366,090
	14,630,780	17,485,597
	675,274,824	659,964,051
Less: Unearned and other deferred income	733,786	681,399
Allowance for credit losses (Note 13)	42,695,401	42,571,906
	₱631,845,637	₱616,710,746

Included in 'Surplus reserves' is the amount of ₱4.1 billion and ₱3.9 billion as of June 30, 2024 and December 31, 2023, respectively, which pertains to the excess of 1.00% general loan loss provisions over the computed ECL for Stage 1 accounts as prescribed by BSP Circular 1011, *Guidelines on the Adoption of PFRS 9* (refer to Note 15.2).

As of June 30, 2024 and December 31, 2023, 68.0% and 70.6%, respectively, of the total receivables from customers of the Parent Company were subject to interest repricing. For the six months ended June 30, 2024 and 2023, remaining receivables carry annual fixed interest rates ranging from 1.1% to 9.0% for foreign currency-denominated receivables, and from 1.1% to 31.5% for peso-denominated receivables.

9. Property and Equipment

For the six months ended June 30, 2024 and 2023, the Group purchased assets with cost of ₱0.2 billion and ₱0.1 billion, respectively. For the same periods, the Group disposed property and equipment with net book value of ₱20.9 million and ₱21.9 million, respectively, recognizing gain on sale of ₱26.8 million and ₱13.9 million, respectively.



10. Investment Properties

For the six months ended June 30, 2024, and 2023, the Group foreclosed investment properties amounting to ₱0.5 billion and ₱0.2 billion, respectively. For the same periods, the Group disposed investment properties with net book value of ₱130.3 million and ₱1.6 billion, recognizing gain on sale of ₱326.3 million and ₱2.6 billion, respectively.

11. Goodwill and Intangible Assets

11.1 Software Costs

For the six months ended June 30, 2024 and 2023, the Group purchased software with cost of ₱0.5 billion and ₱0.4 billion, respectively.

11.2 Goodwill

As of June 30, 2024 and December 31, 2023, goodwill for each cash-generating unit amounted to:

Retail Banking	₱6,110,312
Treasury	2,038,163
Corporate Banking	2,036,368
	<u>₱10,184,843</u>

Goodwill is reviewed for impairment annually during the fourth quarter of the reporting period, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The impairment test is done by comparing the recoverable amount of each CGU with its carrying amount. The carrying amount of a CGU is derived based on its net assets plus the amount of goodwill allocated to the CGU. The recoverable amount is the higher of a CGU's fair value less costs to sell and its VIU.

The Group performed goodwill impairment test as of June 30, 2024 and December 31, 2023. After the goodwill impairment test, management believes that no reasonably possible change in any of the key assumptions discussed below would cause the carrying value of the goodwill to materially exceed its recoverable amount.

The recoverable amounts of the CGUs have been determined on the basis of the VIU calculation using the discounted cash flows (DCF) model. The DCF model uses earnings projections based on approved financial budgets covering a three-year period and are discounted to their present value. Estimating future earning involves judgment which takes into account past and actual performance and expected developments in the respective markets and in the overall macro-economic environment.

The following rates were applied to the cash flow projections:

	June 30, 2024			December 31, 2023		
	Retail Banking	Corporate Banking	Treasury	Retail Banking	Corporate Banking	Treasury
Pre-tax discount rate	11.92%	11.92%	10.34%	11.92%	11.92%	10.06%
Projected growth rate	5.30%	5.30%	5.30%	5.30%	5.30%	5.30%



The calculation of VIU is most sensitive to estimates of future cash flows from the business, interest margin, discount rates, projected long-term growth rates (derived based on the forecast local gross domestic product) used to extrapolate cash flows beyond the budget period.

The discount rate applied has been determined based on cost of equity for the Retail and Corporate Banking CGUs and weighted average cost of capital (WACC) for the Treasury CGU. WACC is computed by multiplying the cost of equity and the post-tax cost of debt by their relevant weights using debt-equity mix of comparable listed banks, and adding the products together. The cost of equity is derived using the capital asset pricing model which is comprised of a market risk premium, risk-free interest rate and the beta factor, all of which were obtained from external sources of information. The post-tax cost of debt is comprised of the risk-free interest rate and the Group's credit spread, after applying the prevailing corporate income tax.

12. Other Assets and Other Liabilities

12.1 Other Assets

This account consists of:

	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
Financial		
Fund for electronic money products	₱350,000	₱350,000
Returned checks and other cash items	24,091	28,298
Security deposits (Note 20)	19,589	18,279
Miscellaneous	5,654	5,680
	399,334	402,257
Nonfinancial		
Deferred charges	2,850,418	2,065,324
Creditable withholding taxes	2,010,768	1,309,256
Prepaid expenses	693,408	362,254
Real estate under development	519,448	519,448
Documentary stamps on hand	353,439	471,092
Chattel mortgage properties - net of depreciation	297,251	304,817
Stationeries and supplies	73,635	99,536
Other investments	26,492	26,335
Miscellaneous	1,390,666	929,602
	8,215,525	6,087,664
	8,614,859	6,489,921
Less allowance for credit and impairment losses (Note 13)	1,056,727	1,035,620
	₱7,558,132	₱5,454,301



12.2 Other Liabilities

This account consists of:

	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
Financial		
Accounts payable	₱14,888,083	₱2,988,517
Manager's checks and demand drafts outstanding	1,347,255	1,296,191
Due to other banks (Note 20)	1,308,627	744,625
Dormant credits	1,231,547	1,280,886
Bills purchased - contra	758,812	1,362,515
Accounts payable - electronic money	620,154	628,449
Payment order payable	286,972	221,340
Margin deposits and cash letters of credit	148,327	686,130
Deposits on lease contracts (Note 20)	73,165	76,028
Remittance liability	70,125	49,101
Deposit for keys on safety deposit boxes	15,866	15,919
	20,748,933	9,349,701
Nonfinancial		
Due to Treasurer of the Philippines	1,440,442	1,444,009
Provisions	877,011	1,068,215
Deferred revenue - Credit card-related	612,408	672,373
Deferred revenue - Bancassurance	390,674	427,274
Withholding tax payable	351,824	374,139
Retirement benefit liability	237,659	281,585
Deferred tax liabilities	166,817	166,091
SSS, Philhealth, Employer's compensation premiums and Pag-IBIG contributions payable	61,339	54,638
Miscellaneous	995,185	903,897
	5,133,359	5,392,221
	₱25,882,292	₱14,741,922

13. Allowance for Impairment, Credit and Other Losses

Movements in this account follow:

	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
Balance at beginning of period:		
Due from other banks	₱9,898	₱9,898
Interbank loans receivable	8,045	1,369
Securities held under agreements to resell	14,152	2,188
Financial assets at FVOCI	45,673	121,585
Investment securities at amortized cost (Note 7)	155,835	3,847,850

(Forward)



	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
Loans and receivables (Note 8)	₱42,571,906	₱38,944,781
Property and equipment	1,133,292	1,168,887
Investment properties	2,318,900	2,175,669
Other assets (Note 12)	1,035,620	1,041,840
	47,293,321	47,314,067
Movements during the period:		
Provision for impairment, credit and other losses	2,069,411	5,923,078
Accounts charged-off	(1,949,753)	(5,095,075)
Transfers and others	225,008	(848,749)
	344,666	(20,746)
Balance at end of period:		
Due from other banks	9,876	9,898
Interbank loans receivable (Note 22)	11,880	8,045
Securities held under agreements to resell	14,252	14,152
Financial assets at FVOCI	51,760	45,673
Investment securities at amortized cost (Note 7)	151,919	155,835
Loans and receivables (Note 8)	42,695,401	42,571,906
Property and equipment	1,133,292	1,133,292
Investment properties	2,512,880	2,318,900
Other assets (Note 12)	1,056,727	1,035,620
	₱47,637,987	₱47,293,321

14. Financial Liabilities

14.1 Deposit Liabilities

As of June 30, 2024, and December 31, 2023, noninterest-bearing deposit liabilities amounted to ₱26.9 billion and ₱27.1 billion, respectively. For the six months ended June 30, 2024, and 2023, the remaining deposit liabilities of the Group generally bear annual fixed interest rates ranging from 0.1% to 6.1% and 0.1% to 7.5%, respectively for peso-denominated deposit liabilities, and from 0.01% to 5.5% and 0.01% to 6.2%, respectively for foreign currency-denominated deposit liabilities.

On June 23, 2023, the BSP issued its Circular No. 1175, which reduces the reserve requirement ratios of deposit and deposit substitute liabilities of banks and non-bank financial institutions with quasi-banking functions. For universal and commercial banks, reserve requirement for non-FCDU deposit liabilities is reduced from 12.0% to 9.5% effective June 30, 2023.

LTNCDs issued by the Parent Company consist of:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value	
					June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
October 11, 2019	April 11, 2025	₱4,600,000	4.38%	Quarterly	₱4,594,987	₱4,591,288
February 27, 2019	August 27, 2024	8,220,000	5.75%	Quarterly	8,219,392	8,212,255
		₱12,820,000			₱12,814,379	₱12,803,543



Interest expense on deposit liabilities consists of:

	For the Six Months Ended June 30	
	2024 (Unaudited)	2023 (Unaudited)
Savings	₱4,808,990	₱2,767,284
Time	2,819,565	2,237,710
LTNCD	347,787	428,333
Demand	101,454	98,504
	₱8,077,796	₱5,531,831

14.2 Bonds Payable

This account consists of:

					Carrying Value	
					June 30, 2024	December 31, 2023
Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	(Unaudited)	(Audited)
<u>Fixed rate medium term senior notes</u>						
June 27, 2019	September 27, 2024	USD750,000	3.28%	Semi-annually	₱43,949,434	₱41,490,871

As of June 30, 2024, and December 31, 2023, the unamortized transaction costs of bonds payable amounted to nil and ₱26.3 million, respectively. For the six months ended June 30, 2024 and 2023, amortization of transaction costs amounting to ₱26.3 million and ₱37.6 million, were charged to 'Interest expense on bonds payable' in the statements of income.

15. Maturity Analysis of Assets and Liabilities

The following tables show an analysis of assets and liabilities of the Group and Parent Company analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from reporting date:

	June 30, 2024			December 31, 2023		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
Cash and other cash items	₱17,180,496	₱—	₱17,180,496	₱21,151,391	₱—	₱21,151,391
Due from BSP (Note 6)	110,198,990	—	110,198,990	95,410,350	—	95,410,350
Due from other banks (Note 19)	20,891,694	—	20,891,694	21,253,754	—	21,253,754
Interbank loans receivable (Notes 20 and 22)	33,131,725	—	33,131,725	35,642,485	—	35,642,485
Securities held under agreements to resell	84,088,842	—	84,088,842	69,708,690	—	69,708,690
Financial assets at FVTPL (Note 7)	22,572,918	—	22,572,918	10,516,864	—	10,516,864
Financial assets at FVOCI (Note 7 and 20)	99,263,631	67,711,744	166,975,375	112,174,065	52,357,427	164,531,492
Investment securities at amortized cost (Note 7)	13,541,963	100,911,092	114,453,055	21,997,197	101,359,065	123,356,262
Loans and receivables (Note 8)	340,990,316	334,284,508	675,274,824	311,983,380	347,975,013	659,958,393
Other assets (Note 12)	379,235	20,089	399,324	383,478	18,779	402,257
	742,239,810	502,927,433	1,245,167,243	700,221,654	501,710,284	1,201,931,938

(Forward)



	June 30, 2024			December 31, 2023		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Nonfinancial Assets						
Property and equipment (Note 9)	₱—	₱24,870,111	₱24,870,111	₱—	₱25,026,057	₱25,026,057
Investment in an associate	—	3,193,400	3,193,400	—	3,199,124	3,199,124
Investment properties (Note 10)	—	19,127,667	19,127,667	—	18,727,971	18,727,971
Deferred tax assets (Note 18)	—	7,958,540	7,958,540	—	6,981,726	6,981,726
Goodwill (Note 11)	—	10,184,843	10,184,843	—	10,184,843	10,184,843
Intangible assets (Note 11)	—	9,577,367	9,577,367	—	8,329,479	8,329,479
Residual value of leased assets (Note 10)	—	—	—	5,658	—	5,658
Other assets (Note 12)	6,581,842	1,633,693	8,215,535	4,517,656	1,570,009	6,087,665
	6,581,842	76,545,621	83,127,463	4,523,314	74,019,209	78,542,523
Less: Allowance for impairment and credit losses (Note 13)			47,586,227			47,247,648
Unearned and other deferred income (Note 8)			733,786			681,399
Accumulated depreciation and amortization			23,625,611			21,996,014
			₱1,256,349,082			₱1,210,549,400
Financial Liabilities						
Deposit liabilities (Note 14 and 20)	₱943,931,696	₱5,284,132	₱949,215,828	₱917,137,058	₱10,833,860	₱927,970,918
Financial liabilities at FVTPL	833,079	—	833,079	555,811	—	555,811
Bills and acceptances payable (Note 20 and 22)	12,534,231	7,232,856	19,767,087	19,047,156	1,115,447	20,162,603
Accrued interest payable (Note 20)	1,901,583	7	1,901,590	2,426,973	974	2,427,947
Accrued other expenses payable (Note 20)	2,428,043	—	2,428,043	3,120,324	—	3,120,324
Bonds payable (Note 14, 20 and 22)	43,949,434	—	43,949,434	41,490,871	—	41,490,871
Other liabilities (Note 12)	19,588,650	1,160,284	20,748,934	8,134,350	1,215,351	9,349,701
	1,025,166,716	13,677,279	1,038,843,995	991,912,543	13,165,632	1,005,078,175
Nonfinancial Liabilities						
Lease liabilities (Note 20 and 22)	814,105	2,850,448	3,664,553	815,279	3,017,605	3,832,884
Accrued taxes and other expenses (Note 20)	3,288,382	1,632,273	4,920,655	3,529,374	1,387,728	4,917,102
Income tax payable	1,006,425	—	1,006,425	180,364	—	180,364
Other liabilities (Note 12)	2,187,573	2,945,786	5,133,359	2,188,421	3,203,800	5,392,221
	7,296,485	7,428,507	14,724,992	6,713,438	7,609,133	14,322,571
	₱1,032,463,201	₱21,105,786	₱1,053,568,987	₱998,625,981	₱20,774,765	₱1,019,400,746

16. Equity

16.1 Capital Stock

This account consists of (amounts in thousands, except for par value and number of shares):

	Shares	Amount
Common - ₱40 par value		
Authorized	1,750,000,001	₱70,000,000
Issued and outstanding		
Balance at the beginning and end of the period	1,525,764,850	₱61,030,594

As of June 30, 2024 and December 31, 2023, the Parent Company had 36,019 and 36,081 stockholders, respectively.



16.2 Surplus Reserves

This account consists of:

	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
Reserves under BSP Circular 1011 (Note 8)	₱4,060,478	₱3,912,672
Reserves for trust business	660,258	660,258
Reserves for self-insurance	105,000	105,000
	₱4,825,736	₱4,677,930

16.3 Regulatory Reporting for Capital Management

As of June 30, 2024 and December 31, 2023, Common Equity Tier 1 (CET1) ratio and Total Capital Adequacy Ratio (CAR) are as follows:

	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
Consolidated		
a) CET1 Capital/Tier 1 Capital	₱145,302,604	₱135,237,152
b) Total Qualifying Capital	152,213,685	142,058,656
c) Total Risk-Weighted Assets	785,330,743	802,506,454
CET 1 Ratio/Tier 1 Ratio (a/c)	18.50%	16.85%
Total CAR (b/c)	19.38%	17.70%
Parent Company		
d) CET1 Capital/Tier 1 Capital	₱122,662,875	₱113,678,152
e) Total Qualifying Capital	129,360,634	120,279,567
f) Total Risk-Weighted Assets	759,124,618	775,138,367
CET 1 Ratio/Tier 1 Ratio (d/f)	16.16%	14.67%
Total CAR (e/f)	17.04%	15.52%

17. Other Operating Income and Expenses

17.1 Service Fees and Commission Income

This account consists of:

	For the Six Months Ended June 30	
	2024 (Unaudited)	2023 (Unaudited)
Deposit-related	₱937,081	₱866,003
Credit card-related	837,316	746,660
Loan-related	414,468	299,489
Remittance	332,043	334,484
(Forward)		



	For the Six Months Ended June 30	
	2024 (Unaudited)	2023 (Unaudited)
Trust fees	₱183,346	₱186,740
Bancassurance	131,662	142,871
Underwriting fees	102,262	312,564
Miscellaneous	63,942	830,304
	₱3,002,120	₱3,719,115

Certain items were reclassified in 2023 for comparative purposes.

17.2 Miscellaneous Expenses

This account consists of:

	For the Six Months Ended June 30	
	2024 (Unaudited)	2023 (Unaudited)
Secretarial, janitorial and messengerial	₱963,713	₱840,733
Insurance	945,020	1,025,378
Marketing	706,567	459,643
Information technology	513,003	501,320
Travelling	219,701	172,869
Litigation and assets acquired	164,871	323,558
Stationery and supplies	162,982	96,830
Management and other professional fees	114,672	126,484
Entertainment, amusement and recreation	77,380	61,285
Postage, telephone and cable	69,662	76,056
Common use service area charges	54,937	80,877
Repairs and maintenance	22,772	17,768
Freight	10,008	12,303
Fuel and lubricants	5,620	6,502
Others	116,170	895,811
	₱4,147,078	₱4,697,417



18. Income Taxes

Provision for income tax consists of:

	For the Six Months Ended June 30	
	2024 (Unaudited)	2023 (Unaudited)
Current		
Regular	₱1,045,881	₱1,441,692
Final	1,898,323	1,355,719
	2,944,204	2,797,411
Deferred	(963,515)	266,967
	₱1,980,689	₱3,064,378

As of June 30, 2024 and December 31, 2023, the Group recognized deferred tax assets amounting to ₱8.0 billion and ₱7.0 billion, respectively, with the increase in 2024 mainly coming from deferred tax assets on allowance for impairment and credit losses.

19. Earnings Per Share

Earnings per share attributable to equity holders of the Parent Company are calculated as follows:

	For the Six Months Ended June 30	
	2024 (Unaudited)	2023 (Unaudited)
a) Net income attributable to equity holders of the Parent Company	₱10,215,912	₱9,755,546
b) Weighted average number of common shares for basic earnings per share	1,525,765	1,525,765
c) Basic and diluted earnings per share (a/b)	₱6.70	₱6.39

There are no potential common shares with dilutive effect on the basic earnings per share.

20. Related Party Transactions

Balances of significant related party transactions of the Group as of June 30, 2024 and December 31, 2023 are shown in the following table (transactions with subsidiaries have been eliminated in the consolidated financial statements). Transactions reported under subsidiaries represent companies where the Parent Company has control. Transactions reported under other related parties represent companies which are under common control.

	Significant Investors		Subsidiaries		Other Related Parties		Associate	
	June 30, 2024	December 31, 2023	June 30, 2024	December 31, 2023	June 30, 2024	December 31, 2023	June 30, 2024	December 31, 2023
Receivables from customer	₱—	₱—	₱70,000	₱—	₱56,387,662	₱55,298,956	₱—	₱—
Credit facilities	—	—	12,005,855	10,638,270	59,586,693	77,116,535	120,000	120,000
Sales contract receivable	—	—	—	—	—	2,173	—	—
Financial assets at FVOCI	—	—	—	—	24,867,507	24,587,068	—	—

(Forward)



	Significant Investors		Subsidiaries		Other Related Parties		Associate	
	June 30, December 31,		June 30, December 31,		June 30, December 31,		June 30, December 31,	
	2024	2023	2024	2023	2024	2023	2024	2023
Interbank loans receivable	P=	P=	P14,466	P52,680	P=	P=	P=	P=
Due from other banks	—	—	307,247	288,020	—	—	—	—
Accounts receivable	—	—	25,715	17,276	—	—	—	—
Accrued interest receivable	—	—	140	1,076	310,599	297,551	—	—
Right-of-use assets	—	—	—	—	2,825,857	2,055,010	—	—
Security deposit	—	—	—	—	—	176,082	—	—
Deposit liabilities	3,179,594	2,276,926	4,621,476	3,155,369	40,399,460	46,333,463	318,207	128,165
Accrued interest payable	9,411	2,188	15,223	21,113	121,905	267,825	35	41
Accrued other expenses	—	—	—	—	505,881	402,589	—	—
Lease liabilities	—	—	—	—	1,915,184	2,107,960	—	—
Rental deposits	—	—	—	—	—	—	—	27
Deferred revenues	—	—	—	—	39,444	41,111	512,393	548,993
Due to other banks	—	—	1,036	65	—	—	—	—

Significant related party transactions of the Group for the six-month periods ended June 30, 2024 and 2023 follow (transactions with subsidiaries have been eliminated in the consolidated financial statements):

	Significant Investors		Subsidiaries		Other Related Parties		Associate	
	June 30		June 30		June 30		June 30	
	2024	2023	2024	2023	2024	2023	2024	2023
Interest income	P=	P=	P=	P65,427	P1,730,262	P557,678	P=	P=
Interest expense	58,700	31,972	102,420	83,146	788,346	724,477	496	855
Miscellaneous other income	—	—	1,621	1,160	—	—	—	—
Purchases of securities	—	—	23,024	46,177	5,940,404	1,781,889	—	—
Sale of securities	—	—	523,204	77,342	2,635,593	3,364,821	—	—
Trading gains (losses)	—	—	130	18	890	(31,566)	—	—
Service fee income	—	—	—	—	—	—	36,600	36,600

Transactions with related parties are made on similar terms and conditions as disclosed in the most recent annual audited financial statements.

21. Provisions, Contingencies and Other Commitments

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities which are not presented in the accompanying unaudited interim condensed financial statements including several suits and claims which remain unsettled. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the unaudited interim condensed financial statements.

There were no significant settlements made in the second quarter of 2024.

In the ordinary course of the Group's operations, certain entities within the Group have pending tax assessments/claims which are in various stages of protest/appeal with the tax authorities, the amounts of which cannot be reasonably estimated. Management believes that the bases of said protest/appeal are legally valid such that the ultimate resolution of these assessments/claims would not have material effects on the consolidated financial position and results of operations.



22. Notes to the Statement of Cash Flows

22.1 Interbank Loans Receivable

The amount of the Group's interbank loans receivable considered as cash and cash equivalents follow:

	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
Interbank loans receivable	₱33,131,725	₱35,642,485
Less: Allowance for credit losses	11,880	8,045
	33,119,845	35,634,440
Less: Interbank loans receivable not considered as cash and cash equivalents	2,451,463	4,678,674
	₱30,668,382	₱30,955,766

22.2 Cash Flows from Financing Activities

The changes in liabilities arising from financing activities for the six months ended June 30, 2024 and 2023 follow:

	June 30, 2024 (Unaudited)			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱20,162,603	(₱88,061)	(₱307,455)	₱19,767,087
Bonds payable	41,490,871	—	2,458,563	43,949,434
Lease liabilities	3,832,884	(592,326)	423,996	3,664,554
	₱65,486,358	(₱680,387)	₱2,575,104	₱67,381,075

	June 30, 2023 (Unaudited)			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱14,980,373	₱238,968	(₱399,843)	₱14,819,498
Bonds payable	58,439,097	(16,560,000)	(544,045)	41,335,052
Lease liabilities	3,636,391	(474,880)	998,612	4,160,123
	₱77,055,861	(₱16,795,912)	₱54,724	₱60,314,673

Others include the effects of foreign exchange revaluations, additional lease liabilities, amortization of transaction costs, and accretion of interest.

22.3 Non-Cash Transactions

For the six months ended June 30, 2024 and 2023, additions to right-of-use assets amounted to ₱0.4 billion and ₱0.9 billion, while additional lease liabilities amounted to ₱0.4 billion and ₱1.0 billion, respectively.



For the six months ended June 30, 2024 and 2023, the Group foreclosed investment properties amounting to ₱0.5 billion and ₱0.2 billion, respectively.

For the six months ended June 30, 2024 and 2023, the Group applied creditable withholding taxes against its income tax payable amounting to ₱181.6 million and ₱451.9 million, respectively.

23. Contingencies and Commitments Arising from Off-Balance Sheet Items

The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts:

	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
Trust department accounts	₱178,766,759	₱168,037,276
Derivative forwards	137,008,136	195,661,001
Standby letters of credit	62,990,866	65,344,786
Unutilized credit card lines	46,645,171	45,354,961
Derivative spots	25,802,768	21,141,791
Deficiency claims receivable	24,661,917	23,953,740
Inward bills for collection	732,994	434,566
Outward bills for collection	355,133	236,311
Unused commercial letters of credit	57,638	440,767
Confirmed export letters of credit	101,102	93,852
Items held as collateral	27,571	58,887
Shipping guarantees issued	21,576	23,101
Other contingent accounts	97,302	7,182



Philippine National Bank and Subsidiaries

Financial Statements
December 31, 2023 and 2022
and Years Ended December 31, 2023,
2022 and 2021

and

Independent Auditor's Report



A member firm of Ernst & Young Global Limited

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philippine National Bank

Report on the Consolidated and Parent Company Financial Statements

Opinion

We have audited the consolidated financial statements of Philippine National Bank and its Subsidiaries (the Group) and the parent company financial statements of Philippine National Bank (the Parent Company), which comprise the consolidated and parent company statements of financial position as at December 31, 2023 and 2022, and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2023, and notes to the financial statements, including material accounting policy information.

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

Basis for Opinion

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



Key Audit Matters

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

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

Applicable to the audit of the consolidated and parent company financial statements

Adequacy of Allowance for Credit Losses on Loans and Receivables

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

Allowance for credit losses on loans and receivables as of December 31, 2023 amounted to ₱42.6 billion for the Group and the Parent Company. Provision for credit losses in 2023 amounted to ₱5.7 billion and ₱5.5 billion for the Group and the Parent Company, respectively.

The disclosures related to the allowance for credit losses on loans and receivables are included in Note 16 of the financial statements.

Audit response

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

We (a) assessed the Group's and the Parent Company's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts, credit risk management policies and practices in place; (c) tested the Group's and the Parent Company's application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (d) assessed whether expected life is different from the contractual life by testing the maturity dates reflected in the Group's and the Parent Company's records



and considering management's assumptions regarding future collections, advances, extensions, renewals and modifications; (e) tested loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations, and the effects of any financial support and credit enhancements provided by any party; (f) tested exposure at default considering outstanding commitments and repayment scheme; (g) evaluated the forward-looking information used for overlay through corroboration of publicly available information and our understanding of the Group's and the Parent Company's lending portfolios and broader industry knowledge; and (h) tested the effective interest rate used in discounting the expected loss.

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

We recalculated impairment provisions on a sample basis. We involved our internal specialist in the performance of the above procedures.

We reviewed the completeness of the disclosures made in the financial statements.

Impairment Testing of Goodwill

As of December 31, 2023, the goodwill of the Group and the Parent Company amounted to ₱10.2 billion and ₱10.3 billion, respectively, as a result of the acquisition of Allied Banking Corporation in 2013. Under PFRS, the Group and the Parent Company are required to test the amount of goodwill for impairment annually. Goodwill has been allocated to three cash generating units (CGUs) namely Retail Banking, Corporate Banking, and Treasury. The Group and the Parent Company performed the impairment testing using the value in use calculation. The annual impairment test is significant to our audit because it involves significant judgment and is based on assumptions which are subject to higher level of estimation uncertainty, specifically estimates of loan and deposit growth rates, interest margin, discount rates, and long-term growth rate.

The disclosures related to goodwill impairment are included in Note 14 to the financial statements.

Audit response

We involved our internal specialist in evaluating the methodology and the assumptions used by the Group and the Parent Company. We compared the key assumptions used, such as loan and deposit growth rates, interest margin and long-term growth rate to the historical performance of the CGUs and to economic and industry forecasts. We tested the parameters used in the derivation of the discount rate against market data. We also reviewed the disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill.

Other Information

The other information consists of the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2023, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2023 are expected to be made available to us after the date of this auditor's report.



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

In connection with our audit of the consolidated and parent company 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 Consolidated and Parent Company Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's and the Parent Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements

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

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

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



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company'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 Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the Parent Company to express an opinion on the consolidated and parent company financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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



Report on the Supplementary Information Required Under Revenue Regulations 15-2010 and Section 174 of the Manual of Regulations for Banks (MORB)

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 40 and with Section 174 of the MORB in Note 41 to the financial statements are presented for purposes of filing with the Bureau of Internal Revenue and Bangko Sentral ng Pilipinas, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine National Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is
Leslie Anne G. Huang.

SYCIP GORRES VELAYO & CO.



Partner

CPA Certificate No. 134290

Tax Identification No. 238-044-991

BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024

BIR Accreditation No. 08-001998-150-2022, November 7, 2022, valid until November 6, 2025

PTR No. 10079947, January 5, 2024, Makati City

February 23, 2024



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF FINANCIAL POSITION

(In Thousands)

	Consolidated		Parent Company	
	December 31		December 31	
	2023	2022	2023	2022
ASSETS				
Cash and Other Cash Items	₱21,151,391	₱22,217,915	₱21,052,526	₱22,103,095
Due from Bangko Sentral ng Pilipinas (Notes 7 and 17)	95,410,350	94,701,360	95,410,350	94,701,360
Due from Other Banks (Note 33)	21,243,856	26,010,183	13,626,624	17,599,374
Interbank Loans Receivable (Notes 8 and 33)	35,634,440	16,290,101	33,437,319	14,734,743
Securities Held Under Agreements to Resell (Notes 8 and 35)	69,694,538	64,523,863	69,694,538	64,523,863
Trading and Investment Securities				
Financial Assets at Fair Value Through Profit or Loss (FVTPL) (Note 9)	10,516,864	7,347,201	10,363,259	7,195,685
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) (Note 9)	164,531,492	158,183,525	164,136,971	157,205,907
Investment Securities at Amortized Cost (Note 9)	123,200,427	110,467,960	122,730,465	110,328,678
Loans and Receivables (Notes 10 and 33)	616,710,746	593,099,915	602,158,763	577,995,018
Property and Equipment (Note 11)	10,754,018	11,973,547	9,862,219	10,619,033
Investments in Subsidiaries and an Associate (Note 12)	3,199,124	2,688,764	20,567,070	20,384,104
Investment Properties (Note 13)	14,579,558	13,794,986	14,111,607	13,264,820
Deferred Tax Assets (Note 30)	6,981,726	6,616,902	6,929,669	6,574,190
Intangible Assets (Note 14)	1,301,726	1,863,922	1,214,890	1,753,616
Goodwill (Note 14)	10,184,843	11,221,410	10,325,201	11,361,768
Other Assets (Note 15)	5,454,301	4,155,522	4,752,685	3,398,996
TOTAL ASSETS	₱1,210,549,400	₱1,145,157,076	₱1,200,374,156	₱1,133,744,250
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 17 and 33)				
Demand	₱228,405,865	₱220,043,866	₱228,144,045	₱219,805,641
Savings	541,009,449	519,940,535	540,063,571	518,928,640
Time	145,752,061	112,113,308	141,770,924	108,766,087
Long Term Negotiable Certificates	12,803,543	19,130,012	12,803,543	19,130,012
	927,970,918	871,227,721	922,782,083	866,630,380
Financial Liabilities at FVTPL (Notes 18, 23 and 35)	555,811	1,039,776	555,811	1,039,776
Bills and Acceptances Payable (Notes 19, 33 and 35)	20,162,603	14,980,373	20,162,603	13,888,035
Lease Liabilities (Notes 29 and 33)	3,832,884	3,636,391	3,723,316	3,604,077
Accrued Taxes, Interest and Other Expenses (Note 20)	10,465,373	9,117,393	10,049,650	8,487,700
Bonds Payable (Note 21)	41,490,871	58,439,097	41,490,871	58,439,097
Income Tax Payable	180,364	983,051	103,470	916,235
Other Liabilities (Note 22)	14,741,922	15,827,640	13,553,863	14,093,805
	1,019,400,746	975,251,442	1,012,421,667	967,099,105
EQUITY ATTRIBUTABLE TO EQUITY				
HOLDERS OF THE PARENT COMPANY				
Capital Stock (Note 25)	61,030,594	61,030,594	61,030,594	61,030,594
Capital Paid in Excess of Par Value (Note 25)	32,116,560	32,116,560	32,106,560	32,106,560
Surplus Reserves (Notes 10, 25 and 32)	4,677,930	4,929,242	4,677,930	4,929,242
Surplus (Note 25)	91,979,317	73,748,748	92,174,169	73,919,909
Net Unrealized Losses on Financial Assets at FVOCI (Notes 9 and 33)	(1,722,653)	(5,959,275)	(1,722,653)	(5,959,275)
Remeasurement Losses on Retirement Plan (Note 28)	(2,728,542)	(2,222,945)	(2,728,542)	(2,222,945)
Accumulated Translation Adjustment (Note 25)	1,999,668	2,314,447	1,999,668	2,314,447
Other Equity Reserves (Notes 12 and 25)	248,830	248,830	390,517	390,517
Share in Aggregate Reserves on Life Insurance Policies (Note 12)	24,246	136,096	24,246	136,096
Other Equity Adjustment	13,959	13,959	—	—
	187,639,909	166,356,256	187,952,489	166,645,145
NON-CONTROLLING INTERESTS (Note 12)	3,508,745	3,549,378	—	—
	191,148,654	169,905,634	187,952,489	166,645,145
TOTAL LIABILITIES AND EQUITY	₱1,210,549,400	₱1,145,157,076	₱1,200,374,156	₱1,133,744,250

See accompanying Notes to Financial Statements.



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF INCOME

(In Thousands, Except Earnings per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2023	2022	2021	2023	2022	2021
INTEREST INCOME ON						
Loans and receivables (Notes 10 and 33)	₱40,757,927	₱34,424,531	₱34,157,780	₱40,119,733	₱33,794,036	₱33,449,961
Investment securities at amortized cost and FVOCI (Note 9)	12,608,170	8,154,922	5,963,594	12,560,530	8,143,092	5,962,614
Deposits with banks and others (Notes 7, 12 and 33)	2,607,973	1,417,661	1,248,155	2,252,437	1,330,052	1,219,996
Financial assets at FVTPL (Note 9)	251,894	292,685	632,492	243,483	284,251	565,447
Interbank loans receivable and securities held under agreements to resell (Note 8)	3,368,565	954,603	400,356	3,360,981	896,683	348,153
	59,594,529	45,244,402	42,402,377	58,537,164	44,448,114	41,546,171
INTEREST EXPENSE ON						
Deposit liabilities (Notes 17 and 33)	13,005,646	5,371,667	4,813,766	12,971,817	5,383,153	4,885,785
Bonds payable (Note 21)	1,660,193	2,111,192	2,231,863	1,660,193	2,111,192	2,231,863
Bills payable and other borrowings (Notes 19, 29 and 33)	335,847	433,973	511,921	319,588	363,544	425,080
	15,001,686	7,916,832	7,557,550	14,951,598	7,857,889	7,542,728
NET INTEREST INCOME	44,592,843	37,327,570	34,844,827	43,585,566	36,590,225	34,003,443
Service fees and commission income (Notes 26 and 33)	6,591,256	6,997,609	6,340,326	5,754,883	5,563,369	5,310,729
Service fees and commission expense	1,266,613	1,429,195	1,051,376	1,150,389	935,945	846,165
NET SERVICE FEES AND COMMISSION INCOME	5,324,643	5,568,414	5,288,950	4,604,494	4,627,424	4,464,564
OTHER OPERATING INCOME						
Net gains on sale or exchange of assets (Note 26)	4,541,567	7,775,154	981,462	4,621,894	7,770,001	974,024
Foreign exchange gains - net (Note 23)	1,367,409	1,608,281	743,549	1,149,699	1,149,444	623,493
Trading and investment securities gains (losses) - net (Notes 9 and 33)	394,103	(1,280,783)	731,572	394,755	(1,277,759)	600,580
Equity in net earnings (losses) of subsidiaries and an associate (Note 12)	268,093	(56,060)	50,789	560,393	747,341	(650,134)
Miscellaneous (Note 27)	871,394	1,136,692	1,070,047	624,907	721,433	759,826
TOTAL OTHER OPERATING INCOME	7,442,566	9,183,284	3,577,419	7,351,648	9,110,460	2,307,789
TOTAL OPERATING INCOME	57,360,052	52,079,268	43,711,196	55,541,708	50,328,109	40,775,796
PROVISION FOR IMPAIRMENT, CREDIT AND OTHER LOSSES (Note 16)						
	5,923,054	7,198,117	10,725,014	5,700,264	7,305,653	10,971,740
IMPAIRMENT IN VALUE OF GOODWILL (Note 14)	1,036,567	—	2,153,997	1,036,567	—	2,153,997
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 25, 28 and 33)	10,464,071	9,762,776	9,985,822	9,709,419	9,012,641	9,274,801
Taxes and licenses (Note 30)	4,852,190	5,225,595	3,988,371	4,778,102	5,120,690	3,903,066
Depreciation and amortization (Note 11)	3,976,069	4,225,746	2,845,717	3,720,234	3,909,420	2,499,071
Occupancy and equipment-related costs (Note 29)	916,735	1,099,876	1,124,166	797,259	952,932	1,002,093
Miscellaneous (Note 27)	8,218,171	8,051,942	8,202,755	7,948,947	7,810,430	7,974,555
TOTAL OPERATING EXPENSES	28,427,236	28,365,935	26,146,831	26,953,961	26,806,113	24,653,586
OTHER INCOME						
Gain on loss of control of subsidiaries - net (Note 12)	—	—	16,807,275	—	—	16,916,842
Gain on remeasurement of retained interest (Note 12)	—	—	16,477,968	—	—	16,383,008
TOTAL OTHER INCOME	—	—	33,285,243	—	—	33,299,850
INCOME BEFORE INCOME TAX	21,973,195	16,515,216	37,970,597	21,850,916	16,216,343	36,296,323
PROVISION FOR INCOME TAX (Note 30)	4,007,375	4,931,228	5,545,194	3,847,968	4,684,025	5,012,561
NET INCOME FROM CONTINUING OPERATIONS	17,965,820	11,583,988	32,425,403	18,002,948	11,532,318	31,283,762
NET LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX (Notes 12 and 36)						
	—	—	(735,365)	—	—	—
NET INCOME	₱17,965,820	₱11,583,988	₱31,690,038	₱18,002,948	₱11,532,318	₱31,283,762
ATTRIBUTABLE TO:						
Equity Holders of the Parent Company (Note 31)	₱17,979,257	₱11,532,318	₱31,630,626			
Non-controlling Interests	(13,437)	51,670	59,412			
	₱17,965,820	₱11,583,988	₱31,690,038			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 31)						
	₱11.78	₱7.56	₱20.73	₱11.80	₱7.56	₱20.50
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company from Continuing Operations (Note 31)						
	₱11.78	₱7.56	₱21.21	₱11.80	₱7.56	₱20.50

See accompanying Notes to Financial Statements.



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2023	2022	2021	2023	2022	2021
NET INCOME	₱17,965,820	₱11,583,988	₱31,690,038	₱18,002,948	₱11,532,318	₱31,283,762
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that recycle to profit or loss in subsequent periods:						
Net change in unrealized loss on debt securities at FVOCI, net of tax (Note 9)	2,505,660	(4,764,711)	(3,178,301)	2,485,994	(4,754,670)	(3,158,391)
Share in changes in net unrealized losses on financial assets at FVOCI of subsidiaries and an associate (Notes 9 and 12)	362,392	(885,481)	(558,030)	382,058	(902,788)	(663,471)
	2,868,052	(5,650,192)	(3,736,331)	2,868,052	(5,657,458)	(3,821,862)
Accumulated translation adjustment	(341,822)	1,102,022	1,008,640	(109,124)	421,609	(117,264)
Share in changes in accumulated translation adjustment of subsidiaries and an associate (Note 12)	—	—	—	(205,655)	389,442	902,788
	2,526,230	(4,548,170)	(2,727,691)	2,553,273	(4,846,407)	(3,036,338)
Items that do not recycle to profit or loss in subsequent periods:						
Net change in unrealized gain (loss) on equity securities at FVOCI (Note 9)	1,368,570	394,654	(21,809)	1,368,570	401,920	63,722
Remeasurement gains (losses) on retirement plan (Note 28)	(493,906)	495,353	285,632	(512,517)	489,953	500,862
Share in changes in aggregate reserves (losses) on life insurance policies (Note 12)	(111,850)	762,490	412,444	(111,850)	762,490	412,444
Share in changes in remeasurement gains (losses) of subsidiaries and an associate (Note 12)	(8,275)	7,708	(1,482)	6,920	12,169	(216,477)
	754,539	1,660,205	674,785	751,123	1,666,532	760,551
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	3,280,769	(2,887,965)	(2,052,906)	3,304,396	(3,179,875)	(2,275,787)
TOTAL COMPREHENSIVE INCOME	₱21,246,589	₱8,696,023	₱29,637,132	₱21,307,344	₱8,352,443	₱29,007,975
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	₱21,283,653	₱8,352,443	₱29,354,839			
Non-controlling interests	(37,064)	343,580	282,293			
	₱21,246,589	₱8,696,023	₱29,637,132			

See accompanying Notes to Financial Statements.



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

Consolidated														
Equity Attributable to Equity Holders of the Parent Company														
	Capital Stock (Note 25)	Capital Paid in Excess of Par Value (Note 25)	Surplus Reserves (Notes 10, 25 and 32)	Surplus (Note 25)	Net Unrealized Gains (Losses) on Financial Assets at FVOCI (Notes 9 and 33)	Remeasurement Losses on Retirement Plan (Note 28)	Accumulated Translation Adjustment (Note 25)	Other Equity Reserves (Notes 12 and 25)	Share in Aggregate Reserves (Losses) on Life Insurance Policies (Note 12)	Reserves of a Disposal Group Classified as Held for Sale (Notes 12 and 36)	Other Equity Adjustment	Total	Non- controlling Interests (Note 12)	Total Equity
Balance at January 1, 2023	P61,030,594	P32,116,560	P4,929,242	P73,748,748	(P5,959,275)	(P2,222,945)	P2,314,447	P248,830	P136,096	P-	P13,959	P166,356,256	P3,549,378	P169,905,634
Total comprehensive income (loss) for the year	-	-	-	17,979,257	4,236,622	(505,597)	(314,779)	-	(111,850)	-	-	21,283,653	(37,064)	21,246,589
Transfer to surplus reserves (Notes 10, 25 and 32)	-	-	(251,312)	251,312	-	-	-	-	-	-	-	-	-	-
Declaration of dividends by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(3,569)	(3,569)
Balance at December 31, 2023	P61,030,594	P32,116,560	P4,677,930	P91,979,317	(P1,722,653)	(P2,728,542)	P1,999,668	P248,830	P24,246	P-	P13,959	P187,639,909	P3,508,745	P191,148,654
Balance at January 1, 2022	P61,030,594	P32,116,560	P5,147,440	P61,998,232	(P703,737)	(P2,725,067)	P1,503,396	P248,830	(P626,394)	P-	P13,959	P158,003,813	P3,219,143	P161,222,956
Total comprehensive income (loss) for the year	-	-	-	11,532,318	(5,255,538)	502,122	811,051	-	762,490	-	-	8,352,443	343,580	8,696,023
Transfer to surplus reserves (Notes 10, 25 and 32)	-	-	(218,198)	218,198	-	-	-	-	-	-	-	-	-	-
Declaration of dividends by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(13,345)	(13,345)
Balance at December 31, 2022	P61,030,594	P32,116,560	P4,929,242	P73,748,748	(P5,959,275)	(P2,222,945)	P2,314,447	P248,830	P136,096	P-	P13,959	P166,356,256	P3,549,378	P169,905,634
Balance at January 1, 2021	P61,030,594	P32,116,560	P5,032,097	P54,498,066	P3,054,403	(P3,009,452)	P717,872	P277,855	(P1,038,838)	P88,616	P13,959	P152,781,732	P3,201,276	P155,983,008
Total comprehensive income (loss) for the year	-	-	-	31,630,626	(3,758,140)	284,385	785,524	-	412,444	-	-	29,354,839	282,293	29,637,132
Declaration of property dividends (Note 12)	-	-	-	(23,935,371)	-	-	-	-	-	-	-	(23,935,371)	-	(23,935,371)
Transfer to surplus reserves (Notes 10, 25 and 32)	-	-	115,343	(115,343)	-	-	-	-	-	-	-	-	-	-
Sale of interest in a subsidiary (Note 12)	-	-	-	(79,746)	-	-	-	-	-	(88,616)	-	(168,362)	(259,721)	(428,083)
Settlement of share-based payments (Note 25)	-	-	-	-	-	-	-	(29,025)	-	-	-	(29,025)	-	(29,025)
Declaration of dividends by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(4,705)	(4,705)
Balance at December 31, 2021	P61,030,594	P32,116,560	P5,147,440	P61,998,232	(P703,737)	(P2,725,067)	P1,503,396	P248,830	(P626,394)	P-	P13,959	P158,003,813	P3,219,143	P161,222,956



Parent Company

	Capital Stock (Note 25)	Capital Paid in Excess of Par Value (Note 25)	Surplus Reserves (Notes 10, 25 and 32)	Surplus (Note 25)	Net Unrealized Gains (Losses) on Financial Assets at FVOCI (Notes 9 and 33)	Remeasurement Losses on Retirement Plan (Note 28)	Accumulated Translation Adjustment (Note 25)	Other Equity Reserves (Notes 12 and 25)	Share in Aggregate Reserves (Losses) on Life Insurance Policies (Note 12)	Reserves of a Disposal Group Held for Sale (Notes 12 and 36)	Total Equity
Balance at January 1, 2023	₱61,030,594	₱32,106,560	₱4,929,242	₱73,919,909	(₱5,959,275)	(₱2,222,945)	₱2,314,447	₱390,517	₱136,096	₱-	₱166,645,145
Total comprehensive income (loss) for the year	-	-	-	18,002,948	4,236,622	(505,597)	(314,779)	-	(111,850)	-	21,307,344
Transfer to surplus reserves (Notes 10, 25 and 32)	-	-	(251,312)	251,312	-	-	-	-	-	-	-
Balance at December 31, 2023	₱61,030,594	₱32,106,560	₱4,677,930	₱92,174,169	(₱1,722,653)	(₱2,728,542)	₱1,999,668	₱390,517	₱24,246	₱-	₱187,952,489
Balance at January 1, 2022	₱61,030,594	₱32,106,560	₱5,147,440	₱62,169,393	(₱703,737)	(₱2,725,067)	₱1,503,396	₱390,517	(₱626,394)	₱-	₱158,292,702
Total comprehensive income (loss) for the year	-	-	-	11,532,318	(5,255,538)	502,122	811,051	-	762,490	-	8,352,443
Transfer to surplus reserves (Notes 10, 25 and 32)	-	-	(218,198)	218,198	-	-	-	-	-	-	-
Balance at December 31, 2022	₱61,030,594	₱32,106,560	₱4,929,242	₱73,919,909	(₱5,959,275)	(₱2,222,945)	₱2,314,447	₱390,517	₱136,096	₱-	₱166,645,145
Balance at January 1, 2021	₱61,030,594	₱32,106,560	₱5,032,097	₱54,843,588	₱3,054,403	(₱3,009,452)	₱717,872	₱419,542	(₱1,038,838)	₱88,616	₱153,244,982
Total comprehensive income (loss) for the year	-	-	-	31,283,762	(3,758,140)	284,385	785,524	-	412,444	-	29,007,975
Declaration of property dividends (Note 12)	-	-	-	(23,935,371)	-	-	-	-	-	-	(23,935,371)
Transfer to surplus reserves (Notes 10, 25 and 32)	-	-	115,343	(115,343)	-	-	-	-	-	-	-
Sale of interest in a subsidiary (Note 12)	-	-	-	92,757	-	-	-	-	-	(88,616)	4,141
Settlement of share-based payments (Note 25)	-	-	-	-	-	-	-	(29,025)	-	-	(29,025)
Balance at December 31, 2021	₱61,030,594	₱32,106,560	₱5,147,440	₱62,169,393	(₱703,737)	(₱2,725,067)	₱1,503,396	₱390,517	(₱626,394)	₱-	₱158,292,702

See accompanying Notes to Financial Statements.



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2023	2022	2021	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES						
Income from continuing operations before income tax	₱21,973,195	₱16,515,216	₱37,970,597	₱21,850,916	₱16,216,343	₱36,296,323
Loss from discontinued operations before income tax (Note 36)	—	—	(626,763)	—	—	—
Income before income tax	21,973,195	16,515,216	37,343,834	21,850,916	16,216,343	36,296,323
Adjustments for:						
Provision for impairment, credit and other losses (Note 16)	5,923,054	7,198,117	10,813,155	5,700,264	7,305,653	10,971,740
Net gains on sale or exchange of assets (Note 26)	(4,541,567)	(7,775,154)	(981,462)	(4,621,894)	(7,770,001)	(974,024)
Depreciation and amortization (Note 11)	3,976,069	4,225,746	2,894,759	3,720,234	3,909,420	2,499,071
Amortization of premium (discount) on investment securities	(2,888,201)	(935,770)	294,421	(2,891,341)	(936,131)	296,554
Impairment in value of goodwill (Note 14)	1,036,567	—	2,153,997	1,036,567	—	2,153,997
Unrealized foreign exchange losses (gains) on bonds, bills and acceptances payable	(209,842)	6,502,018	5,334,118	(209,842)	6,491,373	5,328,215
Net losses (gains) on financial assets at FVTPL (Note 9)	(399,339)	211,235	846,625	(400,113)	208,211	977,617
Equity in net losses (earnings) of subsidiaries and an associate (Note 12)	(268,093)	56,060	(50,789)	(560,393)	(747,341)	650,134
Amortization of transaction costs on borrowings (Notes 17 and 21)	90,011	105,480	116,898	90,011	105,480	116,898
Net losses (gains) on financial assets at FVOCI and investment securities at amortized cost (Note 9)	5,236	1,069,548	(1,540,192)	5,358	1,069,548	(1,578,197)
Accretion to interest income of loss on loan modifications	—	(369,152)	(351,502)	—	(369,152)	(351,502)
Gain on loss of control of subsidiaries - net (Note 12)	—	—	(16,807,275)	—	—	(16,916,842)
Gain on remeasurement of retained interest (Note 12)	—	—	(16,477,968)	—	—	(16,383,008)
Changes in operating assets and liabilities:						
Decrease (increase) in amounts of:						
Interbank loan receivable (Note 8)	1,828,975	(4,854,939)	(891,301)	2,407,631	(4,656,651)	(859,213)
Financial assets at FVTPL	(2,770,324)	3,609,221	11,812,813	(2,767,461)	3,606,381	9,959,744
Loans and receivables	(32,170,920)	4,448,687	(13,325,214)	(32,262,933)	4,995,515	(16,184,925)
Other assets	(2,608,270)	(243,158)	1,398,479	(2,505,688)	(1,340,408)	(368,189)
Increase (decrease) in amounts of:						
Financial liabilities at FVTPL	(483,965)	148,245	190,292	(483,965)	148,430	190,544
Deposit liabilities	56,719,665	(23,726,210)	4,603,064	56,128,172	(32,924,438)	5,943,796
Accrued taxes, interest and other expenses	1,435,027	1,518,737	246,627	1,623,234	1,139,793	681,686
Other liabilities	(1,584,110)	616,446	(7,663,779)	(1,053,706)	1,084,236	(1,511,065)
Net cash generated from (used in) operations	45,063,168	8,320,373	19,959,600	44,805,051	(2,463,739)	20,939,354
Income taxes paid	(3,919,287)	(2,050,109)	(2,285,669)	(3,826,112)	(1,802,246)	(1,841,579)
Net cash provided by (used in) operating activities	41,143,881	6,270,264	17,673,931	40,978,939	(4,265,985)	19,097,775
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from:						
Disposal/maturities of financial assets at FVOCI	562,251,372	643,902,197	212,560,360	561,071,652	643,888,779	210,574,683
Maturities/early redemptions of investment securities at amortized cost	64,078,361	141,160,199	39,790,071	61,007,188	141,171,532	39,085,249
Disposal of investment properties	5,113,184	6,844,641	293,738	4,874,843	6,842,374	214,782
Disposal of property and equipment	1,295,493	108,253	201,593	1,022,920	32,546	301,198
Disposal of investment in a subsidiary (Note 12)	—	—	1,001,558	—	—	1,001,558
Cash dividends from a subsidiary (Note 12)	—	—	—	448,900	1,092,000	—
Return of investment (Note 12)	—	—	—	—	7,500,000	—
Acquisitions of:						
Financial assets at FVOCI	(562,081,002)	(638,254,305)	(224,330,405)	(561,446,524)	(637,154,487)	(224,330,405)
Investment securities at amortized cost	(76,625,183)	(162,392,791)	(33,372,543)	(73,223,330)	(162,392,791)	(33,372,543)
Software cost (Note 14)	(598,969)	(881,572)	(655,455)	(597,165)	(848,426)	(612,515)
Property and equipment (Note 11)	(419,859)	(547,083)	(1,120,741)	(407,645)	(535,981)	(675,730)
Additional investments in an associate (Note 12)	—	(392,000)	(245,000)	—	(392,000)	(245,000)
Net cash used in investing activities	(6,986,603)	(10,452,461)	(5,876,824)	(7,249,161)	(796,454)	(8,058,723)

(Forward)



	Consolidated			Parent Company		
	Years Ended December 31					
	2023	2022	2021	2023	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES						
Settlement of bills and acceptances payable	(P136,027,137)	(P277,002,294)	(P273,753,842)	(P134,014,712)	(P274,908,050)	(P272,556,037)
Proceeds from issuances of bills and acceptances payable	140,964,503	237,506,670	237,327,616	140,044,415	236,171,512	236,637,024
Payment of principal portion of lease liabilities (Note 29)	(1,314,516)	(1,113,225)	(1,231,287)	(1,232,928)	(1,068,038)	(1,213,912)
Settlement of bonds payable (Note 21)	(16,560,000)	—	(13,870,000)	(16,560,000)	—	(13,870,000)
Net cash used in financing activities	(12,937,150)	(40,608,849)	(51,527,513)	(11,763,225)	(39,804,576)	(51,002,925)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS						
	21,220,128	(44,791,046)	(39,730,406)	21,966,553	(44,867,015)	(39,963,873)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	22,217,915	27,552,773	25,135,724	22,103,095	27,454,459	25,038,434
Due from Bangko Sentral ng Pilipinas	94,701,360	161,001,912	202,129,356	94,701,360	161,001,912	202,129,356
Due from other banks	26,010,183	27,222,083	19,733,300	17,599,374	19,324,000	12,131,726
Interbank loans receivable (Note 8)	9,782,452	30,453,378	38,939,572	8,824,713	29,042,376	37,464,504
Securities held under agreements to resell	64,523,863	15,796,673	15,819,273	64,523,863	15,796,673	15,819,273
	217,235,773	262,026,819	301,757,225	207,752,405	252,619,420	292,583,293
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	21,151,391	22,217,915	27,552,773	21,052,526	22,103,095	27,454,459
Due from Bangko Sentral ng Pilipinas	95,410,350	94,701,360	161,001,912	95,410,350	94,701,360	161,001,912
Due from other banks	21,243,856	26,010,183	27,222,083	13,626,624	17,599,374	19,324,000
Interbank loans receivable (Note 8)	30,955,766	9,782,452	30,453,378	29,934,920	8,824,713	29,042,376
Securities held under agreements to resell	69,694,538	64,523,863	15,796,673	69,694,538	64,523,863	15,796,673
	P238,455,901	P217,235,773	P262,026,819	P229,718,958	P207,752,405	P252,619,420
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest paid	P13,298,198	P7,312,461	P7,690,053	P13,269,068	P7,256,130	P7,670,243
Interest received	55,438,281	43,082,036	42,928,178	54,445,224	42,297,774	42,075,051
Dividends received	—	—	—	448,900	1,092,000	—

See accompanying Notes to Financial Statements.



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

(Amounts in Thousand Pesos except When Otherwise Indicated)

1. Corporate Information

Philippine National Bank (PNB or the Parent Company) is a universal bank established in the Philippines in 1916. On June 21, 1989, PNB's shares were listed with the Philippine Stock Exchange (PSE). As of December 31, 2023 and 2022, the shares of PNB are held by the following:

	2023	2022
LT Group, Inc. (LTG) (indirect ownership through its various holding companies)	59.83%	59.83%
PCD Nominee Corporation *	14.44%	15.85%
Other stockholders owning less than 10% each	25.73%	24.32%
	100.00%	100.00%

* Acts as a trustee-nominee for PNB shares lodged under the PCD system

PNB's immediate parent company, LTG, and ultimate parent company, Tangent Holdings Corporation, are also incorporated in the Philippines.

The Parent Company provides a full range of banking and other financial services, which include deposit-taking, lending, bills discounting, trade finance, foreign exchange dealings, treasury operations, wealth management, fund transfers, remittance and trust services. The Parent Company operates through its 631 and 651 domestic branches as of December 31, 2023 and 2022, respectively, as it continues to streamline its physical branch network through consolidation and expand customer reach via its digital channels. As of the same dates, the Parent Company has 73 and 72 overseas branches, representative offices, remittance centers and subsidiaries, respectively, in 17 locations in Asia, North America and Europe.

The subsidiaries of the Parent Company are engaged in a number of diversified financial and related businesses such as remittance, banking, investment banking, leasing, stock brokerage and/or related services. The Parent Company and the subsidiaries are collectively referred hereinto as the Group.

The principal place of business of the Parent Company is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City, Metro Manila, Philippines.

2. Summary of Material Accounting Policies

2.1 Basis of Preparation of the Financial Statements

The Group prepared the accompanying financial statements on a historical cost basis, except for the following accounts which are measured at fair value:

- financial assets and liabilities at fair value through profit or loss (FVTPL); and
- financial assets at fair value through other comprehensive income (FVOCI).

The financial statements of the Parent Company which include its Head Office in Pasay City, Philippines, and all of its domestic and foreign branches, reflect the accounts maintained in its Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of RBU and FCDU is Philippine pesos (₱ or PHP) and United States Dollar (USD), respectively. The



individual financial statements of these units are combined and any inter-unit accounts and transactions are eliminated. The presentation currency is the PHP.

The Group presents the amounts in the financial statements to the nearest thousand pesos (P000), unless otherwise stated.

2.2 Statement of Compliance

The Group prepared these financial statements in accordance with Philippine Financial Reporting Standards (PFRS) adopted by the Philippine Securities and Exchange Commission (SEC).

2.3 Presentation of the Financial Statements

The Group presents the statements of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 24.

The Group generally presents financial assets and financial liabilities at their gross amounts in the statement of financial position, unless the offsetting criteria under PFRS are met. The Group does not also set off items of income and expenses, unless offsetting is required or permitted by PFRS, or is specifically disclosed in the Group's accounting policies.

The Group presents its consolidated financial statements and parent company financial statements side-by-side to comply with the requirements of the Bangko Sentral ng Pilipinas (BSP).

2.4 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. The financial statements of the subsidiaries are prepared on the same reporting period as the Parent Company using consistent accounting policies. In the consolidation, the Group eliminates in full all significant intra-group balances, transactions, and results of intra-group transactions.

The Group consolidates its subsidiaries from the date on which the Group obtains control over the subsidiary (see definition of 'control' in 2.12 *Investments in Subsidiaries, Associates and Joint Ventures*). For partially-owned subsidiaries, the Group attributes the subsidiary's income, expenses and components of other comprehensive income (OCI) to the equity holders of the Parent Company and to the non-controlling interests (NCI), even if this results in deficit balances of the NCI. NCI represents the portion of profit or loss and the net assets not held by the Group, which are presented separately in the consolidated financial statements. NCI consists of the amount attributed to such interest from the date of business combination and its share in any changes in equity of the subsidiary.

When the Group's ownership interest in a subsidiary changes but does not result in a loss of control, the Group adjusts the carrying amounts of the controlling interests and the NCI to their new relative interests in the subsidiary. The Group recognizes any difference between the amount by which the NCI is adjusted and the fair value of the consideration paid or received directly in equity as 'Other equity reserves', which is attributed to the owners of the Parent Company.



Consolidation of a subsidiary ceases when the Group loses control over the subsidiary. In such circumstances, the Group derecognizes the assets (including goodwill), liabilities, NCI, and other components of equity of the subsidiary, and recognizes the consideration received and any investment retained at their fair values. The Group records any resulting difference in the statement of income as ‘Gain on loss of control of subsidiaries - net’.

2.5 Foreign Currency Translation

For financial reporting purposes, the Group translates all accounts in the FCDU books and foreign currency-denominated accounts in the RBU books into their equivalents in Philippine pesos. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements are measured using that functional currency.

2.5.1 Transactions and Balances

As at reporting date, the Group translates the following foreign currency-denominated accounts in the RBU in Philippine peso using:

Financial statement accounts in RBU	Exchange rate
Monetary assets and liabilities	Bankers Association of the Philippines (BAP) closing rate at end of year
Income and expenses	Rate prevailing at transaction date
Non-monetary items measured at historical cost in a foreign currency	Rate at the date of initial transaction
Non-monetary items measured at fair value in a foreign currency	Rate at the date when fair value is determined

The Group recognizes in the statement of income any foreign exchange differences arising from revaluation of monetary assets and liabilities. For non-monetary items measured at fair values, the Group recognizes any foreign exchange differences arising from revaluation in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

2.5.2 FCDU and Overseas Branches and Subsidiaries

As at the reporting date, the Group translates the assets and liabilities of the FCDU and overseas branches and subsidiaries in Philippine peso at the BAP closing rate prevailing at the reporting date, and their income and expenses at the average exchange rate for the year. Foreign exchange differences arising on translation are taken directly to OCI under ‘Accumulated translation adjustment’. Upon disposal of a foreign entity or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in OCI relating to the particular foreign operation is recognized in the statement of income.

2.6 Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new pronouncements effective as at January 1, 2023. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, adoption of these new standards did not have an impact on the financial statements.



- Amendments to Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*, and PFRS Practice Statement 2, *Disclosure Initiative – Accounting Policies*
The amendments provide guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:
 - Replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies; and
 - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to the Practice Statement provide non-mandatory guidance. The amendments have had an impact on the Group’s disclosure of accounting policies, but not on the measurement, recognition or presentation of any items in the Group’s financial statements.

- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates*
The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments also clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.
- Amendments to PAS 12, *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction*
The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases. The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented.
- Amendments to PAS 12, *Income Taxes – International Tax Reform – Pillar Two Model Rules*
The amendments have been introduced in response to the Base Erosion and Profit Sharing Pillar Two model rules of the Organization for Economic Cooperation and Development and include:
 - A mandatory temporary exemption to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
 - Disclosure requirements for affected entities to help users of the financial statements better understand an entity’s exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The mandatory temporary exemption – the use of which is required to be disclosed – applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after January 1, 2023 but not for any interim periods ending on or before December 31, 2023.

The Group has reviewed its corporate structure in light of the introduction of Pillar Two Model Rules in the various jurisdictions in which it operates. The Group has determined that it is not subject to Pillar Two taxes since its effective tax rate is above 15% in all the jurisdictions in which it operates (except for domestic subsidiaries, which are not material to the Group).



Therefore, as the related Pillar Two disclosures are not required, the amendments have no impact on the Group's consolidated financial statements.

2.7 Business Combinations

The Group accounts for business combinations using the acquisition method. Under this method, the Group measures the acquisition cost as the aggregate of the acquisition-date fair value of the consideration transferred and any amount of NCI in the acquiree. The Group then allocates that cost to the acquired identifiable assets and liabilities based on their respective fair values. Any excess acquisition cost over the fair value of the net assets acquired is allocated to goodwill (see related accounting policy under 2.13.3 *Intangible Assets*). If the fair value of the net assets acquired exceeds the acquisition cost, the gain is recognized in the statement of income. The Group recognizes any acquisition-related costs as administrative expenses as they are incurred. The Group also recognizes any contingent consideration to be transferred by the acquirer at its fair value at the acquisition date.

In business combinations involving entities under common control, the Group determines whether or not the business combination has commercial substance. When there is commercial substance, the Group accounts for the transaction using the acquisition method as discussed above. Otherwise, the Group accounts for the transaction similar to a pooling of interests (i.e., the assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values, and any resulting difference with the fair value of the consideration given is accounted for as an equity transaction).

2.8 Non-current Assets and Disposal Group Held for Sale and Discontinued Operations

The Group classifies non-current assets and disposal group as held for sale if their carrying amounts will be recovered principally through a sale transaction. As such, non-current assets and disposal groups are measured at the lower of their carrying amounts and fair value less costs to sell (i.e., the incremental costs directly attributable to the sale, excluding finance costs and income taxes).

The Group regards the criteria for held for sale classification as met only when:

- the Group has initiated an active program to locate a buyer;
- the Group is committed to the plan to sell the asset or disposal group, which should be available for immediate sale in its present condition;
- the sale is highly probable (i.e, expected to happen within one year from the date of the classification); and
- actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn.

The Group presents separately the assets and liabilities of disposal group classified as held for sale in the statement of financial position.

The Group classifies a disposal group as discontinued operation if it is a component of the Group that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

The Group excludes discontinued operations from the results of continuing operations and presents them as a single amount as profit or loss after tax from discontinued operations in the statement of income.



If the above criteria are no longer met, the Group ceases to classify the asset or disposal group as held for sale. In such cases, the Group measures such asset or disposal group at the lower of its:

- carrying amount before it was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had it not been classified as such; and
- recoverable amount at the date of the subsequent decision not to sell.

The Group also amends financial statements for the periods since classification as held for sale if the asset or disposal group that ceases to be classified as held for sale is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. Accordingly, for all periods presented, the Group reclassifies and includes in income from continuing operations the results of operations of the asset or disposal group previously presented in discontinued operations.

2.9 Fair Value Measurement

Fair value is the price that the Group would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). 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 Group. The Group measures the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. If an asset or a liability measured at fair value has both bid and ask prices, the Group uses the price within the bid-ask spread, which is the most representative of fair value in the circumstances.

For nonfinancial assets, the Group measures their 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 the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described in Note 5, based on the lowest level input that is significant to the fair value measurement as a whole.

2.10 Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (COCI), amounts due from BSP and other banks, interbank loans receivable and securities held under agreements to resell that are convertible to known amounts of cash, with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in fair value. Due from BSP includes statutory reserves required by the BSP, which the Group considers as cash equivalents wherein drawings can be made to meet cash requirements.



2.11 Financial Instruments

2.11.1 Initial Recognition of Financial Instruments

The Group recognizes purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace on settlement date (i.e., the date that an asset is delivered to or by the Group), while derivatives are recognized on trade date (i.e., the date that the Group commits to purchase or sell). The Group recognizes deposits, amounts due to banks and customers and loans when cash is received by the Group or advanced to the borrowers.

All financial instruments are initially recognized at fair value. Except for financial instruments at FVTPL, the initial measurement of financial instruments includes transaction costs.

2.11.2 Classification and Subsequent Measurement of Financial Instruments

The Group classifies and measures financial assets at FVTPL unless these are measured at FVOCI or at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing those financial assets.

The Group first assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test ('solely payments of principal and interest' or SPPI test). For the purpose of the SPPI test, principal is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium or discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. In contrast, contractual terms that introduce a more than insignificant exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI. In such cases, the financial asset is required to be measured at FVTPL. Only financial assets that pass the SPPI test are eligible to be measured at FVOCI or at amortized cost.

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

For financial liabilities, the Group classifies them as either financial liabilities at FVTPL or financial liabilities at amortized cost.

Financial assets at FVTPL

Financial assets at FVTPL include the following:

- Financial assets held for trading – those acquired for the purpose of selling or repurchasing in the near term;
- Derivative instruments – contracts entered into by the Group (such as currency forwards, currency swaps, interest rate swaps and warrants) as a service to customers and as a means of reducing or managing their respective financial risk exposures, as well as for trading purposes;



- Financial assets that are not SPPI, irrespective of the business model; or
- Debt financial assets designated upon initial recognition at FVTPL – those assets where the Group applied the fair value option at initial recognition if doing so eliminates or significantly reduces an accounting mismatch

The Group carries financial assets at FVTPL in the statement of financial position at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Group recognizes any gains or losses arising from changes in fair values of financial assets at FVTPL directly in the statement of income under 'Trading and investment securities gains (losses) - net', except for currency forwards and currency swaps, where fair value changes are included under 'Foreign exchange gains - net'.

Financial assets at FVOCI

Financial assets at FVOCI include debt and equity securities, which are subsequently measured at fair value. The Group recognizes the unrealized gains and losses arising from the fair valuation of financial assets at FVOCI, net of tax, in the statement of comprehensive income as 'Net change in unrealized gain (loss) on financial assets at FVOCI'.

Debt securities at FVOCI are those that meet both of the following conditions:

- the asset is held within a business model whose objective is to hold the financial asset in order to both collect contractual cash flows and sell the financial asset; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount.

The Group reports the effective yield component of debt securities at FVOCI, as well as the impact of restatement on foreign currency-denominated debt securities at FVOCI, in the statement of income. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and investment securities gain (loss) - net' in the statement of income. The Group recognizes the expected credit losses (ECL) arising from impairment of such financial assets in OCI with a corresponding charge to 'Provision for impairment, credit and other losses' in the statement of income (see related accounting policy under 2.11.5 *Impairment of Financial Assets*).

Equity securities designated at FVOCI are those that the Group made an irrevocable election at initial recognition to present in OCI the subsequent changes in fair value. The Group recognizes the dividends earned on holding the equity securities at FVOCI in the statement of income when the right to payment has been established. Gains and losses on disposal of these equity securities at FVOCI are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the OCI is reclassified to 'Surplus' or any other appropriate equity account upon disposal. The Group does not subject equity securities at FVOCI to impairment assessment.

Financial assets at amortized cost

Financial assets at amortized cost are debt financial assets that meet both of the following conditions:

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

This accounting policy relates to the statement of financial position captions 'Due from Bangko Sentral ng Pilipinas', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', 'Investment securities at amortized cost', and 'Loans and receivables'.



The Group subsequently measures financial assets at amortized cost using the effective interest method of amortization, less allowance for credit losses. The Group includes the amortization in 'Interest income', and the ECL arising from impairment of such financial assets in 'Provision for impairment, credit and other losses' in the statement of income (see related accounting policy under *2.11.5 Impairment of Financial Assets*).

Financial liabilities at amortized cost

The Group classifies issued financial instruments or their components which are not designated at FVTPL, as financial liabilities at amortized cost under 'Deposit liabilities', 'Bills and acceptances payable', 'Bonds payable' or other appropriate financial liability accounts. The substance of the contractual arrangement for these instruments results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

The Group capitalizes the costs incurred in connection with the issuance of debt securities (other than those designated at FVTPL) and amortizes over the terms of the instruments using the effective interest method. The Group includes any unamortized debt issuance costs in the carrying value of the related debt instruments in the statement of financial position.

The Group subsequently measures financial liabilities at amortized cost using the effective interest method of amortization.

Repurchase and reverse repurchase agreements

The Group does not derecognize from the statement of financial position securities sold under agreements to repurchase at a specified future date ('repos'). Instead, the Group recognizes the corresponding cash received, including accrued interest, as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, the Group does not recognize securities purchased under agreements to resell at a specified future date ('reverse repos'). The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The Group recognizes the corresponding cash paid, including accrued interest, as a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

2.11.3 Reclassification of Financial Instruments

Subsequent to initial recognition, the Group may reclassify its financial assets only when there is a change in the business models for managing these financial assets. Reclassification of financial liabilities is not allowed.

2.11.4 Derecognition of Financial Instruments

Financial Assets

The Group derecognizes a financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) when:

- the rights to receive cash flows from the asset have expired;



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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the Group recognizes the asset only to the extent of its continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing recovery. If a write-off is later recovered, any amounts formerly charged are credited to 'Recoveries' under 'Miscellaneous Income' in the statements of income.

Financial liabilities

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the Group treats such an exchange or modification as a derecognition of the original liability and recognition of a new liability, and Group recognizes the difference in the respective carrying amounts in the statement of income.

2.11.5 Impairment of Financial Assets

ECL methodology

The Group's loss impairment method on financial instruments applies a forward-looking ECL approach, which covers all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The ECL allowance is based on the credit losses expected to arise on a 12-month duration if there has been no significant increase in credit risk (SICR) of the financial instrument since origination (12-month ECL). Otherwise, if an SICR is observed, then the Group extends its ECL estimation until the end of the life of the financial instrument (Lifetime ECL). Both Lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Staging assessment

The Group categorizes financial instruments subject to the ECL methodology into three stages:

- Stage 1 – comprised of all non-impaired financial instruments which have not experienced an SICR since initial recognition. The Group recognizes 12-month ECL for Stage 1 financial instruments.
- Stage 2 – comprised of all non-impaired financial instruments which have experienced an SICR since initial recognition. The Group recognizes Lifetime ECL for Stage 2 financial instruments.
- Stage 3 – comprised of financial instruments which have objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on their estimated future cash flows. The Group recognizes Lifetime ECL for Stage 3 (credit-impaired) financial instruments.



Definition of “default” and “cure”

The Group considers default to have occurred when:

- the obligor is past due for more than 90 days on any material credit obligation to the Group; or
- the obligor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing collateral, as applicable.

The Group 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.

Determining SICR

At each reporting date, the Group assesses whether the credit risk on a loan or credit exposure has increased significantly since initial recognition. The Group’s assessment of SICR involves looking at both the qualitative and quantitative elements, as well as if the loan or credit exposure is unpaid for at least 30 days (“backstop”).

The Group assesses SICR on loans or credit exposures having potential credit weaknesses based on current and/or forward-looking information that warrant management’s close attention. Such weaknesses, if left uncorrected, may affect the repayment of these exposures. The loan or credit exposure also exhibits SICR if there are adverse or foreseen adverse economic or market conditions that may affect the counterparty’s ability to meet the scheduled repayments in the future.

The Group looks at the quantitative element through statistical models or credit ratings process or scoring process that captures certain information, which the Group considers as relevant in assessing changes in credit risk. The Group also looks at the number of notches downgrade of credit risk rating (CRR) or certain thresholds for the probabilities of default being generated from statistical models to determine whether SICR has occurred subsequent to initial recognition date.

Transfer between stages

The Group transfers credit exposures from Stage 1 to Stage 2 if there is an SICR from initial recognition date. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer an SICR since initial recognition, then the Group reverts them to Stage 1.

The Group 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 of the following indicators:

- quantitative – characterized by payments made within an observation period; and
- qualitative – pertain to the results of assessment of the borrower’s financial capacity.

Generally, the Group considers that full collection is probable when payments of interest and/or principal are received for at least six months.

Modified or restructured loans and other credit exposures

In certain circumstances, the Group modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule, which may be provided depending on the borrower’s current or expected financial difficulties. Modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date and schedule of periodic payments.



If modifications are considered by the Group as substantial based on qualitative factors, the loan is derecognized as discussed under 2.11.4 *Derecognition of Financial Instruments*.

If a loan or credit exposure has been renegotiated or modified without resulting in derecognition, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded, based on the change in cash flows discounted at the loan's original effective interest rate (EIR). The Group also assesses whether there has been a SICR by comparing the risk of default at reporting date based on modified terms, and the risk of default at initial recognition date based on original terms. Derecognition decisions and classification between Stages 2 and 3 are determined on a case-by-case basis.

Purchased or originated credit-impaired loans

The Group considers a loan as credit-impaired on purchase or origination if there is evidence of impairment at the time of initial recognition (i.e., acquired/purchased at a deep discounted price). The Group recognizes the cumulative changes in Lifetime ECL since initial recognition as a loss allowance for purchased or originated credit-impaired loan.

Measurement of ECL

ECLs are generally measured based on the risk of default over one of two different time horizons, depending on whether there has been SICR since initial recognition. ECL calculations are based on the following components:

- Probability of default (PD) – an estimate of the likelihood that a borrower will default on its obligations over the next 12 months for Stage 1 or over the remaining life of the credit exposure for Stages 2 and 3.
- Loss-given-default (LGD) – an estimate of the loss arising in case where default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from any collateral.
- Exposure-at-default (EAD) – an estimate of the exposure at a future/default date taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, expected drawdown on committed facilities and accrued interest from missed payments.
- Discount rate – represents the rate to be used to discount an expected loss to present value at the reporting date using the original EIR determined at initial recognition.

In measuring ECL, the Group considers forward-looking information depending on the credit exposure. The Group applies experienced credit judgment, which is essential in assessing the soundness of forward-looking information and in ensuring that these are adequately supported.

Forward-looking macroeconomic information and scenarios consider:

- factors that may affect the general economic or market conditions in which the Group operates, such as gross domestic product growth rates, foreign exchange rates, inflation rate, among others;
- changes in government policies, rules and regulations, such as adjustments to policy rates;
- other factors pertinent to the Group, including the proper identification and mitigation of risks such as incidences of loan defaults or losses.

The Group also measures ECL by evaluating a range of possible outcomes and using reasonable and supportable pieces of information that are available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.



2.11.6 Financial Guarantees and Undrawn Loan Commitments

The Group gives loan commitments and financial guarantees consisting of letters of credit, letters of guarantees, and acceptances.

Financial guarantees are contracts that require the Group as issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. The Group initially recognizes financial guarantees on trade receivables at fair value under 'Bills and acceptances payable' or 'Other liabilities' in the statement of financial position. Subsequent to initial recognition, the Group measures these financial guarantees at the higher of:

- the initial fair value less any cumulative amount of income or amortization recognized in the statement of income; and
- the ECL determined under PFRS 9.

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer.

The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

The Group estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life. The ECL related to financial guarantees and loan commitments without outstanding drawn amounts is recognized in 'Allowance for credit losses' under 'Loans and receivables'.

2.12 Investments in Subsidiaries, Associates and Joint Ventures

The Group's subsidiaries pertain to investees where the Group demonstrates control. The Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., those existing rights that give the Group the current ability to direct the relevant activities of the investee);
- exposure or rights to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, such as contractual arrangements with other voting shareholders of the investee, rights arising from other contractual arrangements, or any potential voting rights of the Group.

The Group's associate pertains to the investee over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The Group's joint venture pertains to joint arrangements whereby the Group and other parties have joint control of the arrangement and have rights to the net assets of the arrangement.

The Group accounts for its investments in subsidiaries, associates and joint venture under the equity method of accounting. Under this method, the Group carries the investment in the statement of financial position at cost plus post-acquisition changes in the share in the net assets of the investee less accumulated impairment losses, if any (see related accounting policy under 2.13.5 *Impairment of Nonfinancial Assets*). The Group reflects its share in the results of operations of the investee and any



impairment losses in the statement of income. When there has been a change recognized in the investee's OCI, the Group recognizes its share in any changes and discloses this in the statement of comprehensive income. The Group eliminates any profits or losses arising from transactions between the Group and the investee to the extent of the interest of the Group in the investee. Once the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

When a change in ownership interest in a subsidiary occurs which results in a loss of control over the subsidiary, the Parent Company:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the related OCI recorded in equity and recycles the same to statement of income or 'Surplus';
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in the statement of income; and
- Reclassifies the Parent Company's share of components' gains (losses) previously recognized in OCI to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Upon loss of control over a subsidiary or significant influence over an associate, the Group measures and recognizes any retained investment at its fair value. Any resulting difference between the aggregate of the investee's carrying amount upon disposal and the fair value of the retained investment, and proceeds from disposal is recognized in the statement of income.

For transactions where ownership interest in a subsidiary, associate or joint venture that did not result in a loss of control or significant influence, as applicable, the Parent Company recognizes the gain or loss in the profit and loss representing the difference between the proceeds from sale and the carrying value of the investment.

2.13 Other Nonfinancial Assets

2.13.1 Property and Equipment

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use (see related accounting policy under *2.16.5 Expenditures on Nonfinancial Assets*).

The Group carries its land at cost less any impairment in value, and its depreciable properties such as buildings, right-of-use assets, furniture, fixtures and equipment, long-term leasehold land, and leasehold improvements at cost less accumulated depreciation and amortization and any impairment in value (see related accounting policy under *2.13.5 Impairment of Nonfinancial Assets*).

For right-of-use assets included under 'Property and equipment', see related accounting policy under *2.18.1 Group as a Lessee Under Lease Contracts*.



2.13.2 Investment Properties and Chattel Mortgage Properties

The Group initially measures investment properties and chattel mortgage properties initially at cost, including transaction costs (see related accounting policy under 2.16.5 *Expenditures on Nonfinancial Assets*). When the investment property or chattel mortgage property is acquired through an exchange transaction, the Group measures the asset at its fair value, unless the fair value of such an asset cannot be reliably measured in which case the asset acquired is measured at the carrying amount of asset given up. The Group recognizes any gain or loss on exchange in the statement of income under 'Net gains (losses) on sale or exchange of assets'.

Foreclosed properties are classified under 'Investment properties' upon:

- entry of judgment in case of judicial foreclosure;
- execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
- notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

Subsequent to initial recognition, the Group carries the investment properties and chattel mortgage properties at cost less accumulated depreciation (for depreciable properties) and any impairment in value (see related accounting policy under 2.13.5 *Impairment of Nonfinancial Assets*).

The Group transfers assets to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Conversely, the Group transfers out of investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

2.13.3 Intangible Assets

The Group initially measures separately acquired intangible assets at cost, and the intangible assets acquired in a business combination at their fair values at the date of acquisition. The Group does not capitalize internally generated intangibles, excluding capitalized development costs, and reflects in profit or loss the related expenditures in the period in which the expenditure is incurred.

Intangibles with finite lives

The Group capitalizes software costs, included in 'Intangible assets', on the basis of the cost incurred to acquire and bring to use the specific software (see related accounting policy under 2.16.5 *Expenditures on Nonfinancial Assets*).

Customer relationship intangibles (CRI) and core deposits intangibles (CDI) are the intangible assets acquired by the Group through business combination. The Group initially measures these intangible assets at their fair values at the date of acquisition. The fair value of these intangible assets reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the Group.

Following initial recognition, intangibles with finite lives are measured at cost less accumulated amortization and any accumulated impairment losses (see related accounting policy under 2.13.5 *Impairment of Nonfinancial Assets*).

Goodwill

The Group initially measures goodwill acquired in a business combination at cost. With respect to investments in an associate, the Group includes goodwill in the carrying amount of the investments. Goodwill is not amortized, but is tested for impairment annually or more frequently if events or changes in circumstances that the carrying value may be impaired (see related accounting policy under 2.13.5 *Impairment of Nonfinancial Assets*).



2.13.4 Derecognition of Nonfinancial Assets

The Group derecognizes a nonfinancial asset when it has either been disposed of or when the asset is permanently withdrawn from use and no future benefit is expected from its disposal. The Group recognizes any gains or losses on the disposal of a nonfinancial asset in the statement of income under 'Net gains (losses) on sale or exchange of assets' in the period the asset is derecognized.

2.13.5 Impairment of Nonfinancial Assets

Property and equipment, investment properties, intangible assets with finite lives, chattel mortgage properties, and investments in subsidiaries and an associate

At each reporting date, the Group assesses whether there is any indication that its property and equipment, investment properties, intangible assets with finite lives, chattel mortgage properties, and investments in subsidiaries and an associate may be impaired. When an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit (CGU) to which it belongs.

When the carrying amount of an asset exceeds its recoverable amount, the Group considers the asset as impaired and writes the asset down to its recoverable amount. In assessing VIU, the Group discounts the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Group charges the impairment loss against current operations. At each reporting date, the Group assesses whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the recoverable amount and reverses a previously recognized impairment loss only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal recognized in the statement of income 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. After such reversal, the Group adjusts the depreciation and amortization in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill

The Group performs its annual impairment test of goodwill every fourth quarter, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The Group determines impairment for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated (or to the aggregate carrying amount of a group of CGUs to which the goodwill relates but cannot be allocated), the Group recognizes an impairment loss immediately in the statement of income under 'Impairment in value of goodwill'. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.



2.14 Equity

2.14.1 Capital Stock

The Group measures capital stock at par value for all shares issued and outstanding. When the shares are sold at a premium, the Group credits the difference between the proceeds and the par value to 'Capital paid in excess of par value'. 'Surplus' represents accumulated earnings (losses) of the Group less dividends declared.

2.14.2 Reserves Recorded in Equity

The reserves recorded in equity in the statement of financial position include:

- Remeasurement losses on retirement plan – pertains to the remeasurement comprising actuarial gains or losses on the present value of the defined benefit obligation, net of return on plan assets (see related accounting policy under *2.17.1 Retirement Under Defined Benefit Plan*).
- Accumulated translation adjustment – used to record exchange differences arising from the translation of the FCDU accounts and foreign operations (i.e., overseas branches and subsidiaries) to Philippine peso (see related accounting policy under *2.5.2 FCDU and Overseas Branches and Subsidiaries*).
- Net unrealized gains (losses) on financial assets at FVOCI – comprises changes in fair value of financial assets at FVOCI (see related accounting policy under *2.11.2 Classification and Subsequent Measurement of Financial Instruments*).

2.14.3 Dividends

The Group recognizes dividends on common shares as a liability and deduction against 'Surplus' when approved by the Board of Directors (BOD) of the Parent Company. The Group measures the liability to distribute dividends at the carrying amount of the dividends, except for distributions of non-cash assets where the Group measures the liability at the fair value of the assets to be distributed. At the end of each reporting period and at the date of settlement, the Group reviews and adjusts the carrying amount of the non-cash assets declared as dividends, with any changes in the carrying amount of the non-cash dividends recognized in equity as adjustments to the amount of distribution.

For dividends that are approved after the reporting date, the Group discloses them in the financial statements as an event after the reporting date.

2.14.4 Share Issuance Costs

For underwriting, share registration, and other share issuance costs and taxes incurred in connection with the issuance of equity securities, the Group accounts for these costs as reduction of equity against 'Capital paid in excess of par value'. If the 'Capital paid in excess of par value' is not sufficient, the share issuance costs are charged against the 'Surplus'. For transaction costs that relate jointly to the offering and listing of the shares, the Group allocates the costs to those transactions (i.e., reduction against equity for those allocated to offering of shares, and expensed for those allocated to listing of shares) using a basis of allocation that is rational and consistent with similar transactions.

2.15 Revenue Recognition

Revenue is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as



principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements except for brokerage transactions.

2.15.1 Interest Income

Interest on interest-bearing financial assets at FVTPL and held-for-trading investments is recognized based on contractual rate. Interest on financial instruments measured at amortized cost and FVOCI are recognized based on effective interest method of accounting to calculate the amortized cost of a financial asset or a financial liability and allocate the interest income or interest expense.

The Group records interest income using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. In calculating EIR, the Group considers all contractual terms of the financial instrument (for example, prepayment options), and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The Group adjusts the carrying amount of the financial instrument through 'Interest income' in the statement of income based on the original EIR.

When a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, the Group calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

The Group defers the commitment fees for loans that are likely to be drawn down (together with any incremental costs) and includes them as part of the EIR of the loan. These are amortized using EIR and recognized as 'Interest income' over the expected life of the loan.

The Group recognizes income on direct financing leases and receivables financed using the effective interest method and any unearned discounts are shown as deduction against 'Loans and receivables'. Unearned discounts are amortized over the term of the note or lease using the effective interest method and consist of:

- transaction and finance fees on finance leases and loans and receivables financed with long-term maturities; and
- excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost.

2.15.2 Service Fees and Commission Income

The Group earns fee and commission income from diverse range of services it provides to its customers:

Fees from services that are provided over a certain period of time

The Group accrues fees earned for the provision of services over a period of time. These fees include investment fund fees, custodian fees, fiduciary fees, credit-related fees, trust fees, portfolio and other management fees, and advisory fees.

Bancassurance fees

The Group recognizes non-refundable access fees on a straight-line basis over the term of the period of the provision of the access. Milestone fees or variable and fixed earn-out fees are recognized in reference to the stage of achievement of the milestones.



Fee income from providing transaction services

The Group recognizes the fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, only upon completion of the underlying transaction. For fees or components of fees that are linked to a certain performance, the Group recognizes revenue after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, remittance fees, brokerage fees, commissions, deposit-related and other credit-related fees.

The Group recognizes loan syndication fees as revenue when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as the other participants.

2.15.3 Credit Card Fees

Interchange fees and revenue from rewards redeemed

The Group takes up as income the interchange fees under ‘Service fees and commission income’ upon receipt from member establishments of charges arising from credit availments by the Group’s cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments.

The Group operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the Group. The points can then be redeemed for free products subject to a minimum number of points being redeemed.

The Group allocates a portion of the consideration received from discounts earned and interchange fees from credit cards to the reward points based on the estimated stand-alone selling prices. The Group defers the amount allocated to the loyalty program and recognizes revenue only when the loyalty points are redeemed or the likelihood of the credit cardholder redeeming the loyalty points becomes remote. The Group includes the deferred balance under ‘Other liabilities’ in the statement of financial position.

Commissions on credit cards

The Group recognizes commissions earned as revenue upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Commissions on installment credit sales

The Group records the purchases by the credit cardholders, collectible on installment basis, at the cost of the items purchased plus certain percentage of cost. The Group recognizes the excess over cost as ‘Unearned and other deferred income’, which is shown as a deduction from ‘Loans and receivables’ in the statement of financial position. The Group amortizes and recognizes as ‘Interest income’ the unearned and other deferred income over the installment terms using the effective interest method.

2.15.4 Trading and Investment Securities Gains - Net

The Group recognizes in ‘Trading and investment securities gains - net’ the results arising from trading activities, all gains and losses from changes in fair value of financial assets and financial liabilities at FVTPL, and gains and losses from disposal of debt securities at FVOCI.



2.15.5 Gain on Sale or Exchange of Assets

The Group recognizes gain on sale or exchange of assets upon completion of the earning process upon transfer of control and when the collectability of the sales price is reasonably assured.

2.15.6 Other Income

Rental income

The Group accounts for rental income arising on leased properties on a straight-line basis over the lease terms, which is recorded in the statement of income under 'Miscellaneous income' (see related accounting policy under 2.18.2 *Group as a Lessor Under Lease Contracts*).

Dividend income

The Group recognizes dividend income when the Group's right to receive payment is established.

Insurance premiums and commissions on reinsurance

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. The Group recognizes premiums from short-duration insurance contracts and reinsurance commissions as revenue over the period of the contracts using the 24th method, except for marine cargo where the provision for unearned premiums pertain to the premiums for the last two months of the year. The Group recognizes in the statement of income for the period the net changes in provisions for unearned premiums and deferred reinsurance premiums.

2.16 Expenditures

2.16.1 Borrowing Costs

The Group recognizes borrowing costs as 'Interest expense' in the year in which these costs are incurred. Borrowing costs consist of interest expense calculated using the effective interest method that the Group incurs in connection with deposit-taking activities and borrowing of funds.

2.16.2 Operating Expenses

This encompasses those expenses that arise in the course of the ordinary activities of the Group, as well as any losses incurred. These are recognized in the statement of income as they are incurred.

2.16.3 Taxes and Licenses

This includes all other taxes, local and national, including gross receipts taxes, documentary stamp taxes, real estate taxes, licenses and permit fees that are recognized when incurred.



2.16.4 Depreciation and Amortization

The Group computes for depreciation and amortization of depreciable assets using the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives of the depreciable assets follow:

	Years
Property and equipment:	
Buildings	25 - 50
Right-of-use assets	1 - 25 or the lease term, whichever is shorter (provided that lease term is more than one year)
Furniture, fixtures and equipment	5
Long-term leasehold land	46 - 50
Leasehold improvements	10 or the lease term, whichever is shorter
Investment properties	10 - 25
Chattel mortgage properties	5
Intangible assets with finite lives:	
Software costs	5
CDI	10
CRI	3

The Group reviews periodically the useful life and the depreciation and amortization method to ensure that these are consistent with the expected pattern of economic benefits from the depreciable assets. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the depreciation and amortization period or method, as appropriate, and are treated as changes in accounting estimates.

2.16.5 Expenditures on Nonfinancial Assets

The Group charges against current operations the expenditures incurred after the nonfinancial assets (i.e., property and equipment, investment properties, software costs, and chattel mortgage properties) have been put into operation, such as repairs and maintenance. 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 these nonfinancial assets beyond their originally assessed standard of performance, the Group capitalizes such expenditures as additional cost.

2.17 Employee Benefits

2.17.1 Retirement Under Defined Benefit Plan

At the end of the reporting period, the Group determines its net defined benefit liability (or asset) as the difference between the present value of the defined benefit obligation and the fair value of plan assets, adjusted for any effect of asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.



Defined benefit costs recognized in the statement of income consist of the following:

- service costs – include current service costs, past service costs (recognized when plan amendment or curtailment occurs) and gains or losses on non-routine settlements; and
- net interest on the net defined benefit liability or asset – pertains to the change during the period in the net defined benefit liability (or asset) that arises from the passage of time, which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset.

Changes in the net defined benefit liability (or asset) also include remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling, excluding net interest on defined benefit liability (or asset). The Group recognizes these remeasurements immediately in OCI in the period in which they arise. The Group does not reclassify these remeasurements to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies, and are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the Group estimates the fair value of plan assets by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group recognizes its right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation as a separate asset at fair value when and only when reimbursement is virtually certain.

2.17.2 Employee Leave Entitlement

The Group recognizes entitlements of employees to annual leave as a liability when they are accrued to the employees. The Group recognizes the undiscounted liability for leave expected to be settled wholly before 12 months after the end of the reporting period for services rendered by employees up to the end of the reporting period. For leave entitlements expected to be settled for more than 12 months after the reporting date, the Group engages an actuary to estimate the long-term liability, which is reported in 'Accrued taxes, interest and other expenses' in the statement of financial position.

2.18 Leases

The Group determines at contract inception whether a contract is, or contains, a lease by assessing whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

2.18.1 Group as a Lessee Under Lease Contracts

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes right-of-use assets representing the right to use the underlying assets and lease liabilities to make lease payments.

- Right-of-use assets
At the commencement date of the lease (i.e, the date the underlying asset is available for use), the Group recognizes right-of-use assets measured at cost. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made



at or before the commencement date less any lease incentives received. Subsequent to initial recognition, the Group measures the right-of-use assets at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The Group presents the right-of-use assets in 'Property and equipment' and subjects it to impairment in line with the Group's policy on impairment of nonfinancial assets (see related accounting policy under *2.13.5 Impairment of Nonfinancial Assets*).

- Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term discounted using the Group's incremental borrowing rate, which is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The lease payments include fixed payments, any variable lease payments that depend on an index or a rate, and any amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

After the commencement date of the lease, the Group measures the lease liabilities by increasing the carrying amount to reflect interest on the lease liabilities (recorded in 'Interest expense on bills payable and other borrowings'), reducing the carrying amount to reflect the lease payments made, and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

- Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option, and the leases of low-value assets recognition exemption to its leases of ATM offsite locations and other equipment that are considered of low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense under 'Occupancy and equipment-related costs' on a straight-line basis over the lease term.

2.18.2 Group as a Lessor Under Lease Contracts

For finance leases where the Group transfers substantially all the risks and rewards incidental to ownership of the leased item, the Group recognizes a lease receivable in the statement of financial position at an amount equivalent to the net investment (asset cost) in the lease. The Group includes all income resulting from the receivable in 'Interest income on loans and receivables' in the statement of income.

The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

In operating leases where the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset, the Group recognizes rental income on a straight-line basis over the lease terms. The Group adds back the initial direct costs incurred in negotiating and arranging an operating lease to the carrying amount of the leased asset and recognizes them as rental income over the lease



term on the same basis. The Group recognizes contingent rents as revenue in the period in which they are earned.

2.19 Provisions

The Group recognizes provisions when:

- the Group has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the Group recognizes the reimbursement as a separate asset but only when the reimbursement is virtually certain. The Group presents the expense relating to any provision in the statement of income, net of any reimbursement.

If the effect of the time value of money is material, the Group determines provisions by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. When discounting is used, the Group recognizes the increase in the provision due to the passage as 'Interest expense on bills payable and other borrowings'.

2.20 Contingencies

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

2.21 Income Taxes

Income tax on profit and loss for the year comprises current and deferred tax. Income tax is determined in accordance with tax laws and is recognized in the statement of income, except to the extent that it relates to items directly recognized in OCI.

2.21.1 Current Tax

The Group measures current tax assets and liabilities for the current periods at the amount expected to be recovered from or paid to the taxation authorities using the tax rates and tax laws that are enacted or substantively enacted at the reporting date.

2.21.2 Deferred Tax

The Group provides for deferred tax using the balance sheet liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.



The Group recognizes deferred tax liabilities for all taxable temporary differences, including asset revaluations. The Group recognizes deferred tax assets for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized.

The Group, however, does not recognize deferred tax on temporary differences that arise 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 income nor taxable income. The Group does not also provide deferred tax liabilities on non-taxable temporary differences associated with investments in domestic subsidiaries and an associate. With respect to investments in foreign subsidiaries, the Group does not recognize deferred tax liabilities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group reviews the carrying amount of deferred tax assets at each reporting date and reduces the recognized amount to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income tax asset to be utilized. The Group reassesses unrecognized deferred tax assets at each reporting date and recognizes amounts to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

The Group measures deferred tax assets and liabilities at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

For current and deferred tax relating to items recognized directly in OCI, the Group recognizes them also in OCI and not in the statement of income.

In the consolidated financial statements, the Group offsets deferred tax assets and liabilities if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

When tax treatments involve uncertainty, the Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. If the Group concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, the Group reflects the effect of the uncertainty for each uncertain tax treatment using the method the Group expects to better predict the resolution of the uncertainty.

2.22 Earnings Per Share

The Group computes for the basic earnings per share (EPS) by dividing net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period, after giving retroactive effect to any bonus issue, share split or reverse share split during the period.

The Group computes for the diluted EPS by dividing the aggregate of net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period, adjusted for the effects of any dilutive shares.



2.23 Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
- significant investors and their subsidiaries and associates called affiliates;
- subsidiaries, joint ventures and associates and their respective subsidiaries; and
- post-employment benefit plans for the benefit of the Group's employees.

2.24 Events After the Reporting Date

The Group reflects in the financial statements any post-year-end event that provides additional information about the Group's position at the reporting date (adjusting event). The Group discloses post-year-end events that are not adjusting events, if any, when material to the financial statements.

2.25 Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Refer to Note 6 for the detailed disclosure on segment information.

2.26 Fiduciary Activities

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

2.27 Changes in Accounting Standards

Listed below are accounting standards and interpretations issued but not yet effective up to the date of issuance of the Group's financial statements. The Group intends to adopt these standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have significant impact on the financial statements.

Effective beginning on or after January 1, 2024

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

The amendments clarify:

- That only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.



The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on its current practice and whether existing loan agreements may require renegotiation.

- Amendments to PAS 7, *Statement of Cash Flows*, and PFRS 7, *Financial Instruments: Disclosures – Supplier Finance Arrangements*

The amendments clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024. Early adoption is permitted, but will need to be disclosed.

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to the Practice Statement provide non-mandatory guidance. Early adoption of the amendments is permitted as long as this fact is disclosed.

- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*

The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right-of-use retained. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. Earlier adoption is permitted and that fact must be disclosed.

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

On December 15, 2021, the Philippine Financial and Sustainability Reporting Standards Council (FSRSC) amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two years after its effective date as decided by the International Accounting Standards Board (IASB).

PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.



Deferred effectivity

- PFRS 10, *Consolidated Financial Statements*, and PAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments)

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the FSRSC postponed the original effective date of January 1, 2016 of the said amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Group to make judgments and estimates that affect the reported amounts and disclosures. The Group continually evaluates judgments and estimates and uses as basis its historical experience and other factors, including expectations of future events. The Group reflects the effects of any changes in estimates in the financial statements as they become reasonably determinable.

3.1 Judgments

3.1.1 Assessment of Control Over a Subsidiary

The Group demonstrates control over an investee when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Thus, the following elements must all be present to exercise control over an investee:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect the amount of the investor's returns

The Group considers all facts and circumstances when assessing whether it controls an investee.

In making this assessment, the Group considers the following factors:

- The purpose and design of the investee
- What the relevant activities are and how decisions about those activities are made
- Whether the rights of the Group give it the current ability to direct the relevant activities
- Whether the Group is exposed, or has rights, to variable returns from its involvement with the investee
- Whether the Group has the ability to use its power over the investee to affect the amount of the investor's returns

The assessment of the Group on its control over a subsidiary is further discussed in Note 12.



3.1.2 Assessment of Significant Influence Over an Associate

The Group generally accounts for an investment as an associate when the Group holds 20% or more of the voting power of the investee company held directly or indirectly through subsidiaries, unless it can be clearly demonstrated that this is not the case.

In assessing whether the Group exercises significant influence over an investee company, the Group considers the following factors:

- Representation in the BOD or equivalent governing body of the investee company
- Participation in policy-making processes, including participation in decisions about dividends and other distributions
- Material transactions between the Group and the investee company
- Interchange of management personnel
- Provision of essential technical performance

The assessment of the Group on its significant influence over an investee company is further discussed in Note 12.

3.1.3 Classification of Financial Assets

The Group classifies its financial assets depending on the results of the SPPI test and on the business model used for managing those financial assets.

When performing the SPPI test, the Group applies judgment and evaluates relevant factors and characteristics such as the behavior and nature of contractual cash flows, its original currency denomination, the timing and frequency of interest rate repricing, contingent events that would alter the amount and/or timing of cash flows, leverage features, prepayment or extension options and other features that may modify the consideration for the time value of money.

As a second step, the Group performs business model assessment to reflect how financial assets are managed in order to generate net cash inflows based on the following factors:

- business objectives and strategies for holding the financial assets;
- performance measures and benchmarks being used to evaluate the Group's key management personnel accountable to the financial assets;
- risks associated to the financial assets and the tools applied in managing those risks;
- compensation structure of business units, including whether based on fair value changes of the investments managed or on the generated cash flows from transactions; and
- frequency and timing of disposals.

In applying judgment, the Group also considers the circumstances surrounding the transaction as well as the prudential requirements of the BSP.

3.1.4 Fair Valuation of Financial Instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, the Group uses valuation techniques and mathematical models. The Group derives the inputs to these models from observable markets where possible, otherwise, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer-dated derivatives. For the valuation of nonmarketable unquoted equity securities, the Group considers a



discount for lack of marketability, which is applied to the values determined by an independent valuation company (refer to Note 5 for the fair values of financial instruments).

3.1.5 Contingencies

The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsels handling the Group's defense in these matters and is based upon an analysis of potential results. Management does not believe that the outcome of these matters will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to the proceedings (refer to Note 34).

3.2 Accounting Estimates

3.2.1 Credit Losses on Financial Assets

The Group's ECL calculations are mainly derived from outputs of complex statistical models and expert judgment, with a number of underlying assumptions regarding the choice of variable inputs as well as their independencies. The Group considers the following elements of the ECL models, among others, as significant accounting judgments and estimates:

- segmentation of the portfolio, where the appropriate ECL approach and/or model is used, including whether assessments should be done individually or collectively;
- quantitative and qualitative criteria for determining whether there has been SICR as at a given reporting date and the corresponding transfers between stages;
- determination of expected life of the financial asset and expected recoveries from defaulted accounts;
- development of ECL models, including the various formulas and the choice of inputs;
- determination of correlations and interdependencies between risk factors, macroeconomic scenarios and economic inputs, such as inflation, policy rates and collateral values, and the resulting impact to PDs, LGDs and EADs; and
- selection of forward-looking information and determination of probability-weightings to derive the ECL.

In response to the changing credit environment due to the rising interest rates, inflation, and other 'black swan' events (such as geopolitical tensions and extreme El Niño phenomenon and other climate conditions) which may potentially occur, the Group reviews on a monthly basis its loan portfolio, particularly for accounts that have shown or are beginning to show increases in credit risk. The Group performs comprehensive review of the default profile of its accounts to determine if there are factors or indicators not captured in the risk rating model. If there are noted weaknesses in the model, where possible, the Group recalibrates the parameter estimates to the ECL models to incorporate internal default experience, as well as most recent available external data affecting each segment of the Group's loan portfolio.

The Group revisits the segmentation of its portfolio based on industry vulnerability and resiliency assessment. The Group also reassesses the framework for macroeconomic overlay, incorporating stress scenarios to ensure that changes in economic conditions are captured in the ECL calculations.

Refer to Note 16 for the details of the carrying values of financial assets subject to ECL and for the details of the ECL.



3.2.2 Recognition of Deferred Tax Assets

Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the availability of future taxable income in reference to financial forecast and tax strategies. The Group takes into consideration the loan portfolio and deposit growth rates in assessing its taxable income forecast.

The Group reassesses its business plan, as well as tax strategies, in the next three to five years, considering various economic scenarios including recovery outlook and effects on specific industries of the rising interest rates, inflation, and other ‘black swan’ events (see further discussion of these events under 3.2.1 *Credit Losses on Financial Assets*).

Refer to Note 30.3 for the carrying amount of recognized and unrecognized deferred tax assets.

3.2.3 Impairment of Goodwill

The Group conducts an annual review for any impairment in the value of goodwill. Goodwill is written down for impairment where the recoverable amount is insufficient to support its carrying value. The recoverable amount of the CGU is determined based on a VIU calculation, which considers the present value of cash flow projections from financial budgets approved by senior management and BOD of the Parent Company covering a three-year period. The assumptions used in the calculation of VIU are sensitive to estimates of future cash flows from business, interest margins, discount rates, projected long-term growth rates (derived based on the forecast local gross domestic product) used to extrapolate cash flows beyond the budget period.

Estimating future earnings involves judgment which takes into account past and actual performance and expected developments in the respective markets and in the overall macro-economic environment. Similar with its considerations discussed under 3.2.2 *Recognition of Deferred Tax Assets*, the Group revisits its business plan and applies judgment to reassess the projections of future cash flows as of December 31, 2023, considering various economic scenarios and recovery outlook.

The carrying values of the Group’s goodwill, accumulated impairment losses, and key assumptions used in determining VIU are disclosed in Note 14.3.

4. Financial Risk Management Objectives and Policies

The Parent Company’s BOD has overall responsibility for the establishment and oversight of the Group’s risk management framework. As delegated by the BOD, the Risk Oversight Committee (ROC) is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management. The ROC advises on the overall current and future risk appetite and strategy and assists in overseeing the implementation of those strategies and business plans by senior management. Details of the Parent Company’s risk framework are discussed under the Risk Management Disclosure Section of the Parent Company’s annual report.

The Group’s activities are principally related to the development, delivery, servicing and use of lending and financial instruments. Risk is inherent in these activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group’s continuing profitability.



The Group defines material risks (at group level) as those risks from any business activity to significantly threaten the Bank's capital position to drop below its desired level; resulting in either an increase in risk-weighted assets or a reduction in earnings and/or qualifying capital which translate into a reduction in CAR by 20 basis points (bps).

On the other hand, risks that will potentially have an impact to the CAR by less than 20 bps will also be considered "material" by the Group if these fall under the following:

- Pillar 1 risks, i.e., Credit, Market, and Operational Risks;
- Other risks under BSP Cir. No. 510, i.e., Interest Rate Risk in the Banking Book (IRRBB), Liquidity Risk, Reputational Risk and Strategic Business Risk;
- Information Technology Risk (BSP Cir. No. 808);
- Information Security / Cyber Security Risk (BSP Cir. No. 982) and
- Further risks identified as "material" by the Board and Management Committee such as Data Privacy Risk and Human Resource Risk.

Resulting from the assessments based on the premise identified above, the Bank agrees on and reviews on a regular basis the material risks that need focus using the three lines model. For the assessment period 2023-2025, these are based on the following eleven (11) material risks which are grouped under Pillar 1 and Pillar 2 risks covered in the Bank's Internal Capital Adequacy Assessment Process (ICAAP) Document submission to BSP, and required for monitoring.

Types and definition of each of these risks are discussed hereunder:

Pillar 1 Risks:

1. Credit Risk (includes Counterparty and Country Risks)
2. Market Risk
3. Operational Risk

Pillar 2 Risks:

4. Credit Concentration Risk
5. Interest Rate Risk in the Banking Book (IRRBB)
6. Liquidity Risk
7. Reputational Risk
8. Strategic Business Risk
9. Information Security / Cyber Security / Data Privacy Risk
10. Information Technology
11. Human Resource Risk

The Risk Management Group (RMG) provides support for the ROC in its role of formulating the risk management strategy, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles. The RMG provides assistance to the Asset/Liability Committee (ALCO) on capital management and the Board Strategy and Policy Committee on the management of regulatory capital.

The mandate of the RMG involves:

- Implementing the risk management framework of identifying, measuring, controlling and monitoring the various risk-taking activities of the Group, inherent in all financial institutions;
- Providing services to the risk-taking units and personnel in the implementation of risk mitigation strategies; and
- Establishing recommended limits based on the results of its analysis of exposures.



4.2 Credit Risk

Credit risk is the non-recovery of credit exposures (on-and-off balance sheet exposures). Managing credit risk also involves monitoring of migration risk, concentration risk, country risk and settlement risk. The Group manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual transaction).

The credit risk management of the entire loan portfolio is under the direct oversight of the ROC and Executive Committee. Credit risk assessment of individual borrower is performed by the business sector, remedial management group and credit management group. Risk management is embedded in the entire credit process, i.e., from credit origination to remedial management, as applicable.

Among the tools used by the Group in identifying, assessing and managing credit risk include:

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;
- Monitoring of adequacy of capital for credit risk via the Capital Adequacy Ratio (CAR) report;
- Monitoring of breaches in regulatory and internal limits;
- Credit risk management monitoring and reporting;
- Diversification;
- Internal risk rating system for corporate accounts;
- Credit scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify: portfolio growth, movement of loan portfolio, adequacy of loan loss reserves, trend of nonperforming loans (NPLs), and concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

The Group follows the BOD-approved policy on the generic classification of loans based on the type of borrowers and the purpose of the loan. The loan portfolio is grouped based on the underlying risk characteristics that are expected to respond in a similar manner to macroeconomic factors and forward-looking conditions.

4.2.1 Credit-Related Commitments

The exposures represent guarantees, standby letters of credit (LCs) issued by the Parent Company and documentary/commercial LCs which are written undertakings by the Parent Company. To mitigate this risk, the Parent Company requires hard collaterals for standby LC lines while commercial LCs are collateralized by the underlying shipments of goods to which they relate.

4.2.2 Derivative Financial Instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

4.2.3 Collateral and Other Credit Enhancements

As a general rule, character is the single most important consideration in granting loans. However, collaterals are requested to mitigate risk. The loan value and type of collateral required depend on the assessment of the credit risk of the borrower or counterparty. The Group follows guidelines on the acceptability of types of collateral and valuation parameters.



The main types of collateral obtained are as follows:

- For corporate accounts - deposit hold-outs, guarantees, securities, physical collaterals (e.g., real estate, chattels, inventory, etc.); generally, commercial, industrial and residential lots are preferred
- For retail lending - mortgages on residential properties and vehicles financed
- For securities lending and reverse repurchase transactions - cash or securities

The disposal of the foreclosed properties is handled by the Acquired Assets Management Group which adheres to the general policy of disposing assets at the highest possible market value.

Management regularly monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of the collateral is considered during the review of the adequacy of the allowance for credit losses. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The Group is not permitted to sell or repledge the collateral held over loans and advances to counterparty banks and BSP in the absence of default by the owner of the collateral.

4.2.4 Maximum Exposure to Credit Risk After Collateral Held or Other Credit Enhancements

An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements for the Group and the Parent Company is shown below:

	Consolidated 2023			
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under agreements to resell	₱69,694,538	₱57,785,321	₱11,909,217	₱57,785,321
Loans and receivables:				
Receivables from customers*:				
Corporates	543,916,216	273,902,143	449,262,028	94,654,188
Local government units (LGU)	2,196,034	—	2,196,034	—
Credit Cards	13,917,733	—	13,917,733	—
Retail small and medium enterprises (SME)	4,378,793	2,397,801	2,795,942	1,582,851
Housing Loans	23,772,977	22,519,180	12,306,138	11,466,839
Auto Loans	5,397,484	11,004,455	1,265,709	4,131,775
Others	10,660,220	5,751,145	6,683,514	3,976,706
Other receivables	12,465,631	—	12,465,631	—
	₱686,399,626	₱373,360,045	₱512,801,946	₱173,597,680

*Receivables from customers exclude residual value of the leased asset (Note 10).

	Consolidated 2022			
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under agreements to resell	₱64,523,863	₱64,334,349	₱189,514	₱64,334,349
Loans and receivables:				
Receivables from customers*:				
Corporates	516,315,998	289,977,781	425,412,218	90,903,780
Local government units (LGU)	2,770,555	—	2,770,555	—
Credit Cards	13,094,453	—	13,094,453	—
Retail small and medium enterprises (SME)	4,735,190	3,594,278	2,821,798	1,913,392
Housing Loans	24,241,178	37,042,606	7,118,628	17,122,550
Auto Loans	5,570,015	11,420,518	1,765,068	3,804,947
Others	11,392,943	4,991,456	8,436,551	2,956,392
Other receivables	14,979,583	—	14,979,583	—
	₱657,623,778	₱411,360,988	₱476,588,368	₱181,035,410

*Receivables from customers exclude residual value of the leased asset (Note 10).



Parent Company				
2023				
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under agreements to resell	₱69,694,538	₱57,785,321	₱11,909,217	₱57,785,321
Loans and receivables:				
Receivables from customers:				
Corporates	530,880,927	253,218,981	448,830,738	82,050,189
LGU	2,196,034	—	2,196,034	—
Credit Cards	13,917,733	—	13,917,733	—
Retail SME	4,379,081	2,395,958	2,795,941	1,583,140
Housing Loans	23,013,792	21,089,659	12,306,138	10,707,654
Auto Loans	5,397,484	11,004,455	1,265,709	4,131,775
Others	10,572,322	5,535,712	6,683,515	3,888,807
Other receivables	11,801,390	—	11,801,390	—
	₱671,853,301	₱351,030,086	₱511,706,415	₱160,146,886

Parent Company				
2022				
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under agreements to resell	₱64,523,863	₱64,334,349	₱189,514	₱64,334,349
Loans and receivables:				
Receivables from customers:				
Corporates	504,070,752	268,623,811	424,982,412	79,088,340
LGU	2,770,555	—	2,770,555	—
Credit Cards	13,094,453	—	13,094,453	—
Retail SME	3,936,250	2,483,707	2,672,892	1,263,358
Housing Loans	23,326,606	35,629,579	7,118,628	16,207,978
Auto Loans	5,570,015	11,420,518	1,765,068	3,804,947
Others	11,300,587	4,802,742	8,436,552	2,864,035
Other receivables	13,925,800	—	13,925,800	—
	₱642,518,881	₱387,294,706	₱474,955,874	₱167,563,007

The maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the statement of financial position plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others.

4.2.5 Credit Risk Concentrations

Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics. The Group analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and investment securities. To mitigate risk concentration, the Group constantly checks for breaches in regulatory and internal limits. Clear escalation process and override procedures are in place, whereby any excess in limits are covered by appropriate approving authority to regularize and monitor breaches in limits.

Limit per client or counterparty

For each CRR, the Parent Company sets limits per client or counterparty based on the regulatory Single Borrowers Limit. For trading and investment securities, the Group limits investments to government issues and securities issued by entities with high-quality investment ratings.



Geographic concentration

The table below shows the credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location:

	Consolidated				
	2023				
	Loans and receivables*		Trading and investment securities	Other financial assets**	Total
	Amount	%			
Philippines	₱591,914,148	95.98	₱265,175,918	₱126,073,582	₱983,163,648
Asia (excluding the Philippines)	15,018,425	2.44	17,836,070	88,779,062	121,633,557
USA and Canada	6,846,096	1.11	2,869,744	6,479,262	16,195,102
Other European Union Countries	1,937,498	0.31	7,155,246	11,070	9,103,814
Middle East	58,267	0.01	3,877,003	3,132	3,938,402
United Kingdom	447,750	0.07	1,334,802	1,036,563	2,819,115
Oceania	482,904	0.08	—	2,770	485,674
	₱616,705,088	100.00	₱298,248,783	₱222,385,441	₱1,137,339,312

*Loans and receivables exclude residual value of the leased asset (Note 10)

** Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)

	Consolidated				
	2022				
	Loans and receivables*		Trading and investment securities	Other financial assets**	Total
	Amount	%			
Philippines	₱552,755,901	93.23	₱237,143,001	₱120,952,612	₱910,851,514
Asia (excluding the Philippines)	26,641,314	4.49	21,914,099	36,745,688	85,301,101
United Kingdom	2,096,234	0.35	6,708,736	22,039,442	30,844,412
USA and Canada	8,707,036	1.47	8,378,067	13,190,193	30,275,296
Other European Union Countries	2,079,196	0.35	—	8,654,970	10,734,166
Middle East	66,026	0.01	1,854,783	10,145	1,930,954
Oceania	523,802	0.09	—	2,788	526,590
	₱592,869,509	100.00	₱275,998,686	₱201,595,838	₱1,070,464,033

*Loans and receivables exclude residual value of the leased asset. (Note 10)

** Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)

	Parent Company				
	2023				
	Loans and receivables		Trading and investment securities	Other financial assets*	Total
	Amount	%			
Philippines	₱591,118,755	98.17	₱264,793,162	₱127,884,433	₱983,796,350
Asia (excluding the Philippines)	1,411,033	0.23	17,831,085	80,102,024	99,344,142
USA and Canada	6,804,220	1.13	2,399,782	4,563,214	13,767,216
Other European Union Countries	1,887,267	0.31	7,155,246	—	9,042,513
Middle East	58,267	0.01	3,877,003	2,478	3,937,748
United Kingdom	396,318	0.07	1,174,417	29	1,570,764
Oceania	482,903	0.08	—	—	482,903
	₱602,158,763	100.00	₱297,230,695	₱212,552,178	₱1,111,941,636

*Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)



Parent Company					
2022					
	Loans and receivables		Trading and investment securities	Other financial assets*	Total
	Amount	%			
Philippines	₱550,597,430	95.26	₱236,170,294	₱122,538,534	₱909,306,258
Asia (excluding the Philippines)	14,013,140	2.42	21,911,976	28,306,396	64,231,512
United Kingdom	2,091,414	0.36	6,554,432	21,273,903	29,919,749
USA and Canada	8,624,015	1.49	8,238,785	12,349,620	29,212,420
Other European Union Countries	2,079,196	0.36	—	7,132,780	9,211,976
Middle East	66,026	0.01	1,854,783	9,567	1,930,376
Oceania	523,797	0.09	—	—	523,797
	₱577,995,018	100.00	₱274,730,270	₱191,610,800	₱1,044,336,088

*Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)

Concentration by industry

The tables below show the industry sector analysis of financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements.

Consolidated					
2023					
	Loans and receivables*		Trading and investment securities	Other financial assets***	Total
	Amount	%			
Primary target industry:					
Financial intermediaries	₱91,681,525	14.87	₱10,488,016	₱123,166,842	₱225,336,383
Wholesale and retail	115,293,880	18.70	—	—	115,293,880
Electricity, gas and water	83,771,939	13.58	16,561,739	—	100,333,678
Manufacturing	58,057,181	9.41	1,831	—	58,059,012
Transport, storage and communication	44,878,471	7.28	—	56	44,878,527
Agriculture, hunting and forestry	5,016,667	0.81	—	—	5,016,667
Public administration and defense	1,532,772	0.25	—	—	1,532,772
Secondary target industry:					
Government	2,182,895	0.35	229,288,990	99,168,727	330,640,612
Real estate, renting and business activities	106,896,515	17.33	9,226,998	13,866	116,137,379
Construction	31,039,992	5.03	—	—	31,039,992
Others**	76,353,251	12.38	32,681,209	35,950	109,070,410
	₱616,705,088	100.00	₱298,248,783	₱222,385,441	₱1,137,339,312

*Loans and receivables exclude residual value of the leased asset (Note 10)

**Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

***Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)



Consolidated					
2022					
	Loans and receivables*		Trading and investment securities	Other financial assets***	Total
	Amount	%			
Primary target industry:					
Financial intermediaries	₱119,769,773	20.20	₱19,521,101	₱73,230,975	₱212,521,849
Wholesale and retail	87,945,351	14.83	—	—	87,945,351
Electricity, gas and water	77,714,165	13.11	9,306,111	—	87,020,276
Manufacturing	59,847,311	10.09	166,728	—	60,014,039
Transport, storage and communication	40,563,305	6.84	—	50	40,563,355
Agriculture, hunting and forestry	5,192,944	0.88	—	—	5,192,944
Public administration and defense	1,626,592	0.27	—	—	1,626,592
Secondary target industry:					
Government	2,794,558	0.47	196,640,202	127,597,960	327,032,720
Real estate, renting and business activities	92,957,909	15.68	14,283,283	13,884	107,255,076
Construction	27,005,540	4.56	—	—	27,005,540
Others**	77,452,061	13.06	36,081,261	752,969	114,286,291
	₱592,869,509	100.00	₱275,998,686	₱201,595,838	₱1,070,464,033

*Loans and receivables exclude residual value of the leased asset (Note 10)

**Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

***Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)

Parent Company					
2023					
	Loans and receivables		Trading and investment securities	Other financial assets**	Total
	Amount	%			
Primary target industry:					
Financial intermediaries	₱91,212,592	15.15	₱10,482,090	₱113,347,506	₱215,042,188
Wholesale and retail	109,258,099	18.14	—	—	109,258,099
Electricity, gas and water	83,771,939	13.91	16,561,739	—	100,333,678
Manufacturing	56,032,844	9.31	—	—	56,032,844
Transport, storage and communication	44,465,431	7.38	—	—	44,465,431
Agriculture, hunting and forestry	4,863,360	0.81	—	—	4,863,360
Public administration and defense	1,532,772	0.25	—	—	1,532,772
Secondary target industry:					
Government	2,182,895	0.36	228,528,393	99,168,727	329,880,015
Real estate, renting and business activities	103,358,190	17.16	8,977,434	—	112,335,624
Construction	30,981,430	5.15	—	—	30,981,430
Others*	74,499,211	12.37	32,681,039	35,945	107,216,195
	₱602,158,763	100.00	₱297,230,695	₱212,552,178	₱1,111,941,636

*Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

**Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15).



	Parent Company				
	2022				
	Loans and receivables		Trading and investment securities	Other financial assets**	Total
	Amount	%			
Primary target industry:					
Financial intermediaries	₱119,250,013	20.63	₱19,518,028	₱63,259,871	₱202,027,912
Wholesale and retail	82,372,415	14.25	—	—	82,372,415
Electricity, gas and water	77,715,031	13.45	9,306,111	—	87,021,142
Manufacturing	57,490,538	9.95	164,780	—	57,655,318
Transport, storage and communication	39,696,751	6.87	—	—	39,696,751
Agriculture, hunting and forestry	5,031,731	0.87	—	—	5,031,731
Public administration and defense	1,626,592	0.28	—	—	1,626,592
Secondary target industry:					
Government	2,770,555	0.48	196,519,177	127,597,960	326,887,692
Real estate, renting and business activities	89,266,907	15.44	13,141,082	—	102,407,989
Construction	26,938,899	4.66	—	—	26,938,899
Others*	75,835,586	13.12	36,081,092	752,969	112,669,647
	₱577,995,018	100.00	₱274,730,270	₱191,610,800	₱1,044,336,088

*Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

**Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15).

The internal limit of the Parent Company based on the Philippine Standard Industry Classification sub-industry is 12.00% for priority industry, 8.00% for regular industry, 30.00% for power industry and 25.00% for activities of holding companies versus total loan portfolio.

4.2.6 Credit Quality Per Class of Financial Assets

Loans and receivables

The segmentation of the Group's loan portfolio is based on the underlying risk characteristics that are expected to respond in a similar manner to macroeconomic factors and forward-looking conditions.

Generally, the Group's exposures can be categorized as either of the following:

- Non-Retail Portfolio – consists of debt obligations of sovereigns, financial institutions, corporations, partnerships, or proprietorships. In particular, the Group's Non-Retail Portfolio segments are as follows: Sovereigns, Financial Institutions, Specialized Lending (e.g., Project Finance), Large Corporates, Middle Market and Commercial SME, government-owned and controlled corporations and LGUs.
- Retail Portfolio – consists of exposures to individual person/s or to a small business, and are not usually managed on an individual basis but as groups of exposures with similar credit risk characteristics. This includes Credit Cards, Consumer Loans and Retail SME, among others.

The credit quality of the Non-Retail Portfolio is evaluated and monitored using external ratings and internal credit risk rating system. The Parent Company maintains a two-dimensional risk rating structure: that is, there is a borrower risk rating (BRR) and a facility risk rating (FRR).

The Group developed specific borrower rating models to capture specific and unique risk characteristics of each of the Non-Retail Portfolio segments. The BRR is measured based on financial condition of the borrower combined with an assessment of non-financial factors such as management, industry outlook and market competition. The BRR models captures overlays and early warning signals as well. The Group uses a single scale with 26 risk grades for all its BRR models.



The 26-risk grade internal default masterscale is a representation of a common measure of relative default risk associated with the obligors/counterparties. The internal default masterscale is mapped to a global rating scale.

FRR, on the other hand, assesses potential loss of the Group in case of default, which considers collateral type and level of collateralization of the facility. The FRR has 9 grades, i.e. FRR A to FRR I.

The CRR or final credit risk rating shall be expressed in alphanumeric terms, e.g. CRR 1A which is a combination of the general creditworthiness of the borrower (BRR 1) and the potential loss of the Group in the event of the borrower's default (FRR A).

The credit quality and corresponding BRRs of the Group's receivables from customers are defined below:

Credit quality	26-Grade BRR system
High S&P Equivalent Global Rating: AAA to BBB-	<i>BRR 1 Excellent</i> Borrower has an exceptionally strong capacity to meet its financial commitments. No existing disruptions or future disruptions are highly unlikely. Probability of going into default in the coming year is very minimal/low. <i>BRR 2 Very Strong</i> Borrower has a very strong capacity to meet its financial commitments. No existing disruptions or future disruptions are unlikely. It differs from BRR 1 borrowers only to a small degree. Probability of going into default in the coming year is very minimal/low. <i>BRR 3 Strong</i> Borrower has a strong capacity to meet its financial commitments. No existing disruptions or future disruptions are unlikely. However, adverse economic conditions or changing circumstances could lead to somewhat lesser capacity to meet financial obligations than in higher-rated borrowers. Probability of going into default in the coming year is very minimal/low. <i>BRR 4-6 Good</i> Borrower has an adequate capacity to meet its financial commitments in the normal course of its business. With identified disruptions from external factors but company has or will likely overcome. Default possibility is minimal/low. <i>BRR 7-9 Satisfactory</i> Borrower under this rating scale basically possesses the characteristics of borrowers rated as BRR 4 to BRR 6 with slightly lesser quality. Default possibility is minimal/low. <i>BRR 10-12 Adequate</i> Borrower has an adequate capacity to meet its financial commitments under the normal course of business. However, adverse economic conditions and changing circumstances are more likely to weaken the borrower's capacity to meet its financial commitments. Default possibility is minimal/low.
Standard S&P Equivalent Global Rating: BB+ to BB-	<i>BRR 13-15 Average</i> Borrower still has the capacity to meet its financial commitments and withstand normal business cycles, however, any prolonged unfavorable economic and/or market conditions would create an immediate deterioration beyond acceptable levels. With identified disruptions from external forces, impact on the borrower is uncertain. Default is a possibility. <i>BRR 16-18 Acceptable</i> Borrower under this rating scale basically possesses the characteristics of borrowers rated as BRR 13 to BRR 15 with slightly lesser quality. Default is a possibility. <i>BRR 19-20 Vulnerable</i> Borrower is less vulnerable in the near term than other low-rated borrowers. However, it faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the borrower's inadequate capacity to meet its financial commitment. Default is a possibility



Credit quality	26-Grade BRR system
Substandard S&P Equivalent Global Rating: B+ to CCC-	<i>BRR 21-22 Weak</i> Borrower is more vulnerable than the borrowers rated BRR 19 and BRR 20 but the borrower 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 commitments. Default is more than a possibility. <i>BRR 23-25 Watchlist</i> Borrower is currently vulnerable and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments. Borrower may already be experiencing losses and impaired capital in the case of BRR 25.
Impaired S&P Equivalent Global Rating: D	<i>BRR 26 Default</i> Default will be a general default. Borrower will fail to pay all or substantially all of its obligations as they come due.

For the Retail Portfolio, such as Retail SME, Credit Cards, Housing and Auto Loans, credit scoring is being used in evaluating the creditworthiness of the borrower.

The table below shows the credit quality of the Group's and the Parent Company's receivables from customers, gross of allowance for credit losses and unearned and other deferred income, but net of residual values of leased assets, as of December 31, 2023 and 2022:

	Consolidated			
	2023			
	Stage 1	Stage 2	Stage 3	Total
Subject to CRR				
Non-Retail – Corporate				
High	₱220,424,136	₱7,449	₱–	₱220,431,585
Standard	240,184,925	6,625,961	–	246,810,886
Substandard	46,358,670	20,816,814	–	67,175,484
Impaired	–	–	32,477,009	32,477,009
	506,967,731	27,450,224	32,477,009	566,894,964
Subject to Scoring and Unrated				
Non-Retail	7,232,740	39,071	561,123	7,832,934
Corporate	5,049,454	10,066	497,906	5,557,426
LGU	2,183,286	29,005	63,217	2,275,508
Retail	43,676,730	863,802	10,876,864	55,417,396
Auto Loans	5,215,073	22,973	1,263,450	6,501,496
Housing Loans	20,089,818	248,682	7,962,437	28,300,937
Retail SME	4,163,286	151,785	1,067,047	5,382,118
Credit Card	14,208,553	440,362	583,930	15,232,845
Others	8,572,845	2,087,517	1,667,140	12,327,502
	59,482,315	2,990,390	13,105,127	75,577,832
	₱566,450,046	₱30,440,614	₱45,582,136	₱642,472,796

	Consolidated			
	2022			
	Stage 1	Stage 2	Stage 3	Total
Subject to CRR				
Non-Retail – Corporate				
High	₱210,563,413	₱–	₱–	₱210,563,413
Standard	198,909,684	30,731,562	–	229,641,246
Substandard	29,953,399	31,163,671	–	61,117,070
Impaired	–	–	26,950,431	26,950,431
	439,426,496	61,895,233	26,950,431	528,272,160

(Forward)



	Consolidated			
	2022			
	Stage 1	Stage 2	Stage 3	Total
Subject to Scoring and Unrated				
Non-Retail	2,849,194	11,760,556	1,183,962	15,793,712
Corporate	95,980	11,723,793	1,118,268	12,938,041
LGU	2,753,214	36,763	65,694	2,855,671
Retail	41,072,586	1,411,135	13,920,882	56,404,603
Auto Loans	4,955,770	102,179	1,970,279	7,028,228
Housing Loans	18,930,297	643,627	9,015,408	28,589,332
Retail SME	4,029,128	349,415	2,025,819	6,404,362
Credit Card	13,157,391	315,914	909,376	14,382,681
Others	9,376,862	1,546,960	1,987,431	12,911,253
	53,298,642	14,718,651	17,092,275	85,109,568
	₱492,725,138	₱76,613,884	₱44,042,706	₱613,381,728

	Parent Company			
	2023			
	Stage 1	Stage 2	Stage 3	Total
Subject to CRR				
Non-Retail - Corporate				
High	₱212,827,838	₱—	₱—	₱212,827,838
Standard	235,059,187	6,625,961	—	241,685,148
Substandard	46,331,524	20,816,814	—	67,148,338
Impaired	—	—	32,450,434	32,450,434
	494,218,549	27,442,775	32,450,434	554,111,758
Subject to Scoring and Unrated				
Non-Retail	7,255,065	39,071	561,123	7,855,259
Corporate	5,071,779	10,066	497,906	5,579,751
LGU	2,183,286	29,005	63,217	2,275,508
Retail	42,940,643	863,802	10,830,680	54,635,125
Auto Loans	5,215,073	22,973	1,263,450	6,501,496
Housing Loans	19,353,830	248,682	7,921,406	27,523,918
Retail SME	4,163,187	151,785	1,061,894	5,376,866
Credit Card	14,208,553	440,362	583,930	15,232,845
Others	8,484,938	2,087,517	1,667,139	12,239,594
	58,680,646	2,990,390	13,058,942	74,729,978
	₱552,899,195	₱30,433,165	₱45,509,376	₱628,841,736

	Parent Company			
	2022			
	Stage 1	Stage 2	Stage 3	Total
Subject to CRR				
Non-Retail - Corporate				
High	₱208,384,303	₱—	₱—	₱208,384,303
Standard	189,504,524	30,731,541	—	220,236,065
Substandard	29,953,399	31,143,373	—	61,096,772
Impaired	—	—	27,951,509	27,951,509
	427,842,226	61,874,914	27,951,509	517,668,649
Subject to Scoring and Unrated				
Non-Retail	2,759,254	11,758,770	1,099,592	15,617,616
Corporate	6,040	11,722,007	1,033,898	12,761,945
LGU	2,753,214	36,763	65,694	2,855,671
Retail	39,685,909	1,376,404	12,960,913	54,023,226
Auto Loans	4,955,770	102,179	1,970,279	7,028,228
Housing Loans	18,020,708	640,238	9,002,446	27,663,392
Retail SME	3,552,040	318,073	1,078,812	4,948,925
Credit Card	13,157,391	315,914	909,376	14,382,681
Others	9,284,464	1,546,960	1,987,432	12,818,856
	51,729,627	14,682,134	16,047,937	82,459,698
	₱479,571,853	₱76,557,048	₱43,999,446	₱600,128,347



The analysis of past due status of receivables from customers that are subject to scoring and unrated follows:

Consolidated					
2023					
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Housing Loans	₱165,082	₱198,072	₱229,491	₱7,628,653	₱8,221,298
Auto Loans	15,179	19,465	15,345	1,236,458	1,286,447
Retail SME	33,596	15,968	12,582	1,627,173	1,689,319
Credit Card	635,084	367,041	309,380	552,928	1,864,433
LGU	12,696	—	—	50,521	63,217
Others	27,096	35,749	203,642	1,599,257	1,865,744
Total	₱888,733	₱636,295	₱770,440	₱12,694,990	₱14,990,458

Consolidated					
2022					
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Housing Loans	₱297,214	₱599,308	₱595,871	₱8,202,270	₱9,694,663
Auto Loans	60,850	74,690	65,801	1,869,429	2,070,770
Retail SME	61,162	21,090	47,949	1,814,702	1,944,903
Credit Card	1,455	102,596	233,163	630,629	967,843
LGU	7,650	—	—	58,044	65,694
Others	719,429	108,294	49,980	1,254,343	2,132,046
Total	₱1,147,760	₱905,978	₱992,764	₱13,829,417	₱16,875,919

Parent Company					
2023					
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Housing Loans	₱164,017	₱197,248	₱229,491	₱7,576,116	₱8,166,872
Auto Loans	15,179	19,465	15,345	1,236,458	1,286,447
Retail SME	33,596	4,985	12,287	1,042,248	1,093,116
Credit Card	635,084	367,041	309,380	552,928	1,864,433
LGU	12,696	—	—	50,521	63,217
Others	24,945	34,264	107,904	1,508,203	1,675,316
Total	₱885,517	₱623,003	₱674,407	₱11,966,474	₱14,149,401

Parent Company					
2022					
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Housing Loans	₱296,922	₱594,491	₱566,398	₱8,176,282	₱9,634,093
Auto Loans	60,850	74,690	65,801	1,869,429	2,070,770
Retail SME	61,162	15,774	37,869	968,460	1,083,265
Credit Card	1,455	102,596	233,163	630,629	967,843
LGU	7,650	—	—	58,044	65,694
Others	712,413	107,503	38,672	1,163,289	2,021,877
Total	₱1,140,452	₱895,054	₱941,903	₱12,866,133	₱15,843,542

Trading and investment securities and other financial assets

In ensuring quality investment portfolio, the Group uses the credit risk rating based on the external ratings of eligible external credit rating institutions (i.e. Moody's Investors Service) as follows:

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



- A1 to A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.
- Baa1 and below - represents those investments which fall under any of the following grade:
 - Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.
 - Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.
 - B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.
 - Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.
 - Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
 - C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Below are the financial assets of the Group and the Parent Company, gross of allowance for credit losses, excluding receivables from customers, which are monitored using external ratings.

Consolidated 2023						
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
Due from BSP ^{1/}	₱—	₱—	₱—	₱—	₱95,410,350	₱95,410,350
Due from other banks	3,421,092	13,010,926	4,012,095	20,444,113	809,641	21,253,754
Interbank loans receivables	8,816,134	22,454,811	—	31,270,945	4,371,540	35,642,485
Securities held under agreements to resell	21,931,098	22,580,867	25,196,725	69,708,690	—	69,708,690
Financial assets at FVOCI						
Government securities	1,526,582	3,542,452	119,142,990	124,212,024	160,386	124,372,410
Private debt securities	—	3,633,167	10,547,385	14,180,552	—	14,180,552
Quoted equity securities	—	—	170	170	1,049,025	1,049,195
Unquoted equity securities	—	—	—	—	24,929,335	24,929,335
Investment securities at amortized cost						
Government securities	476,340	7,029,234	96,971,058	104,476,632	56,750	104,533,382
Private debt securities	—	12,300,109	6,522,771	18,822,880	—	18,822,880
Financial assets at amortized cost						
Loans and receivables - Others ^{2/}	—	—	—	—	17,485,597	17,485,597

^{1/} 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.

^{2/} Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).

Consolidated 2022						
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
Due from BSP ^{1/}	₱—	₱—	₱—	₱—	₱94,701,360	₱94,701,360
Due from other banks	3,256,692	18,388,027	3,259,226	24,903,945	1,116,136	26,020,081
Interbank loans receivables	1,570,626	2,684,871	—	4,255,497	12,035,973	16,291,470
Securities held under agreements to resell	—	21,206,949	17,234,682	38,441,631	26,084,420	64,526,051
Financial assets at FVOCI						
Government securities	3,309,749	553,668	114,076,366	117,939,783	—	117,939,783
Private debt securities	590,542	251,592	159,681	1,001,815	14,429,055	15,430,870
Quoted equity securities	—	—	58,170	58,170	734,046	792,216
Unquoted equity securities	—	—	388,884	388,884	23,631,772	24,020,656
Investment securities at amortized cost						
Government securities	145,147	7,950,608	69,892,792	77,988,547	208,886	78,197,433
Private debt securities	—	8,876,965	1,158,512	10,035,477	26,082,900	36,118,377
Financial assets at amortized cost						
Loans and receivables - Others ^{2/}	—	—	—	—	19,188,611	19,188,611

^{1/} 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.

^{2/} Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).



Parent Company						
2023						
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
Due from BSP ^{1/}	₱–	₱–	₱–	₱–	₱95,410,350	₱95,410,350
Due from other banks	1,228,363	10,349,227	1,268,254	12,845,844	790,653	13,636,497
Interbank loans receivables	6,619,013	22,454,811	–	29,073,824	4,371,540	33,445,364
Securities held under agreements to resell	21,931,098	22,580,867	25,196,725	69,708,690	–	69,708,690
Financial assets at FVOCI						
Government securities	1,223,772	3,542,452	119,315,550	124,081,774	–	124,081,774
Private debt securities	–	3,604,452	10,547,385	14,151,837	–	14,151,837
Quoted equity securities	–	–	–	–	974,025	974,025
Unquoted equity securities	–	–	–	–	24,929,335	24,929,335
Investment securities at amortized cost						
Government securities	6,379	7,029,234	96,971,058	104,006,671	56,749	104,063,420
Private securities	–	12,300,109	6,522,771	18,822,880	–	18,822,880
Financial assets at amortized cost						
Loans and receivables - Others ^{2/}	–	–	–	–	16,547,558	16,547,558

^{1/} 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.

^{2/} Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).

Parent Company						
2022						
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
Due from BSP ^{1/}	₱–	₱–	₱–	₱–	₱94,701,360	₱94,701,360
Due from other banks	961,707	15,816,731	154,079	16,932,517	676,730	17,609,247
Interbank loans receivables	–	2,684,871	0	2,684,871	12,051,241	14,736,112
Securities held under agreements to resell	–	21,206,949	17,234,682	38,441,631	26,084,420	64,526,051
Financial assets at FVOCI						
Government securities	2,938,253	553,668	114,168,823	117,660,744	–	117,660,744
Private debt securities	590,542	68	159,681	750,291	14,429,054	15,179,345
Quoted equity securities	–	–	–	–	734,046	734,046
Unquoted equity securities	–	–	–	–	23,631,772	23,631,772
Investment securities at amortized cost						
Government securities	5,865	7,950,608	69,892,792	77,849,265	208,886	78,058,151
Private securities	–	8,876,965	1,158,512	10,035,477	26,082,900	36,118,377
Financial assets at amortized cost						
Loans and receivables - Others ^{2/}	–	–	–	–	17,925,091	17,925,091

^{1/} 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.

^{2/} Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).

4.3 Liquidity Risk and Funding Management

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

The Group's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Group's business operations or unanticipated events created by customer behavior or capital market conditions. The Parent Company seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of available liquid assets. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the BOD. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities.



Liquidity is monitored by the Parent Company on a daily basis through the Global Markets Group. Likewise, the RMG monitors the static liquidity via the MCO under normal and stressed scenarios.

The table below shows the liquidity information of financial assets and financial liabilities which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

	Consolidated					Total
	2023					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	
Financial Assets						
COCI	₱21,151,391	₱–	₱–	₱–	₱–	₱21,151,391
Due from BSP and other banks	120,467,205	–	–	–	–	120,467,205
Interbank loans receivable	28,531,370	5,489,107	967,360	1,023,160	–	36,010,997
Securities held under agreements to resell	69,812,071	–	–	–	–	69,812,071
Financial assets at FVTPL:						
Government securities	4,293,988	534,211	39,479	91,568	3,586,581	8,545,827
Private debt securities	–	29,925	18,982	994,562	662,057	1,705,526
Equity securities	2,771	–	–	–	–	2,771
Derivative assets:						
Gross contractual receivable	87,949,838	17,614,366	2,099,656	445,073	30,329	108,139,262
Gross contractual payable	(87,391,376)	(17,458,363)	(2,070,466)	(441,124)	(29,191)	(107,390,520)
Financial assets at FVOCI:						
Government securities	33,489,750	46,204,757	1,285,139	2,180,240	47,001,705	130,161,591
Private debt securities	938,132	1,112,484	1,987,338	2,370,435	9,479,822	15,888,211
Equity securities	1,411,318	–	–	–	24,567,213	25,978,531
Investment securities at amortized cost						
Government securities	6,209,327	4,081,976	5,719,142	4,000,317	124,961,338	144,972,100
Private debt securities	1,347,263	3,824,893	1,334,269	1,704,803	27,484,727	35,695,955
Financial assets at amortized cost:						
Receivables from customers	149,406,393	61,186,611	28,126,108	23,386,574	510,204,415	772,310,101
Other receivables	14,812,784	665,550	387,899	242,420	1,376,947	17,485,600
Other assets	383,478	–	–	–	18,779	402,257
Total financial assets	₱452,815,703	₱123,285,517	₱39,894,906	₱35,998,028	₱749,344,722	₱1,401,338,876
Financial Liabilities						
Deposit liabilities:						
Demand	₱229,771,379	₱–	₱–	₱–	₱–	₱229,771,379
Savings *	367,397,521	–	–	–	–	367,397,521
Time and LTNCDS *	190,633,688	98,114,877	16,667,382	19,935,772	14,354,806	339,706,525
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	53,574,196	7,507,070	3,406,282	673,361	–	65,160,909
Gross contractual receivable	(53,334,823)	(7,274,163)	(3,340,990)	(657,783)	–	(64,607,759)
Bills and acceptances payable	6,019,964	10,282,130	2,290,375	503,601	1,139,259	20,235,329
Bonds payable	–	15,134	–	42,762,166	–	42,777,300
Accrued interest payable and accrued						
other expenses payable	4,683,312	54,751	217,492	113,428	479,288	5,548,271
Other liabilities	8,054,665	2,755	–	76,930	1,215,351	9,349,701
Total financial liabilities	₱806,799,902	₱108,702,554	₱19,240,541	₱63,407,475	₱17,188,704	₱1,015,339,176

* High-yield savings accounts are included under time deposits

	Consolidated					
	2022					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets						
COCI	₱22,217,915	₱—	₱—	₱—	₱—	₱22,217,915
Due from BSP and other banks	125,113,662	—	—	—	—	125,113,662
Interbank loans receivable	8,876,452	1,313,106	2,441,537	4,108,738	—	16,739,833
Securities held under agreements to resell	60,878,039	3,784,201	—	—	—	64,662,240
Financial assets at FVTPL:						
Government securities	199,530	1,080,139	296,110	1,053,949	6,650,083	9,279,811
Private debt securities	12,016	20,983	18,250	51,248	3,224,192	3,326,689
Equity securities	2,898	—	—	—	—	2,898

(Forward)



Consolidated						
2022						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Derivative assets:						
Gross contractual receivable	₱40,036,455	₱7,664,954	₱10,332,430	₱3,259,807	₱15,337	₱61,308,983
Gross contractual payable	(39,050,764)	(7,542,887)	(10,098,003)	(3,240,344)	–	(59,931,998)
Financial assets at FVOCI:						
Government securities	87,743,403	3,614,649	9,339,616	9,486,786	141,544,530	251,728,984
Private debt securities	3,417,893	1,165,367	283,912	2,883,129	42,342,083	50,092,384
Equity securities	1,614,229	–	–	–	23,198,643	24,812,872
Investment securities at amortized cost						
Government securities	6,043,708	10,034,076	6,717,704	2,835,413	149,213,141	174,844,042
Private debt securities	1,243,241	6,416,993	11,655,875	10,450,844	37,189,899	66,956,852
Financial assets at amortized cost:						
Receivables from customers	95,928,952	75,907,926	32,255,624	14,027,383	528,529,464	746,649,349
Other receivables	7,226,808	903,926	1,587,116	786,924	8,683,837	19,188,611
Other assets	50,539	–	–	792	19,000	70,331
Total financial assets	₱421,554,976	₱104,363,433	₱64,830,171	₱45,704,669	₱940,610,209	₱1,577,063,458
Financial Liabilities						
Deposit liabilities:						
Demand	₱222,499,667	₱–	₱–	₱–	₱–	₱222,499,667
Savings *	359,730,732	–	–	–	–	359,730,732
Time and LTNCDs *	138,445,541	96,585,595	26,246,991	16,416,245	21,787,715	299,482,087
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	27,156,350	38,707,232	17,167,707	557,813	–	83,589,102
Gross contractual receivable	(26,737,134)	(38,304,103)	(16,951,759)	(556,330)	–	(82,549,326)
Bills and acceptances payable	8,334,542	3,571,275	30,000	43,936	3,145,035	15,124,788
Bonds payable	–	–	17,771,674	685,787	42,883,029	61,340,490
Accrued interest payable and accrued						
other expenses payable	2,996,291	146,218	167,140	59,077	480,280	3,849,006
Other liabilities	6,529,727	481,672	443,923	982,544	1,784,517	10,222,383
Total financial liabilities	₱738,955,716	₱101,187,889	₱44,875,676	₱18,189,072	₱70,080,576	₱973,288,929

* High-yield savings accounts are included under time deposits

Parent Company						
2023						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets						
COCI	₱21,052,526	₱–	₱–	₱–	₱–	₱21,052,526
Due from BSP and other banks	109,049,601	–	–	–	–	109,049,601
Interbank loans receivable	27,292,838	4,711,253	733,840	1,023,160	–	33,761,091
Securities held under agreements to resell	69,812,071	–	–	–	–	69,812,071
Financial assets at FVTPL:						
Government securities	4,293,988	534,211	39,479	91,568	3,586,581	8,545,827
Private debt securities	–	28,463	17,295	991,188	509,839	1,546,785
Equity securities	–	–	–	–	–	–
Derivative assets:						
Gross contractual receivable	87,949,731	17,611,825	2,097,320	445,073	30,329	108,134,278
Gross contractual payable	(87,391,376)	(17,458,363)	(2,070,466)	(441,124)	(29,191)	(107,390,520)
Financial assets at FVOCI:						
Government securities	33,489,750	46,204,757	1,195,094	2,094,355	46,631,505	129,615,461
Private debt securities	938,132	1,112,051	1,986,905	2,369,485	9,443,984	15,850,557
Equity securities	1,336,148	–	–	–	24,567,213	25,903,361
Investment securities at amortized cost:						
Government securities	6,172,842	4,010,826	5,708,076	3,972,550	124,620,081	144,484,375
Private debt securities	1,347,262	3,824,893	1,334,269	1,704,803	27,484,727	35,695,954
Financial assets at amortized cost:						
Receivables from customers	145,196,835	57,624,975	27,195,621	21,636,212	506,344,765	757,998,408
Other receivables	14,282,566	649,818	2,968	240,464	1,371,742	16,547,558
Other assets	382,847	–	–	–	500	383,347
Total financial assets	₱435,205,761	₱118,854,709	₱38,240,401	₱34,127,734	₱744,562,075	₱1,370,990,680
Financial Liabilities						
Deposit liabilities:						
Demand	₱229,138,969	₱–	₱–	₱–	₱–	₱229,138,969
Savings *	366,321,763	–	–	–	–	366,321,763
Time and LTNCDs *	190,347,584	94,660,837	13,823,464	19,360,573	14,335,168	332,527,626

(Forward)



Parent Company						
2023						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual receivable	₱53,574,196	₱7,507,070	₱3,406,282	₱673,361	₱–	₱65,160,909
Gross contractual payable	(53,334,823)	(7,274,163)	(3,340,990)	(657,765)	–	(64,607,741)
Bills and acceptances payable	6,019,964	10,282,130	2,290,375	503,601	1,139,258	20,235,328
Bonds payable	–	15,134	–	42,762,166	–	42,777,300
Accrued interest payable and accrued other expenses payable	4,689,505	21,230	46,193	44,728	478,314	5,279,970
Other liabilities	7,366,066	2,756	–	76,930	1,215,351	8,661,103
Total financial liabilities	₱804,123,224	₱105,214,994	₱16,225,324	₱62,763,594	₱17,168,091	₱1,005,495,227

* High-yield savings accounts are included under time deposits

Parent Company						
2022						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets						
COCI	₱22,103,095	₱–	₱–	₱–	₱–	₱22,103,095
Due from BSP and other banks	111,505,536	–	–	–	–	111,505,536
Interbank loans receivable	8,343,252	515,186	2,202,032	4,108,738	–	15,169,208
Securities held under agreements to resell	60,878,039	3,784,201	–	–	–	64,662,240
Financial assets at FVTPL:						
Government securities	199,530	1,080,139	296,110	1,053,949	6,650,083	9,279,811
Private debt securities	12,015	19,521	16,338	47,874	3,066,295	3,162,043
Equity securities	–	–	–	–	–	–
Derivative assets:						
Gross contractual receivable	40,036,392	7,664,843	10,330,480	3,259,807	15,337	61,306,859
Gross contractual payable	(39,050,764)	(7,542,887)	(10,098,003)	(3,240,344)	–	(59,931,998)
Financial assets at FVOCI:						
Government securities	87,589,100	3,614,649	9,331,816	9,478,986	141,160,507	251,175,058
Private debt securities	3,417,893	1,161,551	279,351	805,777	42,009,216	47,673,788
Equity securities	1,167,175	–	–	–	23,198,643	24,365,818
Investment securities at amortized cost:						
Government securities	6,043,708	10,034,076	6,717,704	2,834,979	149,073,174	174,703,641
Private debt securities	1,243,240	6,416,993	11,655,875	10,450,844	37,189,899	66,956,851
Financial assets at amortized cost:						
Receivables from customers	91,699,945	72,873,522	30,410,181	12,306,340	524,244,914	731,534,902
Other receivables	6,061,538	884,433	1,524,007	780,377	8,674,736	17,925,091
Other assets	49,981	–	–	–	1,479	51,460
Total financial assets	₱401,299,675	₱100,506,227	₱62,665,891	₱41,887,327	₱935,284,283	₱1,541,643,403

Financial Liabilities						
Deposit liabilities:						
Demand	₱221,728,550	₱–	₱–	₱–	₱–	₱221,728,550
Savings *	358,566,639	–	–	–	–	358,566,639
Time and LTNCDs *	136,408,742	94,156,313	23,621,363	16,100,141	21,651,079	291,937,638
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual receivable	₱27,156,350	₱38,707,232	₱17,167,707	₱557,813	₱–	₱83,589,102
Gross contractual payable	(26,737,134)	(38,304,103)	(16,951,759)	(556,312)	–	(82,549,308)
Bills and acceptances payable	7,298,446	3,565,575	23,537	43,936	3,100,957	14,032,451
Bonds payable	–	–	17,771,674	685,787	42,883,029	61,340,490
Accrued interest payable and accrued other expenses payable	3,017,246	136,048	161,180	1,283	478,314	3,794,071
Other liabilities	6,054,793	462,927	192,156	956,649	1,753,787	9,420,312
Total financial liabilities	₱733,493,632	₱98,723,992	₱41,985,858	₱17,789,297	₱69,867,166	₱961,859,945

* High-yield savings accounts are included under time deposits



4.3.1 BSP Reporting for Liquidity Positions and Leverage

To promote short-term resilience of banks' liquidity risk profile, BSP requires banks and other regulated entities to maintain:

- over a 30-calendar day horizon, an adequate level of unencumbered high-quality liquid assets (HQLA) that consist of cash or assets that can be converted into cash to offset the net cash outflows they could encounter under a liquidity stress scenario; and
- a stable funding profile in relation to the composition of their assets and off-balance sheet activities.

To monitor the liquidity levels, the Group computes for its Liquidity Coverage Ratio (LCR), which is the ratio of HQLA to the total net cash outflows. As of December 31, 2023 and 2022, LCR reported to the BSP with certain adjustments is shown in the table below:

	Consolidated		Parent Company	
	2023	2022	2023	2022
LCR	271.54%	246.25%	295.74%	240.35%

The Group also computes for its Net Stable Funding Ratio (NSFR), which is the ratio of the available stable funding to the required stable funding. Both LCR and NSFR should be maintained no lower than 100.00% on a daily basis under normal situations. As of December 31, 2023 and 2022, NSFR reported to the BSP with certain adjustments is shown in the table below (amounts, except ratios, are expressed in millions):

	Consolidated		Parent Company	
	2023	2022	2023	2022
Available stable funding	₱894,199	₱852,706	₱884,747	₱843,395
Required stable funding	595,019	621,402	597,380	621,765
NSFR	150.28%	137.22%	148.10%	135.65%

4.4 Market Risk

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institutions' overall portfolio. Market risk arises from market making, dealing, and position taking in interest rate, foreign exchange and equity markets. The succeeding sections provide discussion on the impact of market risk on the Parent Company's trading and structural portfolios.

4.4.1 Trading Market Risk

Trading market risk exists in the Parent Company as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. The Parent Company is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. For internal monitoring of the risks in the trading portfolio, the Parent Company uses the Value at Risk (VaR) as a primary risk measurement tool. It adopts both the Parametric VaR methodology and Historical Simulation Methodology (with 99.00% confidence level) to measure the Parent Company's trading market risk. Both the Parametric models and Historical Simulation models were validated. Volatilities used in the parametric are updated on a daily basis and are based on historical data for a rolling 400-day period while yields and prices in the historical VaR approach are also updated daily. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and ROC on a monthly basis. All risk reports discussed in the ROC meeting are noted by the BOD. The VaR figures are back tested to



validate the robustness of the VaR model. Results of backtesting on a rolling one year period are reported also to the ROC.

The parametric VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The use of VaR has limitations because it is based on historical volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market movements may be under-estimated if changes in risk factors fail to align with historical movements. VaR may also be under- or over- estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

VaR estimates the potential loss on the current portfolio assuming a specified time horizon and level of confidence at 99.00%. The use of a 99.00% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

The validity of the assumptions underlying the Parent Company's VaR models can only be checked by appropriate backtesting procedures. Backtesting is a formal statistical framework that consists of verifying that actual losses are within the projected VaR approximations. The Parent Company adopts both the clean backtesting and dirty backtesting approaches approach in backtesting. Clean backtesting, consists of comparing the VaR estimates with some hypothetical profit or loss (P&L) values of the portfolio, having kept its composition unchanged. In this case, the same portfolio is repriced or marked-to-market at the end of the time interval and the hypothetical P&L is then compared with the VaR. The other method, called dirty backtesting, consists of comparing the VaR estimates with the actual P&L values at the end of the time horizon. This method, however, may pose a problem if the portfolio has changed drastically because of trading activities between the beginning and the end of the time horizon since VaR models assume that the portfolio is "frozen" over the horizon. The Parent Company uses the regulatory 3-zone (green, yellow and red) boundaries in evaluating the backtesting results.

The VaR models undergo close monitoring and regular review of the model's parameters and assumptions to determine model quality.

To complement the VaR approximations, the Parent Company conducts stress testing on a quarterly basis, the results of which are being reported to the BOD. Scenarios used in the conduct of stress test are event driven and represent the worst one-off event of a specific risk factor. Results of stress testing are analyzed in terms of the impact to earnings and capital.

Since VaR is an integral part of the Parent Company's market risk management, VaR limits have been established annually for all financial trading activities and exposures. Calculated VaR compared against the VaR limits are monitored. Limits are based on the tolerable risk appetite of the Parent Company.



The tables below show the trading VaR (in millions):

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
December 29, 2023	₱3.99	₱86.63	₱0.00	₱90.62
Average Daily	9.26	133.08	0.00	142.34
Highest	33.27	313.88	0.00	320.92
Lowest	1.78	62.67	0.00	67.76

* FX VaR is the bankwide foreign exchange risk

** The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
December 29, 2022	₱1.98	₱130.50	₱0.00	₱132.48
Average Daily	6.77	161.09	0.00	167.09
Highest	25.45	889.57	0.00	895.51
Lowest	0.87	118.10	0.00	131.61

* FX VaR is the bankwide foreign exchange risk

** The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days

4.4.2 Non-Trading Market Risk

Interest rate risk

The Group seeks to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Interest margins may increase as a result of such changes but may be reduced or may create losses in the event that unexpected movements arise.

Repricing mismatches will expose the Group to interest rate risk. The Group measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of a “repricing gap” analysis using the repricing characteristics of its financial instrument positions tempered with approved assumptions. To evaluate earnings exposure, interest rate sensitive liabilities in each time band are subtracted from the corresponding interest rate assets to produce a “repricing gap” for that time band. The difference in the amount of assets and liabilities maturing or being repriced over a one year period would then give the Group an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Vice versa, positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

During a period of rising interest rates, a company with a positive gap is better positioned because the company’s assets are refinanced at increasingly higher interest rates increasing the net interest margin of the company over time. During a period of falling interest rates, a company with a positive gap would show assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

For risk management purposes, the loan accounts are assessed based on next repricing date, thus as an example, if a loan account is scheduled to reprice three years from year-end report date, slotting of the account will be based on the date of interest repricing. Deposits with no specific maturity dates are excluded in the one-year repricing gap except for the portion of volatile regular savings deposits which are assumed to be withdrawn during the one year period and assumed to be replaced by a higher deposit rate.



The Group uses the Earnings at Risk (EaR) methodology to measure the likely interest margin compression in case of adverse change in interest rates given the Group's repricing gap. The repricing gap covering the one-year period is multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement. The Parent Company's BOD sets a limit on the level of EaR exposure tolerable to the Group. EaR exposure and compliance to the EaR limit is monitored monthly by the RMG and subject to a quarterly stress test.

The following table sets forth the repricing gap position of the Group and the Parent Company:

	Consolidated					
	2023					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱58,150,792	₱9,072,894	₱3,369,531	₱8,901,479	₱37,159,510	₱116,654,206
Interbank loans receivable and securities held under agreements to resell	98,092,798	5,439,375	733,899	1,062,906	—	105,328,978
Receivables from customers and other receivables - gross**	161,955,806	49,845,326	28,901,960	39,616,354	104,403,594	384,723,040
Total financial assets	₱318,199,396	₱64,357,595	₱33,005,390	₱49,580,739	₱141,563,104	₱606,706,224
Financial Liabilities*						
Deposit liabilities:						
Savings	₱158,675,307	₱56,242,019	₱27,795,826	₱49,149,862	₱249,146,435	₱541,009,449
Time***	81,037,001	40,011,529	6,280,461	5,894,523	12,528,547	145,752,061
Bonds payable	—	—	—	41,490,871	—	41,490,871
Bills and acceptances payable	10,303,062	5,296,850	1,746,803	185,016	2,630,872	20,162,603
Total financial liabilities	₱250,015,370	₱101,550,398	₱35,823,090	₱96,720,272	₱264,305,854	₱748,414,984
Repricing gap	₱68,184,026	(₱37,192,803)	(₱2,817,700)	(₱47,139,533)	(₱122,742,750)	(₱141,708,760)
Cumulative gap	68,184,026	30,991,223	28,173,523	(18,966,010)	(141,708,760)	

* Financial instruments that are not subject to repricing/rollforward were excluded

** Receivables from customers excludes residual value of leased assets (Note 10)

***Excludes LTNCD

	Consolidated					
	2022					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱57,044,759	₱12,537,877	₱3,792,192	₱7,078,521	₱40,258,194	₱120,711,543
Interbank loans receivable and securities held under agreements to resell	69,845,933	4,825,901	2,118,690	4,023,440	—	80,813,964
Receivables from customers and other receivables - gross**	38,027,100	45,572,755	34,155,255	35,259,733	188,411,533	341,426,376
Total financial assets	₱164,917,792	₱62,936,533	₱40,066,137	₱46,361,694	₱228,669,727	₱542,951,883
Financial Liabilities*						
Deposit liabilities:						
Savings	₱114,430,938	₱82,873,557	₱27,876,786	₱50,253,238	₱244,506,016	₱519,940,535
Time***	57,117,230	30,218,746	11,043,959	9,460,545	4,272,828	112,113,308
Bonds payable	—	—	16,696,885	—	41,742,212	58,439,097
Bills and acceptances payable	9,382,521	3,640,490	17,418	369,964	1,569,980	14,980,373
Total financial liabilities	₱180,930,689	₱116,732,793	₱55,635,048	₱60,083,747	₱292,091,036	₱705,473,313
Repricing gap	(₱16,012,897)	(₱53,796,260)	(₱15,568,911)	(₱13,722,053)	(₱63,421,309)	(₱162,521,430)
Cumulative gap	(16,012,897)	(69,809,157)	(85,378,068)	(99,100,121)	(162,521,430)	

* Financial instruments that are not subject to repricing/rollforward were excluded

** Receivables from customers excludes residual value of leased assets (Note 10)

***Excludes LTNCD



Parent Company						
2023						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱53,163,321	₱8,466,394	₱3,186,263	₱7,166,464	₱37,054,532	₱109,036,974
Interbank loans receivable and securities held under repurchase agreement	96,853,751	4,713,657	733,899	830,550	—	103,131,857
Receivable from customers and other receivables - gross**	161,955,806	49,845,326	28,901,960	39,616,354	104,403,594	384,723,040
Total financial assets	₱311,972,878	₱63,025,377	₱32,822,122	₱47,613,368	₱141,458,126	₱596,891,871
Financial Liabilities*						
Deposit liabilities:						
Savings	₱158,566,530	₱56,141,908	₱27,695,715	₱48,995,714	₱248,663,704	₱540,063,571
Time***	85,305,839	39,796,870	6,226,047	5,871,308	4,570,860	141,770,924
Bonds payable	—	—	—	41,490,871	—	41,490,871
Bills and acceptances payable	10,109,071	5,266,998	1,738,607	—	3,047,927	20,162,603
Total financial liabilities	₱253,981,440	₱101,205,776	₱35,660,369	₱96,357,893	₱256,282,491	₱743,487,969
Repricing gap	₱57,991,438	(₱38,180,399)	(₱2,838,247)	(₱48,744,525)	(₱114,824,365)	(₱146,596,098)
Cumulative gap	57,991,438	19,811,039	16,972,792	(31,771,733)	(146,596,098)	

* Financial instruments that are not subject to repricing/rollforward were excluded.

** Receivable from customers excludes residual value of leased assets (Note 10).

***Excludes LTNCD.

Parent Company						
2022						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱53,592,812	₱10,577,151	₱3,520,771	₱6,789,024	₱37,820,976	₱112,300,734
Interbank loans receivable and securities held under repurchase agreement	69,014,896	4,333,680	2,118,690	3,791,340	—	79,258,606
Receivable from customers and other receivables - gross**	38,027,100	45,572,755	34,155,255	35,259,733	188,411,533	341,426,376
Total financial assets	₱160,634,808	₱60,483,586	₱39,794,716	₱45,840,097	₱226,232,509	₱532,985,716
Financial Liabilities*						
Deposit liabilities:						
Savings	₱113,443,295	₱82,873,557	₱27,876,786	₱50,253,238	₱244,481,764	₱518,928,640
Time***	59,700,130	28,124,706	8,370,715	8,430,094	4,140,440	108,766,085
Bonds payable	—	—	16,696,885	—	41,742,212	58,439,097
Bills and acceptances payable	9,231,579	3,540,473	—	—	1,115,983	13,888,035
Total financial liabilities	₱182,375,004	₱114,538,736	₱52,944,386	₱58,683,332	₱291,480,399	₱700,021,857
Repricing gap	(₱21,740,196)	(₱54,055,150)	(₱13,149,670)	(₱12,843,235)	(₱65,247,890)	(₱167,036,141)
Cumulative gap	(21,740,196)	(75,795,346)	(88,945,016)	(101,788,251)	(167,036,141)	

* Financial instruments that are not subject to repricing/rollforward were excluded

** Receivables from customers excludes residual value of leased assets (Note 10)

***Excludes LTNCD

The following table sets forth, for the year indicated, the impact of changes in interest rates on the Group's and the Parent Company's repricing gap for the years ended December 31, 2023 and 2022:

Consolidated				
2023		2022		
	Statement of Income	Equity	Statement of Income	Equity
+50bps	₱119,977	₱119,977	(₱352,749)	(₱352,749)
-50bps	(119,977)	(119,977)	352,749	352,749
+100bps	239,954	239,954	(705,498)	(705,498)
-100bps	(239,954)	(239,954)	705,498	705,498



	Parent Company			
	2023		2022	
	Statement of Income	Equity	Statement of Income	Equity
+50bps	₱66,058	₱66,058	(₱372,994)	(₱372,994)
-50bps	(66,058)	(66,058)	372,994	372,994
+100bps	132,116	132,116	(745,988)	(745,988)
-100bps	(132,116)	(132,116)	745,988	745,988

In addition to EaR, the Parent Company also employs economic value-based measures that assess the present value of the expected net cash flows of assets and liabilities, particularly those that are interest-bearing, discounted to reflect market rates. At the same time that fluctuations in interest rates will affect the Parent Company's earnings, these will also have an impact on its net worth or capital position. In coming up with present values, the relevant risk-free rate shall be used to formulate discount factors. Resulting weighted net positions across tenors are aggregated to determine the Economic Value of Equity (EVE) per book and per major currency under different shock scenarios.

Delta EVE is the difference between the total net present value of expected asset and liability cash flows when discounted at prevailing market rates and when discounted against shocked interest rates. Delta EVE is computed based on several interest rate shock scenarios (e.g. parallel up, parallel down, short rates up, short rates down, steepening rates, flattening rates). The scenario with the most negative Delta EVE, pertaining to the highest decline in net present value, is compared to the medium to long-term Delta EVE trigger, which corresponds to a percentage of the Parent Company's Common Equity Tier 1 (CET1) capital.

As of December 31, 2023, the maximum negative Delta EVE is at ₱6.2 billion or 5.43% of CET1 capital coming from the steepening rates scenario.

Foreign currency risk

Foreign exchange is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financials and cash flows.

Foreign currency liabilities generally consist of foreign currency deposits in the Parent Company's FCDU books, accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Parent Company and foreign currency-denominated borrowings appearing in the regular books of the Parent Company.

Foreign currency deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, the Parent Company has additional foreign currency assets and liabilities in its foreign branch network.

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the Group is involved.



The table below summarizes the exposure to foreign exchange rate risk excluding those under the FCDU, categorized by currency (amounts in Philippine peso equivalent).

	Consolidated					
	2023			2022		
	USD	Others*	Total	USD	Others*	Total
Assets						
COCI and due from BSP	₱119,469	₱425,096	₱544,565	₱84,087	₱220,965	₱305,052
Due from other banks	11,638,822	3,863,354	15,502,176	15,808,462	6,252,360	22,060,822
Interbank loans receivable and securities held under agreements to resell	15,134,491	4,827,144	19,961,635	1,055,631	1,963,052	3,018,683
Loans and receivables	26,835,528	11,551,544	38,387,072	27,845,651	9,647,963	37,493,614
Financial assets at FVTPL	5,029	—	5,029	631	1,708	2,339
Financial assets at FVOCI	866,362	732,743	1,599,105	836,677	1,359,428	2,196,105
Investment securities at amortized cost	476,337	624,203	1,100,540	145,145	512,077	657,222
Other assets	11,779,548	1,030,816	12,810,364	123,263	1,119,773	1,243,036
Total assets	66,855,586	23,054,900	89,910,486	45,899,547	21,077,326	66,976,873
Liabilities						
Deposit liabilities	₱8,849,451	₱8,963,600	₱17,813,051	₱8,239,094	₱7,994,078	₱16,233,172
Derivative liabilities	1	—	1	—	—	—
Bills and acceptances payable	10,510,491	—	10,510,491	11,984,358	16,950	12,001,308
Accrued interest payable	86,808	21,671	108,479	93,140	82,035	175,175
Other liabilities	9,378,454	2,494,000	11,872,454	26,256,370	2,199,950	28,456,320
Total liabilities	28,825,205	11,479,271	40,304,476	46,572,962	10,293,013	56,865,975
Net Exposure	₱38,030,381	₱11,575,629	₱49,606,010	(₱673,415)	₱10,784,313	₱10,110,898

* Other currencies pertain to third currencies

	Parent Company					
	2023			2022		
	USD	Others*	Total	USD	Others*	Total
Assets						
COCI and due from BSP	₱51,226	₱167,776	₱219,002	₱67,296	₱212,487	₱279,783
Due from other banks	6,136,432	1,144,815	7,281,247	10,753,272	1,465,566	12,218,838
Interbank loans receivable and securities held under agreements to resell	14,362,997	3,348,733	17,711,730	722,689	725,368	1,448,057
Loans and receivables	24,700,030	24,636	24,724,666	24,638,723	38,217	24,676,940
Financial assets at FVTPL	44	—	44	216	—	216
Financial assets at FVOCI	866,362	572,357	1,438,719	836,677	1,205,124	2,041,801
Investment securities at amortized cost	6,376	624,203	630,579	5,863	512,077	517,940
Other assets	11,745,510	—	11,745,510	11,811,574	—	11,811,574
Total assets	57,868,977	5,882,520	63,751,497	48,836,310	4,158,839	52,995,149
Liabilities						
Deposit liabilities	2,275,877	5,538,066	7,813,943	2,280,526	4,472,986	6,753,512
Derivative liabilities	1	—	1	—	—	—
Bills and acceptances payable	10,510,491	—	10,510,491	11,927,528	—	11,927,528
Accrued interest payable	54,986	1,499	56,485	86,968	408	87,376
Other liabilities	9,036,932	1,996,722	11,033,654	25,952,250	1,841,698	27,793,948
Total liabilities	21,878,287	7,536,287	29,414,574	40,247,272	6,315,092	46,562,364
Net Exposure	₱35,990,690	(₱1,653,767)	₱34,336,923	₱8,589,038	(₱2,156,253)	₱6,432,785

* Other currencies pertain to third currencies

The exchange rates used to convert the Group and the Parent Company's US dollar-denominated assets and liabilities into Philippine peso were ₱55.37 to USD1.00 as of December 31, 2023 and ₱55.76 to USD1.00 as of December 31, 2022. The following tables set forth the impact of the range of reasonably possible changes in the USD:PHP exchange rate on the Group and the Parent Company's income before income tax and equity (due to the revaluation of monetary assets and liabilities) for the years ended December 31, 2023 and 2022:

	2023			
	Consolidated		Parent Company	
	Statement of Income	Equity	Statement of Income	Equity
+1.00%	₱371,640	(₱380,304)	₱351,243	(₱359,907)
-1.00%	(371,640)	380,304	(351,243)	359,907
	2022			
	Consolidated		Parent Company	
	Statement of Income	Equity	Statement of Income	Equity
+1.00%	(₱15,101)	₱6,734	₱77,524	(₱85,890)
-1.00%	15,101	(6,734)	(77,524)	85,890



The Group and the Parent Company do not expect the impact of the volatility on other currencies to be material.

5. Fair Value Measurement

The Group uses the following methods and assumptions in estimating the fair value of its assets and liabilities:

Assets and Liabilities	Fair value methodologies
Cash equivalents	At carrying amounts due to their relatively short-term maturity
Derivatives	Based on either: • quoted market prices; • prices provided by independent parties; or • prices derived using acceptable valuation models
Debt securities	For quoted securities – based on market prices from debt exchanges For unquoted securities ¹ – estimated using either: • quoted market prices of comparable investments; or • discounted cash flow methodology
Equity securities	For quoted securities – based on market prices from stock exchanges For unquoted securities – estimated using either: • quoted market prices of comparable investments ²; or • adjusted net asset value method ³ and applying a discount for lack of marketability
Loans and receivables	For loans with fixed interest rates – estimated using the discounted cash flow methodology ⁴ For loans with floating interest rates – at their carrying amounts
Investment properties	Appraisal by independent external and in-house appraisers based on highest and best use of the property (i.e., current use of the properties) ⁵ using either: • market data approach ⁶; or • replacement cost approach ⁷
Short-term financial liabilities	At carrying amounts due to their relatively short-term maturity
Long-term financial liabilities	For quoted debt issuances – based on market prices from debt exchanges For unquoted debt issuances – estimated using the discounted cash flow methodology ⁸

Notes:

¹ using interpolated PHP BVAL rates provided by the Philippine Dealing and Exchange Corporation (for government securities) and PHP BVAL rates plus additional credit spread (for corporate/private securities)

² using the most relevant multiples (e.g., earnings, book value)

³ measures the company's value by adjusting the carrying value of its assets to their fair values, and then subtracting the fair value of its liabilities

⁴ using the current incremental lending rates for similar loans

⁵ considering other factors such as size, shape and location of the properties, price per square meter, reproduction costs new, time element, discount, among others

⁶ using recent sales of similar properties within the same vicinity and considering the economic conditions prevailing at the time of the valuations and comparability of similar properties sold

⁷ estimating the investment required to duplicate the property in its present condition

⁸ using the current incremental borrowing rates for similar borrowings



Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities:

- Level 1 - Quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to their fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level of input that is significant to their fair value measurement is unobservable

The Group and the Parent Company held the following assets and liabilities measured at fair value, and at cost but for which fair values are disclosed:

	Consolidated				
	2023				
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	P8,174,405	P2,633,602	P5,540,803	P—	P8,174,405
Private debt securities	1,590,489	914,210	676,279	—	1,590,489
Derivative assets	749,199	—	749,199	—	749,199
Equity securities	2,771	2,771	—	—	2,771
Financial assets at FVOCI:					
Government securities	124,372,410	46,682,566	77,689,844	—	124,372,410
Equity securities	25,978,530	200,709	1,014,081	24,763,740	25,978,530
Private debt securities	14,180,552	6,944,140	7,236,412	—	14,180,552
	P175,048,356	P57,377,998	P92,906,618	P24,763,740	P175,048,356
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	P555,811	P—	P555,811	P—	P555,811
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost*	P123,200,427	P24,840,676	P98,730,596	P—	P123,571,272
Receivables from customers**	604,188,788	—	—	623,817,129	623,817,129
	P727,389,215	P24,840,676	P98,730,596	P623,817,129	P747,388,401
Nonfinancial Assets					
Investment property:					
Land***	P12,359,795	P—	P—	P26,228,453	P26,228,453
Buildings and improvements***	2,219,763	—	—	7,975,404	7,975,404
	P14,579,558	P—	P—	P34,203,857	P34,203,857
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	P145,752,061	P—	P—	P145,538,240	P145,538,240
LTNCDs	12,803,543	—	12,586,489	—	12,586,489
Bonds payable	41,490,871	—	40,625,938	—	40,625,938
Bills payable	10,607,626	—	—	10,559,411	10,559,411
	P210,654,101	P—	P53,212,427	P156,097,651	P209,310,078

* Net of expected credit losses (Note 9)

** Net of expected credit losses and unearned and other deferred income (Note 10)

*** Net of impairment losses (Note 13)



Consolidated					
2022					
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	₱4,371,671	₱27,009	₱4,344,662	₱—	₱4,371,671
Private debt securities	1,610,681	146,495	1,464,186	—	1,610,681
Derivative assets	1,361,951	—	1,361,951	—	1,361,951
Equity securities	2,898	2,898	—	—	2,898
Financial assets at FVOCI:					
Government securities	117,939,783	55,867,413	62,072,370	—	117,939,783
Equity securities	24,812,872	233,298	1,128,254	23,451,320	24,812,872
Private debt securities	15,430,870	244,224	15,186,646	—	15,430,870
	₱165,530,726	₱56,521,337	₱85,558,069	₱23,451,320	₱165,530,726
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	₱1,039,776	₱—	₱1,039,776	₱—	₱1,039,776
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost*	₱110,467,960	₱14,695,749	₱96,707,252	₱—	₱111,403,001
Receivables from customers**	578,120,332	—	—	610,493,878	610,493,878
	₱688,588,292	₱14,695,749	₱96,707,252	₱610,493,878	₱721,896,879
Nonfinancial Assets					
Investment property:					
Land***	₱12,508,051	₱—	₱—	₱29,868,859	₱29,868,859
Buildings and improvements***	1,286,935	—	—	3,510,670	3,510,670
	₱13,794,986	₱—	₱—	₱33,379,529	₱33,379,529
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	₱112,113,308	₱—	₱—	₱112,113,308	₱112,113,308
LTNCDs	19,130,012	—	18,922,562	—	18,922,562
Bonds payable	58,439,097	39,955,398	16,878,070	—	56,833,468
Bills payable	7,702,325	—	—	7,625,229	7,625,229
	₱197,384,742	₱39,955,398	₱35,800,632	₱119,738,537	₱195,494,567

* Net of expected credit losses (Note 9)

** Net of expected credit losses and unearned and other deferred income (Note 10)

*** Net of impairment losses (Note 13)

Parent Company					
2023					
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	₱8,174,405	₱2,633,602	₱5,540,803	₱—	₱8,174,405
Private debt securities	1,444,641	768,361	676,280	—	1,444,641
Derivative assets	744,213	—	744,213	—	744,213
Financial assets at FVOCI:					
Government securities	124,081,774	46,219,370	77,862,404	—	124,081,774
Equity securities	25,903,360	200,539	939,081	24,763,740	25,903,360
Private debt securities	14,151,837	6,915,425	7,236,412	—	14,151,837
	₱174,500,230	₱56,737,297	₱92,999,193	₱24,763,740	₱174,500,230
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	₱555,811	₱—	₱555,811	₱—	₱555,811

(Forward)



Parent Company					
2023					
	Carrying Value	Level 1	Level 2	Level 3	Total
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost					
Investment securities at amortized cost*	₱122,730,465	₱24,370,714	₱98,730,596	₱—	₱123,101,310
Receivables from customers**	590,301,047	—	—	609,930,601	609,930,601
	₱713,031,512	₱24,370,714	₱98,730,596	₱609,930,601	₱733,031,911
Nonfinancial Assets					
Investment property:					
Land***	₱11,807,630	₱—	₱—	₱25,628,608	₱25,628,608
Buildings and improvements***	2,303,976	—	—	7,806,117	7,806,117
	₱14,111,606	₱—	₱—	₱33,434,725	₱33,434,725
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	₱141,770,924	₱—	₱—	₱141,557,103	₱141,557,103
LTNCDs	12,803,543	—	12,586,489	—	12,586,489
Bonds payable	41,490,871	—	40,625,938	—	40,625,938
Bills payable	10,607,626	—	—	10,559,411	10,559,411
	₱206,672,964	₱—	₱53,212,427	₱152,116,514	₱205,328,941

* Net of expected credit losses (Note 9)

** Net of expected credit losses and unearned and other deferred income (Note 10)

*** Net of impairment losses (Note 13)

Parent Company					
2022					
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	₱4,371,671	₱27,008	₱4,344,663	₱—	₱4,371,671
Private debt securities	1,464,186	—	1,464,186	—	1,464,186
Derivative assets	1,359,828	—	1,359,828	—	1,359,828
Financial assets at FVOCI:					
Government securities	117,660,744	55,415,814	62,244,930	—	117,660,744
Equity securities	24,365,818	233,128	681,370	23,451,320	24,365,818
Private debt securities	15,179,345	244,224	14,935,121	—	15,179,345
	₱164,401,592	₱55,920,174	₱85,030,098	₱23,451,320	₱164,401,592
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	₱1,039,776	₱—	₱1,039,776	₱—	₱1,039,776
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost					
Investment securities at amortized cost*	₱110,328,678	₱14,556,467	₱96,707,252	₱—	₱111,263,719
Receivables from customers**	564,069,218	—	—	596,443,214	596,443,214
	674,397,896	14,556,467	96,707,252	596,443,214	707,706,933
Nonfinancial Assets					
Investment property:					
Land***	₱11,953,099	₱—	₱—	₱29,264,637	₱29,264,637
Buildings and improvements***	1,311,721	—	—	3,316,776	3,316,776
	₱13,264,820	₱—	₱—	₱32,581,413	₱32,581,413
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	₱108,766,087	₱—	₱—	₱108,766,087	₱108,766,087
LTNCDs	19,130,012	—	18,922,562	—	18,922,562
Bonds payable	58,439,097	39,955,398	16,878,070	—	56,833,468
Bills payable	6,609,988	—	—	6,532,891	6,532,891
	₱192,945,184	₱39,955,398	₱35,800,632	₱115,298,978	₱191,055,008

* Net of expected credit losses (Note 9)

** Net of expected credit losses and unearned and other deferred income (Note 10)

*** Net of impairment losses (Note 13)



As of December 31, 2023 and 2022, there were no transfers between Level 1 and Level 2 fair value measurements.

The following table summarizes the significant unobservable inputs used to calculate the fair value of Level 3 financial assets at FVOCI of the Group and the Parent Company as of December 31, 2023 and 2022 and the range of values indicating the highest and lowest level input used in the valuation techniques.

	Significant Unobservable Input	2023		2022	
		-2%	+2%	-2%	+2%
Equity securities	Discount for lack of marketability	₱588,436	(₱588,436)	₱555,656	(₱555,656)

For certain unquoted equity securities, the Group imputes a discount for lack of marketability which is a valuation consideration often based on observed data and empirical evidence. Certain valuation studies suggest that private companies typically sell at lower transaction pricing multiples than similar public companies.

6. Segment Information

6.1 Business Segments

The Group's operating businesses are determined and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. The Group's business segments follow:

- Retail Banking - principally handling individual customer's deposits, and providing consumer type loans, credit card facilities and fund transfer facilities;
- Corporate Banking - principally handling loans and other credit facilities and deposit accounts for corporate and institutional customers;
- Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of Treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking; and
- Other Segments - include, but not limited to, trust, leasing, remittances and other support services. Other support services of the Group comprise of operations and finance.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is credited to or charged against business segments based on pool rate which approximates the marginal cost of funds.

For management purposes, business segment report is done on a quarterly basis. Business segment information provided to the BOD, the chief operating decision maker (CODM), is based on the reportorial requirements under the Regulatory Accounting Principles (RAP) of the BSP, which differ from PFRS due to the manner of provisioning for impairment and credit losses, measurement of investment properties, and the fair value measurement of financial instruments. The report submitted to CODM represents only the results of operation for each of the reportable segment.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating



activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment revenues pertain to the net interest margin and other operating income earned by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

The Group has no significant customer which contributes 10.00% or more of the consolidated revenue.

Business segment information of the Group follows:

2023						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	(P717,463)	P28,943,234	P16,370,415	P91,085	(P94,428)	P44,592,843
Inter-segment	28,959,163	(16,642,135)	(12,317,028)	—	—	—
Net interest margin after inter-segment transactions	28,241,700	12,301,099	4,053,387	91,085	(94,428)	44,592,843
Other income	5,053,691	6,180,122	1,433,814	1,580,429	(214,234)	14,033,822
Segment revenue	33,295,391	18,481,221	5,487,201	1,671,514	(308,662)	58,626,665
Other expenses	13,242,125	9,270,074	1,133,976	1,844,253	(308,662)	25,181,766
Segment result	P20,053,266	P9,211,147	P4,353,225	(P172,739)	P—	33,444,899
Unallocated expenses						11,471,704
Income before income tax						21,973,195
Income tax						4,007,375
Net income						17,965,820
Non-controlling interests						(13,437)
Net income for the year attributable to equity holders of the Parent Company						P17,979,257
Other segment information:						
Capital expenditures	P348,679	P147,739	P5,350	P141,085	P—	P642,853
Unallocated capital expenditures						375,975
Total capital expenditures						P1,018,828
Depreciation and amortization	P1,182,493	P424,316	P19,483	P293,714	P—	P1,920,006
Unallocated depreciation and amortization						2,056,063
Total depreciation and amortization						P3,976,069
Provision for (reversal of) impairment, credit and other losses	P160,141	P5,804,991	(P69,600)	P27,522	P—	P5,923,054

* The adjustments and eliminations column mainly represent the RAP to PFRS adjustments

2022						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	P1,067,003	P27,860,354	P8,535,524	P20,517	(P155,828)	P37,327,570
Inter-segment	20,436,564	(13,698,864)	(6,737,700)	—	—	—
Net interest margin after inter-segment transactions	21,503,567	14,161,490	1,797,824	20,517	(155,828)	37,327,570
Other income	5,008,794	8,159,543	(128,555)	3,629,778	(488,667)	16,180,893
Segment revenue	26,512,361	22,321,033	1,669,269	3,650,295	(644,495)	53,508,463
Other expenses	13,047,668	9,261,629	628,690	2,069,057	(644,495)	24,362,549
Segment result	P13,464,693	P13,059,404	P1,040,579	P1,581,238	P—	29,145,914
Unallocated expenses						12,630,698
Income before income tax						16,515,216

(Forward)



2022						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Income tax						P4,931,228
Net income						11,583,988
Non-controlling interests						51,670
Net income for the year attributable to equity holders of the Parent Company						P11,532,318
Other segment information:						
Capital expenditures	P166,520	P26,621	P19,998	P9,628	P-	P222,767
Unallocated capital expenditures						1,205,888
Total capital expenditures						P1,428,655
Depreciation and amortization	P1,308,317	P399,629	P45,770	P351,829	P-	P2,105,545
Unallocated depreciation and amortization						2,120,201
Total depreciation and amortization						P4,225,746
Provision for (reversal of) impairment, credit and other losses	P840,755	P5,281,808	(P8,104)	P1,083,658	P-	P7,198,117
2021						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	P471,810	P28,638,348	P5,631,755	P128,036	(P25,122)	P34,844,827
Inter-segment	17,316,847	(15,099,161)	(2,217,686)	-	-	-
Net interest margin after inter-segment transactions	17,788,657	13,539,187	3,414,069	128,036	(25,122)	34,844,827
Other income	4,774,488	325,327	1,071,713	36,632,015	399,445	43,202,988
Segment revenue	22,563,145	13,864,514	4,485,782	36,760,051	374,323	78,047,815
Other expenses	15,835,760	11,135,265	28,780	1,872,452	374,323	29,246,580
Segment result	P6,727,385	P2,729,249	P4,457,002	P34,887,599	P-	48,801,235
Unallocated expenses						10,830,638
Income before income tax						37,970,597
Income tax						5,545,194
Net income from continuing operations						32,425,403
Net income from discontinued operations						(735,365)
Net income						31,690,038
Non-controlling interests						59,412
Net income for the year attributable to equity holders of the Parent Company						P31,630,626
Other segment information:						
Capital expenditures	P253,520	P22,288	P47,096	P436,928	P-	P759,832
Unallocated capital expenditures						1,016,364
Total capital expenditure						P1,776,196
Depreciation and amortization	P810,644	P341,467	P21,707	P452,128	P-	P1,625,946
Unallocated depreciation and amortization						1,219,771
Total depreciation and amortization						P2,845,717
Provision for impairment, credit and other losses	P4,355,124	P8,171,174	(P600,974)	P953,687	P-	P12,879,011

* The adjustments and eliminations column mainly represent the RAP to PFRS adjustments



As of December 31, 2023						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱681,077,435	₱296,973,331	₱162,833,376	₱91,208,829	(₱21,543,571)	₱1,210,549,400
Segment liabilities	₱655,716,486	₱277,504,592	₱73,979,402	₱34,548,168	(₱22,347,902)	₱1,019,400,746

* The adjustments and eliminations column mainly represent the RAP to PFRS adjustments

As of December 31, 2022						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱699,718,901	₱318,631,627	₱102,166,641	₱69,835,932	(₱45,196,025)	₱1,145,157,076
Segment liabilities	₱680,567,910	₱227,645,082	₱21,889,505	₱93,262,996	(₱48,114,051)	₱975,251,442

*The adjustments and eliminations column mainly represent the RAP to PFRS adjustments

6.2 Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in four principal geographical areas of the world. The distribution of assets, liabilities, credit commitments, capital expenditures, and revenues by geographic region of the Group follows:

	Non-current Assets*		Liabilities		Credit Commitments	
	2023	2022	2023	2022	2023	2022
Philippines	₱483,441,271	₱536,693,910	₱981,819,485	₱930,350,192	₱46,642,445	₱43,941,525
Asia (excluding Philippines)	15,782,479	18,796,243	31,573,388	33,199,104	—	—
USA and Canada	2,486,207	2,079,055	5,895,426	11,598,988	—	—
United Kingdom	328	797	112,447	103,158	—	—
	₱501,710,285	₱557,570,005	₱1,019,400,746	₱975,251,442	₱46,642,445	₱43,941,525

* Gross of allowance for impairment and credit losses (Note 16) and unearned and other deferred income (Note 10)

	Capital Expenditures			Revenues		
	2023	2022	2021	2023	2022	2021
Philippines	₱1,015,634	₱1,394,685	₱1,728,280	₱69,828,059	₱59,259,052	₱83,243,604
Asia (excluding Philippines)	2,173	33,178	45,649	2,639,017	1,221,488	1,561,499
USA and Canada	1,021	792	2,267	1,042,962	839,476	694,003
United Kingdom	—	—	—	118,313	105,279	106,259
	₱1,018,828	₱1,428,655	₱1,776,196	₱73,628,351	₱61,425,295	₱85,605,365

The Philippines is the home country of the Parent Company, which is also the main operating company. The Group offers a wide range of financial services as discussed in Note 1. Additionally, most of the remittance services are managed and conducted in Asia, Canada, USA and United Kingdom. The areas of operations include all the primary business segments.

7. Due from Bangko Sentral ng Pilipinas

This account consists of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Demand deposit (Note 17)	₱78,372,794	₱74,701,360	₱78,372,794	₱74,701,360
Overnight deposit facility (ODF)	15,000,000	5,000,000	15,000,000	5,000,000
Term deposit facility (TDF)	2,037,556	15,000,000	2,037,556	15,000,000
	₱95,410,350	₱94,701,360	₱95,410,350	₱94,701,360



In 2023, 2022 and 2021, interest income on amounts due from BSP of the Group and the Parent Company amounted to ₱1.8 billion, ₱1.2 billion and ₱1.2 billion, respectively, with interest rates ranging from:

	2023	2022	2021
ODF	5.00% - 6.00%	1.50% - 5.00%	1.50% - 2.00%
TDF	6.28% - 6.75%	1.66% - 6.43%	1.60% - 2.02%

8. Interbank Loans Receivable and Securities Held Under Agreements to Resell

8.1 Interbank Loans Receivables

Interbank loans receivables of the Group and the Parent Company bear interest ranging from:

	2023	2022	2021
Peso-denominated	5.5% - 6.4%	1.5% - 6.4%	1.0% - 2.0%
Foreign currency-denominated	0.9% - 6.1%	0.4% - 5.3%	0.0% - 1.5%

The amount of the Group's and the Parent Company's interbank loans receivable considered as cash and cash equivalents follow:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Interbank loans receivable	₱35,642,485	₱16,291,470	₱33,445,364	₱14,736,112
Less: Allowance for credit losses (Note 16)	8,045	1,369	8,045	1,369
	35,634,440	16,290,101	33,437,319	14,734,743
Less: Interbank loans receivable not considered as cash and cash equivalents	4,678,674	6,507,649	3,502,399	5,910,030
	₱30,955,766	₱9,782,452	₱29,934,920	₱8,824,713

8.2 Securities Held Under Agreements to Resell

Securities held under agreements to resell bear interest ranging from 4.20% to 7.00% in 2023, from 2.00% to 5.50% in 2022, and from 1.50% to 2.50% in 2021. As of December 31, 2023 and 2022, allowance for credit losses on securities held under agreements to resell amounted to ₱14.2 million and ₱2.2 million, respectively (refer to Note 16.2).

The fair value of the treasury bills pledged under these agreements as of December 31, 2023 and 2022 amounted to ₱57.8 billion and ₱64.3 billion, for the Group and the Parent Company (refer to Note 35).

8.3 Interest Income on Interbank Loans Receivable and Securities Held Under Agreements to Resell

In 2023, 2022 and 2021, interest income on interbank loans receivable and securities held under agreements to resell amounted to ₱3.4 billion, ₱954.6 million, and ₱400.4 million, respectively, for the Group and ₱3.4 billion, ₱896.7 million, and ₱348.2 million, respectively, for the Parent Company.



9. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Financial assets at FVTPL	₱10,516,864	₱7,347,201	₱10,363,259	₱7,195,685
Financial assets at FVOCI	164,531,492	158,183,525	164,136,971	157,205,907
Investment securities at amortized cost	123,200,427	110,467,960	122,730,465	110,328,678
	₱298,248,783	₱275,998,686	₱297,230,695	₱274,730,270

9.1 Financial Assets at FVTPL

This account consists of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Government securities	₱8,174,405	₱4,371,671	₱8,174,405	₱4,371,671
Private debt securities	1,590,489	1,610,681	1,444,641	1,464,186
Derivative assets (Notes 23 and 35)	749,199	1,361,951	744,213	1,359,828
Equity securities	2,771	2,898	—	—
	₱10,516,864	₱7,347,201	₱10,363,259	₱7,195,685

The nominal interest rates of debt securities at FVTPL of the Group and the Parent Company range from:

	2023	2022	2021
Government securities	1.4% - 8.6%	1.4% - 8.0%	1.4% - 9.5%
Private debt securities	2.8% - 8.8%	4.9% - 6.9%	4.9% - 6.9%

9.2 Financial Assets at FVOCI

This account consists of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Government securities (Note 19)	₱124,372,410	₱117,939,783	₱124,081,774	₱117,660,744
Private debt securities (Note 19)	14,180,552	15,430,870	14,151,837	15,179,345
Equity securities				
Quoted	1,049,195	792,216	974,025	734,046
Unquoted (Note 33)	24,929,335	24,020,656	24,929,335	23,631,772
	₱164,531,492	₱158,183,525	₱164,136,971	₱157,205,907

Unquoted equity securities include the Parent Company's retained 49.00% interest in PNB Holdings Corporation (PNB Holdings) amounting to ₱24.6 billion and ₱23.2 billion as of December 31, 2023 and 2022, respectively (refer to Note 12.4). The fair value was determined using the adjusted net asset value method as discussed in Note 5. Further, the Parent Company applied 16.50% discount, being a non-listed company, by referring to a number of recent initial public offerings of comparative entities.



The effective interest rates of debt securities at FVOCI of the Group and the Parent Company range from:

	2023	2022	2021
Government securities	0.2% - 19.1%	0.2% - 26.2%	0.1% - 18.3%
Private debt securities	0.5% - 6.4%	0.5% - 6.4%	0.4% - 6.9%

As of December 31, 2023 and 2022, the fair value of financial assets at FVOCI in the form of government bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreement transactions amounted to ₱6.5 billion and ₱2.5 billion, respectively (refer to Note 19.1). The counterparties have an obligation to return the securities to the Parent Company once the obligations have been settled. In case of default, the counterparties have the right to hold the securities and sell them as settlement of the repurchase agreement.

The movements in 'Net unrealized gains (losses) on financial assets at FVOCI' of the Group and the Parent Company are as follows:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Balance at the beginning of the year	(₱5,959,275)	(₱703,737)	(₱5,959,275)	(₱703,737)
Changes in fair values:				
Debt securities	2,581,505	(5,808,581)	2,558,481	(5,799,196)
Equity securities	1,368,570	394,654	1,368,570	401,920
Reversals of credit losses (Note 16)	(75,912)	(12,566)	(72,676)	(12,069)
Realized losses (gains)	(122)	1,058,318	—	1,058,318
Share in net unrealized gains (losses) of subsidiaries and an associate (Note 12)	362,392	(885,481)	382,058	(902,788)
	(1,722,842)	(5,957,393)	(1,722,842)	(5,957,552)
Income tax effect (Note 30)	189	(1,882)	189	(1,723)
	(₱1,722,653)	(₱5,959,275)	(₱1,722,653)	(₱5,959,275)

As of December 31, 2023 and 2022, the allowance for credit losses on debt securities at FVOCI (included in 'Net unrealized losses on financial assets at FVOCI') amounted to ₱109.0 million and ₱121.6 million, respectively, for the Group, and ₱46.8 million and ₱119.5 million, respectively, for the Parent Company (refer to Note 16.2). Movements in ECL on debt securities at FVOCI are mostly driven by movements in the corresponding gross figures.

9.3 Investment Securities at Amortized Cost

This account consists of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Government securities (Notes 19 and 32)	₱104,533,382	₱78,197,433	₱104,063,420	₱78,058,151
Private debt securities	18,822,880	36,118,377	18,822,880	36,118,377
	123,356,262	114,315,810	122,886,300	114,176,528
Less allowance for credit losses (Note 16)	155,835	3,847,850	155,835	3,847,850
	₱123,200,427	₱110,467,960	₱122,730,465	₱110,328,678



The effective interest rates of investment securities at amortized cost of the Group and the Parent Company range from:

	2023	2022	2021
Government securities	0.8% - 7.5%	0.8% - 7.5%	0.1% - 7.4%
Private debt securities	1.0% - 8.3%	0.8% - 8.3%	0.4% - 6.9%

In 2023 and 2022, movements in allowance for expected credit losses on investment securities at amortized cost are mostly driven by newly originated assets which mostly remained in Stage 1.

As of December 31, 2023 and 2022, the fair value of investment securities at amortized cost in the form of government bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions amounted to ₱5.5 billion with corresponding carrying value of the same amount (refer to Note 19.1). As of December 31, 2023 and 2022, government securities with carrying values of ₱1.8 billion and ₱1.6 billion, respectively, are deposited with the BSP in compliance with trust regulations (refer to Note 32).

As of December 31, 2023, the Group set aside government securities booked under 'Investment securities at amortized cost' with total carrying value of ₱363.3 million as liquidity cover for 50.0% of the outstanding balances of electronic money (e-money) products in compliance with BSP Circular 1166, *Amendments to the Regulations on Electronic Money and the Operations of Electronic Money Issuers in the Philippines*. This is on top of the fund held in trust to cover for the other 50.0% of the outstanding e-money balances (refer to Note 15).

9.4 Interest Income on Investment Securities at Amortized Cost and FVOCI

This account consists of:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Continuing operations:						
Financial assets at FVOCI	₱5,509,001	₱4,442,846	₱2,698,223	₱5,468,097	₱4,432,605	₱2,698,419
Investment securities at amortized cost	7,099,169	3,712,076	3,265,371	7,092,433	3,710,487	3,264,195
	12,608,170	8,154,922	5,963,594	12,560,530	8,143,092	5,962,614
Discontinued operations (Note 36):						
Financial assets at FVOCI	—	—	11,135	—	—	—
Investment securities at amortized cost	—	—	8,695	—	—	—
	—	—	19,830	—	—	—
	₱12,608,170	₱8,154,922	₱5,983,424	₱12,560,530	₱8,143,092	₱5,962,614

9.5 Trading and Investment Securities Gains (Losses) - net

This account consists of:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Financial assets at FVTPL						
Government securities	₱411,828	(₱146,580)	₱—	₱411,828	(₱146,580)	₱—
Private debt securities	(12,928)	(64,458)	(825,476)	(12,280)	(61,631)	(954,145)
Equity securities	(170)	(197)	2,323	(44)	—	—
Derivatives (Note 23)	609	—	(23,472)	609	—	(23,472)
Financial assets at FVOCI						
Private debt securities	122	(1,058,318)	30,057	—	(1,058,318)	30,057
Government securities	—	—	1,510,133	—	—	1,510,133
Equity securities	—	—	2	—	—	2
Investment securities at amortized cost	(5,358)	(11,230)	38,005	(5,358)	(11,230)	38,005
	₱394,103	(₱1,280,783)	₱731,572	₱394,755	(₱1,277,759)	₱600,580



Trading gains (losses) on investment securities at amortized cost pertain to investments which were redeemed by the respective issuers prior to their contractual maturity.

10. Loans and Receivables

10.1 Breakdown of Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Receivables from customers:				
Loans and discounts	₱607,065,797	₱579,484,209	₱593,955,389	₱567,288,274
Credit card receivables	15,232,845	14,382,681	15,232,845	14,382,681
Customers' liabilities on acceptances (Note 19)	9,533,137	7,272,876	9,533,137	7,272,876
Customers' liabilities on letters of credit and trust receipts	8,688,649	10,378,461	8,559,900	10,248,556
Bills purchased (Note 22)	1,949,627	1,220,029	1,560,465	935,960
Lease contracts receivable (Note 29)	8,399	873,878	—	—
	642,478,454	613,612,134	628,841,736	600,128,347
Other receivables:				
Accrued interest receivable	8,179,147	6,911,100	8,007,891	6,807,292
Accounts receivable	5,180,198	5,478,103	4,468,991	4,380,640
Sales contract receivables	3,760,162	6,240,309	3,722,879	6,198,127
Miscellaneous	366,090	559,099	347,797	539,032
	17,485,597	19,188,611	16,547,558	17,925,091
	659,964,051	632,800,745	645,389,294	618,053,438
Less: Unearned and other deferred income	681,399	756,049	663,303	612,582
Allowance for credit losses (Note 16)	42,571,906	38,944,781	42,567,228	39,445,838
	₱616,710,746	₱593,099,915	₱602,158,763	₱577,995,018

Included in 'Surplus reserves' is the amount of ₱3.9 billion and ₱4.2 billion as of December 31, 2023 and 2022, respectively, which pertains to the excess of 1.00% general loan loss provisions over the computed ECL for Stage 1 accounts as prescribed by BSP Circular 1011, *Guidelines on the Adoption of PFRS 9* (refer to Note 25.3).

Below is the reconciliation of loans and receivables as to classes:

	Consolidated								
	2023								
	Corporate Loans	LGU	Credit Cards	Retail SMEs	Housing Loans	Auto Loans	Other Loans	Other Receivables	Total
Receivables from customers:									
Loans and discounts	₱553,835,945	₱2,275,508	₱—	₱5,313,357	₱28,300,937	₱6,501,496	₱10,838,554	₱—	₱607,065,797
Credit card receivables	—	—	15,232,845	—	—	—	—	—	15,232,845
Customers' liabilities on acceptances (Note 19)	9,533,137	—	—	—	—	—	—	—	9,533,137
Customers' liabilities on letters of credit and trust receipts	8,531,369	—	—	63,517	—	—	93,763	—	8,688,649
Bills purchased (Note 22)	551,939	—	—	2,503	—	—	1,395,185	—	1,949,627
Lease contracts receivable (Note 29)	—	—	—	8,399	—	—	—	—	8,399
	572,452,390	2,275,508	15,232,845	5,387,776	28,300,937	6,501,496	12,327,502	—	642,478,454
Other receivables:									
Accrued interest receivable	—	—	—	—	—	—	—	8,179,147	8,179,147
Accounts receivable	—	—	—	—	—	—	—	5,180,198	5,180,198
Sales contract receivables (Note 33)	—	—	—	—	—	—	—	3,760,162	3,760,162
Miscellaneous	—	—	—	—	—	—	—	366,090	366,090
	572,452,390	2,275,508	15,232,845	5,387,776	28,300,937	6,501,496	12,327,502	17,485,597	659,964,051
Less: Unearned and other deferred income	254,664	9,183	—	15,728	(354)	(1,287)	402,252	1,213	681,399
Allowance for credit losses (Note 16)	28,281,510	70,291	1,315,112	987,597	4,528,314	1,105,299	1,265,030	5,018,753	42,571,906
	₱543,916,216	₱2,196,034	₱13,917,733	₱4,384,451	₱23,772,977	₱5,397,484	₱10,660,220	₱12,465,631	₱616,710,746



Consolidated									
2022									
	Corporate Loans	LGU	Credit Cards	Retail SMEs	Housing Loans	Auto Loans	Other Loans	Other Receivables	Total
Receivables from customers:									
Loans and discounts	P523,188,581	P2,855,671	P-	P 5,688,129	P28,589,332	P7,028,228	P12,134,268	P-	P579,484,209
Credit card receivables	-	-	14,382,681	-	-	-	-	-	14,382,681
Customers' liabilities on letters of credit and trust receipts	9,756,981	-	-	74,244	-	-	547,236	-	10,378,461
Customers' liabilities on acceptances (Note 19)	7,254,333	-	-	10,482	-	-	8,061	-	7,272,876
Lease contracts receivable (Note 29)	251,200	-	-	622,678	-	-	-	-	873,878
Bills purchased (Note 22)	989,512	-	-	8,829	-	-	221,688	-	1,220,029
	541,440,607	2,855,671	14,382,681	6,404,362	28,589,332	7,028,228	12,911,253	-	613,612,134
Other receivables:									
Accrued interest receivable	-	-	-	-	-	-	-	6,911,100	6,911,100
Sales contract receivables (Note 33)	-	-	-	-	-	-	-	6,240,309	6,240,309
Accounts receivable	-	-	-	-	-	-	-	5,478,103	5,478,103
Miscellaneous	-	-	-	-	-	-	-	559,099	559,099
	541,440,607	2,855,671	14,382,681	6,404,362	28,589,332	7,028,228	12,911,253	19,188,611	632,800,745
Less: Unearned and other deferred income	444,999	10,479	-	104,108	309	(62,106)	256,303	1,957	756,049
Allowance for credit losses (Note 16)	24,679,610	74,637	1,288,228	1,565,064	4,347,845	1,520,319	1,262,007	4,207,071	38,944,781
	P516,315,998	P2,770,555	P13,094,453	P4,735,190	P24,241,178	P5,570,015	P11,392,943	P14,979,583	P593,099,915

Parent Company									
2023									
	Corporate Loans	LGU	Credit Cards	Retail SMEs	Housing Loans	Auto Loans	Other Loans	Other Receivables	Total
Receivables from customers:									
Loans and discounts	P541,592,975	P2,275,508	P-	P5,310,846	P27,523,918	P6,501,496	P10,750,646	P-	P593,955,389
Credit card receivables	-	-	15,232,845	-	-	-	-	-	15,232,845
Customers' liabilities on acceptances (Note 19)	9,533,137	-	-	-	-	-	-	-	9,533,137
Customers' liabilities on letters of credit and trust receipts	8,402,620	-	-	63,517	-	-	93,763	-	8,559,900
Bills purchased (Note 22)	162,777	-	-	2,503	-	-	1,395,185	-	1,560,465
	559,691,509	2,275,508	15,232,845	5,376,866	27,523,918	6,501,496	12,239,594	-	628,841,736
Other receivables:									
Accrued interest receivable	-	-	-	-	-	-	-	8,007,891	8,007,891
Accounts receivable	-	-	-	-	-	-	-	4,468,991	4,468,991
Sales contract receivables	-	-	-	-	-	-	-	3,722,879	3,722,879
Miscellaneous	-	-	-	-	-	-	-	347,797	347,797
	559,691,509	2,275,508	15,232,845	5,376,866	27,523,918	6,501,496	12,239,594	16,547,558	645,389,294
Less: Unearned and other deferred income	237,284	9,183	-	15,019	(361)	(1,287)	402,252	1,213	663,303
Allowance for credit losses (Note 16)	28,573,298	70,291	1,315,112	982,766	4,510,487	1,105,299	1,265,020	4,744,955	42,567,228
	P530,880,927	P2,196,034	P13,917,733	P4,379,081	P23,013,792	P5,397,484	P10,572,322	P11,801,390	P602,158,763

Parent Company									
2022									
	Corporate Loans	LGU	Credit Cards	Retail SMEs	Housing Loans	Auto Loans	Other Loans	Other Receivables	Total
Receivables from customers:									
Loans and discounts	P512,843,742	P2,855,671	P-	P4,855,370	P27,663,392	P7,028,228	P12,041,871	P-	P567,288,274
Credit card receivables	-	-	14,382,681	-	-	-	-	-	14,382,681
Customers' liabilities on letters of credit and trust receipts	9,627,076	-	-	74,244	-	-	547,236	-	10,248,556
Customers' liabilities on acceptances (Note 19)	7,254,333	-	-	10,482	-	-	8,061	-	7,272,876
Bills purchased (Note 22)	705,443	-	-	8,829	-	-	221,688	-	935,960
	530,430,594	2,855,671	14,382,681	4,948,925	27,663,392	7,028,228	12,818,856	-	600,128,347
Other receivables:									
Accrued interest receivable	-	-	-	-	-	-	-	6,807,292	6,807,292
Sales contract receivables	-	-	-	-	-	-	-	6,198,127	6,198,127
Accounts receivable	-	-	-	-	-	-	-	4,380,640	4,380,640
Miscellaneous	-	-	-	-	-	-	-	539,032	539,032
	530,430,594	2,855,671	14,382,681	4,948,925	27,663,392	7,028,228	12,818,856	17,925,091	618,053,438
Less: Unearned and other deferred income	397,855	10,479	-	8,545	-	(62,106)	256,303	1,506	612,582
Allowance for credit losses (Note 16)	25,961,987	74,637	1,288,228	1,004,130	4,336,786	1,520,319	1,261,966	3,997,785	39,445,838
	P504,070,752	P2,770,555	P13,094,453	P3,936,250	P23,326,606	P5,570,015	P11,300,587	P13,925,800	P577,995,018



10.2 Lease Contract Receivables

An analysis of the Group's lease contract receivables follows:

	Consolidated	
	2023	2022
Minimum lease payments		
Due within one year	₱7	₱446,485
Due beyond one year but not over five years	2,734	196,987
	2,741	643,472
Residual value of leased equipment		
Due within one year	5,658	107,634
Due beyond one year but not over five years	–	122,772
	5,658	230,406
Gross investment in lease contract receivables (Note 29)	₱8,399	₱873,878

10.3 Interest Income on Loans and Receivables

As of December 31, 2023 and 2022, 69.6% and 69.5%, respectively, of the total receivables from customers of the Group were subject to interest repricing. As of December 31, 2023 and 2022, 70.6% and 70.5%, respectively, of the total receivables from customers of the Parent Company were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.0% to 9.0% in 2023, 2022 and 2021 for foreign currency-denominated receivables, and from 1.1% to 31.5% in 2023, 2022 and 2021 for peso-denominated receivables.

Sales contract receivables bear fixed interest rates per annum ranging from 5.0% to 20.2% in 2023, 4.2% to 20.2% in 2022 and from 3.3% to 21.0% in 2021.

11. Property and Equipment

11.1 Details of Property and Equipment

The composition of and movements in property and equipment follow:

	Consolidated							
	2023							
	Land	Building	Furniture, Fixtures and Equipment	Long-term Leasehold Land	Construction in-Progress	Leasehold Improvements	Right-of-Use Asset – Bank Premises (Note 33)	Total
Cost								
Balance at beginning of year	₱5,141,182	₱3,687,368	₱8,401,453	₱596,131	₱318,387	₱1,910,242	₱5,827,262	₱25,882,025
Additions	–	30,186	347,062	–	–	42,611	1,425,032	1,844,891
Disposals	(133,753)	(134,384)	(943,887)	–	–	(12,296)	–	(1,224,320)
Transfers/others	(75,412)	(5,939)	(21,944)	(2,599)	(2,768)	(60,632)	(1,307,244)	(1,476,538)
Balance at end of year	4,932,017	3,577,231	7,782,684	593,532	315,619	1,879,925	5,945,050	25,026,058
Accumulated Depreciation and Amortization								
Balance at beginning of year	–	2,253,174	6,031,338	79,837	–	1,899,884	2,475,358	12,739,591
Depreciation and amortization	–	179,089	1,045,155	6,039	–	108,134	1,311,843	2,650,260
Disposals	–	(38,760)	(590,285)	–	–	(12,296)	–	(641,341)
Transfers/others	–	(246)	(209,122)	(1,185)	–	(126,321)	(1,272,888)	(1,609,762)
Balance at end of year	–	2,393,257	6,277,086	84,691	–	1,869,401	2,514,313	13,138,748
Allowance for Impairment Losses								
(Note 16)	539,725	593,567	–	–	–	–	–	1,133,292
Net Book Value at End of Year	₱4,392,292	₱590,407	₱1,505,598	₱508,841	₱315,619	₱10,524	₱3,430,737	₱10,754,018



Consolidated 2022								
	Land	Building	Furniture, Fixtures and Equipment	Long-term Leasehold Land	Construction in-Progress	Leasehold Improvements	Right-of- Use Asset – Bank Premises (Note 33)	Total
Cost								
Balance at beginning of year	₱5,143,242	₱3,634,023	₱8,719,235	₱571,906	₱378,559	₱2,008,756	₱5,390,721	₱25,846,442
Additions	–	45,380	300,223	–	135,284	66,196	803,905	1,350,988
Disposals	(413)	–	(459,135)	–	–	–	–	(459,548)
Transfers/others	(1,647)	7,965	(158,870)	24,225	(195,456)	(164,710)	(367,364)	(855,857)
Balance at end of year	5,141,182	3,687,368	8,401,453	596,131	318,387	1,910,242	5,827,262	25,882,025
Accumulated Depreciation and Amortization								
Balance at beginning of year	–	2,053,670	5,558,050	62,882	–	1,885,809	1,644,824	11,205,235
Depreciation and amortization	–	182,676	1,117,484	5,769	–	160,907	1,205,712	2,672,548
Disposals	–	–	(386,208)	–	–	–	–	(386,208)
Transfers/others	–	16,828	(257,988)	11,186	–	(146,832)	(375,178)	(751,984)
Balance at end of year	–	2,253,174	6,031,338	79,837	–	1,899,884	2,475,358	12,739,591
Allowance for Impairment Losses (Note 16)	543,175	625,712	–	–	–	–	–	1,168,887
Net Book Value at End of Year	₱4,598,007	₱808,482	₱2,370,115	₱516,294	₱318,387	₱10,358	₱3,351,904	₱11,973,547

Parent Company 2023							
	Land	Building	Furniture, Fixtures and Equipment	Construction in-Progress	Leasehold Improvements	Right-of- Use Asset – Bank Premises (Note 33)	Total
Cost							
Balance at beginning of year	₱5,141,182	₱3,610,134	₱6,533,522	₱318,387	₱1,801,393	₱6,262,643	₱23,667,261
Additions	–	30,186	335,769	–	41,690	1,292,130	1,699,775
Disposals	(133,753)	(134,384)	(121,735)	–	–	–	(389,872)
Transfers/others	(75,411)	(5,565)	(23,402)	(2,768)	(61,886)	(1,302,533)	(1,471,565)
Balance at end of year	4,932,018	3,500,371	6,724,154	315,619	1,781,197	6,252,240	23,505,599
Accumulated Depreciation and Amortization							
Balance at beginning of year	–	2,237,967	4,898,086	–	1,800,558	2,942,730	11,879,341
Depreciation and amortization	–	177,908	905,604	–	105,509	1,263,995	2,453,016
Disposals	–	(38,760)	(121,262)	–	–	–	(160,022)
Transfers/others	–	(52)	(257,392)	–	(126,342)	(1,278,461)	(1,662,247)
Balance at end of year	–	2,377,063	5,425,036	–	1,779,725	2,928,264	12,510,088
Allowance for Impairment Losses (Note 16)	539,725	593,567	–	–	–	–	1,133,292
Net Book Value at End of Year	₱4,392,293	₱529,741	₱1,299,118	₱315,619	₱1,472	₱3,323,976	₱9,862,219

Parent Company 2022							
	Land	Building	Furniture, Fixtures and Equipment	Construction in-Progress	Leasehold Improvements	Right-of- Use Asset – Bank Premises (Note 33)	Total
Cost							
Balance at beginning of year	₱5,143,242	₱3,560,275	₱6,647,669	₱378,560	₱1,902,569	₱5,812,506	₱23,444,821
Additions	–	45,380	289,121	135,284	66,196	803,905	1,339,886
Disposals	(413)	–	(233,905)	–	–	–	(234,318)
Transfers/others	(1,647)	4,479	(169,363)	(195,457)	(167,372)	(353,768)	(883,128)
Balance at end of year	5,141,182	3,610,134	6,533,522	318,387	1,801,393	6,262,643	23,667,261
Accumulated Depreciation and Amortization							
Balance at beginning of year	–	2,041,441	4,474,160	–	1,813,420	2,133,922	10,462,943
Depreciation and amortization	–	181,529	912,988	–	156,953	1,159,332	2,410,802
Disposals	–	–	(233,799)	–	–	–	(233,799)
Transfers/others	–	14,997	(255,263)	–	(169,815)	(350,524)	(760,605)
Balance at end of year	–	2,237,967	4,898,086	–	1,800,558	2,942,730	11,879,341
Allowance for Impairment Losses (Note 16)	543,175	625,712	–	–	–	–	1,168,887
Net Book Value at End of Year	₱4,598,007	₱746,455	₱1,635,436	₱ 318,387	₱835	₱3,319,913	₱10,619,033



The total recoverable value of certain property and equipment of the Group and the Parent Company for which impairment loss has been recognized or reversed amounted to ₱1.2 billion as of December 31, 2023 and 2022.

Certain property and equipment of the Parent Company with carrying amount of ₱90.0 million and ₱75.6 million are temporarily idle as of December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, property and equipment of the Parent Company with gross carrying amount of ₱14.3 billion and ₱12.6 billion are fully depreciated but are still being used.

Gain (loss) on disposal of property and equipment in 2023, 2022 and 2021 amounted to ₱712.5 million, ₱34.9 million, and ₱8.4 million, respectively, for the Group and ₱793.1 million, ₱32.0 million and (₱0.8 million), respectively, for the Parent Company (refer to Note 26.2).

11.2 Depreciation and Amortization

This account consists of:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Continuing operations:						
Depreciation						
Property and equipment (Note 33)	₱2,650,260	₱2,672,548	₱2,137,954	₱2,453,016	₱2,410,802	₱1,836,175
Investment properties (Note 13)	191,153	152,917	76,575	167,339	128,095	55,337
Chattel mortgage properties	10,495	6,375	2,717	—	—	—
Amortization of intangible assets (Note 14)	1,124,161	1,393,906	628,471	1,099,879	1,370,523	607,559
	3,976,069	4,225,746	2,845,717	3,720,234	3,909,420	2,499,071
Discontinued operations (Note 36):						
Investment properties	—	—	42,450	—	—	—
Property and equipment	—	—	6,592	—	—	—
	—	—	49,042	—	—	—
	₱3,976,069	₱4,225,746	₱2,894,759	₱3,720,234	₱3,909,420	₱2,499,071

11.3 Project Real Estate (Project RE)

On September 10, 2020, the Parent Company's BOD approved Project RE, which is the Parent Company's strategic plan to realize the market value of certain real estate properties with a total carrying value of ₱12.6 billion booked under 'Property and equipment' amounting to ₱8.4 billion and 'Investment properties' amounting to ₱4.2 billion.

Project RE aims to reduce the low-earning assets of the Parent Company to strengthen its financial position. As part of a series of transactions carried out to meet the objectives of Project RE, on September 25, 2020, the Parent Company's BOD approved the subscription of additional 466,770,000 shares of PNB Holdings with a par value of ₱100 per share at a subscription price of ₱100 per share in exchange for the above real estate properties (refer to Note 12.4).



12. Investments in Subsidiaries and an Associate

The consolidated financial statements of the Group include:

	Industry	Principal Place of Business/Country of Incorporation	Functional Currency	Percentage of Ownership	
				Direct	Indirect
Subsidiaries					
Allied Integrated Holdings, Inc. (AIHI)	Holding Company	Philippines	PHP	100.00	—
PNB Capital and Investment Corporation (PNB Capital)	Investment	- do -	PHP	100.00	—
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	PHP	100.00	—
PNB Corporation – Guam ^(a)	Remittance	USA	USD	100.00	—
PNB International Investments Corporation (PNB IIC)	Investment	- do -	USD	100.00	—
PNB Remittance Centers, Inc. (PNB RCI) ^(b)	Remittance	- do -	USD	—	100.00
PNB RCI Holding Co. Ltd. (PNB RHCL) ^(c)	Holding Company	- do -	USD	—	100.00
PNB Remittance Co. (Canada) ^(d)	Remittance	Canada	CAD	—	100.00
PNB Europe PLC (PNB Europe)	Banking	United Kingdom	GBP	100.00	—
Allied Commercial Bank (ACB)	Banking	China	CNY	99.04	—
PNB-Mizuho Leasing and Finance Corporation (PMLFC)	Leasing/Financing	Philippines	PHP	75.00	—
PNB-Mizuho Equipment Rentals Corporation (PMERC) ^(e)	Rental	- do -	PHP	—	75.00
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	HKD	100.00	—
Allied Banking Corporation (Hong Kong) Limited (ABCHKL)	Banking	- do -	HKD	51.00	—
ACR Nominees Limited ^(f)	Service	- do -	HKD	—	51.00
Oceanic Holding (BVI) Ltd. (OHBVI) ^(g)	Holding Company	British Virgin Islands	USD	27.78	—
Associate					
Allianz-PNB Life Insurance, Inc. (APLII)	Insurance	Philippines	PHP	44.00	—

^(a) Ceased operations on June 30, 2012 and license status became dormant thereafter

^(b) Owned through PNB IIC

^(c) Owned through PNB RCI

^(d) Owned through PNB RHCL

^(e) Owned through PMLFC

^(f) Owned through ABCHKL

^(g) Controlled through the Parent Company's combined voting rights of 70.56% which arises from its direct ownership of 27.78%, and voting rights of 42.78% assigned by certain stockholders of OHBVI to the Parent Company through a voting trust agreement

The details of this account follow:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Investment in Subsidiaries				
ACB	P—	P—	P6,087,520	P6,087,520
AIHI	—	—	3,435,041	3,435,041
PNB IIC	—	—	2,028,202	2,028,202
PNB Europe PLC	—	—	1,327,393	1,327,393
ABCHKL	—	—	947,586	947,586
PNB Capital	—	—	850,000	850,000
PNB GRF	—	—	753,061	753,061
PMLFC	—	—	481,943	481,943
OHBVI	—	—	291,841	291,841
PNB Securities	—	—	62,351	62,351
PNB Corporation – Guam	—	—	7,672	7,672
	—	—	16,272,610	16,272,610
Investment in an Associate – APLII	3,365,089	3,365,089	3,365,089	3,365,089
Accumulated equity in net earnings (losses) of subsidiaries and an associate:				
Balance at beginning of year	158,879	214,939	(281,942)	(237,283)
Equity in net earnings (losses) for the year	268,093	(56,060)	560,393	747,341
Cash dividends declared by a subsidiary	—	—	(448,900)	(792,000)
	426,972	158,879	(170,449)	(281,942)
Accumulated share in:				
Aggregate reserves on life insurance policies	24,246	136,096	24,246	136,096
Net unrealized losses on financial assets at FVOCI (Note 9)	(617,015)	(979,407)	(586,895)	(968,953)
Accumulated translation adjustments	—	—	1,565,092	1,770,747
Remeasurement gains (losses) on retirement plan	(168)	8,107	97,377	90,457
	(592,937)	(835,204)	1,099,820	1,028,347
	P3,199,124	P2,688,764	P20,567,070	P20,384,104



In 2002, the Parent Company underwent a quasi-reorganization which was approved by the SEC on November 7, 2002. As of December 31, 2023 and 2022, the acquisition cost of the investments in the Parent Company's separate financial statements includes the balance of ₱2.1 billion consisting of the translation adjustment and accumulated equity in net earnings of investee companies, net of dividends subsequently received from the quasi-reorganization date, that were closed to deficit on restructuring date and are not available for dividend declaration.

12.1 Investment in AIHI

On February 10, 2022, the SEC approved the decrease of AIHI's authorized capital stock from ₱15.0 billion divided into 149,975,000 common shares with par value of ₱100 each and 25,000 preferred shares with par value of ₱100 each to ₱3.0 billion divided into 30,000,000 common shares with par value of ₱100 each. Consequently, on February 18, 2022, out of the ₱10.5 billion subscribed and paid-up capital of the Parent Company in AIHI, the latter returned ₱7.5 billion to the Parent Company.

AIHI's corporate term ended on December 31, 2022 but, as provided by law, it will continue to exist as a body corporate for another three years to generally wind up its affairs, including the disposal of its properties and distribution of its assets.

12.2 Investment in PNB Capital

On October 27, 2023 and December 16, 2022, the BOD of PNB Capital approved the declaration of cash dividends amounting to ₱448.9 million and ₱792.0 million, which were subsequently paid to the Parent Company on December 27, 2023 and December 22, 2022, respectively.

12.3 Investment in PMLFC

On June 24, 2022, the BOD of the Parent Company approved the amendment to the Articles of Incorporation of PMLFC, shortening its corporate term to March 31, 2024. On December 23, 2022 the SEC approved the above amendment. The Parent Company and its joint venture partner, Mizuho Leasing Co. Ltd., mutually agreed to wind up the operations of PMLFC due to the impact of the COVID-19 pandemic to the operations of the joint venture company and the domestic leasing industry. On the other hand, on November 22, 2023, the SEC approved the amendment to the Articles of Incorporation of PMERC, the wholly-owned subsidiary of PMLFC, to shorten its corporate term to December 31, 2024. To date, the winding-up process for both PMLFC and PMERC is ongoing and expected to be completed in 2024.

In 2023 and 2022, PMLFC transferred to the Parent Company certain receivables via direct purchase or assignment. The Parent Company also accepted in 2023 certain properties of PMLFC and PMERC as partial settlement of their outstanding loans with the Parent Company. Such loans were eventually written off as of December 31, 2023 (refer to Note 33.1).

As of December 31, 2023 and 2022, the carrying value of the Parent Company's equity investment in PMLFC is already reduced to nil. However, by virtue of the Parent Company's commitment to provide further funding in PMLFC, the Parent Company recognized additional losses amounting to ₱144.2 million and ₱95.5 million in 2023 and 2022, respectively, representing its share in the accumulated net losses of PMLFC. Further, the Parent Company recognized provision for liability amounting to nil and ₱649.7 million relating to the undrawn loan commitments of PMLFC as of December 31, 2023 and 2022, respectively, recorded under 'Other liabilities' in the statement of financial position (refer to Notes 22 and 33).



12.4 Investment in PNB Holdings

As of December 31, 2020, PNB owns all of the 2,551,000 shares issued by PNB Holdings, with par value of ₱100 per share. On January 13, 2021, the SEC approved the increase in the authorized capital stock of PNB Holdings from ₱500.0 million divided into 5,000,000 shares with par value of ₱100 per share, to ₱50.5 billion divided into 505,000,000 shares with the same par value. On the same date, the Parent Company proceeded with the subscription of additional 466,770,000 shares of PNB Holdings shares in exchange for certain real estate properties with fair values of ₱46.7 billion (refer to Note 11.3).

On April 23, 2021, the Parent Company's BOD approved the property dividend declaration of up to 239,353,710 common shares of PNB Holdings, representing 51.00% ownership, with a par value of ₱100 per share, to all stockholders of record as of May 18, 2021, or ₱23.9 billion.

On December 24, 2021, the SEC approved the property dividend declaration. On the same date, the Parent Company assessed that it has lost control over PNB Holdings, and accordingly classified its retained interest of 49.00% in PNB Holdings as financial asset at FVOCI with no recycling to profit or loss, in accordance with PFRS 9. Such investment was remeasured from its carrying amount of ₱6.6 billion to its fair value as of December 24, 2021 of ₱23.0 billion, resulting in a gain on remeasurement of ₱16.5 billion and ₱16.4 billion in the 2021 consolidated and parent company financial statements, respectively (refer to Note 33).

Further, the Group and the Parent Company recognized gain on loss of control over PNB Holdings of ₱17.0 billion and ₱17.1 billion in the 2021 consolidated and parent company financial statements, respectively. On December 21, 2021, the Parent Company was able to secure ruling from the Bureau of Internal Revenue (BIR) that the transfer of properties to PNB Holdings is not subject to tax, except for documentary stamps tax (DST). Further, on March 10, 2022, the Parent Company was able to secure another ruling from the BIR that the property dividends distribution is exempt from tax, except for DST.

The Parent Company was able to demonstrate loss of control over PNB Holdings because of the following:

- Declaration of 51.00% ownership in PNB Holdings as property dividends;
- Execution of proxy in favor of LTG for the remaining 49.00% held by the Group;
- Election of new BOD made by the stockholders of PNB Holdings in January 2021, effectively resulting in the Group having no representations in the BOD of PNB Holdings;
- Appointment of key management personnel by the BOD of PNB Holdings, resulting in the Group having no officers and staff participating in the day-to-day operations of PNB Holdings; and
- Approval of the SEC of the property dividend declaration and distribution to all stockholders as of May 18, 2021.

The foregoing corporate actions were taken by PNB and LTG to allow PNB to focus on its core banking business. These demonstrate that the Group no longer exercises control over PNB Holdings as certain elements of control under PFRS 10, *Consolidated Financial Statements*, are no longer demonstrated. The Group also reclassified the results of operations of PNB Holdings as discontinued operations (refer to Note 36.2).

Further, the Group no longer has a significant influence over PNB Holdings by virtue of the execution of a proxy in favor of LTG to vote all shares registered in the name of PNB on any and all matters in the Annual Stockholders' Meeting of PNB Holdings and the fact that LTG controls both PNB and PNB Holdings.



12.5 Investment in PNB General Insurers Co., Inc. (PNB Gen)

On December 29, 2020, the Parent Company and PNB Holdings entered into a Sale and Purchase Agreement (SPA) for the sale of all their respective shareholdings in PNB Gen to Alliedbankers Insurance Corporation (ABIC), an affiliate, for a total purchase price of ₱1.5 billion, which was paid as follows:

- PNB Holdings Purchase Price (₱521.8 million) – fully paid on December 28, 2020; and
- PNB Purchase Price (₱1.0 billion) – paid in four tranches until April 30, 2021, earning interest at 6.00% per annum.

The SPA also provides for a grant of an exclusive bancassurance arrangement with ABIC with a minimum guaranteed term of 15 years for an additional consideration of ₱50.0 million to the Parent Company, on top of the total purchase price.

On December 29, 2020, the Insurance Commission approved the above transaction. As of December 31, 2020, only the sale of PNB Holdings of its shares in PNB Gen met all the closing conditions for the sale. Accordingly, PNB Holdings closed and completed the sale of its 34.25% shareholdings in PNB Gen, with the excess of the purchase price over the carrying value of the proportionate interest of ₱344.7 million treated as an equity transaction in the consolidated financial statements of the Group as ‘Other equity reserves’.

In 2021, the Parent Company completed the sale of its shares in PNB Gen, recognizing loss on sale amounting to ₱149.5 million and ₱134.9 million for the Group and the Parent Company, respectively, which was recorded under ‘Gain on loss of control of subsidiaries - net’. Also in 2021, the Parent Company received interest income of ₱14.1 million from ABIC for this transaction.

12.6 Material Non-Controlling Interests

Proportion of equity interest held by material NCI follows:

	Principal Activities	Equity interest of NCI		Accumulated balances of material NCI		Profit allocated to material NCI	
		2023	2022	2023	2022	2023	2022
ABCHKL	Banking	49.00%	49.00%	₱2,230,261	₱2,179,752	₱71,784	₱79,115
OHBVI	Holding Company	72.22%	72.22%	1,095,965	1,079,035	24,332	1,239

The following table presents financial information of ABCHKL (unaudited) as of December 31, 2023 and 2022:

	2023	2022
Statement of Financial Position		
Current assets	₱10,285,643	₱9,548,596
Non-current assets	2,043,382	2,282,698
Current liabilities	7,177,792	6,616,975
Non-current liabilities	668,288	834,454
Statement of Comprehensive Income		
Revenues	₱477,646	₱415,387
Expenses	331,148	253,928
Net income	146,498	161,459
Total comprehensive income	110,472	502,413

(Forward)



	2023	2022
Statement of Cash Flows		
Net cash provided by (used in) operating activities	(P804,162)	P610,988
Net cash provided by investing activities	35,392	21,293

The following table presents financial information of OHBVI (unaudited) as of December 31, 2023 and 2022:

	2023	2022
Statement of Financial Position		
Current assets	P1,517,493	P1,494,051
Statement of Comprehensive Income		
Revenues/Net income/Total comprehensive income	P33,692	P1,715
Statement of Cash Flows		
Net cash provided by operating activities	P23,442	P129,062

12.7 Investment in APLII

On June 6, 2016, the Parent Company entered into agreements with Allianz SE (Allianz), a German company engaged in insurance and asset management, for the sale of the 51.00% interest in PNB Life Insurance, Inc. (PNB Life) for a total consideration of USD66.0 million to form a new joint venture company named “Allianz-PNB Life Insurance, Inc.”; and a 15-year exclusive distribution access to the branch network of the Parent Company (Exclusive Distribution Rights or EDR).

The purchase consideration of USD66.0 million was allocated between the sale of the 51.00% interest in PNB Life and the EDR amounting to USD44.9 million (P2.1 billion) and USD21.1 million (P1.0 billion), respectively. The consideration allocated to the EDR was recognized as ‘Deferred revenue - Bancassurance’ (Note 22) and is amortized to income over 15 years from date of sale. The Parent Company also receives variable annual and fixed bonus earn-out payments based on milestones achieved over the 15-year term of the distribution agreement.

After receiving respective approvals from the BSP on December 6, 2022 and June 14, 2021, the Parent Company recorded additional investments in APLII amounting to P392.0 million and P245.0 million, respectively.

Summarized financial information of APLII (unaudited) as of December 31, 2023 and 2022 follows:

	2023	2022
Current assets	P2,181,489	P1,452,894
Noncurrent assets	113,166,291	90,446,895
Total assets	115,347,780	91,899,789
Current liabilities	1,404,749	1,535,802
Noncurrent liabilities	110,327,928	87,928,050
Total liabilities	111,732,677	89,463,852
Net assets	3,615,103	2,435,937
Percentage of ownership of the Group	44%	44%
Share in the net assets of the associate	P1,590,645	P1,071,812



The difference between the share in the net assets of APLII and the carrying value of the investments represents premium on acquisition/retained interest.

Summarized statement of comprehensive income of APLII (unaudited) in 2023 and 2022 follows:

	2023	2022
Revenues	₱6,867,294	₱4,344,038
Costs and expenses	6,257,991	4,486,380
Net income (loss)	609,303	(142,342)
Other comprehensive loss	(357,591)	(262,006)
Total comprehensive income (loss)	₱251,712	(₱404,348)
Group's share in comprehensive income (loss)	₱110,753	(₱177,913)

12.8 Significant Restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the regulatory supervisory frameworks within which insurance and banking subsidiaries operate.

13. Investment Properties

This account consists of real properties as follows:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Foreclosed or acquired in settlement of loans	₱14,399,995	₱13,615,263	₱13,932,044	₱13,085,097
Held for lease	179,563	179,723	179,563	179,723
Total	₱14,579,558	₱13,794,986	₱14,111,607	₱13,264,820

The composition of and movements in this account follow:

	Consolidated		
	2023		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱14,471,137	₱3,337,560	₱17,808,697
Additions	1,475,118	1,498,014	2,973,132
Disposals	(1,689,521)	(336,100)	(2,025,621)
Transfers/others	5,800	(34,037)	(28,237)
Balance at end of year	14,262,534	4,465,437	18,727,971
Accumulated Depreciation			
Balance at beginning of year	—	1,838,042	1,838,042
Depreciation (Note 11)	—	191,153	191,153
Disposals	—	(199,165)	(199,165)
Transfers/others	—	(517)	(517)
Balance at end of year	—	1,829,513	1,829,513
Allowance for Impairment Losses (Note 16)	1,902,739	416,161	2,318,900
Net Book Value at End of Year	₱12,359,795	₱2,219,763	₱14,579,558



Consolidated			
2022			
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱11,531,525	₱3,126,505	₱14,658,030
Additions	4,013,930	327,627	4,341,557
Disposals	(1,087,296)	(88,890)	(1,176,186)
Transfers/others	12,978	(27,682)	(14,704)
Balance at end of year	14,471,137	3,337,560	17,808,697
Accumulated Depreciation			
Balance at beginning of year	–	1,717,312	1,717,312
Depreciation (Note 11)	–	152,917	152,917
Disposals	–	(35,454)	(35,454)
Transfers/others	–	3,267	3,267
Balance at end of year	–	1,838,042	1,838,042
Allowance for Impairment Losses (Note 16)	1,963,086	212,583	2,175,669
Net Book Value at End of Year	₱12,508,051	₱1,286,935	₱13,794,986

Parent Company			
2023			
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱13,915,473	₱3,188,687	₱17,104,160
Additions	1,475,118	1,498,014	2,973,132
Disposals	(1,689,521)	(336,100)	(2,025,621)
Transfers/others	8,588	1,610	10,198
Balance at end of year	13,709,658	4,352,211	18,061,869
Accumulated Depreciation			
Balance at beginning of year	–	1,688,372	1,688,372
Depreciation (Note 11)	–	167,339	167,339
Disposals	–	(199,165)	(199,165)
Transfers/others	–	(483)	(483)
Balance at end of year	–	1,656,063	1,656,063
Allowance for Impairment Losses (Note 16)	1,902,027	392,172	2,294,199
Net Book Value at End of Year	₱11,807,631	₱2,303,976	₱14,111,607

Parent Company			
2022			
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱11,001,803	₱2,947,345	₱13,949,148
Additions	4,013,930	327,618	4,341,548
Disposals	(1,087,296)	(88,890)	(1,176,186)
Transfers/others	(12,964)	2,614	(10,350)
Balance at end of year	13,915,473	3,188,687	17,104,160
Accumulated Depreciation			
Balance at beginning of year	–	1,595,151	1,595,151
Depreciation (Note 11)	–	128,095	128,095
Disposals	–	(35,454)	(35,454)
Transfers/others	–	580	580
Balance at end of year	–	1,688,372	1,688,372
Allowance for Impairment Losses (Note 16)	1,962,374	188,594	2,150,968
Net Book Value at End of Year	₱11,953,099	₱1,311,721	₱13,264,820



Foreclosed properties of the Parent Company still subject to redemption period by the borrowers amounted to ₱581.7 million and ₱199.9 million, as of December 31, 2023 and 2022, respectively.

The total recoverable value of investment properties of the Group and the Parent Company that were impaired amounted to ₱9.6 billion and ₱7.4 billion as of December 31, 2023 and 2022, respectively. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

For the Group and the Parent Company, direct operating expenses on investment properties that generated rental income during the year (other than depreciation and amortization), included under 'Litigation and assets acquired expenses', amounted to ₱33.0 million, ₱29.2 million and ₱28.2 million in 2023, 2022, and 2021, respectively. Direct operating expenses on investment properties that did not generate rental income included under 'Litigation and assets acquired expenses', amounted to ₱397.6 million, ₱208.3 million and ₱173.3 million in 2023, 2022, and 2021, respectively (refer to Note 27.2).

14. Goodwill and Intangible Assets

These accounts consist of:

	Consolidated				
	2023				
	Intangible Assets with Finite Lives				Goodwill
	CDI	CRI	Software Cost	Total	
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱5,480,963	₱7,770,695	₱11,221,410
Additions	—	—	598,969	598,969	—
Impairment in value	—	—	—	—	(1,036,567)
Others	—	—	(40,185)	(40,185)	—
Balance at end of year	1,897,789	391,943	6,039,747	8,329,479	10,184,843
Accumulated Amortization					
Balance at beginning of year	1,877,757	391,943	3,637,073	5,906,773	—
Amortization (Note 11)	20,032	—	1,104,129	1,124,161	—
Others	—	—	(3,181)	(3,181)	—
Balance at end of year	1,897,789	391,943	4,738,021	7,027,753	—
Net Book Value at End of Year	₱—	₱—	₱1,301,726	₱1,301,726	₱10,184,843

	Consolidated				
	2022				
	Intangible Assets with Finite Lives				Goodwill
	CDI	CRI	Software Cost	Total	
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱4,705,633	₱6,995,365	₱11,221,410
Additions	—	—	881,572	881,572	—
Others	—	—	(106,242)	(106,242)	—
Balance at end of year	1,897,789	391,943	5,480,963	7,770,695	11,221,410
Accumulated Amortization					
Balance at beginning of year	1,687,978	391,943	2,486,010	4,565,931	—
Amortization (Note 11)	189,779	—	1,204,127	1,393,906	—
Others	—	—	(53,064)	(53,064)	—
Balance at end of year	1,877,757	391,943	3,637,073	5,906,773	—
Net Book Value at End of Year	₱20,032	₱—	₱1,843,890	₱1,863,922	₱11,221,410



Parent Company					
2023					
Intangible Assets with Finite Lives					
	CDI	CRI	Software Cost	Total	Goodwill
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱6,423,046	₱8,712,778	₱11,361,768
Additions	–	–	597,165	597,165	–
Impairment in value	–	–	–	–	(1,036,567)
Others	–	–	(36,496)	(36,496)	–
Balance at end of year	1,897,789	391,943	6,983,715	9,273,447	10,325,201
Accumulated Amortization					
Balance at beginning of year	1,877,757	391,943	4,689,462	6,959,162	–
Amortization (Note 11)	20,032	–	1,079,847	1,099,879	–
Others	–	–	(484)	(484)	–
Balance at end of year	1,897,789	391,943	5,768,825	8,058,557	–
Net Book Value at End of Year	₱–	₱–	₱1,214,890	₱1,214,890	₱10,325,201

Parent Company					
2022					
Intangible Assets with Finite Lives					
	CDI	CRI	Software Cost	Total	Goodwill
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱5,679,926	₱7,969,658	₱11,361,768
Additions	–	–	848,426	848,426	–
Others	–	–	(105,306)	(105,306)	–
Balance at end of year	1,897,789	391,943	6,423,046	8,712,778	11,361,768
Accumulated Amortization					
Balance at beginning of year	1,687,978	391,943	3,560,780	5,640,701	–
Amortization (Note 11)	189,779	–	1,180,744	1,370,523	–
Others	–	–	(52,062)	(52,062)	–
Balance at end of year	1,877,757	391,943	4,689,462	6,959,162	–
Net Book Value at End of Year	₱20,032	₱–	₱1,733,584	₱1,753,616	₱11,361,768

14.1 CDI and CRI

CDI and CRI are the intangible assets acquired through the merger of the Parent Company with Allied Banking Corporation (ABC). CDI includes the stable level of deposit liabilities of ABC which is considered as favorably priced source of funds by the Parent Company. CRI pertains to ABC's key customer base which the Parent Company expects to bring more revenue through loan availments. CDI is allocated to Retail Banking CGU while CRI is allocated to Corporate Banking CGU. CDI and CRI are assessed for impairment where indicator(s) of objective evidence of impairment has been identified.

14.2 Software Cost

Software cost as of December 31, 2023 and 2022 includes capitalized development costs amounting to ₱2.0 billion, related to the Parent Company's core banking system.

14.3 Goodwill

The Parent Company accounted for the business combination with ABC under the acquisition method of PFRS 3. The Group has elected to measure the NCI in the acquiree at proportionate share of identifiable assets and liabilities. The business combination resulted in the recognition of goodwill amounting to ₱13.4 billion, allocated to the three CGUs which are also reportable segments.

Goodwill is reviewed for impairment annually in the fourth quarter of the reporting period, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The impairment test is done by comparing the recoverable amount of each CGU with its carrying amount. The carrying amount of a CGU is derived based on its net assets plus the amount of



goodwill allocated to the CGU. The recoverable amount is the higher of a CGU's fair value less costs to sell and its VIU.

In 2023 and 2021, the goodwill impairment test performed by the Parent Company resulted in an impairment in value of ₱1.0 billion in the Treasury CGU and ₱2.2 billion in the Corporate Banking CGU, respectively, with the recoverable amounts being lower than their carrying amounts.

As of December 31, 2023 and 2022, goodwill for each CGU amounted to:

	2023			2022		
	Gross carrying amount	Accumulated impairment in value	Net carrying amount	Gross carrying amount	Accumulated impairment in value	Net carrying amount
Retail Banking	₱6,110,312	₱—	₱6,110,312	₱6,110,312	₱—	₱6,110,312
Corporate Banking	4,190,365	2,153,997	2,036,368	4,190,365	2,153,997	2,036,368
Treasury	3,074,730	1,036,567	2,038,163	3,074,730	—	3,074,730
	₱13,375,407	₱3,190,564	₱10,184,843	₱13,375,407	₱2,153,997	₱11,221,410

After the goodwill impairment test, as of December 31, 2023 and 2022, management believes that no reasonably possible change in any of the key assumptions discussed below would cause the carrying value of the goodwill to materially exceed its recoverable amount.

The recoverable amounts of the CGUs have been determined on the basis of the VIU calculation using the discounted cash flows (DCF) model. The DCF model uses earnings projections based on financial budgets approved by senior management and the BOD of the Parent Company covering a three-year period and are discounted to their present value. Estimating future earning involves judgment which takes into account past and actual performance and expected developments in the respective markets and in the overall macro-economic environment.

The following rates were applied to the cash flow projections:

	2023			2022		
	Retail Banking	Corporate Banking	Treasury	Retail Banking	Corporate Banking	Treasury
Pre-tax discount rate	11.92%	11.92%	10.06%	13.23%	13.23%	11.23%
Projected growth rate	5.30%	5.30%	5.30%	5.50%	5.50%	5.50%

The calculation of VIU is most sensitive to estimates of future cash flows from the business, interest margin, discount rates, projected long-term growth rates (derived based on the forecast local gross domestic product) used to extrapolate cash flows beyond the budget period.

The discount rate applied has been determined based on cost of equity for the Retail and Corporate Banking CGUs and weighted average cost of capital (WACC) for the Treasury CGU. WACC is computed by multiplying the cost of equity and the post-tax cost of debt by their relevant weights using debt-equity mix of comparable listed banks, and adding the products together. The cost of equity is derived using the capital asset pricing model which is comprised of a market risk premium, risk-free interest rate and the beta factor, all of which were obtained from external sources of information. The post-tax cost of debt is comprised of the risk-free interest rate and the Group's credit spread, after applying the prevailing corporate income tax.



15. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Financial				
Fund for electronic money products	₱350,000	₱—	₱350,000	₱—
Returned checks and other cash items	28,298	46,253	28,298	46,253
Security deposits (Note 33)	18,279	18,309	—	—
Miscellaneous	5,680	5,769	5,049	5,207
	402,257	70,331	383,347	51,460
Nonfinancial				
Deferred charges (Note 33)	2,065,324	1,477,860	2,060,909	1,472,352
Creditable withholding taxes	1,309,256	856,206	1,098,777	612,550
Real estate inventories held under development (Note 33)	519,448	728,752	519,448	728,752
Documentary stamps on hand	471,092	317,932	470,537	317,378
Prepaid expenses	362,254	340,243	305,023	276,417
Chattel mortgage properties - net of depreciation	304,817	211,619	304,817	82,012
Stationeries and supplies	99,536	81,073	99,283	80,838
Other investments	26,335	26,276	22,609	22,517
Miscellaneous (Note 28)	929,602	1,087,070	523,505	779,767
	6,087,664	5,127,031	5,404,908	4,372,583
	6,489,921	5,197,362	5,788,255	4,424,043
Less allowance for credit and impairment losses (Note 16)	1,035,620	1,041,840	1,035,570	1,025,047
	₱5,454,301	₱4,155,522	₱4,752,685	₱3,398,996

‘Fund for electronic money products’ represents the fund set up held in trust by the Parent Company’s Trust Banking Group (TBG) for the specific purpose of liquidation of balances of e-money products of the Group in compliance with BSP Circular 1166. Such amount held in the trust account shall not fall below the required minimum balance of at least 50.0% of the outstanding e-money balances. The remaining 50.0% are covered by government securities booked under ‘Investment securities at amortized cost’ amounting to ₱363.3 million as of December 31, 2023 (refer to Note 9.3).

‘Deferred charges’ include the share of the Group in the cost of transportation equipment acquired under the Group’s car plan which are amortized monthly over five years.

‘Real estate inventories held under development’ represent parcels of land contributed by the Parent Company under joint arrangements with real estate developers to be developed as residential condominium units and subdivision lots.

‘Chattel mortgage properties’ pertain to motor vehicles, equipment and assets other than real estate properties, which were acquired by the Group in settlement of loans. As of December 31, 2023 and 2022, accumulated depreciation on the chattel mortgage properties amounted to ₱337.6 million and ₱229.1 million, respectively, for the Group and ₱337.6 million and ₱215.3 million, respectively, for the Parent Company. As of December 31, 2023 and 2022, the total recoverable value of certain chattel mortgage properties of the Group and the Parent Company that were impaired is at ₱1.2 million.

‘Miscellaneous financial assets’ include revolving fund, petty cash fund and miscellaneous cash and other cash items. ‘Miscellaneous nonfinancial assets’ include postages, refundable deposits, notes taken for interest and sundry debits.



16. Impairment, Credit and Other Losses

16.1 Provision for Impairment, Credit and Other Losses

This account consists of:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Continuing operations:						
Provision for credit losses	₱5,613,112	₱7,159,781	₱10,980,450	₱5,390,322	₱7,171,812	₱11,220,504
Provision for (reversal of) impairment and other losses	309,942	38,336	(255,436)	309,942	133,841	(248,764)
	5,923,054	7,198,117	10,725,014	5,700,264	7,305,653	10,971,740
Discontinued operations (Note 36):						
Provision for credit and impairment losses	—	—	88,141	—	—	—
	₱5,923,054	₱7,198,117	₱10,813,155	₱5,700,264	₱7,305,653	₱10,971,740

16.2 Allowance for Impairment and Credit Losses

Changes in the allowance for credit losses on financial assets follow:

	Consolidated						
	2023						
	Securities Held Under Agreements to Resell	Due from Other Banks	Interbank Loans Receivable	Financial Assets at FVOCI	Investment Securities at Amortized Cost	Loans and Receivables	Total
Balance at beginning of year	₱2,188	₱9,898	₱1,369	₱121,585	₱3,847,850	₱38,944,781	₱42,927,671
Provisions (reversals)	11,964	—	6,676	(75,912)	(15,770)	5,686,178	5,613,136
Accounts charged-off	—	—	—	—	(3,676,245)	(1,418,830)	(5,095,075)
Transfers and others	—	—	—	—	—	(640,223)	(640,223)
Balance at end of year	₱14,152	₱9,898	₱8,045	₱45,673	₱155,835	₱42,571,906	₱42,805,509

	Consolidated							
	2022							
	Securities Held Under Agreements to Resell	Due from Other Banks	Interbank Loans Receivable	Financial Assets at FVOCI	Investment Securities at Amortized Cost	Loans and Receivables	Other Assets	Total
Balance at beginning of year	₱3,644	₱10,593	₱6,579	₱134,151	₱3,822,166	₱39,340,761	₱500	₱43,318,394
Provisions (reversals)	(1,456)	(695)	(5,210)	(12,566)	25,684	7,154,524	(500)	7,159,781
Accounts charged-off	—	—	—	—	—	(2,785,836)	—	(2,785,836)
Loan settlement through dacion (Note 33)	—	—	—	—	—	(4,591,743)	—	(4,591,743)
Transfers and others	—	—	—	—	—	(172,925)	—	(172,925)
Balance at end of year	₱2,188	₱9,898	₱1,369	₱121,585	₱3,847,850	₱38,944,781	₱—	₱42,927,671

	Parent Company							
	2023							
	Securities Held Under Agreements to Resell	Due from Other Banks	Interbank Loans Receivable	Financial Assets at FVOCI	Investment Securities at Amortized Cost	Loans and Receivables		Total
Balance at beginning of year	₱2,188	₱9,873	₱1,369	₱119,452	₱3,847,850	₱39,445,838		₱43,426,570
Provisions (reversals)	11,964	—	6,676	(72,676)	(15,770)	5,460,128		5,390,322
Accounts charged-off	—	—	—	—	(3,676,245)	(1,418,830)		(5,095,075)
Loan settlement through dacion and assignment (Note 33)	—	—	—	—	—	(1,404,582)		(1,404,582)
Transfers and others	—	—	—	—	—	484,674		484,674
Balance at end of year	₱14,152	₱9,873	₱8,045	₱46,776	₱155,835	₱42,567,228		₱42,801,909



	Parent Company							Total
	Securities Held Under Agreements to Resell	Due from Other Banks	Interbank Loans Receivable	Financial Assets at FVOCI	Investment Securities at Amortized Cost	Loans and Receivables	Other Assets	
Balance at beginning of year	₱3,644	₱9,873	₱6,579	₱131,521	₱3,822,166	₱39,225,977	₱500	₱43,200,260
Provisions (reversals)	(1,456)	—	(5,210)	(12,069)	25,684	7,165,363	(500)	7,171,812
Accounts charged-off	—	—	—	—	—	(2,078,219)	—	(2,078,219)
Loan settlement through dacion (Note 33)	—	—	—	—	—	(4,591,743)	—	(4,591,743)
Transfers and others	—	—	—	—	—	(275,540)	—	(275,540)
Balance at end of year	₱2,188	₱9,873	₱1,369	₱119,452	₱3,847,850	₱39,445,838	₱—	₱43,426,570

Movements in the allowance for impairment and other losses on non-financial assets follow:

	Consolidated				2022			
	Property and Equipment	Investment Properties	Other Assets	Total	Property and Equipment	Investment Properties	Other Assets	Total
Balance at beginning of year	₱1,168,887	₱2,175,669	₱1,041,840	₱4,386,396	₱1,168,887	₱2,204,822	₱1,068,716	₱4,442,425
Provisions (reversals)	(38)	166,099	143,881	309,942	—	33,299	5,037	38,336
Disposals	(35,557)	(27,151)	(248)	(62,956)	—	(55,884)	(10,077)	(65,961)
Transfers and others	—	4,283	(149,853)	(145,570)	—	(6,568)	(21,836)	(28,404)
Balance at end of year	₱1,133,292	₱2,318,900	₱1,035,620	₱4,487,812	₱1,168,887	₱2,175,669	₱1,041,840	₱4,386,396

	Parent Company				2022			
	Property and Equipment	Investment Properties	Other Assets	Total	Property and Equipment	Investment Properties	Other Assets	Total
Balance at beginning of year	₱1,168,887	₱2,150,968	₱1,025,047	₱4,344,902	₱1,168,887	₱2,175,670	₱1,045,572	₱4,390,129
Provisions (reversals)	(38)	166,099	143,881	309,942	—	33,299	100,542	133,841
Disposals	(35,557)	(27,151)	(248)	(62,956)	—	(55,884)	(3,725)	(59,609)
Transfers and others	—	4,283	(133,110)	(128,827)	—	(2,117)	(117,342)	(119,459)
Balance at end of year	₱1,133,292	₱2,294,199	₱1,035,570	₱4,463,061	₱1,168,887	₱2,150,968	₱1,025,047	₱4,344,902

The reconciliation of allowance for loans and receivables are shown below:

	Consolidated				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Corporate Loans								
Beginning Balance	₱1,455,038	₱5,954,356	₱17,270,216	₱24,679,610	₱459,223	₱859,753	₱24,311,397	₱25,630,373
Transfers to Stage 1	22,816	(22,816)	—	—	124,442	(122,231)	(2,211)	—
Transfers to Stage 2	(572,482)	647,566	(75,084)	—	(13,026)	7,561,264	(7,548,238)	—
Transfers to Stage 3	(331,606)	(3,394,552)	3,726,158	—	(2,707)	(181,214)	183,921	—
Provisions (reversals)	1,200,421	(289,526)	2,718,659	3,629,554	887,106	(2,163,216)	5,165,128	3,889,018
Accounts charged off	—	—	(27,654)	(27,654)	—	—	(48,784)	(48,784)
Loan settlement through dacion (Note 33)	—	—	—	—	—	—	(4,580,430)	(4,580,430)
Other movements	—	—	—	—	—	—	(210,567)	(210,567)
Ending Balance	1,774,187	2,895,028	23,612,295	28,281,510	1,455,038	5,954,356	17,270,216	24,679,610
LGU								
Beginning Balance	472	8,471	65,694	74,637	265	10,632	67,798	78,695
Provisions (reversals)	(81)	(1,787)	(2,478)	(4,346)	207	(2,161)	(2,104)	(4,058)
Ending Balance	391	6,684	63,216	70,291	472	8,471	65,694	74,637
Credit Cards								
Beginning Balance	491,509	83,742	712,977	1,288,228	61,472	26,686	2,319,769	2,407,927
Transfers to Stage 1	22,578	(16,917)	(5,661)	—	14,583	(5,637)	(8,946)	—
Transfers to Stage 2	(17,425)	17,465	(40)	—	(1,666)	2,188	(522)	—
Transfers to Stage 3	(25,370)	(12,031)	37,401	—	(2,726)	(3,171)	5,897	—
Provisions	37,154	37,624	844,677	919,455	419,846	63,676	411,234	894,756
Accounts charged off	—	—	(892,571)	(892,571)	—	—	(2,014,455)	(2,014,455)
Ending Balance	508,446	109,883	696,783	1,315,112	491,509	83,742	712,977	1,288,228
Retail SMEs								
Beginning Balance	200,621	26,631	1,337,812	1,565,064	156,723	16,002	1,643,255	1,815,980
Transfers to Stage 1	110	—	(110)	—	15,101	(386)	(14,715)	—
Transfers to Stage 2	(1,051)	2,229	(1,178)	—	(51,349)	51,549	(200)	—
Transfers to Stage 3	—	(80,052)	80,052	—	(736)	(1,050)	1,786	—

(Forward)



	Consolidated							
	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Provisions (reversals)	(P11,015)	P61,308	P463,438	P513,731	P80,882	(P39,484)	P402,656	P444,054
Accounts charged off	—	—	(401,774)	(401,774)	—	—	(694,970)	(694,970)
Other movements	—	—	(689,424)	(689,424)	—	—	—	—
Ending Balance	188,665	10,116	788,816	987,597	200,621	26,631	1,337,812	1,565,064
Housing Loans								
Beginning Balance	447,670	115,108	3,785,067	4,347,845	256,953	54,367	3,121,446	3,432,766
Transfers to Stage 1	43,356	(6,424)	(36,932)	—	527,271	(17,691)	(509,580)	—
Transfers to Stage 2	(30,074)	43,180	(13,106)	—	(5,794)	71,159	(65,365)	—
Transfers to Stage 3	(260,638)	(124,595)	385,233	—	(33,977)	(26,337)	60,314	—
Provisions (reversals)	325,582	19,928	(165,041)	180,469	(296,783)	33,610	1,178,252	915,079
Ending Balance	525,896	47,197	3,955,221	4,528,314	447,670	115,108	3,785,067	4,347,845
Auto Loans								
Beginning Balance	20,844	2,253	1,497,222	1,520,319	8,996	2,166	1,467,584	1,478,746
Transfers to Stage 1	600	(131)	(469)	—	85,614	(671)	(84,943)	—
Transfers to Stage 2	(476)	525	(49)	—	(197)	5,619	(5,422)	—
Transfers to Stage 3	(21,039)	(10,155)	31,194	—	(350)	(1,213)	1,563	—
Provisions (reversals)	25,764	8,194	(401,452)	(367,494)	(73,219)	(3,648)	124,794	47,927
Accounts charged off	—	—	(47,526)	(47,526)	—	—	(6,354)	(6,354)
Ending Balance	25,693	686	1,078,920	1,105,299	20,844	2,253	1,497,222	1,520,319
Other Loans								
Beginning Balance	15,750	78,197	1,168,060	1,262,007	242,940	8,236	716,032	967,208
Transfers to Stage 1	1,364	(244)	(1,120)	—	302,607	(3,134)	(299,473)	—
Transfers to Stage 2	(148,740)	216,224	(67,484)	—	(50)	27,615	(27,565)	—
Transfers to Stage 3	(42,076)	(6,097)	48,173	—	(506)	(2,527)	3,033	—
Provisions (reversals)	245,496	(23,372)	(219,101)	3,023	(529,241)	48,007	788,680	307,446
Accounts charged off	—	—	—	—	—	—	(12,647)	(12,647)
Ending Balance	71,794	264,708	928,528	1,265,030	15,750	78,197	1,168,060	1,262,007
Other Receivables								
Beginning Balance	87,993	148,230	3,970,848	4,207,071	81,507	33,359	3,414,200	3,529,066
Transfers to Stage 1	162	(138)	(24)	—	26	(5)	(21)	—
Transfers to Stage 2	(4,115)	4,177	(62)	—	(758)	10,530	(9,772)	—
Transfers to Stage 3	(3,463)	(421,743)	425,206	—	(4,861)	(15,475)	20,336	—
Provisions	50,698	306,790	454,298	811,786	12,079	119,821	528,402	660,302
Accounts charged off	—	—	(49,305)	(49,305)	—	—	(8,626)	(8,626)
Loan settlement through dacion (Note 33)	—	—	—	—	—	—	(11,313)	(11,313)
Other movements	—	—	49,201	49,201	—	—	37,642	37,642
Ending Balance	131,275	37,316	4,850,162	5,018,753	87,993	148,230	3,970,848	4,207,071
Total Loans and Receivables								
Beginning Balance	2,719,897	6,416,988	29,807,896	38,944,781	1,268,079	1,011,201	37,061,481	39,340,761
Transfers to Stage 1	90,986	(46,670)	(44,316)	—	1,069,644	(149,755)	(919,889)	—
Transfers to Stage 2	(774,363)	931,366	(157,003)	—	(72,840)	7,729,924	(7,657,084)	—
Transfers to Stage 3	(684,192)	(4,049,225)	4,733,417	—	(45,863)	(230,987)	276,850	—
Provisions (reversals)	1,874,019	119,159	3,693,000	5,686,178	500,877	(1,943,395)	8,597,042	7,154,524
Accounts charged off	—	—	(1,418,830)	(1,418,830)	—	—	(2,785,836)	(2,785,836)
Loan settlement through dacion (Note 33)	—	—	—	—	—	—	(4,591,743)	(4,591,743)
Other movements	—	—	(640,223)	(640,223)	—	—	(172,925)	(172,925)
Ending Balance	P3,226,347	P3,371,618	P35,973,941	P42,571,906	P2,719,897	P6,416,988	P29,807,896	P38,944,781

	Parent Company							
	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Corporate Loans								
Beginning Balance	P1,671,731	P5,954,139	P18,336,117	P25,961,987	P798,447	P848,687	P25,253,746	P26,900,880
Transfers to Stage 1	22,816	(22,816)	—	—	124,373	(122,162)	(2,211)	—
Transfers to Stage 2	(572,482)	647,566	(75,084)	—	(13,026)	7,561,264	(7,548,238)	—
Transfers to Stage 3	(331,606)	(3,394,552)	3,726,158	—	(2,707)	(181,214)	183,921	—
Provisions (reversals)	858,154	(289,309)	3,049,732	3,618,577	764,644	(2,152,436)	5,373,591	3,985,799
Accounts charged off	—	—	(27,654)	(27,654)	—	—	(48,784)	(48,784)
Loan settlement through dacion and assignment (Note 33)	—	—	(1,404,582)	(1,404,582)	—	—	(4,580,430)	(4,580,430)
Other movements	—	—	424,970	424,970	—	—	(295,478)	(295,478)
Ending Balance	1,648,613	2,895,028	24,029,657	28,573,298	1,671,731	5,954,139	18,336,117	25,961,987
LGU								
Beginning Balance	472	8,471	65,694	74,637	265	10,632	67,798	78,695
Provisions (reversals)	(81)	(1,787)	(2,478)	(4,346)	207	(2,161)	(2,104)	(4,058)
Ending Balance	391	6,684	63,216	70,291	472	8,471	65,694	74,637
Credit Cards								
Beginning Balance	491,509	83,742	712,977	1,288,228	61,472	26,686	2,319,769	2,407,927
Transfers to Stage 1	22,578	(16,917)	(5,661)	—	14,583	(5,637)	(8,946)	—
Transfers to Stage 2	(17,425)	17,465	(40)	—	(1,666)	2,188	(522)	—
Transfers to Stage 3	(25,370)	(12,031)	37,401	—	(2,726)	(3,171)	5,897	—
Provisions	37,154	37,624	844,677	919,455	419,846	63,676	411,234	894,756
Accounts charged off	—	—	(892,571)	(892,571)	—	—	(2,014,455)	(2,014,455)
Ending Balance	508,446	109,883	696,783	1,315,112	491,509	83,742	712,977	1,288,228

(Forward)



	Parent Company							
	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Retail SMEs								
Beginning Balance	₱182,003	₱23,329	₱798,798	₱1,004,130	₱151,201	₱3,712	₱498,101	₱653,014
Transfers to Stage 1	110	—	(110)	—	14,744	(29)	(14,715)	—
Transfers to Stage 2	(1,051)	2,229	(1,178)	—	(50,978)	51,178	(200)	—
Transfers to Stage 3	—	(80,052)	80,052	—	(305)	(780)	1,085	—
Provisions (reversals)	7,603	64,599	308,208	380,410	67,341	(30,752)	314,527	351,116
Accounts charged off	—	—	(401,774)	(401,774)	—	—	—	—
Ending Balance	188,665	10,105	783,996	982,766	182,003	23,329	798,798	1,004,130
Housing Loans								
Beginning Balance	445,982	114,780	3,776,024	4,336,786	₱240,858	₱54,367	₱3,119,744	₱3,414,969
Transfers to Stage 1	43,356	(6,424)	(36,932)	—	527,271	(17,691)	(509,580)	—
Transfers to Stage 2	(30,074)	43,180	(13,106)	—	(5,666)	71,031	(65,365)	—
Transfers to Stage 3	(260,638)	(124,595)	385,233	—	(15,874)	(26,337)	42,211	—
Provisions (reversals)	325,990	20,256	(172,545)	173,701	(300,607)	33,410	1,189,014	921,817
Ending Balance	524,616	47,197	3,938,674	4,510,487	445,982	114,780	3,776,024	4,336,786
Auto Loans								
Beginning Balance	20,844	2,253	1,497,222	1,520,319	8,996	2,166	1,467,584	1,478,746
Transfers to Stage 1	600	(131)	(469)	—	85,614	(671)	(84,943)	—
Transfers to Stage 2	(476)	525	(49)	—	(197)	5,619	(5,422)	—
Transfers to Stage 3	(21,039)	(10,155)	31,194	—	(350)	(1,213)	1,563	—
Provisions (reversals)	25,764	8,194	(401,452)	(367,494)	(73,219)	(3,648)	124,794	47,927
Accounts charged off	—	—	(47,526)	(47,526)	—	—	(6,354)	(6,354)
Ending Balance	25,693	686	1,078,920	1,105,299	20,844	2,253	1,497,222	1,520,319
Other Loans								
Beginning Balance	15,739	64,561	1,181,666	1,261,966	242,936	8,236	703,090	954,262
Transfers to Stage 1	1,364	(244)	(1,120)	—	302,597	(3,134)	(299,463)	—
Transfers to Stage 2	(148,740)	216,224	(67,484)	—	(50)	27,615	(27,565)	—
Transfers to Stage 3	(42,076)	(6,097)	48,173	—	(506)	(2,527)	3,033	—
Provisions (reversals)	245,497	(9,736)	(232,707)	3,054	(529,238)	34,371	802,571	307,704
Ending Balance	71,784	264,708	928,528	1,265,020	15,739	64,561	1,181,666	1,261,966
Other Receivables								
Beginning Balance	34,342	37,308	3,926,135	3,997,785	45,243	32,820	3,259,421	3,337,484
Transfers to Stage 1	162	(138)	(24)	—	26	(5)	(21)	—
Transfers to Stage 2	(4,115)	4,177	(62)	—	(758)	10,530	(9,772)	—
Transfers to Stage 3	(3,463)	(421,743)	425,206	—	(4,861)	(15,475)	20,336	—
Provisions (reversals)	(4,261)	413,289	327,743	736,771	(5,308)	9,438	656,172	660,302
Accounts charged off	—	—	(49,305)	(49,305)	—	—	(8,626)	(8,626)
Loan settlement through dacion (Note 33)	—	—	—	—	—	—	(11,313)	(11,313)
Other movements	—	—	59,704	59,704	—	—	19,938	19,938
Ending Balance	22,665	32,893	4,689,397	4,744,955	34,342	37,308	3,926,135	3,997,785
Total Loans and Receivables								
Beginning Balance	2,862,622	6,288,583	30,294,633	39,445,838	1,549,418	987,306	36,689,253	39,225,977
Transfers to Stage 1	90,986	(46,670)	(44,316)	—	1,069,208	(149,329)	(919,879)	—
Transfers to Stage 2	(774,363)	931,366	(157,003)	—	(72,341)	7,729,425	(7,657,084)	—
Transfers to Stage 3	(684,192)	(4,049,225)	4,733,417	—	(27,329)	(230,717)	258,046	—
Provisions (reversals)	1,495,820	243,130	3,721,178	5,460,128	343,666	(2,048,102)	8,869,799	7,165,363
Accounts charged off	—	—	(1,418,830)	(1,418,830)	—	—	(2,078,219)	(2,078,219)
Loan settlement through dacion and assignment (Note 33)	—	—	(1,404,582)	(1,404,582)	—	—	(4,591,743)	(4,591,743)
Other movements	—	—	484,674	484,674	—	—	(275,540)	(275,540)
Ending Balance	₱2,990,873	₱3,367,184	₱36,209,171	₱42,567,228	₱2,862,622	₱6,288,583	₱30,294,633	₱39,445,838

16.3 Gross Carrying Amounts of Loans and Receivables

Movements of the gross carrying amounts of loans and receivables are shown below:

	Consolidated							
	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Corporate Loans								
Beginning Balance	₱439,476,954	₱73,633,834	₱27,884,820	₱540,995,608	₱473,712,387	₱24,933,143	₱55,428,704	₱554,074,234
Newly originated assets which remained in Stage 1 at yearend	256,828,762	—	—	256,828,762	122,147,585	—	—	122,147,585
Newly originated assets which moved to Stages 2 and 3 at yearend	—	12,486,650	7,244,151	19,730,801	—	4,634,768	3,170,272	7,805,040
Transfers to Stage 1	20,808,870	(20,808,870)	—	—	2,158,216	(2,153,301)	(4,915)	—
Transfers to Stage 2	(2,438,133)	2,776,640	(338,507)	—	(25,259,322)	53,397,854	(28,138,532)	—
Transfers to Stage 3	(851,326)	(5,941,406)	6,792,732	—	(1,160,805)	(2,473,557)	3,634,362	—
Accounts charged off	—	—	(27,654)	(27,654)	—	—	(48,784)	(48,784)
Loan settlement through dacion (Note 33)	—	—	—	—	—	—	(5,958,906)	(5,958,906)
Collections and other movements	(202,085,864)	(34,664,547)	(8,579,380)	(245,329,791)	(132,121,107)	(4,705,073)	(197,381)	(137,023,561)
Ending Balance	511,739,263	27,482,301	32,976,162	572,197,726	439,476,954	73,633,834	27,884,820	540,995,608

(Forward)



	Consolidated							
	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
LGU								
Beginning Balance	₱2,753,214	₱35,320	₱56,658	₱2,845,192	₱4,216,332	₱46,154	₱57,227	₱4,319,713
Newly originated assets which remained in Stage 1 at yearend	—	—	—	—	35,962	—	—	35,962
Collections and other movements	(569,928)	(7,181)	(1,758)	(578,867)	(1,499,080)	(10,834)	(569)	(1,510,483)
Ending Balance	2,183,286	28,139	54,900	2,266,325	2,753,214	35,320	56,658	2,845,192
Credit Cards								
Beginning Balance	13,157,391	315,914	909,376	14,382,681	10,468,937	269,413	2,418,595	13,156,945
Newly originated assets which remained in Stage 1 at yearend	1,165,134	—	—	1,165,134	998,216	—	—	998,216
Newly originated assets which moved to Stages 2 and 3 at yearend	—	29,616	18,927	48,543	—	39,134	20,775	59,909
Transfers to Stage 1	69,818	(62,026)	(7,792)	—	71,224	(61,373)	(9,851)	—
Transfers to Stage 2	(325,428)	325,528	(100)	—	(218,986)	219,544	(558)	—
Transfers to Stage 3	(424,262)	(52,755)	477,017	—	(309,359)	(40,798)	350,157	—
Accounts charged off	—	—	(892,571)	(892,571)	—	—	(2,014,455)	(2,014,455)
Collections and other movements	565,900	(115,915)	79,073	529,058	2,147,359	(110,006)	144,713	2,182,066
Ending Balance	14,208,553	440,362	583,930	15,232,845	13,157,391	315,914	909,376	14,382,681
Retail SMEs								
Beginning Balance	3,995,703	342,969	1,961,582	6,300,254	6,432,116	159,012	2,747,777	9,338,905
Newly originated assets which remained in Stage 1 at yearend	3,924,066	—	—	3,924,066	1,238,722	—	—	1,238,722
Newly originated assets which moved to Stages 2 and 3 at yearend	—	112,457	72,686	185,143	—	130,105	111,941	242,046
Transfers to Stage 1	4,227	—	(4,227)	—	23,795	(6,761)	(17,034)	—
Transfers to Stage 2	(21,867)	31,237	(9,370)	—	(16,610)	17,943	(1,333)	—
Transfers to Stage 3	—	(119,106)	119,106	—	(14,693)	(12,200)	26,893	—
Accounts charged off	—	—	(401,774)	(401,774)	—	—	(694,970)	(694,970)
Collections and other movements	(3,748,760)	(216,101)	(670,780)	(4,635,641)	(3,667,627)	54,870	(211,692)	(3,824,449)
Ending Balance	4,153,369	151,456	1,067,223	5,372,048	3,995,703	342,969	1,961,582	6,300,254
Housing Loans								
Beginning Balance	18,886,113	673,099	9,029,811	28,589,023	20,002,043	486,743	10,428,783	30,917,569
Newly originated assets which remained in Stage 1 at yearend	3,153,824	—	—	3,153,824	1,992,738	—	—	1,992,738
Newly originated assets which moved to Stages 2 and 3 at yearend	—	14,017	48,035	62,052	—	47,129	50,829	97,958
Transfers to Stage 1	1,234,984	(167,456)	(1,067,528)	—	2,075,863	(155,598)	(1,920,265)	—
Transfers to Stage 2	(160,577)	225,036	(64,459)	—	(417,363)	651,867	(234,504)	—
Transfers to Stage 3	(819,808)	(407,824)	1,227,632	—	(1,240,805)	(238,698)	1,479,503	—
Collections and other movements	(2,163,666)	(88,190)	(1,251,752)	(3,503,608)	(3,526,363)	(118,344)	(774,535)	(4,419,242)
Ending Balance	20,130,870	248,682	7,921,739	28,301,291	18,886,113	673,099	9,029,811	28,589,023
Auto Loans								
Beginning Balance	5,017,858	102,192	1,970,284	7,090,334	5,868,366	162,915	2,733,492	8,764,773
Newly originated assets which remained in Stage 1 at yearend	2,513,456	—	—	2,513,456	1,746,814	—	—	1,746,814
Newly originated assets which moved to Stages 2 and 3 at yearend	—	4,842	4,158	9,000	—	21,772	17,342	39,114
Transfers to Stage 1	78,374	(17,998)	(60,376)	—	343,352	(46,882)	(296,470)	—
Transfers to Stage 2	(15,461)	16,928	(1,467)	—	(121,463)	144,467	(23,004)	—
Transfers to Stage 3	(83,541)	(33,541)	117,082	—	(227,317)	(87,418)	314,735	—
Accounts charged off	—	—	(47,526)	(47,526)	—	—	(6,354)	(6,354)
Collections and other movements	(2,294,326)	(49,450)	(718,705)	(3,062,481)	(2,591,894)	(92,662)	(769,457)	(3,454,013)
Ending Balance	5,216,360	22,973	1,263,450	6,502,783	5,017,858	102,192	1,970,284	7,090,334
Other Loans								
Beginning Balance	9,131,926	1,546,924	1,976,100	12,654,950	7,321,531	367,134	1,165,984	8,854,649
Newly originated assets which remained in Stage 1 at yearend	6,201,837	—	—	6,201,837	3,478,963	—	—	3,478,963
Newly originated assets which moved to Stages 2 and 3 at yearend	—	1,244,295	39,581	1,283,876	—	969,907	27,777	997,684
Transfers to Stage 1	38,851	(7,370)	(31,481)	—	774,098	(43,098)	(731,000)	—
Transfers to Stage 2	(619,725)	836,675	(216,950)	—	(12,420)	181,997	(169,577)	—
Transfers to Stage 3	(141,647)	(20,036)	161,683	—	(1,057,002)	(2,473,557)	3,530,559	—
Accounts charged off	—	—	—	—	—	—	(12,647)	(12,647)
Collections and other movements	(6,423,599)	(1,513,010)	(278,804)	(8,215,413)	(1,373,244)	2,544,541	(1,834,996)	(663,699)
Ending Balance	8,187,643	2,087,478	1,650,129	11,925,250	9,131,926	1,546,924	1,976,100	12,654,950
Other Receivables								
Beginning Balance	15,069,109	289,229	3,828,316	19,186,654	14,609,695	(1,203,874)	3,461,903	16,867,724
Newly originated assets which remained in Stage 1 at yearend	1,334,540	—	—	1,334,540	714,679	—	—	714,679
Newly originated assets which moved to Stages 2 and 3 at yearend	—	49,057	126,499	175,556	—	52,632	35,331	87,963
Transfers to Stage 1	123,622	(118,182)	(5,440)	—	14,435	(5,955)	(8,480)	—
Transfers to Stage 2	(23,562)	24,591	(1,029)	—	(162,383)	270,582	(108,199)	—
Transfers to Stage 3	(9,949)	(925,493)	935,442	—	(16,131)	(50,442)	66,573	—
Accounts charged off	—	—	(49,305)	(49,305)	—	—	(8,626)	(8,626)
Loan settlement through dacion (Note 33)	—	—	—	—	—	—	(13,656)	(13,656)
Collections and other movements	(5,363,285)	950,839	1,249,385	(3,163,061)	(91,186)	1,226,286	403,470	1,538,570
(Forward)								



	Consolidated							
	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Ending Balance	₱11,130,475	₱270,041	₱6,083,868	₱17,484,384	₱15,069,109	₱289,229	₱3,828,316	₱19,186,654
Total Loans and Receivables								
Beginning Balance	507,488,268	76,939,481	47,616,947	632,044,696	542,631,407	25,220,640	78,442,465	646,294,512
Newly originated assets which remained in Stage 1 at yearend	275,121,619	—	—	275,121,619	132,353,679	—	—	132,353,679
Newly originated assets which moved to Stages 2 and 3 at yearend	—	13,940,934	7,554,037	21,494,971	—	5,895,447	3,434,267	9,329,714
Transfers to Stage 1	22,358,746	(21,181,902)	(1,176,844)	—	5,460,983	(2,472,968)	(2,988,015)	—
Transfers to Stage 2	(3,604,753)	4,236,635	(631,882)	—	(26,208,547)	54,884,254	(28,675,707)	—
Transfers to Stage 3	(2,330,533)	(7,500,161)	9,830,694	—	(4,026,112)	(5,376,670)	9,402,782	—
Accounts charged off	—	—	(1,418,830)	(1,418,830)	—	—	(2,785,836)	(2,785,836)
Loan settlement through dacion (Note 33)	—	—	—	—	—	—	(5,972,562)	(5,972,562)
Collections and other movements	(222,083,528)	(35,703,555)	(10,172,721)	(267,959,804)	(142,723,142)	(1,211,222)	(3,240,447)	(147,174,811)
Ending Balance	₱576,949,819	₱30,731,432	₱51,601,401	₱659,282,652	₱507,488,268	₱76,939,481	₱47,616,947	₱632,044,696
	Parent Company							
	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Corporate Loans								
Beginning Balance	₱427,520,330	₱73,589,787	₱28,922,622	₱530,032,739	₱464,785,519	₱24,852,656	₱55,228,912	₱544,867,087
Newly originated assets which remained in Stage 1 at yearend	249,130,331	—	—	249,130,331	115,715,916	—	—	115,715,916
Newly originated assets which moved to Stages 2 and 3 at yearend	—	12,486,650	7,244,151	19,730,801	—	4,616,638	3,170,128	7,786,766
Transfers to Stage 1	20,808,870	(20,808,870)	—	—	2,181,944	(2,177,029)	(4,915)	—
Transfers to Stage 2	(2,438,133)	2,776,640	(338,507)	—	(25,259,322)	53,397,854	(28,138,532)	—
Transfers to Stage 3	(851,326)	(5,941,406)	6,792,732	—	(1,057,002)	(2,473,557)	3,530,559	—
Accounts charged off	—	—	(27,654)	(27,654)	—	—	(48,784)	(48,784)
Loan settlement through dacion and assignment (Note 33)	—	—	(1,404,582)	(1,404,582)	—	—	(5,958,906)	(5,958,906)
Collections and other movements	(195,107,142)	(34,655,099)	(8,245,169)	(238,007,410)	(128,846,725)	(4,626,775)	1,144,160	(132,329,340)
Ending Balance	499,062,930	27,447,702	32,943,593	559,454,225	427,520,330	73,589,787	28,922,622	530,032,739
LGU								
Beginning Balance	2,753,214	35,320	56,658	2,845,192	4,216,332	46,154	57,227	4,319,713
Newly originated assets which remained in Stage 1 at yearend	—	—	—	—	35,962	—	—	35,962
Collections and other movements	(569,928)	(7,181)	(1,758)	(578,867)	(1,499,080)	(10,834)	(569)	(1,510,483)
Ending Balance	2,183,286	28,139	54,900	2,266,325	2,753,214	35,320	56,658	2,845,192
Credit Cards								
Beginning Balance	13,157,391	315,914	909,376	14,382,681	10,468,937	269,413	2,418,595	13,156,945
Newly originated assets which remained in Stage 1 at yearend	1,165,134	—	—	1,165,134	998,216	—	—	998,216
Newly originated assets which moved to Stages 2 and 3 at yearend	—	29,616	18,927	48,543	—	39,134	20,775	59,909
Transfers to Stage 1	69,818	(62,026)	(7,792)	—	71,224	(61,373)	(9,851)	—
Transfers to Stage 2	(325,428)	325,528	(100)	—	(218,986)	219,544	(558)	—
Transfers to Stage 3	(424,262)	(52,755)	477,017	—	(309,359)	(40,798)	350,157	—
Accounts charged off	—	—	(892,571)	(892,571)	—	—	(2,014,455)	(2,014,455)
Collections and other movements	565,900	(115,915)	79,073	529,058	2,147,359	(110,006)	144,713	2,182,066
Ending Balance	14,208,553	440,362	583,930	15,232,845	13,157,391	315,914	909,376	14,382,681
Retail SMEs								
Beginning Balance	3,544,176	317,549	1,078,655	4,940,380	5,193,066	53,425	1,157,488	6,403,979
Newly originated assets which remained in Stage 1 at yearend	3,924,066	—	—	3,924,066	1,238,487	—	—	1,238,487
Newly originated assets which moved to Stages 2 and 3 at yearend	—	112,457	72,686	185,143	—	118,816	34,130	152,946
Transfers to Stage 1	4,227	—	(4,227)	—	18,280	(1,246)	(17,034)	—
Transfers to Stage 2	(21,867)	31,237	(9,370)	—	(11,941)	13,274	(1,333)	—
Transfers to Stage 3	—	(119,106)	119,106	—	(12,020)	(11,609)	23,629	—
Accounts charged off	—	—	(401,774)	(401,774)	—	—	—	—
Collections and other movements	(3,297,349)	(190,664)	202,045	(3,285,968)	(2,881,696)	144,889	(118,225)	(2,855,032)
Ending Balance	4,153,253	151,473	1,057,121	5,361,847	3,544,176	317,549	1,078,655	4,940,380
Housing Loans								
Beginning Balance	18,020,708	640,238	9,002,446	27,663,392	19,118,020	486,743	10,417,506	30,022,269
Newly originated assets which remained in Stage 1 at yearend	3,046,281	—	—	3,046,281	1,898,095	—	—	1,898,095
Newly originated assets which moved to Stages 2 and 3 at yearend	—	14,017	48,035	62,052	—	17,655	50,829	68,484
Transfers to Stage 1	1,234,984	(167,456)	(1,067,528)	—	2,076,403	(156,138)	(1,920,265)	—
Transfers to Stage 2	(160,577)	225,036	(64,459)	—	(417,145)	651,867	(234,722)	—
Transfers to Stage 3	(819,808)	(378,350)	1,198,158	—	(1,196,361)	(238,698)	1,435,059	—
Collections and other movements	(1,967,397)	(84,803)	(1,195,246)	(3,247,446)	(3,458,304)	(121,191)	(745,961)	(4,325,456)
Ending Balance	19,354,191	248,682	7,921,406	27,524,279	18,020,708	640,238	9,002,446	27,663,392
(Forward)								



	Parent Company							
	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Auto Loans								
Beginning Balance	₱5,017,858	₱102,192	₱1,970,284	₱7,090,334	₱5,868,366	₱162,915	₱2,733,492	₱8,764,773
Newly originated assets which remained in Stage 1 at yearend	2,513,456	—	—	2,513,456	1,746,814	—	—	1,746,814
Newly originated assets which moved to Stages 2 and 3 at yearend	—	4,842	4,158	9,000	—	21,772	17,342	39,114
Transfers to Stage 1	78,374	(17,998)	(60,376)	—	343,352	(46,882)	(296,470)	—
Transfers to Stage 2	(15,461)	16,928	(1,467)	—	(121,463)	144,467	(23,004)	—
Transfers to Stage 3	(83,541)	(33,541)	117,082	—	(227,317)	(87,418)	314,735	—
Accounts charged off	—	—	(47,526)	(47,526)	—	—	(6,354)	(6,354)
Collections and other movements	(2,294,326)	(49,450)	(718,705)	(3,062,481)	(2,591,894)	(92,662)	(769,457)	(3,454,013)
Ending Balance	5,216,360	22,973	1,263,450	6,502,783	5,017,858	102,192	1,970,284	7,090,334
Other Loans								
Beginning Balance	9,039,529	1,546,924	1,976,100	12,562,553	5,855,851	367,134	1,152,059	7,375,044
Newly originated assets which remained in Stage 1 at yearend	6,201,837	—	—	6,201,837	3,478,963	—	—	3,478,963
Newly originated assets which moved to Stages 2 and 3 at yearend	—	1,244,295	39,581	1,283,876	—	969,907	27,777	997,684
Transfers to Stage 1	38,851	(7,370)	(31,481)	—	773,086	(43,098)	(729,988)	—
Transfers to Stage 2	(616,273)	833,223	(216,950)	—	(12,420)	181,997	(169,577)	—
Transfers to Stage 3	(141,647)	(20,036)	161,683	—	(1,057,002)	(2,473,557)	3,530,559	—
Collections and other movements	(6,422,562)	(1,509,558)	(278,804)	(8,210,924)	1,051	2,544,541	(1,834,730)	710,862
Ending Balance	8,099,735	2,087,478	1,650,129	11,837,342	9,039,529	1,546,924	1,976,100	12,562,553
Other Receivables								
Beginning Balance	13,979,637	279,963	3,663,985	17,923,585	13,007,324	515,733	3,291,871	16,814,928
Newly originated assets which remained in Stage 1 at yearend	1,334,540	—	—	1,334,540	714,679	—	—	714,679
Newly originated assets which moved to Stages 2 and 3 as at year-end	—	49,057	126,499	175,556	—	52,632	35,331	87,963
Transfers to Stage 1	123,622	(118,182)	(5,440)	—	14,435	(5,955)	(8,480)	—
Transfers to Stage 2	(23,562)	24,591	(1,029)	—	(162,383)	270,582	(108,199)	—
Transfers to Stage 3	(9,949)	(925,493)	935,442	—	(16,131)	(50,442)	66,573	—
Accounts charged off	—	—	(49,305)	(49,305)	—	—	(8,626)	(8,626)
Loan settlement through dacion (Note 33)	—	—	—	—	—	—	(13,656)	(13,656)
Collections and other movements	(4,954,468)	956,421	1,160,016	(2,838,031)	421,713	(502,587)	409,171	328,297
Ending Balance	10,449,820	266,357	5,830,168	16,546,345	13,979,637	279,963	3,663,985	17,923,585
Total Loans and Receivables								
Beginning Balance	493,032,843	76,827,887	47,580,126	617,440,856	528,513,415	26,754,173	76,457,150	631,724,738
Newly originated assets which remained in Stage 1 at yearend	267,315,645	—	—	267,315,645	125,827,132	—	—	125,827,132
Newly originated assets which moved to Stages 2 and 3 as at year-end	—	13,940,934	7,554,037	21,494,971	—	5,836,554	3,356,312	9,192,866
Transfers to Stage 1	22,358,746	(21,181,902)	(1,176,844)	—	5,478,724	(2,491,721)	(2,987,003)	—
Transfers to Stage 2	(3,601,301)	4,233,183	(631,882)	—	(26,203,660)	54,879,585	(28,675,925)	—
Transfers to Stage 3	(2,330,533)	(7,470,687)	9,801,220	—	(3,875,192)	(5,376,079)	9,251,271	—
Accounts charged off	—	—	(1,418,830)	(1,418,830)	—	—	(2,078,219)	(2,078,219)
Loan settlement through dacion and assignment (Note 33)	—	—	(1,404,582)	(1,404,582)	—	—	(5,972,562)	(5,972,562)
Effect of collections and other movements	(214,047,272)	(35,656,249)	(8,998,548)	(258,702,069)	(136,707,576)	(2,774,625)	(1,770,898)	(141,253,099)
Ending Balance	₱562,728,128	₱30,693,166	₱51,304,697	₱644,725,991	₱493,032,843	₱76,827,887	₱47,580,126	₱617,440,856

17. Deposit Liabilities

17.1 Regulatory Reserve Requirements

As of December 31, 2023 and 2022, peso deposit liabilities are subject to reserves equivalent to 9.50% and 12.00%, respectively, while peso-denominated LTNCDs are subject to reserves equivalent to 4.00%.

Available reserves booked under ‘Due from BSP’ amounted to ₱78.4 billion and ₱74.7 billion as of December 31, 2023 and 2022, respectively (refer to Note 7).



17.2 LTNCDs

LTNCDs issued by the Parent Company consist of:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value	
					2023	2022
October 11, 2019	April 11, 2025	₱4,600,000	4.38%	Quarterly	₱4,591,288	₱4,584,136
February 27, 2019	August 27, 2024	8,220,000	5.75%	Quarterly	8,212,255	8,198,193
October 26, 2017	April 26, 2023	6,350,000	3.88%	Quarterly	–	6,347,683
		₱19,170,000			₱12,803,543	₱19,130,012

17.3 Interest Expense on Deposit Liabilities

This account consists of:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Savings	₱6,989,245	₱1,589,891	₱1,942,687	₱6,984,663	₱1,605,241	₱2,014,705
Time	5,036,686	2,437,557	1,411,973	5,010,322	2,434,206	1,411,974
LTNCDs	776,034	1,140,954	1,269,356	776,034	1,140,954	1,269,356
Demand	203,681	203,265	189,750	200,798	202,752	189,750
	₱13,005,646	₱5,371,667	₱4,813,766	₱12,971,817	₱5,383,153	₱4,885,785

As of December 31, 2023 and 2022, noninterest-bearing deposit liabilities amounted to ₱27.1 billion and ₱27.8 billion, respectively, for the Group, and ₱27.0 billion and ₱27.7 billion, respectively, for the Parent Company.

The remaining deposit liabilities of the Group and the Parent Company generally earn annual fixed interest rates ranging from:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Peso-denominated	0.10% - 7.50%	0.10% - 6.12%	0.10% - 6.75%	0.10% - 7.50%	0.10% - 6.12%	0.10% - 5.00%
Foreign currency-denominated	0.10% - 6.10%	0.00% - 5.50%	0.01% - 3.00%	0.10% - 6.10%	0.00% - 5.50%	0.01% - 3.00%

In 2023, 2022 and 2021, interest expense on LTNCDs for both the Group and the Parent Company includes amortization of transaction costs amounting to ₱23.5 million, ₱29.6 million and ₱33.4 million, respectively. Unamortized transaction costs of the LTNCDs amounted to ₱16.5 million and ₱40.0 million as of December 31, 2023 and 2022, respectively.

18. Financial Liabilities at Fair Value Through Profit or Loss

As of December 31, 2023 and 2022, this account consists of currency forwards and spots with negative fair values amounting to ₱0.6 billion and ₱1.0 billion, respectively, for the Group and Parent Company (refer to Notes 23 and 35).



19. Bills and Acceptances Payable

19.1 Information on Bills and Acceptances Payable

This account consists of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Bills payable to:				
Foreign banks	₱10,607,231	₱6,665,834	₱10,607,231	₱6,609,593
BSP and local banks (Note 33)	395	1,036,491	395	395
	10,607,626	7,702,325	10,607,626	6,609,988
Acceptances outstanding (Note 10)	9,554,977	7,278,048	9,554,977	7,278,047
	₱20,162,603	₱14,980,373	₱20,162,603	₱13,888,035

As of December 31, 2023 and 2022, bills payable with a carrying amount of ₱10.1 billion and ₱6.6 billion are secured by a pledge of financial assets at FVOCI with fair values of ₱6.5 billion and ₱2.5 billion, respectively, and investment securities at amortized cost with carrying values and fair values of ₱5.5 billion (refer to Notes 9.2 and 9.3).

19.2 Interest Expense on Bills Payable and Other Borrowings

This account consists of:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Continuing operations:						
Lease liabilities (Note 29)	₱171,570	₱171,885	₱112,591	₱168,285	₱170,692	₱107,052
Bills payable	129,031	229,600	391,404	118,534	163,385	315,097
Others	35,246	32,488	7,926	32,769	29,467	2,931
	335,847	433,973	511,921	319,588	363,544	425,080
Discontinued operations (Note 36):						
Lease liabilities	—	—	3,528	—	—	—
	₱335,847	₱433,973	₱515,449	₱319,588	₱363,544	₱425,080

Bills payable of the Group and the Parent Company earn annual fixed interest rates ranging from:

	2023	2022	2021
Peso-denominated	6.0% - 6.8%	1.9% - 5.5%	1.0% - 2.0%
Foreign currency-denominated	0.0% - 5.4%	0.3% - 4.3%	0.1% - 1.2%

20. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Accrued taxes and other expenses	₱8,037,426	₱8,131,353	₱7,660,923	₱7,523,206
Accrued interest (Note 33)	2,427,947	986,040	2,388,727	964,494
	₱10,465,373	₱9,117,393	₱10,049,650	₱8,487,700



Accrued taxes and other expenses consist of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Financial liabilities:				
Promotional expenses	₱1,708,628	₱1,354,700	₱1,531,463	₱1,354,700
Information technology-related expenses	617,853	583,844	617,853	583,844
Rent and utilities payable	339,271	501,319	332,363	494,591
Professional fees	282,993	262,753	237,985	236,466
Repairs and maintenance	171,579	160,350	171,579	159,976
	3,120,324	2,862,966	2,891,243	2,829,577
Nonfinancial liabilities:				
Monetary value of leave credits	1,846,704	1,532,890	1,805,054	1,490,640
PDIC insurance premiums	1,055,331	879,310	1,039,853	863,832
Other taxes and licenses	889,776	854,359	878,562	724,002
Employee benefits	206,970	583,136	177,333	561,179
Other expenses	918,321	1,418,692	868,878	1,053,976
	4,917,102	5,268,387	4,769,680	4,693,629
	₱8,037,426	₱8,131,353	₱7,660,923	₱7,523,206

‘Other expenses’ include janitorial, representation and entertainment, communication and other operating expenses.

21. Bonds Payable

This account consists of:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value	
					2023	2022
June 27, 2019	September 27, 2024	USD750,000	3.28%	Semi-annually	₱41,490,871	₱41,722,415
April 26, 2018	April 27, 2023	300,000	4.25%	Semi-annually	—	16,716,682
		USD1,050,000			₱41,490,871	₱58,439,097

The Parent Company’s issued bonds are fixed-rate medium-term senior notes, which are drawdowns from its Medium Term Note Programme (the MTN Programme) established on April 13, 2018 with an initial nominal size of US\$1.0 billion. On June 14, 2019, the Parent Company increased the size of its MTN Programme to US\$2.0 billion. Both issuances are listed in the Singapore Exchange Securities Trading Limited.

As of December 31, 2023 and 2022, the unamortized transaction costs of bonds payable amounted to ₱26.3 million and ₱92.8 million, respectively. In 2023 and 2022, amortization of transaction costs amounting to ₱66.5 million and ₱75.9 million, were charged to ‘Interest expense on bonds payable’ in the statements of income.



22. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Financial				
Accounts payable	₱2,988,517	₱5,036,170	₱2,661,756	₱4,564,107
Bills purchased - contra (Note 10)	1,362,515	877,767	1,362,515	877,767
Manager's checks and demand drafts outstanding	1,296,191	1,548,448	1,296,191	1,548,448
Dormant credits	1,280,886	1,591,380	1,215,351	1,553,892
Due to other banks (Note 33)	744,625	276,770	509,915	82,132
Margin deposits and cash letters of credit	686,130	224,033	673,639	211,196
Accounts payable - electronic money	628,449	315,290	628,449	315,290
Payment order payable	221,340	220,949	221,340	220,949
Deposits on lease contracts	76,028	75,129	76,028	30,364
Transmission liability	49,101	40,280	—	—
Deposit for keys on safety deposit boxes	15,919	16,167	15,919	16,167
	9,349,701	10,222,383	8,661,103	9,420,312
Nonfinancial				
Due to Treasurer of the Philippines	1,444,009	891,709	1,444,009	891,709
Provisions (Notes 12 and 34)	1,068,215	1,107,015	992,950	1,367,067
Deferred revenue - Credit card-related	672,373	646,361	672,373	646,361
Deferred revenue - Bancassurance (Note 12)	427,274	500,474	427,274	500,474
Withholding tax payable	374,139	310,530	370,340	309,363
Retirement benefit liability (Note 28)	281,585	384,838	269,390	382,449
Deferred tax liabilities (Note 30)	166,091	165,721	—	—
SSS, Philhealth, Employer's compensation premiums and Pag-IBIG contributions payable	54,638	48,081	54,617	47,797
Miscellaneous	903,897	1,550,528	661,807	528,273
	5,392,221	5,605,257	4,892,760	4,673,493
	₱14,741,922	₱15,827,640	₱13,553,863	₱14,093,805

'Deferred revenue - Bancassurance' pertains to the allocated portion of the consideration received for the disposal of APLII related to the EDR and the exclusive bancassurance arrangement for the non-life insurance business with ABIC (refer to Note 12.7). In 2023 and 2022, amortization of other deferred revenue amounting to ₱73.2 million were recognized under 'Service fees and commission income' (refer to Note 26.1).

'Miscellaneous' include interoffice floats, remittance-related payables, overages, advance rentals and sundry credits.

23. Derivative Financial Instruments

The tables below show the fair values of the derivative financial instruments entered into by the Group and the Parent Company, recorded as 'Financial assets at FVTPL' (refer to Note 9.1) or 'Financial liabilities at FVTPL' (refer to Note 18), together with the notional amounts.



The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2023 and 2022 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

Consolidated				
2023				
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Currency forwards and spots:				
BUY:				
JPY	₱90,263	₱190,651	USD0.01	17,322,000
USD	40,763	351,871	1.00	1,344,799
SGD	456	—	0.76	11
SELL:				
USD	615,180	7,147	1.00	1,661,278
HKD	2,493	1	0.13	345,477
GBP	44	395	1.27	1,970
SGD	—	2,840	0.76	863
EUR	—	2,006	1.11	3,300
CAD	—	405	0.76	800
PHP	—	300	0.02	830,850
NZD	—	195	0.63	400
	₱749,199	₱555,811		

*The notional amounts pertain to original currencies.

Consolidated				
2022				
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Currency forwards and spots:				
BUY:				
USD	₱749,512	₱760,764	USD1.00	1,539,816
SGD	303	—	0.74	7
EUR	243	57,543	1.06	72,318
HKD	172	—	0.13	24
SELL:				
USD	604,222	65	1.00	644,843
EUR	3,803	70,519	1.06	62,040
GBP	2,765	—	1.20	2,000
NZD	319	—	0.63	400
JPY	216	11,911	0.01	534,700
PHP	200	138,260	0.02	2,743,406
HKD	187	236	0.13	321,189
AUD	9	55	0.67	700
SGD	—	348	0.74	1,700
CAD	—	75	0.73	1,700
	₱1,361,951	₱1,039,776		

*The notional amounts pertain to original currencies.



Parent Company				
2023				
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Currency forwards and spots:				
BUY:				
USD	₱38,270	₱351,871	USD1.00	1,300,926
JPY	90,263	190,651	0.01	17,322,000
SGD	456	—	0.76	11
SELL:				
USD	615,180	7,147	0.02	1,661,278
SGD	—	2,840	0.76	863
EUR	—	2,006	1.11	3,300
CAD	—	405	0.76	800
GBP	44	395	1.27	1,970
PHP	—	300	0.02	830,850
NZD	—	195	0.63	400
HKD	—	1	0.13	2,700
	₱744,213	₱555,811		

*The notional amounts pertain to original currencies.

Parent Company				
2022				
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Currency forwards and spots:				
BUY:				
USD	₱748,234	₱760,764	USD1.00	1,225,921
SGD	303	—	0.74	7
EUR	—	57,543	1.06	67,540
SELL:				
USD	603,979	65	1.00	640,066
EUR	3,803	70,519	1.06	62,040
GBP	2,765	—	1.20	2,000
NZD	319	—	0.63	400
JPY	216	11,911	0.01	534,700
PHP	200	138,260	0.02	2,743,406
AUD	9	55	0.67	700
SGD	—	348	0.74	1,700
HKD	—	236	0.13	5,000
CAD	—	75	0.73	1,700
	₱1,359,828	₱1,039,776		

*The notional amounts pertain to original currencies.

The rollforward analysis of net derivative assets in 2023 and 2022 follows:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Balance at the beginning of the year:				
Derivative assets	₱1,361,951	₱1,365,051	₱1,359,828	₱1,362,041
Derivative liabilities	1,039,776	891,531	1,039,776	891,346
	322,175	473,520	320,052	470,695
Changes in fair value				
Currency forwards and spots*	(135,968)	(147,028)	(136,672)	(147,028)
Interest rate swaps and warrants**	609	—	609	—
	(135,359)	(147,028)	(136,063)	(147,028)
Net availments (settlements)	6,573	(4,317)	4,413	(3,615)
Balance at end of year:				
Derivative assets	749,198	1,361,951	744,213	1,359,828
Derivative liabilities	555,811	1,039,776	555,811	1,039,776
	₱193,387	₱322,175	₱188,402	₱320,052

* Presented as part of 'Foreign exchange gains - net'

** Recorded under 'Trading and investment securities gains - net' (refer to Note 9.5)



24. Maturity Analysis of Assets and Liabilities

The following tables show an analysis of assets and liabilities of the Group and Parent Company analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from reporting date:

	Consolidated					
	2023			2022		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
Cash and other cash items	₱21,151,391	₱—	₱21,151,391	₱22,217,915	₱—	₱22,217,915
Due from BSP	95,410,350	—	95,410,350	94,701,360	—	94,701,360
Due from other banks	21,253,754	—	21,253,754	26,020,081	—	26,020,081
Interbank loans receivable (Note 8)	35,642,485	—	35,642,485	16,291,470	—	16,291,470
Securities held under agreements to resell (Note 8)	69,708,690	—	69,708,690	64,526,051	—	64,526,051
Financial assets at FVTPL (Note 9)	10,516,864	—	10,516,864	7,347,201	—	7,347,201
Financial assets at FVOCI (Note 9)	112,174,065	52,357,427	164,531,492	86,697,820	71,485,705	158,183,525
Investment securities at amortized cost (Note 9)	21,997,197	101,359,065	123,356,262	35,359,598	78,956,212	114,315,810
Loans and receivables (Note 10)	311,983,380	347,975,013	659,958,393	225,461,251	407,109,088	632,570,339
Other assets (Note 15)	383,478	18,779	402,257	51,331	19,000	70,331
	700,221,654	501,710,284	1,201,931,938	578,674,078	557,570,005	1,136,244,083
Nonfinancial Assets						
Property and equipment (Note 11)	—	25,026,058	25,026,058	—	25,882,025	25,882,025
Investment in an associate (Note 12)	—	3,199,124	3,199,124	—	2,688,764	2,688,764
Investment properties (Note 13)	—	18,727,971	18,727,971	—	17,808,697	17,808,697
Deferred tax assets (Note 30)	—	6,981,726	6,981,726	—	6,616,902	6,616,902
Goodwill (Note 14)	—	10,184,843	10,184,843	—	11,221,410	11,221,410
Intangible assets (Note 14)	—	8,329,479	8,329,479	—	7,770,695	7,770,695
Residual value of leased assets (Note 10)	5,658	—	5,658	107,634	122,772	230,406
Other assets (Note 15)	4,517,656	1,570,008	6,087,664	2,945,525	2,181,506	5,127,031
	4,523,314	74,019,209	78,542,523	3,053,159	74,292,771	77,345,930
Less: Allowance for impairment and credit losses (Note 16)			47,247,648			47,192,482
Unearned and other deferred income (Note 10)			681,399			756,049
Accumulated depreciation and amortization (Notes 11, 13 and 14)			21,996,014			20,484,406
			₱1,210,549,400			₱1,145,157,076
Financial Liabilities						
Deposit liabilities (Note 17)	₱917,137,058	₱10,833,860	₱927,970,918	₱850,430,921	₱20,796,800	₱871,227,721
Financial liabilities at FVTPL (Note 18)	555,811	—	555,811	1,039,776	—	1,039,776
Bills and acceptances payable (Note 19)	19,047,156	1,115,447	20,162,603	11,867,176	3,113,197	14,980,373
Accrued interest payable (Note 20)	2,426,973	974	2,427,947	980,446	5,594	986,040
Accrued other expenses payable (Note 20)	3,120,324	—	3,120,324	2,384,652	478,314	2,862,966
Bonds payable (Note 21)	41,490,871	—	41,490,871	16,716,682	41,722,415	58,439,097
Other liabilities (Note 22)	8,134,350	1,215,351	9,349,701	8,437,866	1,784,517	10,222,383
	991,912,543	13,165,632	1,005,078,175	891,857,519	67,900,837	959,758,356
Nonfinancial Liabilities						
Lease liabilities (Note 29)	815,279	3,017,605	3,832,884	709,214	2,927,177	3,636,391
Accrued taxes and other expenses (Note 20)	3,529,374	1,387,728	4,917,102	3,069,330	2,199,057	5,268,387
Income tax payable	180,364	—	180,364	983,051	—	983,051
Other liabilities (Note 22)	2,188,421	3,203,800	5,392,221	2,727,209	2,878,048	5,605,257
	6,713,438	7,609,133	14,322,571	7,488,804	8,004,282	15,493,086
	₱998,625,981	₱20,774,765	₱1,019,400,746	₱899,346,323	₱75,905,119	₱975,251,442



Parent Company						
	2023			2022		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
Cash and other cash items	₱21,052,526	₱—	₱21,052,526	₱22,103,095	₱—	₱22,103,095
Due from BSP	95,410,350	—	95,410,350	94,701,360	—	94,701,360
Due from other banks	13,636,497	—	13,636,497	17,609,247	—	17,609,247
Interbank loans receivable (Note 8)	33,445,364	—	33,445,364	14,736,112	—	14,736,112
Securities held under agreements to resell (Note 8)	69,708,690	—	69,708,690	64,526,051	—	64,526,051
Financial assets at FVTPL (Note 9)	10,363,259	—	10,363,259	7,195,685	—	7,195,685
Financial assets at FVOCI (Note 9)	112,186,240	51,950,731	164,136,971	86,716,076	70,489,831	157,205,907
Investment securities at amortized cost (Note 9)	21,859,529	101,026,771	122,886,300	35,359,598	78,816,930	114,176,528
Loans and receivables (Note 10)	301,689,657	343,699,637	645,389,294	214,331,618	403,721,820	618,053,438
Other assets (Note 15)	382,847	500	383,347	49,981	1,479	51,460
	679,734,959	496,677,639	1,176,412,598	557,328,823	553,030,060	1,110,358,883
Nonfinancial Assets						
Property and equipment (Note 11)	—	23,505,599	23,505,599	—	23,667,261	23,667,261
Investment in subsidiaries and an associate (Note 12)	—	20,567,070	20,567,070	—	20,384,104	20,384,104
Investment properties (Note 13)	—	18,061,869	18,061,869	—	17,104,160	17,104,160
Deferred tax assets (Note 30)	—	6,929,669	6,929,669	—	6,574,190	6,574,190
Goodwill (Note 14)	—	10,325,201	10,325,201	—	11,361,768	11,361,768
Intangible assets (Note 14)	—	8,836,155	8,836,155	—	8,712,778	8,712,778
Other assets (Note 15)	3,839,071	1,565,837	5,404,908	2,328,923	2,043,660	4,372,583
	3,839,071	89,791,400	93,630,471	2,328,923	89,847,921	92,176,844
Less: Allowance for impairment and credit losses (Note 16)			47,218,194			47,652,020
Unearned and other deferred income (Note 10)			663,302			612,582
Accumulated amortization and depreciation (Notes 11, 13 and 14)			21,787,417			20,526,875
			₱1,200,374,156			₱1,133,744,250
Financial Liabilities						
Deposit liabilities (Note 17)	₱912,423,822	₱10,358,261	₱922,782,083	₱846,551,824	₱20,078,556	₱866,630,380
Financial liabilities at FVTPL (Note 18)	555,811	—	555,811	1,039,776	—	1,039,776
Bills and acceptances payable (Note 19)	19,047,156	1,115,447	20,162,603	10,818,915	3,069,120	13,888,035
Accrued interest payable (Note 20)	2,388,727	—	2,388,727	964,494	—	964,494
Accrued other expenses payable (Note 20)	2,891,243	—	2,891,243	2,351,263	478,314	2,829,577
Bonds payable (Note 21)	41,490,871	—	41,490,871	16,716,682	41,722,415	58,439,097
Other liabilities (Note 22)	7,445,752	1,215,351	8,661,103	7,666,525	1,753,787	9,420,312
	986,243,382	12,689,059	998,932,441	886,109,479	67,102,192	953,211,671
Nonfinancial Liabilities						
Lease liabilities (Note 29)	770,705	2,952,611	3,723,316	676,900	2,927,177	3,604,077
Accrued taxes and other expenses (Note 20)	3,381,952	1,387,728	4,769,680	2,507,506	2,186,123	4,693,629
Income tax payable	103,470	—	103,470	916,235	—	916,235
Other liabilities (Note 22)	1,759,137	3,133,623	4,892,760	1,531,794	3,141,699	4,673,493
	6,015,264	7,473,962	13,489,226	5,632,435	8,254,999	13,887,434
	₱992,258,646	₱20,163,021	₱1,012,421,667	₱891,741,914	₱75,357,191	₱967,099,105



25. Equity

25.1 Capital Stock

This account consists of (amounts in thousands, except for par value and number of shares):

	Shares	Amount
Common - ₱40 par value		
Authorized	1,750,000,001	₱70,000,000
Issued and outstanding		
Balance at the beginning and end of the year	1,525,764,850	₱61,030,594

The history of share issuances of the Parent Company since its initial public offering follows:

Date	Type of issuance	Number of common shares	Par value	Offer price
July 2019	Stock rights	276,625,172	₱40.00	₱43.38
February 2014	Stock rights	162,931,262	40.00	71.00
February 2013	Share-for-share swap with ABC common and preferred shares	423,962,500	40.00	97.90
September 2000	Pre-emptive stock rights	71,850,215	100.00	60.00
September 1999	Stock rights	68,740,086	100.00	137.80
December 1995	Third public offering	7,200,000	100.00	260.00
April 1992	Second public offering	8,033,140	100.00	265.00
June 1989	Initial public offering	10,800,000	100.00	100.00

In January 2013, the SEC approved the conversion of the Parent Company's 195,175,444 authorized preferred shares into common shares, thereby increasing its authorized common shares to 1,250,000,001. Further, in July 2014, the SEC approved the Parent Company's Articles of Incorporation for the increase in authorized capital by 500,000,000 common shares to 1,750,000,001.

The Parent Company's shares are listed in the PSE. As of December 31, 2023 and 2022, the Parent Company had 36,081 and 36,192 stockholders, respectively.

On July 22, 2019, the Parent Company successfully completed its Stock Rights Offering (SRO) of 276,625,172 common shares with a par value of ₱40.0 per share at a price of ₱43.38 each, raising gross proceeds of ₱12.0 billion. Out of the total transaction costs from the SRO, underwriting fees amounting to ₱10.0 million paid to PNB Capital, being one of the joint lead managers, was eliminated against 'Capital paid in excess of par value' in the consolidated financial statements.

25.2 Surplus

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11-2008 differs to a certain extent from the computation following BSP guidelines.

As of December 31, 2023 and 2022, surplus amounting to ₱9.6 billion, representing the balances of the following equity items that have been applied to eliminate the Parent Company's deficit through quasi-reorganizations in 2002 and 2000 (refer to Note 12), is not available for dividend declaration without prior approval from the SEC and the BSP:

Revaluation increment on land and buildings	₱7,691,808
Accumulated translation adjustment	1,315,685
Accumulated equity in net earnings of investees	563,048
	₱9,570,541



25.3 Surplus Reserves

This account consists of:

	2023	2022
Reserves under BSP Circular 1011 (Note 10)	₱3,912,672	₱4,218,928
Reserves for trust business (Note 32)	660,258	630,314
Reserves for self-insurance	105,000	80,000
	₱4,677,930	₱4,929,242

‘Reserves under BSP Circular 1011’ represents the appropriation for the excess of 1% general loan loss provisions over the computed ECL for Stage 1 accounts in accordance with BSP Circular 1011.

‘Reserves for self-insurance’ represents the amount set aside to cover losses due to fire or defalcation by, and other unlawful acts, of the Parent Company’s personnel or third parties.

25.4 Accumulated Translation Adjustment

As part of the Group’s rehabilitation program in 2002, the SEC approved on November 7, 2002 the application of the accumulated translation adjustment of ₱1.6 billion to eliminate the Parent Company’s remaining deficit of ₱1.3 billion, including ₱0.6 billion accumulated equity in net earnings as of December 31, 2001, after applying the total reduction in par value amounting to ₱7.6 billion.

The SEC approval is subject to the following conditions:

- remaining translation adjustment of ₱310.7 million as of December 31, 2001 (shown as part of ‘Capital paid in excess of par value’ in the statement of financial position) will not be used to wipe out losses that may be incurred in the future without prior approval of SEC;
- for purposes of dividend declaration, any future surplus account of the Parent Company shall be restricted to the extent of the deficit wiped out by the translation adjustment.

25.5 Other Equity Reserves

On August 26, 2016, the Parent Company’s BOD approved the grant of centennial bonus to its employees, officers and directors on record as of July 22, 2016, in the form of the Parent Company’s shares of stock. The acquisition and distribution of the estimated 3.0 million shares shall be done over a period of five years, and are subject to service conditions. The grant is accounted for as equity-settled share-based payments. Grant date was April 27, 2017 when the fair value of the centennial bonus shares was at ₱65.20. In 2021, the Parent Company awarded 306 thousand centennial bonus shares and applied the settlement of the awards against ‘Other equity reserves’ amounting to ₱29.0 million.

25.6 Capital Management

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

The Parent Company and its financial allied subsidiaries are subject to the regulatory requirements of the BSP. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the



capital structure, the Parent Company may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous periods. The Group has complied with all externally imposed capital requirements throughout the year.

25.6.1 BSP Reporting for Capital Management

Under existing BSP regulations, the determination of the Group's compliance with regulatory requirements and ratios is based on the amount of the Group's unimpaired capital (regulatory net worth) reported to the BSP, which is determined based on RAP, which differ from PFRS in some respects. In addition, the risk-based capital ratio of a bank or Capital Adequacy Ratio (CAR), expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% at all times for both solo basis (head office and branches) and consolidated basis (Parent Company and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on RAP. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

On May 16, 2002, the BSP approved the booking of additional appraisal increment on properties of ₱431.8 million and recognition of the same in determining the CAR, and booking of translation adjustment of ₱1.6 billion representing the increase in peso value of the investment in foreign subsidiaries for purposes of the quasi-reorganization and rehabilitation of the Parent Company, provided that the same shall be excluded for dividend purposes.

As of December 31, 2023 and 2022, CAR reported to the BSP with certain adjustments is shown in the table below (amounts, except ratios, are expressed in millions):

	2023		2022	
	Actual	Required	Actual	Required
Consolidated				
CET1 Capital (Gross)	₱182,490		₱158,834	
Less: Regulatory Adjustments to CET1	47,253		48,221	
CET1 Capital (Net) / Tier 1 Capital	135,237		110,613	
Add: Tier 2 Capital	6,822		6,109	
Total qualifying capital	₱142,059	₱80,251	₱116,722	₱75,873
Total risk-weighted assets	₱802,506		₱758,730	
CET1 / Tier 1 capital ratio	16.85%		14.58%	
Total capital ratio	17.70%		15.38%	
	2023		2022	
	Actual	Required	Actual	Required
Parent Company				
CET1 Capital (Gross)	₱178,004		₱154,537	
Less: Regulatory Adjustments to CET1	64,326		61,587	
CET1 Capital (Net) / Tier 1 Capital	113,678		92,950	
Add: Tier 2 Capital	6,602		5,878	
Total qualifying capital	₱120,280	₱77,514	₱98,828	₱73,356
Total risk-weighted assets	₱775,138		₱733,556	
CET1 / Tier 1 capital ratio	14.67%		12.67%	
Total capital ratio	15.52%		13.47%	

BSP regulations set out a minimum CET1 ratio of 6.0% and Tier 1 capital ratio of 7.5%; capital conservation buffer of 2.5% comprised of CET1 capital; and total CAR of 10.0%.



In line with its ICAAP document, the Parent Company maintains a capital level that not only meets the BSP's CAR requirement, but also covers all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning and strategic management with risk management. The Parent Company has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. The Parent Company complies with the required annual submission of updated ICAAP.

25.6.2 BSP Reporting for Basel III Leverage Ratio

BSP also requires the Basel III Leverage Ratio (BLR), which is designed to act as a supplementary measure to the risk-based capital requirements. BLR intends to restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes, which can damage the broader financial system and the economy. Likewise, it reinforces the risk-based requirements with a simple, non-risk based "backstop" measure. BLR is computed as the capital measure (Tier 1 capital) divided by the total exposure measure and should not be less than 5.00%.

As of December 31, 2023 and 2022, BLR reported to the BSP with certain adjustments is shown in the table below (amounts, except ratios, are expressed in millions):

	Consolidated		Parent Company	
	2023	2022	2023	2022
Tier 1 capital	₱135,237	₱110,613	₱113,678	₱92,950
Total exposure measure	1,242,728	1,176,190	1,213,940	1,150,463
BLR	10.88%	9.40%	9.36%	8.08%

BLR is computed based on RAP.

26. Other Operating Income

26.1 Service Fees and Commission Income

This account consists of:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Continuing operations:						
Deposit-related	₱1,773,546	₱1,585,441	₱1,326,692	₱1,773,546	₱1,585,441	₱1,326,692
Loan-related	1,098,218	1,122,258	1,432,909	1,086,777	1,114,379	1,425,149
Credit card-related	816,028	669,862	697,962	816,028	669,862	697,962
Remittance (Note 33)	674,873	680,875	652,262	353,722	357,161	351,392
Interchange fees	647,084	458,456	383,271	647,084	458,456	383,271
Bancassurance (Note 22)	476,056	873,039	495,512	476,056	873,039	495,512
Underwriting fees	433,172	1,032,640	511,032	—	—	—
Trust fees (Note 32)	373,721	317,782	319,422	373,721	317,782	319,422
Miscellaneous	298,558	257,256	521,264	227,949	187,249	311,329
	6,591,256	6,997,609	6,340,326	5,754,883	5,563,369	5,310,729
Discontinued operations:						
Miscellaneous (Note 36)	—	—	110	—	—	—
	₱6,591,256	₱6,997,609	₱6,340,436	₱5,754,883	₱5,563,369	₱5,310,729

'Credit card-related fees' and 'Interchange fees' were generated from the credit card business of the Parent Company.

'Miscellaneous' includes income from securities brokering activities and other fees and commission.



26.2 Net Gains on Sale or Exchange of Assets

This account consists of:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Net gains from sale of investment properties	₱3,048,616	₱5,703,909	₱15,192	₱3,048,387	₱5,701,642	₱8,268
Net gains (losses) from sale of property and equipment (Note 11)	712,514	34,913	8,399	793,070	32,027	(789)
Net gains from sale of other assets	313,864	241,807	52,206	313,864	241,807	60,880
Net gains from foreclosure and repossession of investment properties	238,112	1,751,739	138,697	238,112	1,751,739	138,697
Net gains from sale of receivables	228,461	42,786	766,968	228,461	42,786	766,968
	₱4,541,567	₱7,775,154	₱981,462	₱4,621,894	₱7,770,001	₱974,024

27. Miscellaneous Income and Expenses

27.1 Miscellaneous Income

This account consists of:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Continuing operations:						
Rental income (Notes 29 and 33)	₱257,758	₱275,865	₱513,904	₱133,392	₱47,345	₱211,775
Recoveries	215,834	303,435	85,164	215,178	221,253	84,463
Income from assets acquired	74,074	95,736	183,173	74,074	95,736	183,173
Dividends	50,833	51,211	63,608	11,189	11,139	23,584
Others	272,895	410,445	224,198	191,074	345,960	256,831
	871,394	1,136,692	1,070,047	624,907	721,433	759,826
Discontinued operations (Note 36):						
Rental income	—	—	375,556	—	—	—
Others	—	—	111,401	—	—	—
	—	—	486,957	—	—	—
	₱871,394	₱1,136,692	₱1,557,004	₱624,907	₱721,433	₱759,826

‘Others’ consist of income from wire transfers, tellers’ overages, and loan-related penalty payments received by the Group, and other income relating to loans, credit card and trade transactions.

27.2 Miscellaneous Expenses

This account consists of:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Continuing operations:						
Insurance	₱2,000,871	₱1,778,214	₱1,997,478	₱1,985,502	₱1,763,300	₱1,983,103
Secretarial, janitorial and messengerial	1,939,219	1,790,422	1,682,794	1,929,196	1,779,543	1,669,906
Information technology	1,001,111	1,193,975	1,304,930	968,654	1,165,865	1,283,294
Marketing expenses	794,060	1,070,147	719,070	787,800	1,063,239	713,832
Litigation and assets acquired expenses (Note 13)	662,610	373,740	395,386	661,214	373,549	394,534
Travelling	331,658	339,868	284,484	325,628	333,898	280,090
Management and other professional fees (Forward)	274,788	279,363	294,090	225,202	220,880	245,853



	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Common use service area (CUSA)						
charges (Note 33)	₱220,143	₱188,770	₱—	₱220,143	₱188,770	₱—
Stationery and supplies	217,194	269,669	269,813	208,160	260,333	261,679
Value-added tax on leases	187,479	141,988	88,116	187,479	141,988	88,116
Postage, telephone and cable	153,964	156,800	151,560	124,527	127,895	124,270
Repairs and maintenance	49,585	79,303	70,375	49,585	79,303	70,375
Freight	45,676	41,599	42,418	45,666	41,547	42,320
Entertainment, amusement and recreation (EAR) (Note 30)	30,031	154,987	189,098	16,778	145,423	181,251
Fuel and lubricants	14,620	16,301	14,172	11,232	13,751	11,477
Others (Note 33)	295,162	176,796	698,971	202,181	111,146	624,455
	8,218,171	8,051,942	8,202,755	7,948,947	7,810,430	7,974,555
Discontinued operations:						
Management and other professional fees (Note 33)	—	—	109,776	—	—	—
Insurance	—	—	10,363	—	—	—
Information technology	—	—	2,906	—	—	—
Marketing expenses	—	—	2,236	—	—	—
Secretarial, janitorial and messengerial	—	—	1,620	—	—	—
Postage, telephone and cable	—	—	751	—	—	—
Travelling	—	—	508	—	—	—
Stationery and supplies	—	—	449	—	—	—
Fuel and lubricants	—	—	411	—	—	—
EAR	—	—	142	—	—	—
Others	—	—	2,832	—	—	—
	—	—	131,994	—	—	—
	₱8,218,171	₱8,051,942	₱8,334,749	₱7,948,947	₱7,810,430	₱7,974,555

‘Others’ include stationery and supplies used, donation, fines, penalties, periodicals, magazines and other charges.

28. Retirement Plan

The Parent Company and certain subsidiaries of the Group have separate funded, noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The amounts of net defined benefit liability in the statements of financial position follow:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Retirement benefit liability (included in ‘Other liabilities’) (Note 22)	₱281,585	₱384,838	₱269,390	₱382,449
Net plan assets (included in ‘Other assets - miscellaneous’) (Note 15)	17,283	5,988	—	—
	₱264,302	₱378,850	₱269,390	₱382,449

The Parent Company also provides certain post-employee benefit through a guarantee of a specified return on contributions in one of its employee investment plans (EIP).

The latest actuarial valuations for these retirement plans were made as of December 31, 2023.



The following table shows the actuarial assumptions as of December 31, 2023 and 2022 used in determining the retirement benefit obligation of the Group:

	Consolidated		Parent Company			
	2023	2022	Regular Plans		EIP	
	2023	2022	2023	2022	2023	2022
Discount rate	6.03% - 7.15%	6.92% - 7.15%	6.03%	6.92%	6.03%	6.93%
Salary rate increase	5.00% - 10.00%	6.00% - 10.00%	5.00%	6.00%	—	—

The Group and the Parent Company employ asset-liability matching strategies to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement plan. Retirement plans are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations and maximize opportunities for higher potential returns at the least risk.

The current plan assets of the Group and the Parent Company are allocated to cover benefit payments in the order of their proximity to the present time. Expected benefit payments are projected and classified into short-term or long-term liabilities. Investment instruments that would match the liabilities are identified. This strategy minimizes the possibility of the asset-liability match being distorted due to the Group's and the Parent Company's failure to contribute in accordance with its general funding strategy.



The changes in the present value obligation and fair value of plan assets are as follows:

Consolidated													
2023													
Net benefit costs *							Remeasurements in other comprehensive income						
January 1, 2023	Current service cost	Past service cost	Net interest	Settlement loss	Subtotal	Benefits paid	Return on plan asset excluding amount included in net interest	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions by employer	December 31, 2023	
Present value of pension obligation	₱8,262,548	₱518,273	₱–	₱569,815	₱508	₱1,088,596	(₱909,969)	₱–	₱313,674	(₱21,975)	₱376,350	₱–	₱8,817,525
Fair value of plan assets	7,883,698	–	–	545,884	–	545,884	(909,969)	(123,225)	–	–	(123,225)	1,156,835	8,553,223
	₱378,850	₱518,273	₱–	₱23,931	₱508	₱542,712	₱–	₱123,225	₱313,674	(₱21,975)	₱499,575	(₱1,156,835)	₱264,302

*Net benefit costs are included in 'Compensation and fringe benefits' in the statements of income

Consolidated													
2022													
Net benefit costs *							Remeasurements in other comprehensive income						
January 1, 2022	Current service cost	Past service cost	Net interest	Settlement loss	Subtotal	Benefits paid	Return on plan asset excluding amount included in net interest	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions by employer	December 31, 2022	
Present value of pension obligation	₱9,016,762	₱593,481	₱312,332	₱425,991	₱—	₱1,331,804	(₱1,069,819)	₱—	₱153,996	(₱1,170,195)	(₱1,016,199)	₱—	₱8,262,548
Fair value of plan assets	8,096,181	—	—	383,369	—	383,369	(1,069,819)	(373,885)	—	—	(373,885)	847,852	7,883,698
	₱920,581	₱593,481	₱312,332	₱42,622	₱—	₱948,435	₱—	₱373,885	₱153,996	(₱1,170,195)	(₱642,314)	(₱847,852)	₱378,850

*Net benefit costs are included in 'Compensation and fringe benefits' in the statements of income

In 2023, as part of the winding down of PMLFC, it has settled its obligations to all plan members under its defined benefit retirement plan, recognizing settlement loss amounting to ₱0.5 million.



Parent Company												
2023												
Net benefit costs *						Remeasurements in other comprehensive income						
January 1, 2023	Current service cost	Past service cost	Net interest	Subtotal	Benefits paid	Return on plan asset excluding amount included in net interest	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions by employer	December 31, 2023	
Present value of pension obligation	₱8,205,717	₱508,794	₱–	₱566,258	₱1,075,052	(₱899,272)	₱–	₱407,223	(₱22,524)	₱384,699	₱–	₱8,766,198
Fair value of plan assets	7,823,268	–	–	542,152	542,152	(899,272)	(120,898)	–	–	(120,898)	1,151,558	8,496,808
	₱382,449	₱508,794	₱–	₱24,106	₱532,900	₱–	₱120,898	₱407,223	(₱22,524)	₱505,597	(₱1,151,558)	₱269,390

*Net benefit costs are included in 'Compensation and fringe benefits' in the statements of income

Parent Company												
2022												
Net benefit costs *						Remeasurements in other comprehensive income						
January 1, 2022	Current service cost	Past service cost	Net interest	Subtotal	Benefits paid	Return on plan asset excluding amount included in net interest	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions by employer	December 31, 2022	
Present value of pension obligation	₱8,959,007	₱588,010	₱312,332	₱424,265	₱1,324,607	(₱1,069,819)	₱–	₱151,832	(₱1,159,910)	(₱1,008,078)	₱–	₱8,205,717
Fair value of plan assets	8,035,891	–	–	381,705	381,705	(1,069,819)	(372,362)	–	–	(372,362)	847,853	7,823,268
	₱923,116	₱588,010	₱312,332	₱42,560	₱942,902	₱–	₱372,362	₱151,832	(₱1,159,910)	(₱635,716)	(₱847,853)	₱382,449

*Net benefit costs are included in 'Compensation and fringe benefits' in the statements of income

In 2022, the Parent Company amended certain provisions of its defined benefit retirement plan and EIP, resulting in the recognition of past service costs amounting to ₱312.3 million.



The Group and the Parent Company expect to contribute ₱610.0 million and ₱594.8 million, respectively, to the defined benefit plans in 2023. The average duration of the retirement liability of the Group and the Parent Company as of December 31, 2023 is 14 years.

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

	Consolidated		Parent Company	
	2023	2022	2023	2022
Less than one year	₱2,006,787	₱1,715,711	₱2,006,149	₱1,715,118
More than one year to five years	5,561,003	5,337,983	5,536,660	5,313,181
More than five years to 10 years	4,216,312	4,452,313	4,181,267	4,399,376
More than 10 years to 15 years	3,796,315	3,946,295	3,776,079	3,867,711
More than 15 years	7,756,720	9,333,106	7,387,120	8,884,949

The fair values of plan assets by each class as at the end of the reporting periods are as follows:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Cash and cash equivalents (Note 33)	₱2,704,983	₱3,897,238	₱2,692,996	₱3,887,225
Equity investments				
Electricity, gas and water	1,023,715	225,683	1,023,715	224,668
Manufacturing	549,340	133,468	549,340	133,468
Real estate, renting and business activities	377,728	210,570	376,478	207,323
Financial institutions (Note 33)	157,649	161,806	152,059	156,169
Others	50,946	58,668	42,631	49,170
Debt investment				
Government securities	2,296,273	1,796,154	2,283,209	1,787,280
Private debt securities	218,317	626,677	212,419	618,124
Investment in UITFs (Note 33)	566,714	565,266	556,626	555,186
Loans and receivables	561,330	160,380	561,330	160,380
Interest and other receivables	48,797	50,782	48,493	47,121
	8,555,792	7,886,692	8,499,296	7,826,114
Accrued expenses	(2,569)	(2,994)	(2,488)	(2,846)
	₱8,553,223	₱7,883,698	₱8,496,808	₱7,823,268

All equity and debt investments held have quoted prices in active markets. Fair value of investments in UITFs is based on their published net asset value per share. The remaining plan assets do not have quoted market prices in an active market, thus, their fair value is determined using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of loans and receivables.

The fair value of the plan assets as of December 31, 2023 and 2022 for the Group includes investments in the Parent Company shares of stock with fair value amounting to ₱152.1 million and ₱156.2 million, respectively (refer to Note 33.3).

The plan assets have diverse investments and do not have any concentration risk.



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

	2023			
	Consolidated		Parent Company	
	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)
Discount rate	+1.00%	(P476,282)	+1.00%	(P470,919)
	-1.00%	531,114	-1.00%	524,667
Salary increase rate	+1.00%	491,712	+1.00%	485,411
	-1.00%	(460,915)	-1.00%	(455,512)
Employee turnover rate	+10.00%	61,646	+10.00%	61,050
	-10.00%	(61,646)	-10.00%	(61,050)

	2022			
	Consolidated		Parent Company	
	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)
Discount rate	+1.00%	(P452,402)	+1.00%	(P446,082)
	-1.00%	504,175	-1.00%	496,643
Salary increase rate	+1.00%	469,231	+1.00%	461,837
	-1.00%	(432,648)	-1.00%	(426,285)
Employee turnover rate	+10.00%	61,043	+10.00%	60,283
	-10.00%	(61,043)	-10.00%	(60,283)

Full actuarial valuations were performed to test the sensitivity of the defined benefit obligation to a 1.00% increment in salary increase rate and a 1.00% decrement in the discount rate. The results also provide a good estimate of the sensitivity of the defined benefit obligation to a 1.00% decrement in salary increase rate and a 1.00% increment in the discount rate.

29. Leases

29.1 Group as Lessee

The Group has entered into commercial leases for its branch sites, ATM offsite location and other equipment. These non-cancellable leases have lease terms of 1 to 25 years. Most of these lease contracts include escalation clauses, an annual rent increase of 2.00% to 10.00%. The Group's right-of-use assets pertain to its branch sites and subsidiaries' offices under lease arrangements.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises judgement in determining whether these extension and termination options are reasonably certain to be exercised.

Rent expense charged against current operations (included in 'Occupancy and equipment-related costs' in the statements of income) amounted to P264.1 million, P270.2 million and P251.5 million in 2023, 2022 and 2021, respectively, for the Group, of which P187.0 million, P201.6 million and P223.2 million in 2023, 2022, and 2021, respectively, pertain to the Parent Company. Rent expenses in 2023, 2022 and 2021 pertain to expenses from short-term leases and leases of low-value assets.

As of December 31, 2023 and 2022, the Group has no contingent rent payable.



As of December 31, 2023 and 2022, the carrying amounts of 'Lease liabilities' are as follows:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Balance at beginning of year	₱3,636,391	₱3,765,391	₱3,604,077	₱3,698,410
Additions	1,340,509	799,014	1,185,129	789,687
Payments	(1,314,516)	(1,113,225)	(1,232,928)	(1,068,038)
Interest expense (Note 19)	171,570	171,885	168,285	170,692
Transfers	(1,070)	13,326	(1,247)	13,326
	₱3,832,884	₱3,636,391	₱3,723,316	₱3,604,077

The Parent Company has lease contracts with its affiliates (Note 33).

Future minimum rentals payable under non-cancelable leases follow:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Within one year	₱1,072,255	₱1,010,202	₱987,562	₱925,509
Beyond one year but not more than five years	3,171,247	3,172,151	3,057,198	3,058,101
More than five years	388,583	801,283	292,988	705,688
	₱4,632,085	₱4,983,636	₱4,337,748	₱4,689,298

29.2 Group as Lessor Under Operating Leases

The Parent Company has entered into commercial property leases on its investment properties. These non-cancelable leases have lease terms of one to five years. Some leases include escalation clauses (such as 5.00% per year). In 2023, 2022 and 2021, total rent income (included under 'Miscellaneous income') amounted to ₱257.8 million, ₱275.9 million and ₱513.9 million, respectively, for the Group and ₱133.4 million, ₱47.3 million and ₱211.8 million, respectively, for the Parent Company (refer to Note 27.1).

Future minimum rentals receivable of the Group under non-cancelable operating leases follow:

	2023	2022
Within one year	₱246,175	₱42,163
Beyond one year but not more than five years	77,745	460,051
	₱323,920	₱502,214

29.3 Group as Lessor Under Finance Leases

Leases where the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased asset are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease (effective interest method). Lease payments relating to the period are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

The future minimum lease receivables under finance leases are disclosed under 'Loans and Receivables' in Note 10.2.



30. Income and Other Taxes

30.1 Philippine Tax Landscape and Regulations

Under Philippine tax laws, the Parent Company and certain subsidiaries are subject to percentage and other taxes (presented as ‘Taxes and licenses’ in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp tax.

Income taxes include the corporate income tax, discussed below, and final taxes paid which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from the FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as ‘Provision for income tax’ in the statements of income.

On March 26, 2021, Republic Act No. 11534, otherwise known as Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act was signed into law. CREATE reduced the RCIT rate from 30.00% to 25.00% depending on the criteria set by the law effective July 1, 2020. With the implementation of CREATE, interest expense allowed as a deductible expense shall be reduced by 20.00% of the interest income subjected to final tax, compared to the 33.00% reduction prior to the CREATE.

The regulations also provide for MCIT of 2.00% (prior to CREATE) and 1.00% from (July 1, 2020 to June 30, 2023 before reverting to 2.00%) on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group’s and the Parent Company’s income tax liability and taxable income, respectively, over a three-year period from the year of inception. For the taxable years 2021 and 2020, the NOLCO incurred can be carried over as a deduction for the next five (5) consecutive taxable years, pursuant to Revenue Regulations (RR) No. 25-2020.

Impact of CREATE Law

Applying the provisions of the CREATE Law, the Group and the Parent Company is subjected to lower regular corporate income tax rate of 25.00% effective July 1, 2020. The following are the impact of CREATE in the 2021 financial statements of the Group and the Parent Company:

- Based on the provisions of Revenue Regulations (RR) No. 5-2021 dated April 8, 2021 issued by the BIR, the transitory RCIT and MCIT rates applicable to the Group and the Parent Company for the taxable year 2020 is 27.50% and 1.50%, respectively. This resulted in reduction in the current income tax due for the taxable year 2020 amounting to ₱365.1 million and ₱361.4 million for the Group and the Parent Company, respectively. The reduced amounts were reflected in the 2020 Annual Income Tax Returns filed in 2021. For financial reporting purposes, such reductions in the 2020 current income taxes were recognized in the 2021 financial statements as reduction to 2021 income tax expense.
- The deferred tax assets as of December 31, 2021 were also remeasured using the lower RCIT rate of 25.00%. The net decrease in the deferred tax balances amounting to ₱1.5 billion for the Group and the Parent Company, reduced the provision for deferred tax by ₱1.5 billion for the Group and the Parent Company, and other comprehensive income by ₱9.2 million and ₱9.4 million for the Group and the Parent Company, respectively.

There were no tax-related contingent liabilities and contingent assets arising from the changes in the tax rates due to CREATE Act.



Current tax regulations also provide for the ceiling on the amount of EAR expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Parent Company and some of its subsidiaries is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. EAR charged against current operations (included in 'Miscellaneous expenses' in the statements of income) amounted to ₱30.0 million in 2023, ₱155.0 million in 2022, and ₱189.1 million in 2021 for the Group, and ₱16.8 million in 2023, ₱145.4 million in 2022, and ₱181.3 million in 2021 for the Parent Company (refer to Note 27.2).

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 15.00%. Income derived by the FCDU from foreign currency-denominated transactions with non-residents, OBUs, local commercial banks including branches of foreign banks, is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

30.2 Provision for Income Tax

This account consists of:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Continuing operations:						
Current						
Regular	₱1,404,428	₱3,463,008	₱1,549,711	₱1,327,057	₱3,238,970	₱1,316,245
Final	2,914,558	1,807,104	1,411,669	2,877,681	1,784,869	1,372,443
	4,318,986	5,270,112	2,961,380	4,204,738	5,023,839	2,688,688
Deferred	(311,611)	(338,884)	2,583,814	(356,770)	(339,814)	2,323,873
	4,007,375	4,931,228	5,545,194	3,847,968	4,684,025	5,012,561
Discontinued operations (Note 36):						
Current						
Regular	—	—	177,048	—	—	—
Final	—	—	15,813	—	—	—
	—	—	192,861	—	—	—
Deferred	—	—	(84,259)	—	—	—
	—	—	108,602	—	—	—
	₱4,007,375	₱4,931,228	₱5,653,796	₱3,847,968	₱4,684,025	₱5,012,561

30.3 Deferred Taxes

The amounts of net deferred tax assets in the statements of financial position follow:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Deferred tax assets	₱6,981,726	₱6,616,902	₱6,929,669	₱6,574,190
Deferred tax liabilities (Note 22)	166,091	165,721	—	—
	₱6,815,635	₱6,451,181	₱6,929,669	₱6,574,190



The components of net deferred tax assets reported in the statements of financial position follow:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Deferred tax assets on:				
Allowance for impairment, credit and other losses	₱9,281,393	₱9,055,746	₱9,331,283	₱9,070,709
Accumulated depreciation on properties	512,469	520,544	512,469	520,544
Accrued expenses	493,210	372,660	451,264	372,660
Deferred revenues	185,317	162,342	185,317	162,342
Retirement liability	50,428	50,617	—	—
Others	10,202	8,476	—	—
	10,533,019	10,170,385	10,480,333	10,126,255
Deferred tax liabilities on:				
Revaluation increment on land and buildings ^{1/}	1,516,383	1,536,217	1,516,383	1,536,217
Fair value adjustments on asset foreclosures and dacion transactions	1,590,559	1,414,221	1,442,221	1,265,883
Unrealized foreign exchange gains	186,371	339,957	186,339	339,957
Gain on remeasurement of previously held interest	246,651	246,651	246,651	246,651
Fair value adjustments due to business combination	155,541	161,634	155,541	161,634
Unrealized gains on financial assets at FVTPL and FVOCI	3,571	1,882	3,529	1,723
Others	18,308	18,642	—	—
	3,717,384	3,719,204	3,550,664	3,552,065
	₱6,815,635	₱6,451,181	₱6,929,669	₱6,574,190

^{1/} Balance includes deferred tax liability amounting to ₱614 million acquired from business combination

As of December 31, 2023 and 2022, the Group's net deferred tax liabilities as disclosed in 'Other liabilities' (refer to Note 22) include deferred tax liabilities on fair value adjustments due to business combination amounting to ₱148.3 million.

Deferred tax benefit (provision) credited (charged) directly to OCI pertaining to net unrealized losses (gains) on financial assets at FVOCI amounted to ₱0.2 million for the Group and the Parent Company in 2023, and (₱32.7 million) for the Group and the Parent Company in 2022.

Unrecognized deferred tax assets

The Parent Company and certain subsidiaries did not recognize deferred tax assets on the following unused tax credit and losses and temporary differences since they believe that the related tax benefits will not be realized in the future:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Allowance for impairment and credit losses	₱8,262,820	₱8,615,344	₱8,262,820	₱8,615,344
Unamortized past service cost	1,576,711	2,140,071	1,576,711	2,140,071
Derivative liabilities	555,811	1,037,348	555,811	1,037,348
Unrealized losses on financial assets	147,661	870,774	147,661	870,774
Unrealized foreign exchange loss	95,747	627,501	95,747	627,501
Retirement liability	269,391	382,449	269,391	382,449
Lease liability	402,146	284,486	399,340	284,162
NOLCO	959,254	140,800	—	—
	₱12,269,541	₱14,098,773	₱11,307,481	₱13,957,649



Details of the Group's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2020	₱89,960	₱—	₱89,960	2025
2021	50,840	—	50,840	2026
2022	818,454	—	818,454	2025
	₱959,254	₱—	₱959,254	

Unrecognized deferred tax liabilities

As of December 31, 2023 and 2022, there was a deferred tax liability of ₱895.9 million and ₱840.4 million for temporary differences of ₱3.6 billion and ₱3.4 billion related to investment in certain subsidiaries, respectively. However, this liability was not recognized because the Parent Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

30.4 Statutory Income Tax Reconciliation

The reconciliation between the statutory income tax rate to effective income tax rate follows:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Statutory income tax rate	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
Tax effects of:						
Non-deductible expenses	12.28	14.69	4.54	12.16	13.73	5.20
Net unrecognized deferred tax assets	(11.20)	(6.04)	6.03	(11.74)	(6.36)	5.46
Tax-exempt income	(4.36)	(2.91)	(21.93)	(4.38)	(2.96)	(22.94)
Tax-paid income	(2.76)	(2.01)	(0.63)	(2.82)	(2.05)	(0.66)
FCDU loss (income) before tax	(0.61)	1.49	2.61	(0.61)	1.52	2.73
Optional standard deduction	(0.11)	(0.36)	(0.08)	—	—	—
CREATE adjustment – deferred tax	—	—	0.01	—	—	0.01
CREATE adjustment – current tax	—	—	(0.95)	—	—	(0.99)
Effective income tax rate	18.24%	29.86%	14.60%	17.61%	28.88%	13.81%

31. Earnings Per Share

Earnings per share attributable to equity holders of the Parent Company is computed as follows:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
a) Net income attributable to equity holders of the Parent Company	₱17,979,257	₱11,532,318	₱31,630,626	₱18,002,948	₱11,532,318	₱31,283,762
b) Weighted average number of common shares for basic earnings per share (Note 25)	1,525,765	1,525,765	1,525,765	1,525,765	1,525,765	1,525,765
c) Basic/Diluted earnings per share (a/b)	₱11.78	₱7.56	₱20.73	₱11.80	₱7.56	₱20.50



Earnings per share attributable to equity holders of the Parent Company from continuing operations is computed as follows:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
a) Net income from continuing operations attributable to equity holders of the Parent Company	₱17,979,257	₱11,532,318	₱32,365,991	₱18,002,948	₱11,532,318	₱31,283,762
b) Weighted average number of common shares for basic earnings per share (Note 25)	1,525,765	1,525,765	1,525,765	1,525,765	1,525,765	1,525,765
c) Basic/Diluted earnings per share (a/b)	₱11.78	₱7.56	₱21.21	₱11.80	₱7.56	₱20.50

In 2023, 2022 and 2021, there are no potential common shares with dilutive effect on the basic earnings per share.

32. Trust Operations

Securities and other properties held by the Parent Company through its TBG in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of the Parent Company. Such assets held in trust were carried at a value of ₱168.0 billion and ₱152.7 billion as of December 31, 2023 and 2022, respectively. In connection with the trust functions of the Parent Company, government securities amounting to ₱1.9 billion and ₱1.6 billion (included under 'Investment securities at amortized cost') as of December 31, 2023 and 2022, respectively, are deposited with the BSP in compliance with trust regulations (refer to Note 9.3).

Trust fee income in 2023, 2022 and 2021 amounting to ₱373.7 million, ₱317.8 million and ₱319.4 million, respectively, is included under 'Service fees and commission income' (refer to Note 26.1).

In compliance with existing banking regulations, the Parent Company transferred from surplus to surplus reserves the amounts of ₱29.9 million, ₱24.7 million and ₱23.2 million in 2023, 2022 and 2021, respectively, which correspond to 10.00% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20.00% of its regulatory capital (refer to Note 25.3).

33. Related Party Transactions

33.1 Summary of Significant Related Party Transactions

Details on significant related party transactions of the Group and the Parent Company follow (transactions with subsidiaries have been eliminated in the consolidated financial statements). Transactions reported under subsidiaries represent companies where the Parent Company has control, while those under related parties represent companies which are under common control.



2023			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investors			
Deposit liabilities		₱2,276,926	Peso and foreign currency deposits with annual rates ranging from 0.00% to 6.25%
Net deposits	₱953,917		Net deposits during the period
Interest expense	65,774		Interest expense on deposits
Accrued interest payable		2,188	Accrued interest on deposit liabilities
Subsidiaries			
Receivables from customers		₱-	Peso loans with terms ranging from 31 days to 354 days with annual rate of 9.00%; with reversal of provisions amounting to ₱165.6 million; written off in December 2023 (see discussion below)
Loan releases	₱465,142		
Loan collections	165,560		
Loan settlement through dacion and assignment	1,404,582		
Credit facilities		10,638,270	Includes omnibus line and revocable revolving credit lines, domestic bills purchase lines and letters of credit/ trust receipt lines; also includes irrevocable standby letters of credit;
Interbank loans receivable		52,680	Foreign currency-denominated interbank term loans with interest rates ranging from 3.92% to 3.94% with ACB
Availments	83,579		
Settlements	46,606		
Due from other banks		288,020	Foreign currency-denominated demand deposits
Accrued interest receivable		1,076	Interest accrual on receivables from customers and interbank loans receivable
Accounts receivable		17,276	Related to remittance transactions and amounts which are subject to clearing
Deposit liabilities		3,155,369	Peso and foreign currency-denominated deposits with annual fixed interest rates ranging from 0.0% to 4.95% and maturities up to 4 years
Net withdrawals	339,101		Net withdrawals during the period
Bills payable		-	Foreign currency-denominated bills payable with ACB with interest rate of 4.0%
Settlements	13,758		
Due to other banks		65	Foreign currency-denominated clearing accounts used for funding and settlement of remittances with GRFC, IIC, PNB Europe, and ACB
Accrued interest payable		21,113	Accrued interest on deposit liabilities and bills payable
Interest income	187,821		Interest income on receivables from customers, due from other banks and interbank loans receivable
Interest expense	201,534		Interest expense on deposit liabilities and bills payable
Service fees and commission income	5,209		Various services rendered by PNB to its subsidiaries covered by a service level agreement; also includes PNB's share in service fees
Miscellaneous other income	2,580		Management and other professional fees; includes share of subsidiaries in maintenance costs of the HR system
Service fees and commission expense	57		Fees and other commission expense
Securities transactions			
Purchases	1,097,734		Outright purchase of securities
Sales	690,027		Outright sale of securities
Trading loss	42		Loss from sale of investment securities



2023			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Other Related Parties			
Receivables from customers		₱55,298,956	Partly secured by real estate, vehicles, deposits, government securities, among others; with interest rates ranging from 2.75% to 12.00% with remaining maturity terms ranging from 7 days to over 8 years and payment terms ranging from monthly to quarterly payments; with aggregate allowance for credit losses of ₱169.6 million
Loan releases	₱31,771,690		
Loan collections	18,659,908		
Credit facilities		77,116,535	Includes omnibus line and revocable revolving credit lines and domestic bills purchase lines; also includes irrevocable standby letters of credit which are partly secured by either cash or government securities
Sales contract receivable		2,173	Receivable from sale of property paid in installments; with interest rate of 5.0% and maturing in July 2027
Financial assets at FVOCI		24,587,068	Majority represents the retained 49.00% interest in PNB Holdings, with unrealized gain of ₱1.7 billion recorded in OCI (refer to Note 12.4 for further discussion)
Accrued interest receivable		297,551	Accrued interest on receivables from customers
Security deposit		176,082	Amount given to fulfill the terms of the lease contract
Right-of-use assets		3,136,508	Lease of office space with terms up to 10 years and the corresponding accumulated amortization
Accumulated amortization of right-of-use assets		1,081,498	
Deposit liabilities		46,333,463	Peso-denominated and foreign currency-denominated demand, savings and time deposits with maturity terms ranging from 7 days to over 13 years
Net deposits	5,980,997		Net deposits during the period
Accrued interest payable		267,825	Accrued interest payable from various deposits
Bills payable		–	Short-term borrowings with interest rate of 6.41%
Availment	400,000		
Settlement	400,000		
Lease liabilities		2,107,960	Lease of office space with terms ranging from 20 months to 10 years
Accrued other expenses		402,589	Accruals in relation to promotional and utilities expenses
Deferred revenue		41,111	Unamortized portion of income related to the bancassurance agreement with ABIC
Service fees and commission income	3,334		Amortization of fees under the bancassurance agreement with ABIC
Interest income	1,997,271		Interest income on receivables from customers
Interest expense	1,644,192		Interest expense on deposit liabilities, bonds payable, bills payable and lease liabilities
Amortization expense	671,137		Amortization of right-of-use asset relating to leases of office spaces
Occupancy and equipment-related costs	760,547		Rentals from short-term leases
Miscellaneous expenses	572,875		Includes CUSA charges for the Parent Company's share in common areas on premises owned by PNB Holdings; promotional expenses for Mabuhay Miles redemption; includes management fees paid to Eton Properties Philippines, Inc.; and other expenses
Rental income	151		Payment received for the use or occupation of property
Service fees and commission expenses	114		Fees and other commission expense
Securities transactions			
Purchases	7,106,329		Outright purchase of securities
Sales	9,103,280		Outright sale of securities



2023			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Remittance transactions			
Fund transfers	₱3,957,891		Peso equivalent of funds transferred
Service fees	10,976		Income share and commission on remittance transactions
Purchase of merchandise	249		Cost of various merchandise purchased
Associate			
Credit facilities		₱120,000	Pre-settlement risk line
Deposit liabilities		128,165	Peso and foreign currency-denominated deposits with annual interest rates ranging from 0% to 0.10%
Net withdrawals	₱339,881		
Accrued interest payable		41	Accrued interest on deposit liabilities
Rental deposits		27	Advance rental and security deposits received for three months
Deferred revenue		548,993	Unamortized portion of income related to the sale of APLII
Service fees and commission income	431,287		Bancassurance fees earned based on successful referrals and income related to the sale of APLII
Interest expense	1,300		Interest expense on deposit liabilities
Key Management Personnel			
Loans to officers		₱1,475	Housing loans to senior officers with interest rates ranging from 3% to 15%; Secured and unimpaired
Loan releases	₱3,471		
Loan collections	4,774		
Accrued interest receivable		12	Accrued interest on loans
Interest income	277		Interest income on housing loans
Deposit liabilities		119,449	Peso and foreign currency-denominated deposits with interest rates ranging from 0.0% to 4.75%
Net deposits	118,975		Net deposits during the period
Interest expense	3,372		Interest expense on deposits
Accrued interest payable		801	Accrued interest on deposit liabilities
2022			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investors			
Deposit liabilities		₱1,323,009	Peso and foreign currency deposits with annual rates ranging from 0.0% to 4.75%
Net deposits	₱1,318,594		Net deposits during the period
Interest expense	17,621		Interest expense on deposits
Accrued interest payable		2,060	Accrued interest on deposit liabilities
Subsidiaries			
Receivables from customers		₱1,105,000	Term loan maturing in January 2023 with nominal interest rate of 8.4%; includes domestic bills purchased; fully provided with allowance for credit losses
Loan releases	₱1,680,302		
Loan collections	2,057,558		
Credit facilities		11,925,849	Includes omnibus line and revocable revolving credit lines, domestic bills purchase lines and letters of credit/ trust receipt lines; also includes irrevocable standby letters of credit; with provision for liability of ₱649.7 million relating to undrawn loan commitments of PMLFC
Interbank loans receivable		15,147	Foreign currency-denominated interbank term loans with interest rates ranging from 0.01% to 4.50% and maturity on March 2023 with ACB
Availments	80,632		
Settlements	94,888		
Due from other banks		269,904	Foreign currency-denominated demand deposits



2022			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Accrued interest receivable		₱3,187	Interest accrual on receivables from customers and interbank loans receivable
Accounts receivable		60,474	Peso and USD remittances cover
Deposit liabilities		3,494,470	Peso and foreign currency-denominated deposits with annual fixed interest rates ranging from 0.0% to 4.85% and maturities up to 2 years
Net withdrawals	₱9,193,250		Net withdrawals during the period
Bills payable		13,904	Foreign currency-denominated bills payable with ACB maturing in March 2023 with interest rate of 4.0%
Availments	81,140		
Settlements	97,713		
Due to other banks		122,139	Foreign currency-denominated clearing accounts used for funding and settlement of remittances with GRFC, IIC, PNB Europe, and ACB
Accrued interest payable		11,206	Accrued interest on deposit liabilities and bills payable
Interest income	102,763		Interest income on receivables from customers, due from other banks and interbank loans receivable
Interest expense	87,562		Interest expense on deposit liabilities and bills payable
Service fees and commission income	171,433		Various services rendered by PNB to its subsidiaries covered by a service level agreement; also includes PNB's share in service fees
Rental income	145		Payment received for the use or occupation of property
Miscellaneous other income	4,562		Management and other professional fees
Securities transactions			
Purchases	3,990		Outright purchase of securities
Sales	948,190		Outright sale of securities
Trading gain	19		Gain from sale of investment securities
Other Related Parties			
Receivables from customers		₱41,077,025	Partly secured by real estate, vehicles, deposits, government securities, among others; With interest rates ranging from 2.5% to 11.5% with remaining maturity terms ranging from 7 days to 9 years and payment terms ranging from monthly to quarterly payments; with aggregate allowance for credit losses of ₱2.9 billion
Loan releases	₱12,130,218		
Loan collections	28,633,622		
Credit facilities		94,657,106	Includes omnibus line and revocable revolving credit lines and domestic bills purchase lines; also includes irrevocable standby letters of credit which are partly secured by either cash or government securities
Sales contract receivable		1,065	Receivable from sale of property paid in installments; with interest rate of 5.0% and maturing in July 2027
Financial assets at FVOCI		23,218,499	Majority represents the retained 49.00% interest in PNB Holdings, with unrealized gain of ₱325.8 million recorded in OCI (refer to Note 12.4 for further discussion)
Accrued interest receivable		132,080	Accrued interest on receivables from customers
Security deposit		55,513	Amount given to fulfill the terms of the lease contract
Deferred charges		5,097	Lease payments under the lease contract paid in advance
Right-of-use assets		3,254,930	Lease of office space with terms up to 10 years and the corresponding accumulated amortization
Accumulated amortization of right-of-use assets		1,017,794	
Deposit liabilities		40,352,466	Peso-denominated and foreign currency-denominated demand, savings and time deposits with maturity terms ranging from 30 days to 365 days
Net deposits	4,235,274		Net deposits during the period
Bonds payable		84,840	Foreign currency bonds with interest rate of 4.25% with maturity terms of five years.
Accrued interest payable		75,597	Accrued interest payable from various deposits



2022			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Lease liabilities		₱2,191,862	Lease of office space with terms ranging from 20 months to 10 years
Accrued other expenses		319,882	Accruals in relation to promotional expenses
Deferred revenue		44,444	Unamortized portion of income related to the bancassurance agreement with ABIC
Service fees and commission income	₱3,334		Amortization of fees under the bancassurance agreement with ABIC
Interest income	723,194		Interest income on receivables from customers
Interest expense	570,304		Interest expense on deposit liabilities, bonds payable and lease liabilities
Amortization expense	555,048		Amortization of right-of-use asset relating to leases of office spaces
Miscellaneous expenses	270,820		Includes CUSA charges for the Parent Company's share in common areas on premises owned by PNB Holdings; and promotional expenses for Mabuhay Miles redemption; includes management fees paid to Eton Properties Philippines, Inc.
Securities transactions			
Purchases	13,089,879		Outright purchase of securities
Sales	6,926,458		Outright sale of securities
Trading loss	(23,612)		Loss from sale of investment securities
Rental income	8,779		Payment received for the use or occupation of property
Remittance transactions			
Fund transfers	2,527,729		Peso equivalent of funds transferred
Service fees	3,956		Income share and commission on remittance transactions
Associate			
Deposit liabilities		₱468,046	Peso and foreign currency-denominated deposits with annual interest rates ranging from 0% to 0.10%
Net withdrawals	₱86,560		
Accrued interest payable		19	Accrued interest on deposit liabilities
Rental deposits		27	Advance rental and security deposits received for three months
Deferred revenue		622,192	Unamortized portion of income related to the sale of APLII
Interest expense	2,066		Interest expense on deposit liabilities
Service fees and commission income	73,199		Bancassurance fees earned based on successful referrals and income related to the sale of APLII
Key Management Personnel			
Loans to officers		₱2,778	Housing loans to senior officers with interest rates ranging from 3% to 15%; Secured and unimpaired
Accrued interest receivable		9	Accrued interest on loans
Loan collections	₱714		Settlement of loans and interest
Interest income	212		Interest income on housing loans
Deposit liabilities		118,975	Peso and foreign currency-denominated deposits with interest rates ranging from 0.0% to 4.75%
Net deposits	15,019		Net deposits during the period
Interest expense	3,823		Interest expense on deposits
Accrued interest payable		144	Accrued interest on deposit liabilities



Remedies over a loan exposure to a related party

In April 2022, the Parent Company entered into a dacion agreement with a related party over an investment property with fair value at the time of dacion of ₱1.4 billion in settlement of certain loans. The remedy to settle the loan also provided for the conversion of the remaining debt to equity shares of the former borrower.

Transactions relating to the investment in PNB Holdings

As discussed in Note 12.4, the Parent Company executed a proxy in favor of LTG to vote for the remaining 49.00% held by the Group in PNB Holdings. As a result, the Group accounted for its retained interest in PNB Holdings as financial asset at FVOCI with no recycling to profit and loss. The Group and the Parent Company recognized in 2021 a gain of ₱33.5 billion from the loss of control and remeasurement of the retained interest in PNB Holdings (refer to Note 12.4).

In relation to the property dividend declaration, the Parent Company, as a withholding agent, remitted ₱404.4 million to the BIR in January 2022, representing final withholding taxes on the property dividends of concerned stockholders. This was recorded under 'Accounts receivable' in the statement of financial position. The Parent Company shall eventually collect from the stockholders such amount advanced on their behalf upon distribution of the property dividends.

Financial assets at FVTPL traded through PNB Securities

As of December 31, 2023 and 2022, the Parent Company's financial assets at FVTPL include equity securities traded through PNB Securities with a fair value of ₱2.6 million and ₱15.4 million, respectively. The Parent Company recognized trading gain (losses) amounting to (₱0.04 million) in 2023, ₱0.1 million in 2022 and (₱7.1 million) in 2021 from the transactions facilitated by PNB Securities.

Joint arrangements with Eton Properties Philippines, Inc. (EPPI)

The Parent Company and EPPI signed two joint venture agreements (JVAs) for the development of two real estate properties of the Parent Company included under 'Other assets' (refer to Note 15) and with carrying values of ₱1.2 billion at the time of signing. EPPI and the Group are under common control. These two projects are among the Parent Company's strategies in reducing its non-performing assets. The Parent Company contributed the aforementioned properties into the joint venture (JV) as approved by BSP. EPPI, on the other hand, contributed its resources and technical expertise for the completion of the said JV. Income from the sale of the properties under the JV are shared by the Parent Company and EPPI in accordance with the terms of the JVAs.

In July 2016, the Parent Company executed deeds of conveyance to EPPI on the areas of the land under the JVA arrangement. The execution of the deeds of conveyance was made to facilitate the issuance of the condominium certificates of title to the buyers.

As of December 31, 2023 and 2022, the carrying values of the properties under the JV with EPPI amounted to ₱298.6 million and ₱507.9 million, respectively, booked in 'Real estate inventories held under development' under 'Other assets'.



Transactions with PMLFC and PMERC

The Parent Company entered into the following transactions with PMLFC and PMERC as part of their winding down procedures:

- On various dates in 2022 and 2023, PMLFC transferred to the Parent Company certain receivables either via direct purchase or assignment. Details are as follows:

Year of transfer	Underlying contract	Aggregate carrying values	Total consideration paid
2022	Direct Purchase	₱122,306	₱115,866
2023	Direct Purchase	51,235	51,612
	Receivables Purchase Agreement	287,040	278,998
	Deed of Assignment	210,734	185,572

- On various dates in 2023, the BOD of the Parent Company approved to accept certain properties of PMLFC and PMERC as settlement through dacion en pago to partially pay their respective outstanding loans to the Parent Company. Details are as follows:

Date of BOD approval	Borrower	Subject properties/ assets	Aggregate fair values	Dacion amount
April 28, 2023	PMLFC	Condominium units	₱100,258	₱100,258
April 28, 2023	PMERC	Equipment and other properties held for lease (EOPL)	261,407	245,984
December 15, 2023	PMLFC	Repossessed chattels	7,867	3,933

In 2023, rental income amounting to ₱54.6 million from the EOPL that were subject of the April 2023 dacion have accrued to the Parent Company after the dacion was implemented.

- Considering the transfer of the major assets of PMLFC and PMERC to the Parent Company and no other remaining leivable properties of PMLFC and PMERC to foreclose, on December 15, 2023, the BOD of the Parent Company approved to write off the remaining balance of the loans of PMLFC and PMERC amounting to ₱736.4 million and ₱242.4 million, respectively.

33.2 Remuneration of Key Management Personnel and Directors

The compensation of the key management personnel for the Group and Parent Company follows:

	2023	2022	2021
Short-term employee benefits	₱526,038	₱517,114	₱460,711
Post-employment benefits	53,041	47,424	50,629
	₱579,079	₱564,538	₱511,340

Non-executive directors are entitled to a per diem as follows: ₱50,000 for each BOD meeting attended and ₱25,000 for each BOD committee meeting attended, provided that in no case shall the total per diem exceed ₱0.25 million per month for committee meetings. No other emoluments are granted to non-executive directors of the Parent Company except for the aforementioned per diem. There is no profit-sharing arrangement between the Parent Company and its BOD. In 2023 and 2022, total per diem given to non-executive directors amounted to ₱71.3 million and ₱62.6 million, respectively, recorded in 'Miscellaneous expenses' in the statements of income. Directors' remuneration covers all BOD activities and membership of committees and subsidiary companies.

In 2021, key management personnel received 20,099 Parent Company shares in relation to the centennial bonus distribution.



33.3 Transactions with Retirement Plans

Management of the retirement funds of the Group and the Parent Company is handled by TBG. The fair values and carrying values of the funds of the Group amounted to ₱8.6 billion and ₱7.9 billion as of December 31, 2023 and 2022, respectively, and the fair values of the funds of the Parent Company amounted to ₱8.5 billion and ₱7.8 billion as of December 31, 2023 and 2022, respectively.

Relevant information on transactions with the retirement plans follows:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Investment in PNB UITFs	₱559,461	₱558,013	₱556,626	₱555,186
Deposits with PNB	313,976	481,123	313,813	480,913
Investment in PNB shares	152,059	156,169	152,059	156,169
Total Fund Assets	₱1,025,496	₱1,195,305	₱1,022,498	₱1,192,268
Unrealized loss on PNB shares	(₱4,110)	(₱9,041)	(₱4,110)	(₱9,041)
Unrealized gain (loss) on PNB UITF	1,440	(35,926)	1,440	(35,926)
Interest income	27,584	18,314	26,063	17,412
	24,914	(26,653)	23,393	(27,555)
Trust fees	(9,496)	(9,152)	(9,350)	(9,290)
Net Fund Income (Losses)	₱15,418	(₱35,805)	₱14,043	(₱36,845)

As of December 31, 2023 and 2022, the retirement funds of the Group and the Parent Company include 8,219,406 PNB shares, respectively, classified as financial assets at FVTPL. There are no limitations and restrictions over the PNB shares while the corresponding voting rights are exercised by a trust officer or any of its designated alternate officer of TBG.

In addition to the regular retirement funds, TBG also manages the funds of the Parent Company's EIP and fund for e-money products.

34. Provisions, Contingent Liabilities and Other Commitments

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including several suits and claims which remain unsettled. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

There were no significant settlements made in 2023 and 2022.

In the ordinary course of the Group's operations, certain entities within the Group have pending tax assessments/claims which are in various stages of protest/appeal with the tax authorities, the amounts of which cannot be reasonably estimated. Management believes that the bases of said protest/appeal are legally valid such that the ultimate resolution of these assessments/claims would not have material effects on the consolidated financial position and results of operations.



35. Offsetting of Financial Assets and Liabilities

The effects of rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements to the Group and the Parent Company's financial statements are disclosed in the succeeding tables.

Consolidated

2023						
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
				Fair value of financial collateral		Net exposure [c-d]
				Financial instruments	financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative assets	₱108,139,719	₱107,390,520	₱749,199	₱37,098	₱—	₱712,101
Securities held under agreements to resell (Note 8)	69,694,538	—	69,694,538	—	57,785,321	11,909,217
Total	₱177,834,257	₱107,390,520	₱70,443,737	₱37,098	₱57,785,321	₱12,621,318

2022						
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
				Fair value of financial collateral		Net exposure [c-d]
				Financial instruments	financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative assets	₱61,149,066	₱59,787,115	₱1,361,951	₱73,039	₱—	₱1,288,912
Securities held under agreements to resell (Note 8)	64,523,863	—	64,523,863	—	64,334,349	189,514
Total	₱125,672,929	₱59,787,115	₱65,885,814	₱73,039	₱64,334,349	₱1,478,426

2023						
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
				Fair value of financial collateral		Net exposure [c-d]
				Financial instruments	financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities	₱65,163,569	₱64,607,758	₱555,811	₱196,010	₱—	₱359,801
Securities sold under agreements to repurchase (Notes 9 and 19)*	10,053,531	—	10,053,531	—	11,972,805	—
Total	₱75,217,100	₱64,607,758	₱10,609,342	₱196,010	₱11,972,805	₱359,801

* Included in bills and acceptances payable in the statements of financial position

2022						
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
				Fair value of financial collateral		Net exposure [c-d]
				Financial instruments	financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities	₱70,051,569	₱69,011,793	₱1,039,776	₱456,745	₱—	₱583,031
Securities sold under agreements to repurchase (Notes 9 and 19)*	6,595,689	—	6,595,689	—	7,981,190	—
Total	₱76,647,258	₱69,011,793	₱7,635,465	₱456,745	7,981,190	₱583,031

* Included in bills and acceptances payable in the statements of financial position



Parent Company

2023						
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative assets	₱108,134,733	₱107,390,520	₱744,213	₱37,098	₱-	₱707,115
Securities held under agreements to resell (Notes 8 and 19)	69,694,538	-	69,694,538	-	57,785,321	11,909,217
Total	₱177,829,271	₱107,390,520	₱70,438,751	₱37,098	₱57,785,321	₱12,616,332

2022						
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative assets	₱61,146,943	₱59,787,115	₱1,359,828	₱73,039	₱-	₱1,286,789
Securities held under agreements to resell (Notes 8 and 19)	64,523,863	-	64,523,863	-	64,334,349	189,514
Total	₱125,670,806	₱59,787,115	₱65,883,691	₱73,039	₱64,334,349	₱1,476,303

2023						
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities	₱65,163,569	₱64,607,758	₱555,811	₱196,010	₱-	₱359,801
Securities sold under agreements to repurchase (Notes 9 and 19)*	10,053,531	-	10,053,531	-	11,972,805	-
Total	₱75,217,100	₱64,607,758	₱10,609,342	₱196,010	₱11,972,805	₱359,801

* Included in bills and acceptances payable in the statements of financial position

2022						
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities	₱70,051,569	₱69,011,793	₱1,039,776	₱456,745	₱-	₱583,031
Securities sold under agreements to repurchase (Notes 9 and 19)*	6,595,689	-	6,595,689	-	7,981,190	-
Total	₱76,647,258	₱69,011,793	₱7,635,465	₱456,745	7,981,190	₱583,031

* Included in bills and acceptances payable in the statements of financial position

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, excluding the extent of over-collateralization.



36. Discontinued Operations

36.1 PNB Gen

The results of operation of PNB Gen in 2021 are presented below:

Interest Income on	
Loans and receivables	₱35
Investment securities at amortized cost and FVOCI (Note 9)	19,830
Deposits with banks and others	34
	<u>19,899</u>
Interest Expense on	
Lease liabilities (Note 19)	530
Net Interest Income	<u>19,369</u>
Net Service Fees and Commission Income (Note 26)	<u>110</u>
Insurance premium	202,543
Insurance benefits and claims	143,605
Net Insurance Premium	<u>58,938</u>
Other Income	
Foreign exchange gains - net	1,804
Total Operating Income	<u>80,221</u>
Operating Expenses	
Compensation and fringe benefits	37,040
Depreciation and amortization (Note 11)	6,592
Provision for credit losses (Note 16)	1,174
Occupancy and equipment-related costs	903
Taxes and licenses	290
Miscellaneous (Note 27)	8,832
Total Operating Expenses	<u>54,831</u>
Income Before Income Tax	<u>25,390</u>
Provision for Income Tax (Note 30)	<u>4,774</u>
Net Income from Discontinued Operations	<u><u>₱20,616</u></u>

Net insurance premium in 2021 consists of:

Net insurance premiums	
Gross earned premium	₱385,904
Reinsurer's share of gross earned premiums	(183,361)
	<u>202,543</u>
Less net insurance benefits and claims	
Gross insurance contract benefits and claims paid	207,003
Reinsurer's share of gross insurance contract benefits and claims	(130,493)
Gross change in insurance contract liabilities	48,017
Reinsurer's share of change in insurance contract liabilities	19,078
	<u>143,605</u>
	<u><u>₱58,938</u></u>



Net cash flows of PNB Gen in 2021 follow:

Net cash flows from operating activities	(P36,288)
Net cash flows from investing activities	18,740
Net cash flows from financing activities	(1,912)
	<u>(P19,460)</u>

36.2 PNB Holdings

The results of operation of PNB Holdings in 2021 are presented below:

Interest Income on	
Deposits with banks and others	P1,143
Interest Expense on	
Lease liabilities (Note 19)	2,998
Net Interest Expense	(1,855)
Net Service Fees and Commission Expense	(45,849)
Other Income	
Miscellaneous income (Note 27)	486,957
Total Operating Income	439,253
Operating Expenses	
Taxes and licenses	646,070
Occupancy and equipment-related costs	191,781
Provision for credit losses (Note 16)	86,967
Depreciation and amortization (Note 11)	42,450
Compensation and fringe benefits	976
Miscellaneous (Note 27)	123,162
Total Operating Expenses	1,091,406
Loss Before Income Tax	(652,153)
Provision for Income Tax (Note 30)	103,828
Loss from Discontinued Operations	<u>(P755,981)</u>

Net cash flows of PNB Holdings in 2021 follow:

Net cash flows from operating activities	P790,488
Net cash flows from financing activities	(567,887)
	<u>P222,601</u>

37. Events After the Reporting Date

There are no significant reportable events which occurred from December 31, 2023 until the date of this report.



38. Notes to Statements of Cash Flows

38.1 Cash Flows from Financing Activities

The changes in liabilities arising from financing activities in 2023 and 2022 follow:

	Consolidated			
	2023			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱14,980,373	₱4,937,366	₱244,864	₱20,162,603
Bonds payable	58,439,097	(16,560,000)	(388,226)	41,490,871
Lease liabilities	3,636,391	(1,314,516)	1,511,009	3,832,884
	₱77,055,861	(₱12,937,150)	₱1,367,647	₱65,486,358

	Consolidated			
	2022			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱52,953,797	(₱39,495,624)	₱1,522,200	₱14,980,373
Bonds payable	53,383,421	–	5,055,676	58,439,097
Lease liabilities	3,765,391	(1,113,225)	984,225	3,636,391
	₱110,102,609	(₱40,608,849)	₱7,562,101	₱77,055,861

	Parent Company			
	2023			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱13,888,035	₱6,029,703	₱244,865	₱20,162,603
Bonds payable	58,439,097	(16,560,000)	(388,226)	41,490,871
Lease liabilities	3,604,077	(1,232,928)	1,352,167	3,723,316
	₱75,931,209	(₱11,763,225)	₱1,208,806	₱65,376,790

	Parent Company			
	2022			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱51,113,018	(₱38,736,538)	₱1,511,555	₱13,888,035
Bonds payable	53,383,421	–	5,055,676	58,439,097
Lease liabilities	3,698,410	(1,068,038)	973,705	3,604,077
	₱108,194,849	(₱39,804,576)	₱7,540,936	₱75,931,209

Others include the effects of foreign exchange revaluations, additional lease liabilities, amortization of transaction costs, and accretion of interest.

38.2 Non-Cash Transactions

The following are non-cash transactions of the Group and the Parent Company in 2023 and 2022 relating to their long-term leases:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Additions to right-of-use assets (Note 11)	₱1,425,032	₱803,905	₱1,292,130	₱803,905
Additional lease liabilities (Note 29)	1,340,509	799,014	1,185,129	789,687



On January 13, 2021, the Parent Company subscribed to additional 466,770,000 shares of PNB Holdings in exchange for certain real estate properties with fair values of ₱46.7 billion. On April 23, 2021, the Parent Company declared 51.00% ownership in PNB Holdings as property dividends to all stockholders of record as of May 18, 2021 (refer to Note 12.4).

On December 17, 2021, the BOD of PNB Capital approved the declaration of cash dividends amounting to ₱300.0 million. The Parent Company received such cash dividends from PNB Capital on June 29, 2022 (refer to Note 12.2).

The Group acquired investment properties through foreclosure, dacion and rescission amounting to ₱3.0 billion, ₱4.3 billion, and ₱524.7 million in 2023, 2022 and 2021, respectively. The Parent Company acquired investment properties acquired through foreclosure and rescission amounting to ₱3.0 billion, ₱4.3 billion and ₱334.4 million in 2023, 2022 and 2021, respectively (refer to Note 13). Included in the foreclosures in 2023 and 2022 are dacion transactions in settlement of certain loans in exchange for an investment property (refer to Note 33.1). Foreclosures in 2022 also include the debt-to-equity conversion of the remaining loan exposures of a former borrower (refer to Note 33.1).

The Group and the Parent Company applied creditable withholding taxes against its income tax payable amounting to ₱1.2 billion, ₱2.4 billion and ₱1.6 billion in 2023, 2022 and 2021, respectively.

39. Approval of the Release of the Financial Statements

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the Parent Company's BOD on February 23, 2024.

40. Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010, which provides that the notes to the financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

40.1 Taxes Paid or Accrued During the Taxable Year

The Parent Company paid or accrued the following types of taxes for the tax period January to December 2023 (in absolute amounts):

Taxes and licenses

	Amount
Gross receipts tax	₱2,680,374,285
Documentary stamp taxes	4,200,000,000
Real estate tax	41,785,908
Local taxes	170,322,577
Others	83,062,845
	<u>₱7,175,545,615</u>



Withholding taxes

	Remitted	Outstanding
Withholding taxes on compensation and benefits	₱877,599,290	₱164,160,522
Final income taxes withheld on interest on deposits and yield on deposit substitutes	1,562,643,647	179,479,293
Expanded withholding taxes	216,903,397	19,172,371
Withholding taxes on the amount withdrawn from the decedent's deposit account	19,520,327	2,491,279
VAT withholding taxes	22,218,383	20,086
Other final taxes	158,003,153	8,648,901
	₱2,856,888,197	₱373,972,452

40.2 Tax Cases and Assessments

As of December 31, 2023 and 2022, the Parent Company has no final tax assessment but has outstanding cases filed in courts for various claims for tax refund. Management is of the opinion that the ultimate outcome of these cases will not have a material impact on the financial statements of the Parent Company.

41. Report on the Supplementary Information Required Under Section 174 of the Manual of Regulations for Banks

41.1 Basic Quantitative Indicators of Financial Performance

The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Return on average equity	9.95%	7.00%	19.98%	10.15%	7.10%	20.08%
Return on average assets	1.53%	0.99%	2.62%	1.54%	0.99%	2.60%
Net interest margin on average earning assets	4.23%	3.61%	3.27%	4.23%	3.62%	3.26%

41.2 Description of Capital Instruments Issued

As of December 31, 2023 and 2022, the Parent Company has only one class of capital stock, which are common shares.

41.3 Significant Credit Exposures as to Industry Sector

An industry sector analysis of the Group's and the Parent Company's receivables from customers before taking into account allowance for credit losses is shown below.

	Consolidated				Parent Company			
	2023		2022		2023		2022	
	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%
Primary target industry:								
Wholesale and retail	₱122,887,990	19.15	₱94,635,306	15.44	₱116,820,739	18.60	₱89,062,370	14.86
Financial intermediaries	92,281,412	14.38	123,572,805	20.16	92,321,118	14.70	124,585,259	20.78
Electricity, gas and water	83,942,305	13.08	77,908,127	12.71	83,942,305	13.36	77,908,992	13.00
Manufacturing	63,947,942	9.96	64,750,821	10.57	61,863,476	9.85	62,394,048	10.41
Transport, storage and communication	46,249,754	7.21	41,702,691	6.80	45,835,091	7.30	40,836,136	6.81

(Forward)



	Consolidated				Parent Company			
	2023		2022		2023		2022	
	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%
Agriculture, hunting and forestry	₱8,187,717	1.28	₱6,846,668	1.12	₱8,032,017	1.28	₱6,685,454	1.12
Public administration and defense	4,101,202	0.64	1,868,664	0.30	4,101,202	0.65	1,868,663	0.31
Secondary target industry:								
Real estate, renting and business activities	110,728,706	17.25	96,701,343	15.78	107,586,053	17.13	93,010,341	15.51
Construction	38,833,938	6.05	30,989,724	5.06	38,775,374	6.17	30,923,083	5.16
Others	70,637,302	11.01	73,881,893	12.06	68,902,271	10.97	72,242,925	12.05
	₱641,798,268	100.00	₱612,858,042	100.00	₱628,179,646	100.00	₱599,517,271	100.00

41.4 Breakdown of Total Loans

41.4.1 As to Security

The information relating to receivables from customers (gross of allowance for credit losses) as to secured and unsecured and as to collateral follows:

	Consolidated				Parent Company			
	2023		2022		2023		2022	
	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%
Secured:								
Real estate mortgage	₱126,721,614	19.74	₱61,579,391	10.05	₱115,956,460	18.46	₱52,764,741	8.80
Chattel mortgage	15,319,855	2.39	12,560,778	2.05	15,104,719	2.40	12,425,497	2.07
Bank deposit hold-out	7,439,901	1.16	3,844,755	0.63	7,195,384	1.15	3,698,931	0.62
Others	1,551,354	0.24	30,856,608	5.03	191,774	0.03	28,814,577	4.81
	151,032,724	23.53	108,841,532	17.76	138,448,337	22.04	97,703,746	16.30
Unsecured	490,765,544	76.47	504,016,510	82.24	489,731,309	77.96	501,813,525	83.70
	₱641,798,268	100.00	₱612,858,042	100.00	₱628,179,646	100.00	₱599,517,271	100.00

41.4.2 As to Status

The table below shows the status of the Group and the Parent Company's loans (gross allowance for credit losses) as to performing and non-performing loans (NPL) per product line:

	Consolidated			
	2023		2022	
	Performing	NPL	Performing	NPL
Corporate	₱541,116,157	₱33,347,894	₱517,026,645	₱26,814,155
Commercial	14,804,205	2,493,093	15,227,846	3,727,358
Credit cards	14,394,103	838,742	11,889,481	2,493,200
Consumer	24,647,541	10,156,533	24,706,149	10,973,208
	₱594,962,006	₱46,836,262	₱568,850,121	₱44,007,921

	Parent Company			
	2023		2022	
	Performing	NPL	Performing	NPL
Corporate	₱528,492,120	₱33,228,430	₱508,724,119	₱24,153,812
Commercial	15,315,245	1,883,944	15,475,530	2,027,403
Credit cards	14,394,103	838,742	11,889,481	2,493,200
Consumer	23,923,855	10,103,207	21,423,352	13,330,374
	₱582,125,323	₱46,054,323	₱557,512,482	₱42,004,789



Loans and receivables are considered NPL, even without any missed contractual payments, when considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, are considered NPL if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement. Microfinance and other small loans with similar credit characteristics are considered NPL after contractual due date or after they have become past due. Restructured loans are considered NPL. However, if prior to restructuring, the loans were categorized as performing, such classification is retained.

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

In 2022, the Parent Company adopted BSP Memorandum No. M-2021-056, *Regulatory Treatment of Restructured Loans for Purposes of Measuring Expected Credit Losses*, which provides guidance on the regulatory treatment of loans with terms and conditions that have been modified due to the impact of the COVID-19 pandemic, especially consumption loans, for purposes of measuring ECL and classifying the accounts as NPL.

The table below shows the gross and net NPL ratios of the Group and the Parent Company as reported to the BSP (with certain adjustments) as of December 31, 2023 and 2022:

	2023		2022	
	Gross NPL	Net NPL	Gross NPL	Net NPL
Consolidated	6.26%	2.46%	6.34%	2.58%
Parent Company	6.29%	2.49%	6.19%	2.54%

41.5 Information on Related Party Loans

In the ordinary course of business, the Parent Company has loans and other transactions with its subsidiaries and affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRI). These loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of direct credit accommodations to each of the Parent Company's DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Parent Company.

In the aggregate, DOSRI loans generally should not exceed the Parent Company's equity or 15.00% of the its total loan portfolio, whichever is lower. Total outstanding exposures to each of the Parent Company's subsidiaries and affiliates shall not exceed 10.00% of the Group's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the Parent Company. As of December 31, 2023 and 2022, the Parent Company is in compliance with such regulations.



The information relating to the DOSRI loans of the Parent Company follows:

	2023		2022	
	DOSRI loans	Related party loans (inclusive of DOSRI loans)	DOSRI loans	Related party loans (inclusive of DOSRI loans)
Total outstanding loans	₱2,701	₱36,185,463	₱39,017	₱42,182,025
Percent of DOSRI/related party loans to total loan portfolio	0.00%	4.95%	0.01%	6.22%
Percent of unsecured DOSRI/related party loans to total DOSRI/related party loans	0.00%	83.48%	1.56%	86.52%
Percent of past due DOSRI/related party loans to total DOSRI/related party loans	45.40%	0.31%	3.52%	2.62%
Percent of non-performing DOSRI/related party loans to total DOSRI/related party loans	43.08%	0.31%	3.52%	2.62%

41.6 Aggregate Amount of Secured Liabilities and Assets Pledged as Security

As of December 31, 2023 and 2022, 'Bills payable' amounting to ₱10.1 billion and ₱6.6 billion in Note 19, respectively, are secured by a pledge of certain 'Financial assets at FVOCI' amounting to ₱6.5 billion and ₱2.5 billion respectively, and 'Investment securities at amortized cost' amounting to ₱5.5 billion.

41.7 Contingencies and Commitments Arising from Off-Balance Sheet Items

The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts as reported to BSP:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Derivative forwards	₱195,661,001	₱151,543,370	₱190,805,863	₱147,448,673
Trust department accounts	168,037,276	152,746,479	168,037,276	152,746,479
Standby letters of credit	65,344,786	43,922,556	65,255,715	43,702,875
Unutilized credit card lines	45,354,961	41,981,905	45,354,961	41,981,905
Deficiency claims receivable	23,953,740	28,065,650	23,953,740	28,065,650
Derivative spots	21,141,791	7,474,525	21,141,791	7,474,525
Unused commercial letters of credit	440,767	204,707	440,767	204,707
Inward bills for collection	434,566	1,116,689	431,741	1,116,689
Outward bills for collection	236,311	355,358	118,836	300,396
Confirmed export letters of credit	93,852	94,784	93,852	94,784
Items held as collateral	58,887	165,282	58,876	165,270
Shipping guarantees issued	23,101	22,800	20,975	20,655
Other contingent accounts	7,182	76,663	7,181	7,592



Philippine National Bank and Subsidiaries

Financial Statements
December 31, 2022 and 2021
and Years Ended December 31, 2022,
2021 and 2020

and

Independent Auditor's Report



A member firm of Ernst & Young Global Limited

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philippine National Bank

Report on the Consolidated and Parent Company Financial Statements

Opinion

We have audited the consolidated financial statements of Philippine National Bank and its Subsidiaries (the Group) and the parent company financial statements of Philippine National Bank (the Parent Company), which comprise the consolidated and parent company statements of financial position as at December 31, 2022 and 2021 and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2022, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at December 31, 2022 and 2021, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2022 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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



Key Audit Matters

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

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

Applicable to the audit of the consolidated and parent company financial statements

Adequacy of Allowance for Credit Losses on Loans and Receivables

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

Allowance for credit losses on loans and receivables as of December 31, 2022 amounted to ₱38.9 billion and ₱39.4 billion for the Group and the Parent Company, respectively. Provision for credit losses in 2022 amounted to ₱7.2 billion and ₱7.2 billion for the Group and the Parent Company, respectively.

The disclosures related to the allowance for credit losses on loans and receivables are included in Note 16 of the financial statements.

Audit response

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

We (a) assessed the Group's and the Parent Company's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts, credit risk management policies and practices in place; (c) tested the Group's and the Parent Company's application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (d) assessed whether expected life is different from the contractual life by testing the maturity dates reflected in the Group's and the Parent Company's records



and considering management's assumptions regarding future collections, advances, extensions, renewals and modifications; (e) tested loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations, and the effects of any financial support and credit enhancements provided by any party; (f) tested exposure at default considering outstanding commitments and repayment scheme; (g) evaluated the forward-looking information used for overlay through corroboration of publicly available information and our understanding of the Group's and the Parent Company's lending portfolios and broader industry knowledge; and (h) tested the effective interest rate used in discounting the expected loss.

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

We recalculated impairment provisions on a sample basis. We involved our internal specialist in the performance of the above procedures.

We reviewed the completeness of the disclosures made in the financial statements.

Impairment Testing of Goodwill

As of December 31, 2022, the goodwill of the Group and the Parent Company amounted to ₱11.2 billion and ₱11.4 billion, respectively, as a result of the acquisition of Allied Banking Corporation in 2013. Under PFRS, the Group and the Parent Company are required to test the amount of goodwill for impairment annually. Goodwill has been allocated to three cash generating units (CGUs) namely Retail Banking, Corporate Banking, and Global Banking and Market. The Group and the Parent Company performed the impairment testing using the value in use calculation. The annual impairment test is significant to our audit because it involves significant judgment and is based on assumptions which are subject to higher level of estimation uncertainty, specifically estimates of loan and deposit growth rates, interest margin, discount rates, and long-term growth rate.

The disclosures related to goodwill impairment are included in Note 14 to the financial statements.

Audit response

We involved our internal specialist in evaluating the methodology and the assumptions used by the Group and the Parent Company. We compared the key assumptions used, such as loan and deposit growth rates, interest margin and long-term growth rate to the historical performance of the CGUs and to economic and industry forecasts. We tested the parameters used in the derivation of the discount rate against market data. We also reviewed the disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill.

Recognition of Deferred Tax Assets

As of December 31, 2022, the deferred tax assets of the Group and the Parent Company amounted to ₱6.5 billion and ₱6.6 billion, respectively. The recognition of deferred tax assets is significant to our audit because the assessment process is complex and judgmental and is based on assumptions that are affected by expected future market or economic conditions and the expected performance of the Group and the Parent Company.



The disclosures in relation to deferred income taxes are included in Note 30 to the financial statements.

Audit Response

We evaluated the management's assessment on the availability of future taxable income in reference to financial forecast and tax strategies. We evaluated management's forecast by comparing the loan portfolio and deposit growth rates to the historical performance of the Group and the Parent Company and the industry, including future market circumstances. We also assessed the timing of the reversal of future taxable and deductible temporary differences.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2022, but does not include the consolidated and parent company financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement) SEC Form 17-A and Annual Report for the year ended December 31, 2022 are expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated and parent company 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 Consolidated and Parent Company Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's and the Parent Company's financial reporting process.



Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company'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 Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and parent company financial statements, including the disclosures, and whether the consolidated and parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the Parent Company to express an opinion on the consolidated and parent company financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.



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

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

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

Report on the Supplementary Information Required Under Revenue Regulations 15-2010 and Bangko Sentral ng Pilipinas Circular No. 1074

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 40 and the Bangko Sentral ng Pilipinas Circular No. 1074 in Note 41 to the financial statements are presented for purposes of filing with the Bureau of Internal Revenue and Bangko Sentral ng Pilipinas, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine National Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Vicky Lee-Salas.

SYCIP GORRES VELAYO & CO.



Vicky Lee-Salas
Partner

CPA Certificate No. 86838

Tax Identification No. 129-434-735

BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024

SEC Partner Accreditation No. 86838-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

SEC Firm Accreditation No. 0001-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

BIR Accreditation No. 08-001998-053-2020, November 27, 2020, valid until November 26, 2023

PTR No. 9564639, January 3, 2023, Makati City

March 13, 2023



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF FINANCIAL POSITION

(In Thousands)

	Consolidated		Parent Company	
	December 31		December 31	
	2022	2021	2022	2021
ASSETS				
Cash and Other Cash Items	₱22,217,915	₱27,552,773	₱22,103,095	₱27,454,459
Due from Bangko Sentral ng Pilipinas (Notes 7 and 17)	94,701,360	161,001,912	94,701,360	161,001,912
Due from Other Banks (Note 33)	26,010,183	27,222,083	17,599,374	19,324,000
Interbank Loans Receivable (Notes 8 and 33)	16,290,101	32,106,088	14,734,743	30,295,755
Securities Held Under Agreements to Resell (Notes 8 and 35)	64,523,863	15,796,673	64,523,863	15,796,673
Financial Assets at Fair Value Through Profit or Loss (FVTPL) (Note 9)	7,347,201	11,167,657	7,195,685	11,010,278
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) (Note 9)	158,183,525	167,987,290	157,205,907	167,546,350
Investment Securities at Amortized Cost (Note 9)	110,467,960	89,455,843	110,328,678	89,327,894
Loans and Receivables (Notes 10 and 33)	593,099,915	606,953,751	577,995,018	592,498,761
Property and Equipment (Note 11)	11,973,547	13,472,320	10,619,033	11,812,991
Investments in Subsidiaries and an Associate (Note 12)	2,688,764	2,468,107	20,384,104	27,275,451
Investment Properties (Note 13)	13,794,986	10,735,896	13,264,820	10,178,327
Deferred Tax Assets (Note 30)	6,616,902	6,405,505	6,574,190	6,271,578
Intangible Assets (Note 14)	1,863,922	2,429,434	1,753,616	2,328,957
Goodwill (Note 14)	11,221,410	11,221,410	11,361,768	11,361,768
Other Assets (Note 15)	4,155,522	4,807,920	3,398,996	4,525,498
TOTAL ASSETS	₱1,145,157,076	₱1,190,784,662	₱1,133,744,250	₱1,188,010,652
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 17 and 33)				
Demand	₱220,043,866	₱216,367,830	₱219,805,641	₱216,040,593
Savings	519,940,535	498,581,535	518,928,640	497,172,862
Time	112,113,308	151,729,554	108,766,087	158,066,350
Long Term Negotiable Certificates	19,130,012	28,245,390	19,130,012	28,245,390
	871,227,721	894,924,309	866,630,380	899,525,195
Financial Liabilities at FVTPL (Notes 18, 23 and 35)	1,039,776	891,531	1,039,776	891,346
Bills and Acceptances Payable (Notes 19, 33 and 35)	14,980,373	52,953,797	13,888,035	51,113,018
Lease Liabilities (Notes 29 and 33)	3,636,391	3,765,391	3,604,077	3,698,410
Accrued Taxes, Interest and Other Expenses (Note 20)	9,117,393	7,765,650	8,487,700	7,504,381
Bonds Payable (Note 21)	58,439,097	53,383,421	58,439,097	53,383,421
Income Tax Payable	983,051	157,735	916,235	89,328
Other Liabilities (Note 22)	15,827,640	15,719,872	14,093,805	13,512,851
	975,251,442	1,029,561,706	967,099,105	1,029,717,950
EQUITY ATTRIBUTABLE TO EQUITY				
HOLDERS OF THE PARENT COMPANY				
Capital Stock (Note 25)	61,030,594	61,030,594	61,030,594	61,030,594
Capital Paid in Excess of Par Value (Note 25)	32,116,560	32,116,560	32,106,560	32,106,560
Surplus Reserves (Notes 10, 25 and 32)	4,929,242	5,147,440	4,929,242	5,147,440
Surplus (Note 25)	73,748,748	61,998,232	73,919,909	62,169,393
Net Unrealized Losses on Financial Assets at FVOCI (Notes 9 and 33)	(5,959,275)	(703,737)	(5,959,275)	(703,737)
Remeasurement Losses on Retirement Plan (Note 28)	(2,222,945)	(2,725,067)	(2,222,945)	(2,725,067)
Accumulated Translation Adjustment (Note 25)	2,314,447	1,503,396	2,314,447	1,503,396
Other Equity Reserves (Notes 12 and 25)	248,830	248,830	390,517	390,517
Share in Aggregate Reserves (Losses) on Life Insurance Policies (Note 12)	136,096	(626,394)	136,096	(626,394)
Other Equity Adjustment	13,959	13,959	—	—
	166,356,256	158,003,813	166,645,145	158,292,702
NON-CONTROLLING INTERESTS (Note 12)	3,549,378	3,219,143	—	—
	169,905,634	161,222,956	166,645,145	158,292,702
TOTAL LIABILITIES AND EQUITY	₱1,145,157,076	₱1,190,784,662	₱1,133,744,250	₱1,188,010,652

See accompanying Notes to Financial Statements.



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF INCOME

(In Thousands, Except Earnings per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2022	2021	2020	2022	2021	2020
INTEREST INCOME ON						
Loans and receivables (Notes 10, 27 and 33)	₱34,424,531	₱34,157,780	₱37,352,374	₱33,794,036	₱33,449,961	₱37,067,285
Investment securities at amortized cost and FVOCI (Note 9)	8,154,922	5,963,594	6,203,975	8,143,092	5,962,614	6,155,803
Deposits with banks and others (Notes 7, 12 and 33)	1,417,661	1,248,155	2,192,045	1,330,052	1,219,996	1,173,981
Financial assets at FVTPL (Note 9)	292,685	632,492	665,751	284,251	565,447	542,512
Interbank loans receivable and securities held under agreements to resell (Note 8)	954,603	400,356	536,304	896,683	348,153	478,508
	45,244,402	42,402,377	46,950,449	44,448,114	41,546,171	45,418,089
INTEREST EXPENSE ON						
Deposit liabilities (Notes 17 and 33)	5,371,667	4,813,766	7,379,018	5,383,153	4,885,785	7,227,056
Bonds payable (Note 21)	2,111,192	2,231,863	2,904,528	2,111,192	2,231,863	2,904,528
Bills payable and other borrowings (Notes 19, 29 and 33)	433,973	511,921	846,440	363,544	425,080	637,478
	7,916,832	7,557,550	11,129,986	7,857,889	7,542,728	10,769,062
NET INTEREST INCOME	37,327,570	34,844,827	35,820,463	36,590,225	34,003,443	34,649,027
Service fees and commission income (Notes 26 and 33)	6,997,609	6,340,326	4,684,572	5,563,369	5,310,729	4,134,519
Service fees and commission expense	1,429,195	1,051,376	983,186	935,945	846,165	858,182
NET SERVICE FEES AND COMMISSION INCOME	5,568,414	5,288,950	3,701,386	4,627,424	4,464,564	3,276,337
OTHER OPERATING INCOME						
Net gains on sale or exchange of assets (Note 26)	7,775,154	981,462	195,842	7,770,001	974,024	130,493
Foreign exchange gains - net (Note 23)	1,608,281	743,549	919,555	1,149,444	623,493	929,890
Trading and investment securities gains (losses) - net (Notes 9 and 33)	(1,280,783)	731,572	3,337,589	(1,277,759)	600,580	3,456,521
Equity in net earnings (losses) of subsidiaries and an associate (Note 12)	(56,060)	50,789	88,476	747,341	(650,134)	95,939
Miscellaneous (Note 27)	1,136,692	1,070,047	1,244,699	721,433	759,826	906,752
TOTAL OTHER OPERATING INCOME	9,183,284	3,577,419	5,786,161	9,110,460	2,307,789	5,519,595
TOTAL OPERATING INCOME	52,079,268	43,711,196	45,308,010	50,328,109	40,775,796	43,444,959
PROVISION FOR IMPAIRMENT, CREDIT AND OTHER LOSSES (Notes 14 and 16)	7,198,117	12,879,011	16,882,621	7,305,653	13,125,737	16,534,335
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 25, 28 and 33)	9,762,776	9,985,822	10,167,173	9,012,641	9,274,801	9,313,371
Taxes and licenses (Note 30)	5,225,595	3,988,371	4,551,142	5,120,690	3,903,066	4,394,703
Depreciation and amortization (Note 11)	4,225,746	2,845,717	3,154,568	3,909,420	2,499,071	2,607,269
Occupancy and equipment-related costs (Note 29)	1,099,876	1,124,166	990,650	952,932	1,002,093	942,896
Miscellaneous (Note 27)	8,051,942	8,202,755	9,013,439	7,810,430	7,974,555	8,637,974
TOTAL OPERATING EXPENSES	28,365,935	26,146,831	27,876,972	26,806,113	24,653,586	25,896,213
OTHER INCOME						
Gain on loss of control of subsidiaries - net (Note 12)	—	16,807,275	—	—	16,916,842	—
Gain on remeasurement of retained interest (Note 12)	—	16,477,968	—	—	16,383,008	—
TOTAL OTHER INCOME	—	33,285,243	—	—	33,299,850	—
INCOME BEFORE INCOME TAX	16,515,216	37,970,597	548,417	16,216,343	36,296,323	1,014,411
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 30)	4,931,228	5,545,194	(1,866,402)	4,684,025	5,012,561	(1,945,521)
NET INCOME FROM CONTINUING OPERATIONS	11,583,988	32,425,403	2,414,819	11,532,318	31,283,762	2,959,932
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX (Notes 12 and 36)	—	(735,365)	210,669	—	—	—
NET INCOME	₱11,583,988	₱31,690,038	₱2,625,488	₱11,532,318	₱31,283,762	₱2,959,932
ATTRIBUTABLE TO:						
Equity Holders of the Parent Company (Note 31)	₱11,532,318	₱31,630,626	₱2,614,653			
Non-controlling Interests	51,670	59,412	10,835			
	₱11,583,988	₱31,690,038	₱2,625,488			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 31)	₱7.56	₱20.73	₱1.71			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company from Continuing Operations (Note 31)	₱7.56	₱21.21	₱1.58			

See accompanying Notes to Financial Statements.



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2022	2021	2020	2022	2021	2020
NET INCOME	₱11,583,988	₱31,690,038	₱2,625,488	₱11,532,318	₱31,283,762	₱2,959,932
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that recycle to profit or loss in subsequent periods:						
Net change in unrealized loss on debt securities at FVOCI, net of tax (Note 9)	(4,764,711)	(3,178,301)	(578,919)	(4,754,670)	(3,158,391)	(639,403)
Share in changes in net unrealized gains (losses) on financial assets at FVOCI of subsidiaries and an associate (Notes 9 and 12)	(885,481)	(558,030)	662,951	(902,788)	(663,471)	556,246
	(5,650,192)	(3,736,331)	84,032	(5,657,458)	(3,821,862)	(83,157)
Accumulated translation adjustment	1,102,022	1,008,640	(257,238)	421,609	(117,264)	(81,646)
Share in changes in accumulated translation adjustment of subsidiaries and an associate (Note 12)	—	—	—	389,442	902,788	(148,044)
	(4,548,170)	(2,727,691)	(173,206)	(4,846,407)	(3,036,338)	(312,847)
Items that do not recycle to profit or loss in subsequent periods:						
Share in changes in aggregate reserves (losses) on life insurance policies (Note 12)	762,490	412,444	(1,051,118)	762,490	412,444	(1,051,118)
Remeasurement gains (losses) on retirement plan (Note 28)	495,353	285,632	(725,968)	489,953	500,862	(710,795)
Share in changes in remeasurement gains (losses) of subsidiaries and an associate (Note 12)	7,708	(1,482)	4,632	12,169	(216,477)	(10,030)
Net change in unrealized gain (loss) on equity securities at FVOCI (Note 9)	394,654	(21,809)	(251,071)	401,920	63,722	(83,882)
	1,660,205	674,785	(2,023,525)	1,666,532	760,551	(1,855,825)
OTHER COMPREHENSIVE LOSS, NET OF TAX	(2,887,965)	(2,052,906)	(2,196,731)	(3,179,875)	(2,275,787)	(2,168,672)
TOTAL COMPREHENSIVE INCOME	₱8,696,023	₱29,637,132	₱428,757	₱8,352,443	₱29,007,975	₱791,260
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	₱8,352,443	₱29,354,839	₱445,981			
Non-controlling interests	343,580	282,293	(17,224)			
	₱8,696,023	₱29,637,132	₱428,757			

See accompanying Notes to Financial Statements.



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

	Consolidated													
	Equity Attributable to Equity Holders of the Parent Company													
	Capital Stock (Note 25)	Capital Paid in Excess of Par Value (Note 25)	Surplus Reserves (Notes 10, 25 and 32)	Surplus (Note 25)	Net Unrealized Gains (Losses) on Financial Assets at FVOCI (Notes 9 and 33)	Remeasurement Losses on Retirement Plan (Note 28)	Accumulated Translation Adjustment (Note 25)	Other Equity Reserves (Notes 12 and 25)	Share in Aggregate Reserves (Losses) on Life Insurance Policies (Note 12)	Reserves of a Disposal Group Classified as Held for Sale (Notes 12 and 36)	Other Equity Adjustment	Total	Non- controlling Interests (Note 12)	Total Equity
Balance at January 1, 2022	₱61,030,594	₱32,116,560	₱5,147,440	₱61,998,232	(₱703,737)	(₱2,725,067)	₱1,503,396	₱248,830	(₱626,394)	₱—	₱13,959	₱158,003,813	₱3,219,143	₱161,222,956
Total comprehensive income (loss) for the year	—	—	—	11,532,318	(5,255,538)	502,122	811,051	—	762,490	—	—	8,352,443	343,580	8,696,023
Transfer to surplus reserves (Notes 25 and 32)	—	—	(218,198)	218,198	—	—	—	—	—	—	—	—	—	—
Declaration of dividends by subsidiaries to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	(13,345)	(13,345)
Balance at December 31, 2022	₱61,030,594	₱32,116,560	₱4,929,242	₱73,748,748	(₱5,959,275)	(₱2,222,945)	₱2,314,447	₱248,830	₱136,096	₱—	₱13,959	₱166,356,256	₱3,549,378	₱169,905,634
Balance at January 1, 2021	₱61,030,594	₱32,116,560	₱5,032,097	₱54,498,066	₱3,054,403	(₱3,009,452)	₱717,872	₱277,855	(₱1,038,838)	₱88,616	₱13,959	₱152,781,732	₱3,201,276	₱155,983,008
Total comprehensive income (loss) for the year	—	—	—	31,630,626	(3,758,140)	284,385	785,524	—	412,444	—	—	29,354,839	282,293	29,637,132
Declaration of property dividends (Note 12)	—	—	—	(23,935,371)	—	—	—	—	—	—	—	(23,935,371)	—	(23,935,371)
Transfer to surplus reserves (Notes 25 and 32)	—	—	115,343	(115,343)	—	—	—	—	—	—	—	—	—	—
Sale of interest in a subsidiary (Note 12)	—	—	—	(79,746)	—	—	—	—	—	(88,616)	—	(168,362)	(259,721)	(428,083)
Settlement of share-based payments (Note 25)	—	—	—	—	—	—	—	(29,025)	—	—	—	(29,025)	—	(29,025)
Declaration of dividends by subsidiaries to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	(4,705)	(4,705)
Balance at December 31, 2021	₱61,030,594	₱32,116,560	₱5,147,440	₱61,998,232	(₱703,737)	(₱2,725,067)	₱1,503,396	₱248,830	(₱626,394)	₱—	₱13,959	₱158,003,813	₱3,219,143	₱161,222,956
Balance at January 1, 2020	₱61,030,594	₱32,116,560	₱642,018	₱56,273,492	₱3,250,651	(₱2,229,220)	₱947,562	₱35,466	₱12,280	₱—	₱13,959	₱152,093,362	₱2,882,038	₱154,975,400
Total comprehensive income (loss) for the year	—	—	—	2,614,653	(167,039)	(720,825)	(229,690)	—	(1,051,118)	—	—	445,981	(17,224)	428,757
Transfer to surplus reserves (Notes 25 and 32)	—	—	4,390,079	(4,390,079)	—	—	—	—	—	—	—	—	—	—
Sale of interest in a subsidiary (Note 12)	—	—	—	—	—	—	—	248,830	—	—	—	248,830	95,900	344,730
Settlement of share-based payments (Note 25)	—	—	—	—	—	—	—	(6,441)	—	—	—	(6,441)	—	(6,441)
Reserves of disposal group classified as held for sale (Note 36)	—	—	—	—	(29,209)	(59,407)	—	—	—	88,616	—	—	259,722	259,722
Declaration of dividends by subsidiaries to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	(19,160)	(19,160)
Balance at December 31, 2020	₱61,030,594	₱32,116,560	₱5,032,097	₱54,498,066	₱3,054,403	(₱3,009,452)	₱717,872	₱277,855	(₱1,038,838)	₱88,616	₱13,959	₱152,781,732	₱3,201,276	₱155,983,008



Parent Company

	Capital Stock (Note 25)	Capital Paid in Excess of Par Value (Note 25)	Surplus Reserves (Notes 10, 25 and 32)	Surplus (Note 25)	Net Unrealized Gains (Losses) on Financial Assets at FVOCI (Notes 9 and 33)	Remeasurement Losses on Retirement Plan (Note 28)	Accumulated Translation Adjustment (Note 25)	Other Equity Reserves (Notes 12 and 25)	Share in Aggregate Reserves on Life Insurance Policies (Note 12)	Reserves of a Disposal Group Held for Sale (Notes 12 and 36)	Total Equity
Balance at January 1, 2022	₱61,030,594	₱32,106,560	₱5,147,440	₱62,169,393	(₱703,737)	(₱2,725,067)	₱1,503,396	₱390,517	(₱626,394)	₱—	₱158,292,702
Total comprehensive income (loss) for the year	—	—	—	11,532,318	(5,255,538)	502,122	811,051	—	762,490	—	8,352,443
Transfer to surplus reserves (Notes 25 and 32)	—	—	(218,198)	218,198	—	—	—	—	—	—	—
Balance at December 31, 2022	₱61,030,594	₱32,106,560	₱4,929,242	₱73,919,909	(₱5,959,275)	(₱2,222,945)	₱2,314,447	₱390,517	₱136,096	₱—	₱166,645,145
Balance at January 1, 2021	₱61,030,594	₱32,106,560	₱5,032,097	₱54,843,588	₱3,054,403	(₱3,009,452)	₱717,872	₱419,542	(₱1,038,838)	₱88,616	₱153,244,982
Total comprehensive income (loss) for the year	—	—	—	31,283,762	(3,758,140)	284,385	785,524	—	412,444	—	29,007,975
Declaration of property dividends (Note 12)	—	—	—	(23,935,371)	—	—	—	—	—	—	(23,935,371)
Transfer to surplus reserves (Notes 25 and 32)	—	—	115,343	(115,343)	—	—	—	—	—	—	—
Sale of interest in a subsidiary (Note 12)	—	—	—	92,757	—	—	—	—	—	(88,616)	4,141
Settlement of share-based payments (Note 25)	—	—	—	—	—	—	—	(29,025)	—	—	(29,025)
Balance at December 31, 2021	₱61,030,594	₱32,106,560	₱5,147,440	₱62,169,393	(₱703,737)	(₱2,725,067)	₱1,503,396	₱390,517	(₱626,394)	₱—	₱158,292,702
Balance at January 1, 2020	₱61,030,594	₱32,106,560	₱642,018	₱56,273,735	₱3,250,651	(₱2,229,220)	₱947,562	₱35,466	₱12,280	₱—	₱152,069,646
Total comprehensive income (loss) for the year	—	—	—	2,959,932	(167,039)	(720,825)	(229,690)	—	(1,051,118)	—	791,260
Transfer to surplus reserves (Notes 25 and 32)	—	—	4,390,079	(4,390,079)	—	—	—	—	—	—	—
Business combination with a subsidiary (Note 12)	—	—	—	—	—	—	—	390,517	—	—	390,517
Settlement of share-based payments (Note 25)	—	—	—	—	—	—	—	(6,441)	—	—	(6,441)
Reserves of disposal group classified as held for sale (Note 36)	—	—	—	—	(29,209)	(59,407)	—	—	—	88,616	—
Balance at December 31, 2020	₱61,030,594	₱32,106,560	₱5,032,097	₱54,843,588	₱3,054,403	(₱3,009,452)	₱717,872	₱419,542	(₱1,038,838)	₱88,616	₱153,244,982

See accompanying Notes to Financial Statements.



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2022	2021	2020	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax from continuing operations	₱16,515,216	₱37,970,597	₱548,417	₱16,216,343	₱36,296,323	₱1,014,411
Income (loss) before income tax from discontinued operations (Note 36)	—	(626,763)	299,251	—	—	—
Income before income tax	16,515,216	37,343,834	847,668	16,216,343	36,296,323	1,014,411
Adjustments for:						
Net gains on sale or exchange of assets (Note 26)	(7,775,154)	(981,462)	(195,842)	(7,770,001)	(974,024)	(130,493)
Provision for impairment, credit and other losses (Notes 14 and 16)	7,198,117	12,967,152	16,912,402	7,305,653	13,125,737	16,534,335
Unrealized foreign exchange losses (gains) on bonds payable	4,979,818	3,113,544	(2,728,233)	4,979,818	3,113,544	(2,728,233)
Depreciation and amortization (Note 11)	4,225,746	2,894,759	3,184,141	3,909,420	2,499,071	2,607,269
Unrealized foreign exchange losses (gains) on bills and acceptances payable	1,522,200	2,220,574	(1,059,619)	1,511,555	2,214,671	(1,059,379)
Net losses (gains) on financial assets at FVOCI (Note 9)	1,069,547	(1,578,197)	(2,455,265)	1,069,547	(1,578,197)	(2,454,698)
Amortization of premium (discount) on investment securities	(935,770)	294,421	(182,716)	(936,131)	296,554	(176,196)
Accretion to interest income of loss on loan modifications (Note 27)	(369,152)	(351,502)	(901,748)	(369,152)	(351,502)	(901,748)
Net losses (gains) on financial assets at FVTPL (Note 9)	211,235	846,625	(882,374)	208,212	977,617	(1,001,823)
Amortization of transaction costs on borrowings (Notes 17 and 21)	105,480	116,898	229,420	105,480	116,898	229,420
Equity in net losses (earnings) of subsidiaries and an associate (Note 12)	56,060	(50,789)	(88,476)	(747,341)	650,134	(95,939)
Gain on loss of control of subsidiaries - net (Note 12)	—	(16,807,275)	—	—	(16,916,842)	—
Gain on remeasurement of retained interest (Note 12)	—	(16,477,968)	—	—	(16,383,008)	—
Loss on loan modifications (Note 27)	—	—	1,587,605	—	—	1,587,605
Changes in operating assets and liabilities:						
Decrease (increase) in amounts of:						
Interbank loan receivable (Note 8)	(4,854,939)	(891,301)	1,126,878	(4,656,651)	(859,213)	1,134,547
Financial assets at FVTPL	3,609,221	11,812,813	(9,475,736)	3,606,381	9,959,744	(9,776,160)
Loans and receivables	4,448,687	(13,325,214)	36,534,525	4,995,515	(16,184,925)	(16,207,664)
Other assets	(243,157)	1,398,479	(896,061)	(1,340,408)	(368,189)	(963,256)
Increase (decrease) in amounts of:						
Financial liabilities at FVTPL	148,245	190,292	455,620	148,430	190,544	468,810
Deposit liabilities	(23,726,210)	4,603,064	64,182,479	(32,924,438)	5,943,796	117,646,115
Accrued taxes, interest and other expenses	1,518,737	246,627	(2,376,061)	1,139,793	681,686	(1,903,084)
Other liabilities	616,446	(7,663,779)	(5,509,215)	1,084,236	(1,511,065)	(2,764,403)
Net cash generated from (used in) operations	8,320,373	19,921,595	98,309,392	(2,463,739)	20,939,354	101,059,436
Income taxes paid	(2,050,109)	(2,285,669)	(1,648,621)	(1,802,246)	(1,841,579)	(1,461,890)
Net cash provided by (used in) operating activities	6,270,264	17,635,926	96,660,771	(4,265,985)	19,097,775	99,597,546
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from:						
Disposal/maturities of financial assets at FVOCI	643,902,197	212,598,365	159,923,105	643,888,779	210,574,683	157,339,947
Maturities/early redemptions of investment securities at amortized cost	141,160,199	39,790,071	61,359,649	141,171,532	39,085,249	61,359,649
Disposal of investment properties	6,844,641	293,738	210,936	6,842,374	214,782	161,736
Disposal of property and equipment	108,253	201,593	36,750	32,546	301,198	1,322
Disposal of investment in a subsidiary (Note 12)	—	1,001,558	521,817	—	1,001,558	—
Return of investment (Note 12)	—	—	—	7,500,000	—	—
Cash dividends from a subsidiary (Note 12)	—	—	—	1,092,000	—	—
Acquisitions of:						
Financial assets at FVOCI	(638,254,305)	(224,330,405)	(169,859,472)	(637,154,487)	(224,330,405)	(169,859,472)
Investment securities at amortized cost	(162,392,791)	(33,372,543)	(56,875,400)	(162,392,791)	(33,372,543)	(57,227,468)
Software cost (Note 14)	(881,572)	(655,455)	(283,472)	(848,426)	(612,515)	(268,768)
Property and equipment (Note 11)	(547,083)	(1,120,741)	(1,231,247)	(535,981)	(675,730)	(1,027,671)
Additional investments in an associate (Note 12)	(392,000)	(245,000)	—	(392,000)	(245,000)	—
Net cash used in investing activities	(10,452,461)	(5,838,819)	(6,197,334)	(796,454)	(8,058,723)	(9,520,725)

(Forward)



	Consolidated			Parent Company		
	Years Ended December 31					
	2022	2021	2020	2022	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES						
Settlement of bills and acceptances payable	(P277,002,294)	(P273,753,842)	(P136,717,622)	(P274,908,050)	(P272,556,037)	(P118,473,479)
Proceeds from issuances of bills and acceptances payable	237,506,670	237,327,616	168,973,402	236,171,512	236,637,024	155,926,201
Payment of principal portion of lease liabilities (Note 29)	(1,113,225)	(1,231,287)	(664,156)	(1,068,038)	(1,213,912)	(649,402)
Settlement of bonds payable	—	(13,870,000)	—	—	(13,870,000)	—
Net cash provided by (used in) financing activities	(40,608,849)	(51,527,513)	31,591,624	(39,804,576)	(51,002,925)	36,803,320
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS						
	(44,791,046)	(39,730,406)	122,055,061	(44,867,015)	(39,963,873)	126,880,141
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	27,552,773	25,135,724	30,500,927	27,454,459	25,038,434	29,642,159
Due from Bangko Sentral ng Pilipinas	161,001,912	202,129,356	105,981,801	161,001,912	202,129,356	101,801,597
Due from other banks	27,222,083	19,733,300	17,758,143	19,324,000	12,131,726	10,835,106
Interbank loans receivable (Note 8)	30,453,378	38,939,572	22,943,529	29,042,376	37,464,504	22,274,306
Securities held under agreements to resell	15,796,673	15,819,273	2,517,764	15,796,673	15,819,273	1,149,984
	262,026,819	301,757,225	179,702,164	252,619,420	292,583,293	165,703,152
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	22,217,915	27,552,773	25,135,724	22,103,095	27,454,459	25,038,434
Due from Bangko Sentral ng Pilipinas	94,701,360	161,001,912	202,129,356	94,701,360	161,001,912	202,129,356
Due from other banks	26,010,183	27,222,083	19,733,300	17,599,374	19,324,000	12,131,726
Interbank loans receivable (Note 8)	9,782,452	30,453,378	38,939,572	8,824,713	29,042,376	37,464,504
Securities held under agreements to resell	64,523,863	15,796,673	15,819,273	64,523,863	15,796,673	15,819,273
	P217,235,773	P262,026,819	P301,757,225	P207,752,405	P252,619,420	P292,583,293
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest paid	P7,312,461	P7,690,053	P11,936,540	P7,256,130	P7,670,243	P11,494,829
Interest received	43,082,036	42,928,178	47,391,100	42,297,774	42,075,051	44,519,365
Dividends received	—	—	—	1,092,000	—	—

See accompanying Notes to Financial Statements.



PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

(Amounts in Thousand Pesos except When Otherwise Indicated)

1. Corporate Information

Philippine National Bank (PNB or the Parent Company) is a universal bank established in the Philippines in 1916. On June 21, 1989, PNB's shares were listed with the Philippine Stock Exchange (PSE). As of December 31, 2022 and 2021, the shares of PNB are held by the following:

	2022	2021
LT Group, Inc. (LTG) (indirect ownership through its various holding companies)	59.83%	59.83%
PCD Nominee Corporation *	15.85%	15.94%
Other stockholders owning less than 10% each	24.32%	24.23%
	100.00%	100.00%

* Acts as a trustee-nominee for PNB shares lodged under the PCD system

PNB's immediate parent company, LTG, and ultimate parent company, Tangent Holdings Corporation, are also incorporated in the Philippines.

The Parent Company provides a full range of banking and other financial services, which include deposit-taking, lending, bills discounting, trade finance, foreign exchange dealings, investment banking, treasury operations, fund transfers, remittance and trust services, through its 651 and 670 domestic branches as of December 31, 2022 and 2021, respectively. As of the same dates, the Parent Company has 72 and 70 overseas branches, representative offices, remittance centers and subsidiaries, respectively, in 17 locations in Asia, North America and Europe.

The subsidiaries of the Parent Company are engaged in a number of diversified financial and related businesses such as remittance, banking, leasing, stock brokerage, foreign exchange trading and/or related services. The Parent Company and the subsidiaries are collectively referred hereinto as the Group.

The principal place of business of the Parent Company is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City, Metro Manila, Philippines.

2. Summary of Significant Accounting Policies

2.1 Basis of Preparation of the Financial Statements

The Group prepared the accompanying financial statements on a historical cost basis, except for the following accounts which are measured at fair value:

- financial assets and liabilities at fair value through profit or loss (FVTPL); and
- financial assets at fair value through other comprehensive income (FVOCI).

The financial statements of the Parent Company which include its Head Office in Pasay City, Philippines, and all of its domestic and foreign branches, reflect the accounts maintained in its Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of RBU and FCDU is Philippine pesos (₱ or PHP) and United States Dollar (USD), respectively. The individual financial statements of these units are combined and any inter-unit accounts and transactions are eliminated.



The Group presents the amounts in the financial statements to the nearest thousand pesos (₱000), unless otherwise stated.

2.2 Statement of Compliance

The Group prepared these financial statements in accordance with Philippine Financial Reporting Standards (PFRS) adopted by the Philippine Securities and Exchange Commission (SEC).

2.3 Presentation of the Financial Statements

The Group presents the statements of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 24.

The Group generally presents financial assets and financial liabilities at their gross amounts in the statement of financial position, unless the offsetting criteria under PFRS are met. The Group does not also set off items of income and expenses, unless offsetting is required or permitted by PFRS, or is specifically disclosed in the Group's accounting policies.

The Group presents its consolidated financial statements and parent company financial statements side-by-side to comply with the requirements of the Bangko Sentral ng Pilipinas (BSP).

2.4 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. The financial statements of the subsidiaries are prepared on the same reporting period as the Parent Company using consistent accounting policies. In the consolidation, the Group eliminates in full all significant intra-group balances, transactions, and results of intra-group transactions.

The Group consolidates its subsidiaries from the date on which the Group obtains control over the subsidiary (see definition of 'control' in 2.12 *Investments in Subsidiaries, Associates and Joint Ventures*). For partially-owned subsidiaries, the Group attributes the subsidiary's income, expenses and components of other comprehensive income (OCI) to the equity holders of the Parent Company and to the non-controlling interests (NCI), even if this results in deficit balances of the NCI. NCI represents the portion of profit or loss and the net assets not held by the Group, which are presented separately in the consolidated financial statements. NCI consists of the amount attributed to such interest from the date of business combination and its share in any changes in equity of the subsidiary.

When the Group's ownership interest in a subsidiary changes but does not result in a loss of control, the Group adjusts the carrying amounts of the controlling interests and the NCI to their new relative interests in the subsidiary. The Group recognizes any difference between the amount by which the NCI is adjusted and the fair value of the consideration paid or received directly in equity as 'Other equity reserves', which is attributed to the owners of the Parent Company.

Consolidation of a subsidiary ceases when the Group loses control over the subsidiary. In such circumstances, the Group derecognizes the assets (including goodwill), liabilities, NCI, and other components of equity of the subsidiary, and recognizes the consideration received and any investment retained at their fair values. The Group records any resulting difference in the statement of income as 'Gain on loss of control of subsidiaries - net'.



2.5 Foreign Currency Translation

For financial reporting purposes, the Group translates all accounts in the FCDU books and foreign currency-denominated accounts in the RBU books into their equivalents in Philippine pesos. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements are measured using that functional currency.

2.5.1 Transactions and Balances

As at reporting date, the Group translates the following foreign currency-denominated accounts in the RBU in Philippine peso using:

Financial statement accounts in RBU	Exchange rate
Monetary assets and liabilities	Bankers Association of the Philippines (BAP) closing rate at end of year
Income and expenses	Rate prevailing at transaction date
Non-monetary items measured at historical cost in a foreign currency	Rate at the date of initial transaction
Non-monetary items measured at fair value in a foreign currency	Rate at the date when fair value is determined

The Group recognizes in the statement of income any foreign exchange differences arising from revaluation of monetary assets and liabilities. For non-monetary items measured at fair values, the Group recognizes any foreign exchange differences arising from revaluation in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

2.5.2 FCDU and Overseas Branches and Subsidiaries

As at the reporting date, the Group translates the assets and liabilities of the FCDU and overseas branches and subsidiaries in Philippine peso at the BAP closing rate prevailing at the reporting date, and their income and expenses at the average exchange rate for the year. Foreign exchange differences arising on translation are taken directly to OCI under 'Accumulated Translation Adjustment'. Upon disposal of a foreign entity or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in OCI relating to the particular foreign operation is recognized in the statement of income.

2.6 Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as at January 1, 2022. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, adoption of these new standards did not have an impact on the financial statements.

- Amendments to PFRS 3, *Business Combinations: Reference to the Conceptual Framework*
The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. An exception to the recognition principle of PFRS 3 was also added to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of Philippine Accounting Standards (PAS) 37, *Provisions, Contingent*



Liabilities and Contingent Assets, or Philippine Interpretation IFRIC 21, *Levies*, if incurred separately. The amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments apply prospectively.

- Amendments to PAS 16, *Property, Plant and Equipment: Proceeds Before Intended Use*
The amendments prohibit entities to deduct from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, entities should recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendments are applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when an entity first applies the amendment.
- Amendments to PAS 37, *Onerous Contracts: Cost of Fulfilling a Contract*
The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly-related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments apply to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.
- Annual Improvements to PFRS Standards 2018-2020 Cycle
 - Amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards: Subsidiary as a first-time adopter*
The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported in the parent’s consolidated financial statements, based on the parent’s date of transition to PFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.
 - Amendment to PFRS 9, *Financial Instruments: Fees in the ‘10 per cent’ test for derecognition of financial liabilities*
The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf.
 - Amendment to PAS 41, *Agriculture: Taxation in fair value measurements*
The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.



2.7 Business Combinations

The Group accounts for business combinations using the acquisition method. Under this method, the Group measures the acquisition cost as the aggregate of the acquisition-date fair value of the consideration transferred and any amount of NCI in the acquiree. The Group then allocates that cost to the acquired identifiable assets and liabilities based on their respective fair values. Any excess acquisition cost over the fair value of the net assets acquired is allocated to goodwill (see related accounting policy under 2.13.3 *Intangible Assets*). If the fair value of the net assets acquired exceeds the acquisition cost, the gain is recognized in the statement of income. The Group recognizes any acquisition-related costs as administrative expenses as they are incurred. The Group also recognizes any contingent consideration to be transferred by the acquirer at its fair value at the acquisition date.

In business combinations involving entities under common control, the Group determines whether or not the business combination has commercial substance. When there is commercial substance, the Group accounts for the transaction using the acquisition method as discussed above. Otherwise, the Group accounts for the transaction similar to a pooling of interests (i.e., the assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values, and any resulting difference with the fair value of the consideration given is accounted for as an equity transaction).

2.8 Non-current Assets and Disposal Group Held for Sale and Discontinued Operations

The Group classifies non-current assets and disposal group as held for sale if their carrying amounts will be recovered principally through a sale transaction. As such, non-current assets and disposal groups are measured at the lower of their carrying amounts and fair value less costs to sell (i.e., the incremental costs directly attributable to the sale, excluding finance costs and income taxes).

The Group regards the criteria for held for sale classification as met only when:

- the Group has initiated an active program to locate a buyer;
- the Group is committed to the plan to sell the asset or disposal group, which should be available for immediate sale in its present condition;
- the sale is highly probable (i.e, expected to happen within one year from the date of the classification); and
- actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn.

The Group presents separately the assets and liabilities of disposal group classified as held for sale in the statement of financial position.

The Group classifies a disposal group as discontinued operation if it is a component of the Group that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

The Group excludes discontinued operations from the results of continuing operations and presents them as a single amount as profit or loss after tax from discontinued operations in the statement of income.



If the above criteria are no longer met, the Group ceases to classify the asset or disposal group as held for sale. In such cases, the Group measures such asset or disposal group at the lower of its:

- carrying amount before it was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had it not been classified as such; and
- recoverable amount at the date of the subsequent decision not to sell.

The Group also amends financial statements for the periods since classification as held for sale if the asset or disposal group that ceases to be classified as held for sale is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. Accordingly, for all periods presented, the Group reclassifies and includes in income from continuing operations the results of operations of the asset or disposal group previously presented in discontinued operations.

2.9 Fair Value Measurement

Fair value is the price that the Group would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). 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 Group. The Group measures the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. If an asset or a liability measured at fair value has both bid and ask prices, the Group uses the price within the bid-ask spread, which is the most representative of fair value in the circumstances.

For nonfinancial assets, the Group measures their 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 the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described in Note 5, based on the lowest level input that is significant to the fair value measurement as a whole.

2.10 Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (COCI), amounts due from BSP and other banks, interbank loans receivable and securities held under agreements to resell that are convertible to known amounts of cash, with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in fair value. Due from BSP includes statutory reserves required by the BSP, which the Group considers as cash equivalents wherein drawings can be made to meet cash requirements.



2.11 Financial Instruments

2.11.1 Initial Recognition of Financial Instruments

The Group recognizes purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace on settlement date (i.e., the date that an asset is delivered to or by the Group), while derivatives are recognized on trade date (i.e., the date that the Group commits to purchase or sell). The Group recognizes deposits, amounts due to banks and customers and loans when cash is received by the Group or advanced to the borrowers.

All financial instruments are initially recognized at fair value. Except for financial instruments at FVTPL, the initial measurement of financial instruments includes transaction costs.

2.11.2 Classification and Subsequent Measurement of Financial Instruments

The Group classifies and measures financial assets at FVTPL unless these are measured at FVOCI or at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing those financial assets.

The Group first assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test ('solely payments of principal and interest' or SPPI test). For the purpose of the SPPI test, principal is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium or discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. In contrast, contractual terms that introduce a more than insignificant exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI. In such cases, the financial asset is required to be measured at FVTPL. Only financial assets that pass the SPPI test are eligible to be measured at FVOCI or at amortized cost.

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

For financial liabilities, the Group classifies them as either financial liabilities at FVTPL or financial liabilities at amortized cost.

Financial assets at FVTPL

Financial assets at FVTPL include the following:

- Financial assets held for trading – those acquired for the purpose of selling or repurchasing in the near term;
- Derivative instruments – contracts entered into by the Group (such as currency forwards, currency swaps, interest rate swaps and warrants) as a service to customers and as a means of reducing or managing their respective financial risk exposures, as well as for trading purposes;



- Financial assets that are not SPPI, irrespective of the business model; or
- Debt financial assets designated upon initial recognition at FVTPL – those assets where the Group applied the fair value option at initial recognition if doing so eliminates or significantly reduces an accounting mismatch

The Group carries financial assets at FVTPL in the statement of financial position at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Group recognizes any gains or losses arising from changes in fair values of financial assets at FVTPL directly in the statement of income under ‘Trading and investment securities gains (losses) - net’, except for currency forwards and currency swaps, where fair value changes are included under ‘Foreign exchange gains - net’.

Financial assets at FVOCI

Financial assets at FVOCI include debt and equity securities, which are subsequently measured at fair value. The Group recognizes the unrealized gains and losses arising from the fair valuation of financial assets at FVOCI, net of tax, in the statement of comprehensive income as ‘Net change in unrealized gain (loss) on financial assets at FVOCI’.

Debt securities at FVOCI are those that meet both of the following conditions:

- the asset is held within a business model whose objective is to hold the financial asset in order to both collect contractual cash flows and sell the financial asset; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount.

The Group reports the effective yield component of debt securities at FVOCI, as well as the impact of restatement on foreign currency-denominated debt securities at FVOCI, in the statement of income. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in OCI is recognized as ‘Trading and investment securities gain (loss) - net’ in the statement of income. The Group recognizes the expected credit losses (ECL) arising from impairment of such financial assets in OCI with a corresponding charge to ‘Provision for impairment, credit and other losses’ in the statement of income (see related accounting policy under 2.11.5 *Impairment of Financial Assets*).

Equity securities designated at FVOCI are those that the Group made an irrevocable election at initial recognition to present in OCI the subsequent changes in fair value. The Group recognizes the dividends earned on holding the equity securities at FVOCI in the statement of income when the right to payment has been established. Gains and losses on disposal of these equity securities at FVOCI are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the OCI is reclassified to ‘Surplus’ or any other appropriate equity account upon disposal. The Group does not subject equity securities at FVOCI to impairment assessment.

Financial assets at amortized cost

Financial assets at amortized cost are debt financial assets that meet both of the following conditions:

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

This accounting policy relates to the statement of financial position captions ‘Due from Bangko Sentral ng Pilipinas’, ‘Due from other banks’, ‘Interbank loans receivable’, ‘Securities held under agreements to resell’, ‘Investment securities at amortized cost’, and ‘Loans and receivables’.



The Group subsequently measures financial assets at amortized cost using the effective interest method of amortization, less allowance for credit losses. The Group includes the amortization in 'Interest income', and the ECL arising from impairment of such financial assets in 'Provision for impairment, credit and other losses' in the statement of income (see related accounting policy under 2.11.5 *Impairment of Financial Assets*).

Financial liabilities at amortized cost

The Group classifies issued financial instruments or their components which are not designated at FVTPL, as financial liabilities at amortized cost under 'Deposit liabilities', 'Bills and acceptances payable', 'Bonds payable' or other appropriate financial liability accounts. The substance of the contractual arrangement for these instruments results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

The Group subsequently measures financial liabilities at amortized cost using the effective interest method of amortization.

Repurchase and reverse repurchase agreements

The Group does not derecognize from the statement of financial position securities sold under agreements to repurchase at a specified future date ('repos'). Instead, the Group recognizes the corresponding cash received, including accrued interest, as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, the Group does not recognize securities purchased under agreements to resell at a specified future date ('reverse repos'). The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The Group recognizes the corresponding cash paid, including accrued interest, as a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

2.11.3 Reclassification of Financial Instruments

Subsequent to initial recognition, the Group may reclassify its financial assets only when there is a change in the business models for managing these financial assets. Reclassification of financial liabilities is not allowed.

2.11.4 Derecognition of Financial Instruments

Financial Assets

The Group derecognizes a financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) when:

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



Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the Group recognizes the asset only to the extent of its continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing recovery. If a write-off is later recovered, any amounts formerly charged are credited to 'Recoveries' under 'Miscellaneous Income' in the statements of income.

Financial liabilities

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the Group treats such an exchange or modification as a derecognition of the original liability and recognition of a new liability, and Group recognizes the difference in the respective carrying amounts in the statement of income.

2.11.5 Impairment of Financial Assets

ECL methodology

The Group's loss impairment method on financial instruments applies a forward-looking ECL approach, which covers all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The ECL allowance is based on the credit losses expected to arise on a 12-month duration if there has been no significant increase in credit risk (SICR) of the financial instrument since origination (12-month ECL). Otherwise, if an SICR is observed, then the Group extends its ECL estimation until the end of the life of the financial instrument (Lifetime ECL). Both Lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Staging assessment

The Group categorizes financial instruments subject to the ECL methodology into three stages:

- Stage 1 – comprised of all non-impaired financial instruments which have not experienced an SICR since initial recognition. The Group recognizes 12-month ECL for Stage 1 financial instruments.
- Stage 2 – comprised of all non-impaired financial instruments which have experienced an SICR since initial recognition. The Group recognizes Lifetime ECL for Stage 2 financial instruments.
- Stage 3 – comprised of financial instruments which have objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on their estimated future cash flows. The Group recognizes Lifetime ECL for Stage 3 (credit-impaired) financial instruments.

Definition of "default" and "cure"

The Group considers default to have occurred when:

- the obligor is past due for more than 90 days on any material credit obligation to the Group; or
- the obligor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing collateral, as applicable.



The Group 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.

Determining SICR

At each reporting date, the Group assesses whether the credit risk on a loan or credit exposure has increased significantly since initial recognition. The Group's assessment of SICR involves looking at both the qualitative and quantitative elements, as well as if the loan or credit exposure is unpaid for at least 30 days ("backstop").

The Group assesses SICR on loans or credit exposures having potential credit weaknesses based on current and/or forward-looking information that warrant management's close attention. Such weaknesses, if left uncorrected, may affect the repayment of these exposures. The loan or credit exposure also exhibits SICR if there are adverse or foreseen adverse economic or market conditions that may affect the counterparty's ability to meet the scheduled repayments in the future.

The Group looks at the quantitative element through statistical models or credit ratings process or scoring process that captures certain information, which the Group considers as relevant in assessing changes in credit risk. The Group also looks at the number of notches downgrade of credit risk rating (CRR) or certain thresholds for the probabilities of default being generated from statistical models to determine whether SICR has occurred subsequent to initial recognition date.

Transfer between stages

The Group transfers credit exposures from Stage 1 to Stage 2 if there is an SICR from initial recognition date. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer an SICR since initial recognition, then the Group reverts them to Stage 1.

The Group 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 of the following indicators:

- quantitative – characterized by payments made within an observation period; and
- qualitative – pertain to the results of assessment of the borrower's financial capacity.

Generally, the Group considers that full collection is probable when payments of interest and/or principal are received for at least six months.

Modified or restructured loans and other credit exposures

In certain circumstances, the Group modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule, which may be provided depending on the borrower's current or expected financial difficulties. Modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date and schedule of periodic payments.

If modifications are considered by the Group as substantial based on qualitative factors, the loan is derecognized as discussed under 2.11.4 *Derecognition of Financial Instruments*.



If a loan or credit exposure has been renegotiated or modified without resulting in derecognition, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded, based on the change in cash flows discounted at the loan's original effective interest rate (EIR). The Group also assesses whether there has been a SICR by comparing the risk of default at reporting date based on modified terms, and the risk of default at initial recognition date based on original terms. Derecognition decisions and classification between Stages 2 and 3 are determined on a case-by-case basis.

Purchased or originated credit-impaired loans

The Group considers a loan as credit-impaired on purchase or origination if there is evidence of impairment at the time of initial recognition (i.e., acquired/purchased at a deep discounted price). The Group recognizes the cumulative changes in Lifetime ECL since initial recognition as a loss allowance for purchased or originated credit-impaired loan.

Measurement of ECL

ECLs are generally measured based on the risk of default over one of two different time horizons, depending on whether there has been SICR since initial recognition. ECL calculations are based on the following components:

- Probability of default (PD) – an estimate of the likelihood that a borrower will default on its obligations over the next 12 months for Stage 1 or over the remaining life of the credit exposure for Stages 2 and 3.
- Loss-given-default (LGD) – an estimate of the loss arising in case where default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from any collateral.
- Exposure-at-default (EAD) – an estimate of the exposure at a future/default date taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, expected drawdown on committed facilities and accrued interest from missed payments.
- Discount rate – represents the rate to be used to discount an expected loss to present value at the reporting date using the original EIR determined at initial recognition.

In measuring ECL, the Group considers forward-looking information depending on the credit exposure. The Group applies experienced credit judgment, which is essential in assessing the soundness of forward-looking information and in ensuring that these are adequately supported. Forward-looking macroeconomic information and scenarios consider:

- factors that may affect the general economic or market conditions in which the Group operates, such as gross domestic product growth rates, foreign exchange rates, inflation rate, among others;
- changes in government policies, rules and regulations, such as adjustments to policy rates;
- other factors pertinent to the Group, including the proper identification and mitigation of risks such as incidences of loan defaults or losses.

The Group also measures ECL by evaluating a range of possible outcomes and using reasonable and supportable pieces of information that are available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

2.11.6 Financial Guarantees and Undrawn Loan Commitments

The Group gives loan commitments and financial guarantees consisting of letters of credit, letters of guarantees, and acceptances.



Financial guarantees are contracts that require the Group as issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. The Group initially recognizes financial guarantees on trade receivables at fair value under 'Bills and acceptances payable' or 'Other liabilities' in the statement of financial position. Subsequent to initial recognition, the Group measures these financial guarantees at the higher of:

- the initial fair value less any cumulative amount of income or amortization recognized in the statement of income; and
- the ECL determined under PFRS 9.

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer.

The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

The Group estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life. The ECL related to financial guarantees and loan commitments without outstanding drawn amounts is recognized in 'Allowance for credit losses' under 'Loans and receivables'.

2.12 Investments in Subsidiaries, Associates and Joint Ventures

The Group's subsidiaries pertain to investees where the Group demonstrates control. The Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., those existing rights that give the Group the current ability to direct the relevant activities of the investee);
- exposure or rights to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, such as contractual arrangements with other voting shareholders of the investee, rights arising from other contractual arrangements, or any potential voting rights of the Group.

The Group's associate pertains to the investee over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The Group's joint venture pertains to joint arrangements whereby the Group and other parties have joint control of the arrangement and have rights to the net assets of the arrangement.

The Group accounts for its investments in subsidiaries, associates and joint venture under the equity method of accounting. Under this method, the Group carries the investment in the statement of financial position at cost plus post-acquisition changes in the share in the net assets of the investee less accumulated impairment losses, if any (see related accounting policy under 2.13.5 *Impairment of Nonfinancial Assets*). The Group reflects its share in the results of operations of the investee and any impairment losses in the statement of income. When there has been a change recognized in the investee's OCI, the Group recognizes its share in any changes and discloses this in the statement of comprehensive income. The Group eliminates any profits or losses arising from transactions between the Group and the investee to the extent of the interest of the Group in the investee. Once the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognized,



only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

When a change in ownership interest in a subsidiary occurs which results in a loss of control over the subsidiary, the Parent Company:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the related OCI recorded in equity and recycles the same to statement of income or 'Surplus';
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in the statement of income; and
- Reclassifies the Parent Company's share of components' gains (losses) previously recognized in OCI to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Upon loss of control over a subsidiary or significant influence over an associate, the Group measures and recognizes any retained investment at its fair value. Any resulting difference between the aggregate of the investee's carrying amount upon disposal and the fair value of the retained investment, and proceeds from disposal is recognized in the statement of income.

For transactions where ownership interest in a subsidiary, associate or joint venture that did not result in a loss of control or significant influence, as applicable, the Parent Company recognizes the gain or loss in the profit and loss representing the difference between the proceeds from sale and the carrying value of the investment.

2.13 Other Nonfinancial Assets

2.13.1 Property and Equipment

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use (see related accounting policy under 2.16.5 *Expenditures on Nonfinancial Assets*).

The Group carries its land at cost less any impairment in value, and its depreciable properties such as buildings, right-of-use assets, furniture, fixtures and equipment, long-term leasehold land, and leasehold improvements at cost less accumulated depreciation and amortization and any impairment in value (see related accounting policy under 2.13.5 *Impairment of Nonfinancial Assets*).

For right-of-use assets included under 'Property and equipment', see related accounting policy under 2.18.1 *Group as a Lessee Under Lease Contracts*.

2.13.2 Investment Properties and Chattel Mortgage Properties

The Group initially measures investment properties and chattel mortgage properties initially at cost, including transaction costs (see related accounting policy under 2.16.5 *Expenditures on Nonfinancial Assets*). When the investment property or chattel mortgage property is acquired through an exchange transaction, the Group measures the asset at its fair value, unless the fair value of such an asset cannot be reliably measured in which case the asset acquired is measured at the carrying amount of asset given up. The Group recognizes any gain or loss on exchange in the statement of income under 'Net gains (losses) on sale or exchange of assets'.



Foreclosed properties are classified under 'Investment properties' upon:

- entry of judgment in case of judicial foreclosure;
- execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
- notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

Subsequent to initial recognition, the Group carries the investment properties and chattel mortgage properties at cost less accumulated depreciation (for depreciable properties) and any impairment in value (see related accounting policy under 2.13.5 *Impairment of Nonfinancial Assets*).

The Group transfers assets to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Conversely, the Group transfers out of investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

2.13.3 Intangible Assets

The Group initially measures separately acquired intangible assets at cost, and the intangible assets acquired in a business combination at their fair values at the date of acquisition. The Group does not capitalize internally generated intangibles, excluding capitalized development costs, and reflects in profit or loss the related expenditures in the period in which the expenditure is incurred.

Intangibles with finite lives

The Group capitalizes software costs, included in 'Intangible assets', on the basis of the cost incurred to acquire and bring to use the specific software (see related accounting policy under 2.16.5 *Expenditures on Nonfinancial Assets*).

Customer relationship intangibles (CRI) and core deposits intangibles (CDI) are the intangible assets acquired by the Group through business combination. The Group initially measures these intangible assets at their fair values at the date of acquisition. The fair value of these intangible assets reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the Group.

Following initial recognition, intangibles with finite lives are measured at cost less accumulated amortization and any accumulated impairment losses (see related accounting policy under 2.13.5 *Impairment of Nonfinancial Assets*).

Goodwill

The Group initially measures goodwill acquired in a business combination at cost. With respect to investments in an associate, the Group includes goodwill in the carrying amount of the investments. Goodwill is not amortized, but is tested for impairment annually or more frequently if events or changes in circumstances that the carrying value may be impaired (see related accounting policy under 2.13.5 *Impairment of Nonfinancial Assets*).

2.13.4 Derecognition of Nonfinancial Assets

The Group derecognizes a nonfinancial asset when it has either been disposed of or when the asset is permanently withdrawn from use and no future benefit is expected from its disposal. The Group recognizes any gains or losses on the disposal of a nonfinancial asset in the statement of income under 'Net gains (losses) on sale or exchange of assets' in the period the asset is derecognized.



2.13.5 Impairment of Nonfinancial Assets

Property and equipment, investment properties, intangible assets with finite lives, chattel mortgage properties, and investments in subsidiaries and an associate

At each reporting date, the Group assesses whether there is any indication that its property and equipment, investment properties, intangible assets with finite lives, chattel mortgage properties, and investments in subsidiaries and an associate may be impaired. When an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit (CGU) to which it belongs.

When the carrying amount of an asset exceeds its recoverable amount, the Group considers the asset as impaired and writes the asset down to its recoverable amount. In assessing VIU, the Group discounts the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Group charges the impairment loss against current operations. At each reporting date, the Group assesses whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the recoverable amount and reverses a previously recognized impairment loss only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal recognized in the statement of income 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. After such reversal, the Group adjusts the depreciation and amortization in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill

The Group performs its annual impairment test of goodwill every fourth quarter, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The Group determines impairment for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated (or to the aggregate carrying amount of a group of CGUs to which the goodwill relates but cannot be allocated), the Group recognizes an impairment loss immediately in the statement of income under 'Provision for impairment, credit and other losses'. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

2.14 Equity

2.14.1 Capital Stock

The Group measures capital stock at par value for all shares issued and outstanding. When the shares are sold at a premium, the Group credits the difference between the proceeds and the par value to 'Capital paid in excess of par value'. 'Surplus' represents accumulated earnings (losses) of the Group less dividends declared.



2.14.2 Reserves Recorded in Equity

The reserves recorded in equity in the statement of financial position include:

- Remeasurement losses on retirement plan – pertains to the remeasurement comprising actuarial gains or losses on the present value of the defined benefit obligation, net of return on plan assets (see related accounting policy under *2.17.1 Retirement Under Defined Benefit Plan*).
- Accumulated translation adjustment – used to record exchange differences arising from the translation of the FCDU accounts and foreign operations (i.e., overseas branches and subsidiaries) to Philippine peso (see related accounting policy under *2.5.2 FCDU and Overseas Branches and Subsidiaries*).
- Net unrealized gains (losses) on financial assets at FVOCI – comprises changes in fair value of financial assets at FVOCI (see related accounting policy under *2.11.2 Classification and Subsequent Measurement of Financial Instruments*).

2.14.3 Dividends

The Group recognizes dividends on common shares as a liability and deduction against ‘Surplus’ when approved by the Board of Directors (BOD) of the Parent Company. The Group measures the liability to distribute dividends at the carrying amount of the dividends, except for distributions of non-cash assets where the Group measures the liability at the fair value of the assets to be distributed. At the end of each reporting period and at the date of settlement, the Group reviews and adjusts the carrying amount of the non-cash assets declared as dividends, with any changes in the carrying amount of the non-cash dividends recognized in equity as adjustments to the amount of distribution.

For dividends that are approved after the reporting date, the Group discloses them in the financial statements as an event after the reporting date.

2.14.4 Securities Issuance Costs

The Group capitalizes the issuance, underwriting and other related expenses incurred in connection with the issuance of debt securities (other than debt securities designated at FVTPL) and amortizes over the terms of the instruments using the effective interest method. The Group includes any unamortized debt issuance costs in the carrying value of the related debt instruments in the statement of financial position.

For underwriting, share registration, and other share issuance costs and taxes incurred in connection with the issuance of equity securities, the Group accounts for these costs as reduction of equity against ‘Capital paid in excess of par value’. If the ‘Capital paid in excess of par value’ is not sufficient, the share issuance costs are charged against the ‘Surplus’. For transaction costs that relate jointly to the offering and listing of the shares, the Group allocates the costs to those transactions (i.e., reduction against equity for those allocated to offering of shares, and expensed for those allocated to listing of shares) using a basis of allocation that is rational and consistent with similar transactions.

2.15 Revenue Recognition

Revenue is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements except for brokerage transactions.



2.15.1 Interest Income

Interest on interest-bearing financial assets at FVTPL and held-for-trading investments is recognized based on contractual rate. Interest on financial instruments measured at amortized cost and FVOCI are recognized based on effective interest method of accounting to calculate the amortized cost of a financial asset or a financial liability and allocate the interest income or interest expense.

The Group records interest income using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. In calculating EIR, the Group considers all contractual terms of the financial instrument (for example, prepayment options), and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The Group adjusts the carrying amount of the financial instrument through 'Interest income' in the statement of income based on the original EIR.

When a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, the Group calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

The Group defers the commitment fees for loans that are likely to be drawn down (together with any incremental costs) and includes them as part of the EIR of the loan. These are amortized using EIR and recognized as 'Interest income' over the expected life of the loan.

The Group recognizes income on direct financing leases and receivables financed using the effective interest method and any unearned discounts are shown as deduction against 'Loans and receivables'. Unearned discounts are amortized over the term of the note or lease using the effective interest method and consist of:

- transaction and finance fees on finance leases and loans and receivables financed with long-term maturities; and
- excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost.

2.15.2 Service Fees and Commission Income

The Group earns fee and commission income from diverse range of services it provides to its customers:

Fees from services that are provided over a certain period of time

The Group accrues fees earned for the provision of services over a period of time. These fees include investment fund fees, custodian fees, fiduciary fees, credit-related fees, trust fees, portfolio and other management fees, and advisory fees.

Bancassurance fees

The Group recognizes non-refundable access fees on a straight-line basis over the term of the period of the provision of the access. Milestone fees or variable and fixed earn-out fees are recognized in reference to the stage of achievement of the milestones.



Fee income from providing transaction services

The Group recognizes the fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, only upon completion of the underlying transaction. For fees or components of fees that are linked to a certain performance, the Group recognizes revenue after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, remittance fees, brokerage fees, commissions, deposit-related and other credit-related fees.

The Group recognizes loan syndication fees as revenue when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as the other participants.

2.15.3 Credit Card Revenues

Interchange fees and revenue from rewards redeemed

The Group takes up as income the interchange fees under ‘Service fees and commission income’ upon receipt from member establishments of charges arising from credit availments by the Group’s cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments.

The Group operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the Group. The points can then be redeemed for free products subject to a minimum number of points being redeemed.

The Group allocates a portion of the consideration received from discounts earned and interchange fees from credit cards to the reward points based on the estimated stand-alone selling prices. The Group defers the amount allocated to the loyalty program and recognizes revenue only when the loyalty points are redeemed or the likelihood of the credit cardholder redeeming the loyalty points becomes remote. The Group includes the deferred balance under ‘Other liabilities’ in the statement of financial position.

Commissions on credit cards

The Group recognizes commissions earned as revenue upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Commissions on installment credit sales

The Group records the purchases by the credit cardholders, collectible on installment basis, at the cost of the items purchased plus certain percentage of cost. The Group recognizes the excess over cost as ‘Unearned and other deferred income’, which is shown as a deduction from ‘Loans and receivables’ in the statement of financial position. The Group amortizes and recognizes as ‘Interest income’ the unearned and other deferred income over the installment terms using the effective interest method.

2.15.4 Trading and Investment Securities Gains - Net

The Group recognizes in ‘Trading and investment securities gains - net’ the results arising from trading activities, all gains and losses from changes in fair value of financial assets and financial liabilities at FVTPL, and gains and losses from disposal of debt securities at FVOCI.



2.15.5 Gain on Sale or Exchange of Assets

The Group recognizes gain on sale or exchange of assets upon completion of the earning process upon transfer of control and when the collectability of the sales price is reasonably assured.

2.15.6 Other Income

Rental income

The Group accounts for rental income arising on leased properties on a straight-line basis over the lease terms, which is recorded in the statement of income under 'Miscellaneous income' (see related accounting policy under 2.18.2 *Group as a Lessor Under Lease Contracts*).

Dividend income

The Group recognizes dividend income when the Group's right to receive payment is established.

Insurance premiums and commissions on reinsurance

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. The Group recognizes premiums from short-duration insurance contracts and reinsurance commissions as revenue over the period of the contracts using the 24th method, except for marine cargo where the provision for unearned premiums pertain to the premiums for the last two months of the year. The Group recognizes in the statement of income for the period the net changes in provisions for unearned premiums and deferred reinsurance premiums.

2.16 Expenditures

2.16.1 Borrowing Costs

The Group recognizes borrowing costs as 'Interest expense' in the year in which these costs are incurred. Borrowing costs consist of interest expense calculated using the effective interest method that the Group incurs in connection with borrowing of funds.

2.16.2 Operating Expenses

This encompasses those expenses that arise in the course of the ordinary activities of the Group, as well as any losses incurred. These are recognized in the statement of income as they are incurred.

2.16.3 Taxes and Licenses

This includes all other taxes, local and national, including gross receipts taxes, documentary stamp taxes, real estate taxes, licenses and permit fees that are recognized when incurred.



2.16.4 Depreciation and Amortization

The Group computes for depreciation and amortization of depreciable assets using the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives of the depreciable assets follow:

	Years
Property and equipment:	
Buildings	25 - 50
Right-of-use assets	1 - 25 or the lease term, whichever is shorter (provided that lease term is more than one year)
Furniture, fixtures and equipment	5
Long-term leasehold land	46 - 50
Leasehold improvements	10 or the lease term, whichever is shorter
Investment properties	10 - 25
Chattel mortgage properties	5
Intangible assets with finite lives:	
Software costs	5
CDI	10
CRI	3

The Group reviews periodically the useful life and the depreciation and amortization method to ensure that these are consistent with the expected pattern of economic benefits from the depreciable assets. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the depreciation and amortization period or method, as appropriate, and are treated as changes in accounting estimates.

2.16.5 Expenditures on Nonfinancial Assets

The Group charges against current operations the expenditures incurred after the nonfinancial assets (i.e., property and equipment, investment properties, software costs, and chattel mortgage properties) have been put into operation, such as repairs and maintenance. 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 these nonfinancial assets beyond their originally assessed standard of performance, the Group capitalizes such expenditures as additional cost.

2.17 Employee Benefits

2.17.1 Retirement Under Defined Benefit Plan

At the end of the reporting period, the Group determines its net defined benefit liability (or asset) as the difference between the present value of the defined benefit obligation and the fair value of plan assets, adjusted for any effect of asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.



Defined benefit costs recognized in the statement of income consist of the following:

- service costs – include current service costs, past service costs (recognized when plan amendment or curtailment occurs) and gains or losses on non-routine settlements; and
- net interest on the net defined benefit liability or asset – pertains to the change during the period in the net defined benefit liability (or asset) that arises from the passage of time, which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset.

Changes in the net defined benefit liability (or asset) also include remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling, excluding net interest on defined benefit liability (or asset). The Group recognizes these remeasurements immediately in OCI in the period in which they arise. The Group does not reclassify these remeasurements to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies, and are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the Group estimates the fair value of plan assets by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group recognizes its right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation as a separate asset at fair value when and only when reimbursement is virtually certain.

2.17.2 Employee Leave Entitlement

The Group recognizes entitlements of employees to annual leave as a liability when they are accrued to the employees. The Group recognizes the undiscounted liability for leave expected to be settled wholly before 12 months after the end of the reporting period for services rendered by employees up to the end of the reporting period. For leave entitlements expected to be settled for more than 12 months after the reporting date, the Group engages an actuary to estimate the long-term liability, which is reported in 'Accrued taxes, interest and other expenses' in the statement of financial position.

2.17.3 Share-Based Payment

Employees of the Parent Company receive remuneration in the form of share-based payments, where employees render services as consideration for equity instruments. The Parent Company determines the cost of equity-settled transactions at fair value at the date when the grant is made, and recognizes as 'Compensation and fringe benefits', together with a corresponding increase in equity ('Other equity reserves'), over the period in which the service is fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects to the extent to which the vesting period has expired and the Parent Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of income for a period represents the movement in the cumulative expense recognized as at the beginning and end of the period.



2.18 Leases

The Group determines at contract inception whether a contract is, or contains, a lease by assessing whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

2.18.1 Group as a Lessee Under Lease Contracts

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes right-of-use assets representing the right to use the underlying assets and lease liabilities to make lease payments.

- **Right-of-use assets**

At the commencement date of the lease (i.e, the date the underlying asset is available for use), the Group recognizes right-of-use assets measured at cost. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Subsequent to initial recognition, the Group measures the right-of-use assets at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The Group presents the right-of-use assets in 'Property and equipment' and subjects it to impairment in line with the Group's policy on impairment of nonfinancial assets (see related accounting policy under *2.13.5 Impairment of Nonfinancial Assets*).

- **Lease liabilities**

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term discounted using the Group's incremental borrowing rate, which is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The lease payments include fixed payments, any variable lease payments that depend on an index or a rate, and any amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

After the commencement date of the lease, the Group measures the lease liabilities by increasing the carrying amount to reflect interest on the lease liabilities (recorded in 'Interest expense on bills payable and other borrowings'), reducing the carrying amount to reflect the lease payments made, and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

- **Short-term leases and leases of low-value assets**

The Group applies the short-term lease recognition exemption to its leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option, and the leases of low-value assets recognition exemption to its leases of ATM offsite locations and other equipment that are considered of low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense under 'Occupancy and equipment-related costs' on a straight-line basis over the lease term.



2.18.2 Group as a Lessor Under Lease Contracts

For finance leases where the Group transfers substantially all the risks and rewards incidental to ownership of the leased item, the Group recognizes a lease receivable in the statement of financial position at an amount equivalent to the net investment (asset cost) in the lease. The Group includes all income resulting from the receivable in 'Interest income on loans and receivables' in the statement of income.

The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

In operating leases where the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset, the Group recognizes rental income on a straight-line basis over the lease terms. The Group adds back the initial direct costs incurred in negotiating and arranging an operating lease to the carrying amount of the leased asset and recognizes them as rental income over the lease term on the same basis. The Group recognizes contingent rents as revenue in the period in which they are earned.

2.19 Provisions

The Group recognizes provisions when:

- the Group has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the Group recognizes the reimbursement as a separate asset but only when the reimbursement is virtually certain. The Group presents the expense relating to any provision in the statement of income, net of any reimbursement.

If the effect of the time value of money is material, the Group determines provisions by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. When discounting is used, the Group recognizes the increase in the provision due to the passage as 'Interest expense on bills payable and other borrowings'.

2.20 Contingencies

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

2.21 Income Taxes

Income tax on profit and loss for the year comprises current and deferred tax. Income tax is determined in accordance with tax laws and is recognized in the statement of income, except to the extent that it relates to items directly recognized in OCI.



2.21.1 Current Tax

The Group measures current tax assets and liabilities for the current periods at the amount expected to be recovered from or paid to the taxation authorities using the tax rates and tax laws that are enacted or substantively enacted at the reporting date.

2.21.2 Deferred Tax

The Group provides for deferred tax using the balance sheet liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The Group recognizes deferred tax liabilities for all taxable temporary differences, including asset revaluations. The Group recognizes deferred tax assets for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized.

The Group, however, does not recognize deferred tax on temporary differences that arise 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 income nor taxable income. The Group does not also provide deferred tax liabilities on non-taxable temporary differences associated with investments in domestic subsidiaries and an associate. With respect to investments in foreign subsidiaries, the Group does not recognize deferred tax liabilities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group reviews the carrying amount of deferred tax assets at each reporting date and reduces the recognized amount to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income tax asset to be utilized. The Group reassesses unrecognized deferred tax assets at each reporting date and recognizes amounts to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

The Group measures deferred tax assets and liabilities at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

For current and deferred tax relating to items recognized directly in OCI, the Group recognizes them also in OCI and not in the statement of income.

In the consolidated financial statements, the Group offsets deferred tax assets and liabilities if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

When tax treatments involve uncertainty, the Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. If the Group concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, the Group reflects the effect of the uncertainty for each uncertain tax treatment using the method the Group expects to better predict the resolution of the uncertainty.



2.22 Earnings Per Share

The Group computes for the basic earnings per share (EPS) by dividing net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period, after giving retroactive effect to any bonus issue, share split or reverse share split during the period.

The Group computes for the diluted EPS by dividing the aggregate of net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period, adjusted for the effects of any dilutive shares.

2.23 Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
- significant investors and their subsidiaries and associates called affiliates;
- subsidiaries, joint ventures and associates and their respective subsidiaries; and
- post-employment benefit plans for the benefit of the Group's employees.

2.24 Events After the Reporting Date

The Group reflects in the financial statements any post-year-end event that provides additional information about the Group's position at the reporting date (adjusting event). The Group discloses post-year-end events that are not adjusting events, if any, when material to the financial statements.

2.25 Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Refer to Note 6 for the detailed disclosure on segment information.

2.26 Fiduciary Activities

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

2.27 Future Changes in Accounting Standards

Listed below are accounting standards and interpretations issued but not yet effective up to the date of issuance of the Group's financial statements. The Group intends to adopt these standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have significant impact on the financial statements.



Effective beginning on or after January 1, 2023

- Amendments to PAS 1, *Presentation of Financial Statements*, and PFRS Practice Statement 2, *Disclosure of Accounting Policies*
The amendments provide guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:
 - Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and
 - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to the Practice Statement provide non-mandatory guidance. Early adoption of the amendments is permitted as long as this fact is disclosed.

- Amendments to PAS 12, *Income Taxes, Deferred Tax Related to Assets and Liabilities arising from a Single Transaction*
The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented.
- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Accounting Estimates*
The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments also clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. Early adoption of the amendments is permitted.

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
The amendments clarify:
 - That only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current;
 - That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
 - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on its current practice and whether existing loan agreements may require renegotiation.



- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*
The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right-of-use retained. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. Earlier adoption is permitted and that fact must be disclosed.

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*
PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

On December 15, 2021, the FSRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two years after its effective date as decided by the International Accounting Standards Board (IASB).

PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

Deferred effectivity

- PFRS 10, *Consolidated Financial Statements*, and PAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments)
The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the FSRSC postponed the original effective date of January 1, 2016 of the said amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Group to make judgments and estimates that affect the reported amounts and disclosures. The Group continually evaluates judgments and estimates and uses as basis its historical experience and other factors, including expectations of future events. The Group reflects the effects of any changes in estimates in the financial statements as they become reasonably determinable.



3.1 Judgments

3.1.1 Assessment of Control Over a Subsidiary

The Group demonstrates control over an investee when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Thus, the following elements must all be present to exercise control over an investee:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect the amount of the investor's returns

The Group considers all facts and circumstances when assessing whether it controls an investee.

In making this assessment, the Group considers the following factors:

- The purpose and design of the investee
- What the relevant activities are and how decisions about those activities are made
- Whether the rights of the Group give it the current ability to direct the relevant activities
- Whether the Group is exposed, or has rights, to variable returns from its involvement with the investee
- Whether the Group has the ability to use its power over the investee to affect the amount of the investor's returns

The assessment of the Group on its control over a subsidiary is further discussed in Note 12.

3.1.2 Assessment of Significant Influence Over an Associate

The Group generally accounts for an investment as an associate when the Group holds 20% or more of the voting power of the investee company held directly or indirectly through subsidiaries, unless it can be clearly demonstrated that this is not the case.

In assessing whether the Group exercises significant influence over an investee company, the Group considers the following factors:

- Representation in the BOD or equivalent governing body of the investee company
- Participation in policy-making processes, including participation in decisions about dividends and other distributions
- Material transactions between the Group and the investee company
- Interchange of management personnel
- Provision of essential technical performance

The assessment of the Group on its significant influence over an investee company is further discussed in Note 12.

3.1.3 Classification of Financial Assets

The Group classifies its financial assets depending on the results of the SPPI test and on the business model used for managing those financial assets.



When performing the SPPI test, the Group applies judgment and evaluates relevant factors and characteristics such as the behavior and nature of contractual cash flows, its original currency denomination, the timing and frequency of interest rate repricing, contingent events that would alter the amount and/or timing of cash flows, leverage features, prepayment or extension options and other features that may modify the consideration for the time value of money.

As a second step, the Group performs business model assessment to reflect how financial assets are managed in order to generate net cash inflows based on the following factors:

- business objectives and strategies for holding the financial assets;
- performance measures and benchmarks being used to evaluate the Group's key management personnel accountable to the financial assets;
- risks associated to the financial assets and the tools applied in managing those risks;
- compensation structure of business units, including whether based on fair value changes of the investments managed or on the generated cash flows from transactions; and
- frequency and timing of disposals.

In applying judgment, the Group also considers the circumstances surrounding the transaction as well as the prudential requirements of the BSP.

3.1.4 Fair Valuation of Financial Instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, the Group uses valuation techniques and mathematical models. The Group derives the inputs to these models from observable markets where possible, otherwise, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer-dated derivatives. For the valuation of nonmarketable unquoted equity securities, the Group considers a discount for lack of marketability, which is applied to the values determined by an independent valuation company (refer to Note 5 for the fair values of financial instruments).

3.1.5 Contingencies

The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsels handling the Group's defense in these matters and is based upon an analysis of potential results. Management does not believe that the outcome of these matters will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to the proceedings (refer to Note 34).

3.1.6 Determination of Functional Currency

PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires the Group to use its judgment to determine the functional currency of the Group, including its foreign operations, such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to each entity or reporting unit.



In making this judgment, the Group considers the following:

- the currency that mainly influences prices for financial instruments and services (this will often be the currency in which 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.

3.2 Accounting Estimates

3.2.1 Credit Losses on Financial Assets

The Group's ECL calculations are mainly derived from outputs of complex statistical models and expert judgment, with a number of underlying assumptions regarding the choice of variable inputs as well as their independencies. The Group considers the following elements of the ECL models, among others, as significant accounting judgments and estimates:

- segmentation of the portfolio, where the appropriate ECL approach and/or model is used, including whether assessments should be done individually or collectively;
- quantitative and qualitative criteria for determining whether there has been SICR as at a given reporting date and the corresponding transfers between stages;
- determination of expected life of the financial asset and expected recoveries from defaulted accounts;
- development of ECL models, including the various formulas and the choice of inputs;
- determination of correlations and interdependencies between risk factors, macroeconomic scenarios and economic inputs, such as inflation, policy rates and collateral values, and the resulting impact to PDs, LGDs and EADs; and
- selection of forward-looking information and determination of probability-weightings to derive the ECL.

In response to the changing credit environment due to the protracted COVID-19 pandemic, as well as the effects of the Russia-Ukraine conflict, rising interest rates, inflation, and other 'black swan' events (see further discussion of these events under 3.2.2 *Recognition of Deferred Tax Assets*) which may potentially occur, the Group reviews on a monthly basis its loan portfolio, particularly for accounts that have shown or are beginning to show increases in credit risk. The Group performs comprehensive review of the default profile of its accounts to determine if there are factors or indicators not captured in the risk rating model. If there are noted weaknesses in the model, where possible, the Group recalibrates the parameter estimates to the ECL models to incorporate internal default experience, as well as most recent available external data affecting each segment of the Group's loan portfolio.

Starting April 2020, the Group reviewed the conduct of its impairment assessment and ECL methodologies. The Group revisited the segmentation of its portfolio based on industry vulnerability and resiliency assessment. The Group also reassessed the framework for macroeconomic overlay, incorporating pandemic and other stress scenarios to ensure that changes in economic conditions are captured in the ECL calculations.

Refer to Note 16 for the details of the carrying value of financial assets subject to ECL and for the details of the ECL.



3.2.2 Recognition of Deferred Tax Assets

Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the availability of future taxable income in reference to financial forecast and tax strategies. The Group takes into consideration the loan portfolio and deposit growth rates.

The Group reassesses its business plan, as well as tax strategies, in the next three to five years, considering various economic scenarios including recovery outlook and effects on specific industries and trade of the protracted COVID-19 pandemic, Russia-Ukraine conflict, rising interest rates, inflation, and other 'black swan' events (such as longer lasting supply shock inflation pressure, credit rating downgrade, deep recession in the USA and Europe, and emergence of a new pandemic).

Refer to Note 30.3 for the carrying amount of recognized and unrecognized deferred tax assets.

3.2.3 Present Value of Retirement Obligation

The Group determines the cost of defined benefit pension plan and other post-employment benefits using actuarial valuations, which involve making assumptions about discount rates, future salary increases, mortality rates and employee turnover. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The Group reviews all assumptions at each reporting date.

The discount rate is based on zero-coupon yield of government bonds with remaining maturity approximating the estimated average duration of benefit payment. Future salary increases are based on the Group's policy considering the prevailing inflation rate. The mortality rate used is based on publicly available mortality table modified accordingly with estimates of mortality improvements. The employee turnover is based on the Group's most recent experience.

The present value of retirement obligation is disclosed in Note 28.

3.2.4 Impairment of Goodwill

The Group conducts an annual review for any impairment in the value of goodwill. Goodwill is written down for impairment where the recoverable amount is insufficient to support its carrying value. The recoverable amount of the CGU is determined based on a VIU calculation, which considers the present value of cash flow projections from financial budgets approved by senior management and BOD of the Parent Company covering a three-year period. The assumptions used in the calculation of VIU are sensitive to estimates of future cash flows from business, interest margin, discount rates, projected long-term growth rates (derived based on the forecast local gross domestic product) used to extrapolate cash flows beyond the budget period.

Estimating future earnings involves judgment which takes into account past and actual performance and expected developments in the respective markets and in the overall macro-economic environment. Similar with its considerations discussed under 3.2.2 *Recognition of Deferred Tax Assets*, the Group revisits its business plan and applies judgment to reassess the projections of future cash flows as of December 31, 2022, considering various economic scenarios and recovery outlook.

The carrying values of the Group's goodwill, accumulated impairment losses, and key assumptions used in determining VIU are disclosed in Note 14.3.



4. Financial Risk Management Objectives and Policies

4.1 Risk Management Framework

The Parent Company's BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. As delegated by the BOD, the Risk Oversight Committee (ROC) is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management. The ROC advises on the overall current and future risk appetite and strategy and assists in overseeing the implementation of those strategies and business plans by senior management. Details of the Parent Company's risk framework are discussed under the Risk Management Disclosure Section of the Parent Company's annual report.

The Group's activities are principally related to the development, delivery, servicing and use of financial instruments. Risk is inherent in these activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability.

The Group defines material risks (at group level) as those risks from any business activity large enough to threaten the Parent Company's capital position to drop below its desired level resulting in either a ₱13.3 billion increase in risk-weighted assets or a ₱1.7 billion reduction in earnings and/or qualifying capital which translate into a reduction in CAR by 20 basis points (bps).

Resulting from the assessments based on the premise identified above, the Parent Company agrees and reviews on a regular basis the material risks that need particular focus from all three lines of defense. For the assessment period 2020-2022, these are based on the following nine (9) material risks, which are grouped under Pillar 1 and Pillar 2 risks, and shall be covered in the Internal Capital Adequacy Assessment Process (ICAAP) document and required for monitoring.

Types and definition of each of these risks are discussed hereunder:

Pillar 1 Risks:

1. Credit Risk (includes Counterparty and Country Risks)
2. Market Risk
3. Operational Risk

Pillar 2 Risks:

4. Credit Concentration Risk
5. Interest Rate Risk in Banking Book (IRRBB)
6. Liquidity Risk
7. Reputational / Customer Franchise Risk
8. Strategic Business Risk
9. Cyber Security Risk

The Risk Management Group (RMG) provides the legwork for the ROC in its role of formulating the risk management strategy, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles. The RMG provides assistance to the Assets and Liabilities Committee (ALCO) on capital management and the Board Policy Committee on the management of regulatory capital.



The mandate of the RMG involves:

- Implementing the risk management framework of identifying, measuring, controlling and monitoring the various risk taking activities of the Group, inherent in all financial institutions;
- Providing services to the risk-taking units and personnel in the implementation of risk mitigation strategies; and
- Establishing recommended limits based on the results of its analysis of exposures.

4.2 Credit Risk

Credit risk is the non-recovery of credit exposures (on-and-off balance sheet exposures). Managing credit risk also involves monitoring of migration risk, concentration risk, country risk and settlement risk. The Group manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual transaction).

The credit risk management of the entire loan portfolio is under the direct oversight of the ROC and Executive Committee. Credit risk assessment of individual borrower is performed by the business sector, remedial sector and credit management sector. Risk management is embedded in the entire credit process, i.e., from credit origination to remedial management (if needed).

Among the tools used by the Group in identifying, assessing and managing credit risk include:

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;
- Monitoring of adequacy of capital for credit risk via the Capital Adequacy Ratio (CAR) report;
- Monitoring of breaches in regulatory and internal limits;
- Credit Risk Management Dashboard;
- Diversification;
- Internal Risk Rating System for corporate accounts;
- Credit Scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify: portfolio growth, movement of loan portfolio, adequacy of loan loss reserves, trend of nonperforming loans (NPLs), and concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

The Group follows the BOD-approved policy on the generic classification of loans based on the type of borrowers and the purpose of the loan. The loan portfolio is grouped based on the underlying risk characteristics that are expected to respond in a similar manner to macroeconomic factors and forward looking conditions.

4.2.1 Credit-Related Commitments

The exposures represent guarantees, standby letters of credit (LCs) issued by the Parent Company and documentary/commercial LCs which are written undertakings by the Parent Company. To mitigate this risk, the Parent Company requires hard collaterals for standby LCs lines while commercial LCs are collateralized by the underlying shipments of goods to which they relate.



4.2.2 Derivative Financial Instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

4.2.3 Collateral and Other Credit Enhancements

As a general rule, character is the single most important consideration in granting loans. However, collaterals are requested to mitigate risk. The loan value and type of collateral required depend on the assessment of the credit risk of the borrower or counterparty. The Group follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For corporate accounts - deposit hold-outs, guarantees, securities, physical collaterals (e.g., real estate, chattels, inventory, etc.); generally, commercial, industrial and residential lots are preferred
- For retail lending - mortgages on residential properties and vehicles financed
- For securities lending and reverse repurchase transactions - cash or securities

The disposal of the foreclosed properties is handled by the Acquired Assets Management Group which adheres to the general policy of disposing assets at the highest possible market value.

Management regularly monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of the collateral is considered during the review of the adequacy of the allowance for credit losses. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The Group is not permitted to sell or repledge the collateral held over loans and advances to counterparty banks and BSP in the absence of default by the owner of the collateral.

4.2.4 Maximum Exposure to Credit Risk After Collateral Held or Other Credit Enhancements

An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements for the Group and the Parent Company is shown below:

	Consolidated 2022			
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under agreements to resell	₱64,523,863	₱64,334,349	₱189,514	₱64,334,349
Loans and receivables:				
Receivables from customers*:				
Corporates	516,315,998	289,977,781	425,412,218	90,903,780
Local government units (LGU)	2,770,555	—	2,770,555	—
Credit Cards	13,094,453	—	13,094,453	—
Retail small and medium enterprises (SME)	4,735,190	3,594,278	2,821,798	1,913,392
Housing Loans	24,241,178	37,042,606	7,118,628	17,122,550
Auto Loans	5,570,015	11,420,518	1,765,068	3,804,947
Others	11,392,943	4,991,456	8,436,551	2,956,392
Other receivables	14,979,583	—	14,979,583	—
	₱657,623,778	₱411,360,988	₱476,588,368	₱181,035,410

*Receivables from customers exclude residual value of the leased asset (Note 10).



Consolidated				
2021				
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under agreements to resell	₱15,796,673	₱15,800,317	₱—	₱15,796,673
Loans and receivables:				
Receivables from customers*:				
Corporates	527,718,995	247,961,955	429,891,939	97,827,056
Local government units (LGU)	4,241,018	—	4,241,018	—
Credit Cards	10,749,018	—	10,749,018	—
Retail SME	7,522,925	6,971,613	5,715,786	1,807,139
Housing Loans	27,484,803	7,263,711	25,913,056	1,571,747
Auto Loans	7,286,027	6,738,811	3,945,861	3,340,166
Others	7,887,441	7,710,970	6,631,679	1,255,762
Other receivables	13,338,658	—	13,338,658	—
	₱622,025,558	₱292,447,377	₱500,427,015	₱121,598,543

*Receivables from customers exclude residual value of the leased asset (Note 10).

Parent Company				
2022				
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under agreements to resell	₱64,523,863	₱64,334,349	₱189,514	₱64,334,349
Loans and receivables:				
Receivables from customers:				
Corporates	504,070,752	268,623,811	424,982,412	79,088,340
LGU	2,770,555	—	2,770,555	—
Credit Cards	13,094,453	—	13,094,453	—
Retail SME	3,936,250	2,483,707	2,672,892	1,263,358
Housing Loans	23,326,606	35,629,579	7,118,628	16,207,978
Auto Loans	5,570,015	11,420,518	1,765,068	3,804,947
Others	11,300,587	4,802,742	8,436,552	2,864,035
Other receivables	13,925,800	—	13,925,800	—
	₱642,518,881	₱387,294,706	₱474,955,874	₱167,563,007

Parent Company				
2021				
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under agreements to resell	₱15,796,673	₱15,800,317	₱—	₱15,796,673
Loans and receivables:				
Receivables from customers:				
Corporates	517,966,207	246,894,007	429,891,939	88,074,268
LGU	4,241,018	—	4,241,018	—
Credit Cards	10,749,018	—	10,749,018	—
Retail SME	5,750,965	3,714,598	5,715,786	35,179
Housing Loans	26,607,300	5,982,154	25,913,056	694,244
Auto Loans	7,286,027	6,738,811	3,945,861	3,340,166
Others	6,420,782	7,494,006	6,242,747	178,035
Other receivables	13,477,444	—	13,477,444	—
	₱608,295,434	₱286,623,893	₱500,176,869	₱108,118,565

The maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the statement of financial position plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others.



4.2.5 Credit Risk Concentrations

Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics. The Group analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and investment securities. To mitigate risk concentration, the Group constantly checks for breaches in regulatory and internal limits. Clear escalation process and override procedures are in place, whereby any excess in limits are covered by appropriate approving authority to regularize and monitor breaches in limits.

Limit per client or counterparty

For each CRR, the Parent Company sets limits per client or counterparty based on the regulatory Single Borrowers Limit. For trading and investment securities, the Group limits investments to government issues and securities issued by entities with high-quality investment ratings.

Geographic concentration

The table below shows the credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location:

	Consolidated			
	2022			
	Loans and receivables*	Trading and investment securities	Other financial assets**	Total
Philippines	₱552,755,901	₱237,143,001	₱120,952,612	₱910,851,514
Asia (excluding the Philippines)	26,641,314	21,914,099	36,745,688	85,301,101
United Kingdom	2,096,234	6,708,736	22,039,442	30,844,412
USA and Canada	8,707,036	8,378,067	13,190,193	30,275,296
Other European Union Countries	2,079,196	—	8,654,970	10,734,166
Middle East	66,026	1,854,783	10,145	1,930,954
Oceania	523,802	—	2,788	526,590
	₱592,869,509	₱275,998,686	₱201,595,838	₱1,070,464,033

*Loans and receivables exclude residual value of the leased asset (Note 10)

** Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)

	Consolidated			
	2021			
	Loans and receivables*	Trading and investment securities	Other financial assets**	Total
Philippines	₱556,478,910	₱200,906,568	₱176,809,453	₱934,194,931
Asia (excluding the Philippines)	29,779,159	43,636,805	39,214,150	112,630,114
USA and Canada	8,201,937	18,728,426	16,566,107	43,496,470
United Kingdom	1,820,209	5,318,234	2,476,726	9,615,169
Other European Union Countries	8,356,214	20,757	1,062,066	9,439,037
Middle East	924,033	—	144,953	1,068,986
Oceania	668,423	—	3,323	671,746
	₱606,228,885	₱268,610,790	₱236,276,778	₱1,111,116,453

*Loans and receivables exclude residual value of the leased asset. (Note 10)

** Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)



Parent Company				
2022				
	Loans and receivables	Trading and investment securities	Other financial assets*	Total
Philippines	₱550,597,430	₱236,170,294	₱122,538,534	₱909,306,258
Asia (excluding the Philippines)	14,013,140	21,911,976	28,306,396	64,231,512
United Kingdom	2,091,414	6,554,432	21,273,903	29,919,749
USA and Canada	8,624,015	8,238,785	12,349,620	29,212,420
Other European Union Countries	2,079,196	—	7,132,780	9,211,976
Middle East	66,026	1,854,783	9,567	1,930,376
Oceania	523,797	—	—	523,797
	₱577,995,018	₱274,730,270	₱191,610,800	₱1,044,336,088

*Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)

Parent Company				
2021				
	Loans and receivables	Trading and investment securities	Other financial assets*	Total
Philippines	₱554,890,216	₱200,470,439	₱178,478,647	₱933,839,302
Asia (excluding the Philippines)	17,701,682	43,633,794	30,201,697	91,537,173
USA and Canada	8,139,898	18,600,477	14,972,087	41,712,462
United Kingdom	8,356,214	5,159,055	1,723,570	15,238,839
Other European Union Countries	1,818,298	20,757	1,033,728	2,872,783
Middle East	924,033	—	144,953	1,068,986
Oceania	668,420	—	—	668,420
	₱592,498,761	₱267,884,522	₱226,554,682	₱1,086,937,965

*Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)

Concentration by industry

The tables below show the industry sector analysis of financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements.

Consolidated				
2022				
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
Primary target industry:				
Financial intermediaries	₱119,769,773	₱19,521,101	₱73,230,975	₱212,521,849
Wholesale and retail	87,945,351	—	—	87,945,351
Electricity, gas and water	77,714,165	9,306,111	—	87,020,276
Manufacturing	59,847,311	166,728	—	60,014,039
Transport, storage and communication	40,563,305	—	50	40,563,355
Agriculture, hunting and forestry	5,192,944	—	—	5,192,944
Public administration and defense	1,626,592	—	—	1,626,592
Secondary target industry:				
Government	2,794,558	196,640,202	127,597,960	327,032,720
Real estate, renting and business activities	92,957,909	14,283,283	13,884	107,255,076
Construction	27,005,540	—	—	27,005,540
Others**	77,452,061	36,081,261	752,969	114,286,291
	₱592,869,509	₱275,998,686	₱201,595,838	₱1,070,464,033

*Loans and receivables exclude residual value of the leased asset (Note 10)

**Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

***Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)



Consolidated				
2021				
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
Primary target industry:				
Financial intermediaries	₱126,158,573	₱43,483,287	₱53,561,402	₱223,203,262
Wholesale and retail	86,433,023	—	—	86,433,023
Electricity, gas and water	72,426,116	10,302,995	—	82,729,111
Transport, storage and communication	51,693,269	4,045	—	51,697,314
Manufacturing	46,914,627	129,678	—	47,044,305
Agriculture, hunting and forestry	8,271,048	—	—	8,271,048
Public administration and defense	6,409,301	—	—	6,409,301
Secondary target industry:				
Government	4,240,406	159,000,735	182,319,161	345,560,302
Real estate, renting and business activities	95,267,868	13,729,541	—	108,997,409
Construction	26,281,431	—	—	26,281,431
Others**	82,133,223	41,960,509	396,215	124,489,947
	₱606,228,885	₱268,610,790	₱236,276,778	₱1,111,116,453

*Loans and receivables exclude residual value of the leased asset (Note 10)

**Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

***Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)

Parent Company				
2022				
	Loans and receivables	Trading and investment securities	Other financial assets**	Total
Primary target industry:				
Financial intermediaries	₱119,250,013	₱19,518,028	₱63,259,871	₱202,027,912
Wholesale and retail	82,372,415	—	—	82,372,415
Electricity, gas and water	77,715,031	9,306,111	—	87,021,142
Manufacturing	57,490,538	164,780	—	57,655,318
Transport, storage and communication	39,696,751	—	—	39,696,751
Agriculture, hunting and forestry	5,031,731	—	—	5,031,731
Public administration and defense	1,626,592	—	—	1,626,592
Secondary target industry:				
Government	2,770,555	196,519,177	127,597,960	326,887,692
Real estate, renting and business activities	89,266,907	13,141,082	—	102,407,989
Construction	26,938,899	—	—	26,938,899
Others*	75,835,586	36,081,092	752,969	112,669,647
	₱577,995,018	₱274,730,270	₱191,610,800	₱1,044,336,088

*Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

**Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15).



	Parent Company			
	2021			
	Loans and receivables	Trading and investment securities	Other financial assets**	Total
Primary target industry:				
Financial intermediaries	₱126,812,309	₱43,479,276	₱43,973,406	₱214,264,991
Wholesale and retail	82,109,030	—	—	82,109,030
Electricity, gas and water	72,421,660	10,302,995	—	82,724,655
Transport, storage and communication	50,883,391	—	—	50,883,391
Manufacturing	43,338,986	129,678	—	43,468,664
Agriculture, hunting and forestry	8,079,223	—	—	8,079,223
Public administration and defense	6,409,301	—	—	6,409,301
Secondary target industry:				
Government	4,240,406	158,886,167	182,319,161	345,445,734
Real estate, renting and business activities	91,680,656	13,126,066	—	104,806,722
Construction	26,020,918	—	—	26,020,918
Others*	80,502,881	41,960,340	262,115	122,725,336
	₱592,498,761	₱267,884,522	₱226,554,682	₱1,086,937,965

*Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

**Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15).

The internal limit of the Parent Company based on the Philippine Standard Industry Classification sub-industry is 12.00% for priority industry, 8.00% for regular industry, 30.00% for power industry and 25.00% for activities of holding companies versus total loan portfolio.

4.2.6 Credit Quality Per Class of Financial Assets

Loans and receivables

The segmentation of the Group's loan portfolio is based on the underlying risk characteristics that are expected to respond in a similar manner to macroeconomic factors and forward-looking conditions.

Generally, the Group's exposures can be categorized as either of the following:

- Non-Retail Portfolio – consists of debt obligations of sovereigns, financial institutions, corporations, partnerships, or proprietorships. In particular, the Group's Non-Retail Portfolio segments are as follows: Sovereigns, Financial Institutions, Specialized Lending (e.g., Project Finance), Large Corporates, Middle Market and Commercial SME, government-owned and controlled corporations and LGUs.
- Retail Portfolio – consists of exposures to individual person/s or to a small business, and are not usually managed on an individual basis but as groups of exposures with similar credit risk characteristics. This includes Credit Cards, Consumer Loans and Retail SME, among others.

The credit quality of the Non-Retail Portfolio is evaluated and monitored using external ratings and internal credit risk rating system. The Parent Company maintains a two-dimensional risk rating structure: that is, there is a borrower risk rating (BRR) and a facility risk rating (FRR).

The Group developed specific borrower rating models to capture specific and unique risk characteristics of each of the Non-Retail Portfolio segments. The BRR is measured based on financial condition of the borrower combined with an assessment of non-financial factors such as management, industry outlook and market competition. The BRR models captures overlays and early warning signals as well. The Group uses a single scale with 26 risk grades for all its BRR models. The 26-risk grade internal default masterscale is a representation of a common measure of relative



default risk associated with the obligors/counterparties. The internal default masterscale is mapped to a global rating scale.

FRR, on the other hand, assesses potential loss of the Group in case of default, which considers collateral type and level of collateralization of the facility. The FRR has 9 grades, i.e. FRR A to FRR I.

The CRR or final credit risk rating shall be expressed in alphanumeric terms, e.g. CRR 1A which is a combination of the general creditworthiness of the borrower (BRR 1) and the potential loss of the Group in the event of the borrower's default (FRR A).

The credit quality and corresponding BRRs of the Group's receivables from customers are defined below:

Credit quality	26-Grade BRR system
High S&P Equivalent Global Rating: AAA to BBB-	<i>BRR 1 Excellent</i> Borrower has an exceptionally strong capacity to meet its financial commitments. No existing disruptions or future disruptions are highly unlikely. Probability of going into default in the coming year is very minimal/low. <i>BRR 2 Very Strong</i> Borrower has a very strong capacity to meet its financial commitments. No existing disruptions or future disruptions are unlikely. It differs from BRR 1 borrowers only to a small degree. Probability of going into default in the coming year is very minimal/low. <i>BRR 3 Strong</i> Borrower has a strong capacity to meet its financial commitments. No existing disruptions or future disruptions are unlikely. However, adverse economic conditions or changing circumstances could lead to somewhat lesser capacity to meet financial obligations than in higher-rated borrowers. Probability of going into default in the coming year is very minimal/low. <i>BRR 4-6 Good</i> Borrower has an adequate capacity to meet its financial commitments in the normal course of its business. With identified disruptions from external factors but company has or will likely overcome. Default possibility is minimal/low. <i>BRR 7-9 Satisfactory</i> Borrower under this rating scale basically possesses the characteristics of borrowers rated as BRR 4 to BRR 6 with slightly lesser quality. Default possibility is minimal/low. <i>BRR 10-12 Adequate</i> Borrower has an adequate capacity to meet its financial commitments under the normal course of business. However, adverse economic conditions and changing circumstances are more likely to weaken the borrower's capacity to meet its financial commitments. Default possibility is minimal/low.
Standard S&P Equivalent Global Rating: BB+ to BB-	<i>BRR 13-15 Average</i> Borrower still has the capacity to meet its financial commitments and withstand normal business cycles, however, any prolonged unfavorable economic and/or market conditions would create an immediate deterioration beyond acceptable levels. With identified disruptions from external forces, impact on the borrower is uncertain. Default is a possibility. <i>BRR 16-18 Acceptable</i> Borrower under this rating scale basically possesses the characteristics of borrowers rated as BRR 13 to BRR 15 with slightly lesser quality. Default is a possibility. <i>BRR 19-20 Vulnerable</i> Borrower is less vulnerable in the near term than other low-rated borrowers. However, it faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the borrower's inadequate capacity to meet its financial commitment. Default is a possibility



Credit quality	26-Grade BRR system
Substandard S&P Equivalent Global Rating: B+ to CCC-	<i>BRR 21-22 Weak</i> Borrower is more vulnerable than the borrowers rated BRR 19 and BRR 20 but the borrower 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 commitments. Default is more than a possibility. <i>BRR 23-25 Watchlist</i> Borrower is currently vulnerable and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments. Borrower may already be experiencing losses and impaired capital in the case of BRR 25.
Impaired S&P Equivalent Global Rating: D	<i>BRR 26 Default</i> Default will be a general default. Borrower will fail to pay all or substantially all of its obligations as they come due.

For the Retail Portfolio, such as Retail SME, Credit Cards, Housing and Auto Loans, credit scoring is being used in evaluating the creditworthiness of the borrower.

The table below shows the credit quality of the Group's and the Parent Company's receivables from customers, gross of allowance for credit losses and unearned and other deferred income, but net of residual values of leased assets, as of December 31, 2022 and 2021:

	Consolidated			
	2022			
	Stage 1	Stage 2	Stage 3	Total
Subject to CRR				
Non-Retail – Corporate				
High	₱210,563,413	₱–	₱–	₱210,563,413
Standard	198,909,684	30,731,562	–	229,641,246
Substandard	29,953,399	31,163,671	–	61,117,070
Impaired	–	–	26,950,431	26,950,431
	439,426,496	61,895,233	26,950,431	528,272,160
Subject to Scoring and Unrated				
Non-Retail	2,849,194	11,760,556	1,183,962	15,793,712
Corporate	95,980	11,723,793	1,118,268	12,938,041
LGU	2,753,214	36,763	65,694	2,855,671
Retail	41,072,586	1,411,135	13,920,882	56,404,603
Auto Loans	4,955,770	102,179	1,970,279	7,028,228
Housing Loans	18,930,297	643,627	9,015,408	28,589,332
Retail SME	4,029,128	349,415	2,025,819	6,404,362
Credit Card	13,157,391	315,914	909,376	14,382,681
Others	9,376,862	1,546,960	1,987,431	12,911,253
	53,298,642	14,718,651	17,092,275	85,109,568
	₱492,725,138	₱76,613,884	₱44,042,706	₱613,381,728

	Consolidated			
	2021			
	Stage 1	Stage 2	Stage 3	Total
Subject to CRR				
Non-Retail – Corporate				
High	₱213,838,798	₱–	₱–	₱213,838,798
Standard	212,873,427	3,844,270	–	216,717,697
Substandard	40,871,799	21,006,283	–	61,878,082
Impaired	–	–	53,190,550	53,190,550
	467,584,024	24,850,553	53,190,550	545,625,127

(Forward)



	Consolidated			
	2021			
	Stage 1	Stage 2	Stage 3	Total
Subject to Scoring and Unrated				
Non-Retail	₱10,135,795	₱157,989	₱2,366,325	₱12,660,109
Corporate	5,919,463	109,747	2,298,527	8,327,737
LGU	4,216,332	48,242	67,798	4,332,372
Retail	42,972,853	1,081,229	18,382,820	62,436,902
Auto Loans	5,942,501	162,915	2,733,492	8,838,908
Housing Loans	20,002,043	486,743	10,428,593	30,917,379
Retail SME	6,559,372	162,158	2,802,140	9,523,670
Credit Card	10,468,937	269,413	2,418,595	13,156,945
Others	7,520,493	377,111	1,197,669	9,095,273
	60,629,141	1,616,329	21,946,814	84,192,284
	₱528,213,165	₱26,466,882	₱75,137,364	₱629,817,411

	Parent Company			
	2022			
	Stage 1	Stage 2	Stage 3	Total
Subject to CRR				
Non-Retail - Corporate				
High	₱208,384,303	₱—	₱—	₱208,384,303
Standard	189,504,524	30,731,541	—	220,236,065
Substandard	29,953,399	31,143,373	—	61,096,772
Impaired	—	—	27,951,509	27,951,509
	427,842,226	61,874,914	27,951,509	517,668,649
Subject to Scoring and Unrated				
Non-Retail	2,759,254	11,758,770	1,099,592	15,617,616
Corporate	6,040	11,722,007	1,033,898	12,761,945
LGU	2,753,214	36,763	65,694	2,855,671
Retail	39,685,909	1,376,404	12,960,913	54,023,226
Auto Loans	4,955,770	102,179	1,970,279	7,028,228
Housing Loans	18,020,708	640,238	9,002,446	27,663,392
Retail SME	3,552,040	318,073	1,078,812	4,948,925
Credit Card	13,157,391	315,914	909,376	14,382,681
Others	9,284,464	1,546,960	1,987,432	12,818,856
	51,729,627	14,682,134	16,047,937	82,459,698
	₱479,571,853	₱76,557,048	₱43,999,446	₱600,128,347

	Parent Company			
	2021			
	Stage 1	Stage 2	Stage 3	Total
Subject to CRR				
Non-Retail - Corporate				
High	₱212,114,805	₱—	₱—	₱212,114,805
Standard	206,430,322	3,776,903	—	210,207,225
Substandard	40,763,415	20,989,666	—	61,753,081
Impaired	—	—	52,982,964	52,982,964
	459,308,542	24,766,569	52,982,964	537,058,075
Subject to Scoring and Unrated				
Non-Retail	10,135,795	157,989	2,366,325	12,660,109
Corporate	5,919,463	109,747	2,298,527	8,327,737
LGU	4,216,332	48,242	67,798	4,332,372
Retail	40,728,876	972,564	16,728,621	58,430,061
Auto Loans	5,942,501	162,915	2,733,492	8,838,908
Housing Loans	19,117,763	486,743	10,417,573	30,022,079
Retail SME	5,199,675	53,493	1,158,961	6,412,129
Credit Card	10,468,937	269,413	2,418,595	13,156,945
Others	6,067,892	374,035	1,173,741	7,615,668
	56,932,563	1,504,588	20,268,687	78,705,838
	₱516,241,105	₱26,271,157	₱73,251,651	₱615,763,913



The analysis of past due status of receivables from customers that are subject to scoring and unrated follows:

Consolidated					
2022					
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Housing Loans	₱297,214	₱599,308	₱595,871	₱8,202,270	₱9,694,663
Auto Loans	60,850	74,690	65,801	1,869,429	2,070,770
Retail SME	61,162	21,090	47,949	1,814,702	1,944,903
Credit Card	1,455	102,596	233,163	630,629	967,843
LGU	7,650	—	—	58,044	65,694
Others	719,429	108,294	49,980	1,254,343	2,132,046
Total	₱1,147,760	₱905,978	₱992,764	₱13,829,417	₱16,875,919

Consolidated					
2021					
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Housing Loans	₱463,159	₱365,760	₱798,478	₱9,453,732	₱11,081,129
Auto Loans	106,552	111,726	179,743	2,499,658	2,897,679
Retail SME	292,832	147,427	72,810	965,495	1,478,564
Credit Card	2,338	76,839	263,944	2,092,666	2,435,787
LGU	—	—	—	24,916	24,916
Others	247,220	107,395	111,504	1,542,905	2,009,024
Total	₱1,112,101	₱809,147	₱1,426,479	₱16,579,372	₱19,927,099

Parent Company					
2022					
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Housing Loans	₱296,922	₱594,491	₱566,398	₱8,176,282	₱9,634,093
Auto Loans	60,850	74,690	65,801	1,869,429	2,070,770
Retail SME	61,162	15,774	37,869	968,460	1,083,265
Credit Card	1,455	102,596	233,163	630,629	967,843
LGU	7,650	—	—	58,044	65,694
Others	712,413	107,503	38,672	1,163,289	2,021,877
Total	₱1,140,452	₱895,054	₱941,903	₱12,866,133	₱15,843,542

Parent Company					
2021					
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Housing Loans	₱352,533	₱361,041	₱794,227	₱9,403,925	₱10,911,726
Auto Loans	106,552	111,726	179,743	2,499,658	2,897,679
Retail SME	197,544	133,337	70,980	797,201	1,199,062
Credit Card	2,338	76,839	263,944	2,092,666	2,435,787
LGU	—	—	—	24,916	24,916
Others	231,381	103,750	98,761	1,542,905	1,976,797
Total	₱890,348	₱786,693	₱1,407,655	₱16,361,271	₱19,445,967

Trading and investment securities and other financial assets

In ensuring quality investment portfolio, the Group uses the credit risk rating based on the external ratings of eligible external credit rating institutions (i.e. Moody's Investors Service) as follows:

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



- A1 to A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.
- Baa1 and below - represents those investments which fall under any of the following grade:
 - Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.
 - Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.
 - B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.
 - Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.
 - Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
 - C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Below are the financial assets of the Group and the Parent Company, gross of allowance for credit losses, excluding receivables from customers, which are monitored using external ratings.

Consolidated 2022						
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
Due from BSP ^{1/}	₱—	₱—	₱—	₱—	₱94,701,360	₱94,701,360
Due from other banks	3,256,692	18,388,027	3,259,226	24,903,945	1,116,136	26,020,081
Interbank loans receivables	1,570,626	2,684,871	—	4,255,497	12,035,973	16,291,470
Securities held under agreements to resell	—	21,206,949	17,234,682	38,441,631	26,084,420	64,526,051
Financial assets at FVOCI						
Government securities	3,309,749	553,668	114,076,366	117,939,783	—	117,939,783
Private debt securities	590,542	251,592	159,681	1,001,815	14,429,055	15,430,870
Quoted equity securities	—	—	58,170	58,170	734,046	792,216
Unquoted equity securities	—	—	388,884	388,884	23,631,772	24,020,656
Investment securities at amortized cost						
Government securities	145,147	7,950,608	69,892,792	77,988,547	208,886	78,197,433
Private debt securities	—	8,876,965	1,158,512	10,035,477	26,082,900	36,118,377
Financial assets at amortized cost						
Loans and receivables - Others ^{2/}	—	—	—	—	19,188,611	19,188,611

^{1/} 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.

^{2/} Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).

Consolidated 2021						
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
Due from BSP ^{1/}	₱—	₱—	₱—	₱—	₱161,001,912	₱161,001,912
Due from other banks	3,266,569	17,609,563	4,274,418	25,150,550	2,082,125	27,232,675
Interbank loans receivables	1,839,737	24,081,833	1,223,976	27,145,546	4,967,121	32,112,667
Securities held under agreements to resell	—	—	—	—	15,800,317	15,800,317
Financial assets at FVOCI						
Government securities	6,881,673	2,789,153	110,623,588	120,294,414	159,179	120,453,593
Private debt securities	577,330	—	590,387	1,167,717	21,947,762	23,115,479
Quoted equity securities	—	—	48,170	48,170	621,415	669,585
Unquoted equity securities	—	—	406,151	406,151	23,342,482	23,748,633
Investment securities at amortized cost						
Government securities	127,949	200,705	33,747,889	34,076,543	56,751	34,133,294
Private debt securities	670,407	26,131,022	2,804,403	29,605,832	29,538,883	59,144,715
Financial assets at amortized cost						
Loans and receivables - Others ^{2/}	—	—	—	—	16,870,479	16,870,479

^{1/} 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.

^{2/} Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).



Parent Company						
2022						
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
Due from BSP ^{1/}	₱—	₱—	₱—	₱—	₱94,701,360	₱94,701,360
Due from other banks	961,707	15,816,731	154,079	16,932,517	676,730	17,609,247
Interbank loans receivables	—	2,684,871	0	2,684,871	12,051,241	14,736,112
Securities held under agreements to resell	—	21,206,949	17,234,682	38,441,631	26,084,420	64,526,051
Financial assets at FVOCI						
Government securities	2,938,253	553,668	114,168,823	117,660,744	—	117,660,744
Private debt securities	590,542	68	159,681	750,291	14,429,054	15,179,345
Quoted equity securities	—	—	—	—	734,046	734,046
Unquoted equity securities	—	—	—	—	23,631,772	23,631,772
Investment securities at amortized cost						
Government securities	5,865	7,950,608	69,892,792	77,849,265	208,886	78,058,151
Private securities	—	8,876,965	1,158,512	10,035,477	26,082,900	36,118,377
Financial assets at amortized cost						
Loans and receivables - Others ^{2/}	—	—	—	—	17,925,091	17,925,091

^{1/} 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.

^{2/} Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).

Parent Company						
2021						
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
Due from BSP ^{1/}	₱—	₱—	₱—	₱—	₱161,001,912	₱161,001,912
Due from other banks	895,156	16,724,931	130,917	17,751,004	1,582,869	19,333,873
Interbank loans receivables	—	24,081,833	1,223,976	25,305,809	4,996,525	30,302,334
Securities held under agreements to resell	—	—	—	—	15,800,317	15,800,317
Financial assets at FVOCI						
Government securities	6,881,673	2,789,153	110,796,148	120,466,974	—	120,466,974
Private debt securities	577,330	—	590,387	1,167,717	21,947,762	23,115,479
Quoted equity securities	—	—	—	—	621,415	621,415
Unquoted equity securities	—	—	—	—	23,342,482	23,342,482
Investment securities at amortized cost						
Government securities	—	200,705	33,747,889	33,948,594	56,751	34,005,345
Private securities	670,407	26,131,022	2,804,403	29,605,832	29,538,883	59,144,715
Financial assets at amortized cost						
Loans and receivables - Others ^{2/}	—	—	—	—	16,817,233	16,817,233

^{1/} 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.

^{2/} Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).

4.3 Liquidity Risk and Funding Management

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

The Group's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Group's business operations or unanticipated events created by customer behavior or capital market conditions. The Parent Company seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of available liquid assets. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the BOD. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities.



Liquidity is monitored by the Parent Company on a daily basis through the Global Markets Group. Likewise, the RMG monitors the static liquidity via the MCO under normal and stressed scenarios.

The table below shows the liquidity information of financial assets and financial liabilities which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

	Consolidated					Total
	2022					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	
Financial Assets						
COCI	₱22,217,915	₱–	₱–	₱–	₱–	₱22,217,915
Due from BSP and other banks	125,113,662	–	–	–	–	125,113,662
Interbank loans receivable	8,876,452	1,313,106	2,441,537	4,108,738	–	16,739,833
Securities held under agreements to resell	60,878,039	3,784,201	–	–	–	64,662,240
Financial assets at FVTPL:						
Government securities	199,530	1,080,139	296,110	1,053,949	6,650,083	9,279,811
Private debt securities	12,016	20,983	18,250	51,248	3,224,192	3,326,689
Equity securities	2,898	–	–	–	–	2,898
Derivative assets:						
Gross contractual receivable	40,036,455	7,664,954	10,332,430	3,259,807	15,337	61,308,983
Gross contractual payable	(39,050,764)	(7,542,887)	(10,098,003)	(3,240,344)	–	(59,931,998)
Financial assets at FVOCI:						
Government securities	87,743,403	3,614,649	9,339,616	9,486,786	141,544,530	251,728,984
Private debt securities	3,417,893	1,165,367	283,912	2,883,129	42,342,083	50,092,384
Equity securities	1,614,229	–	–	–	23,198,643	24,812,872
Investment securities at amortized cost						
Government securities	6,043,708	10,034,076	6,717,704	2,835,413	149,213,141	174,844,042
Private debt securities	1,243,241	6,416,993	11,655,875	10,450,844	37,189,899	66,956,852
Financial assets at amortized cost:						
Receivables from customers	95,928,952	75,907,926	32,255,624	14,027,383	528,529,464	746,649,349
Other receivables	7,226,808	903,926	1,587,116	786,924	8,683,837	19,188,611
Other assets	50,539	–	–	792	19,000	70,331
Total financial assets	₱421,554,976	₱104,363,433	₱64,830,171	₱45,704,669	₱940,610,209	₱1,577,063,458
Financial Liabilities						
Deposit liabilities:						
Demand	₱222,499,667	₱–	₱–	₱–	₱–	₱222,499,667
Savings *	359,730,732	–	–	–	–	359,730,732
Time and LTNCDS *	138,445,541	96,585,595	26,246,991	16,416,245	21,787,715	299,482,087
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	27,156,350	38,707,232	17,167,707	557,813	–	83,589,102
Gross contractual receivable	(26,737,134)	(38,304,103)	(16,951,759)	(556,330)	–	(82,549,326)
Bills and acceptances payable	8,334,542	3,571,275	30,000	43,936	3,145,035	15,124,788
Bonds payable	–	–	17,771,674	685,787	42,883,029	61,340,490
Accrued interest payable and accrued other expenses payable	2,996,291	146,218	167,140	59,077	480,280	3,849,006
Other liabilities	6,529,727	481,672	443,923	982,544	1,784,517	10,222,383
Total financial liabilities	₱738,955,716	₱101,187,889	₱44,875,676	₱18,189,072	₱70,080,576	₱973,288,929

* High-yield savings accounts are included under time deposits

	Consolidated					Total
	2021					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	
Financial Assets						
COCI	₱27,552,773	₱–	₱–	₱–	₱–	₱27,552,773
Due from BSP and other banks	198,068,292	–	–	–	–	198,068,292
Interbank loans receivable	19,805,605	10,715,908	1,067,495	568,146	–	32,157,154
Securities held under agreements to resell	15,802,951	–	–	–	–	15,802,951
Financial assets at FVTPL:						
Government securities	57,054	18,448	34,500	11,385,854	4,781,166	16,277,022
Private debt securities	12,277	18,030	188,283	55,245	4,094,719	4,368,554
Equity securities	5,045	–	–	–	–	5,045

(Forward)



Consolidated						
2021						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Derivative assets:						
Gross contractual receivable	₱61,532,251	₱14,897,286	₱7,910,369	₱4,589,910	₱13,210	₱88,943,026
Gross contractual payable	(60,680,112)	(14,704,947)	(7,645,129)	(4,534,606)	–	(87,564,794)
Financial assets at FVOCI:						
Government securities	78,745,484	4,636,909	3,109,299	1,613,622	148,755,225	236,860,539
Private debt securities	3,444,954	1,412,324	8,989,090	854,325	45,106,745	59,807,438
Equity securities	–	7,542	8,062	23,005,580	1,749,225	24,770,409
Investment securities at amortized cost						
Government securities	6,361,591	214,959	6,969,499	6,158,380	54,935,808	74,640,237
Private debt securities	5,269,632	2,317,994	25,944,968	33,115,292	61,667,118	128,315,004
Financial assets at amortized cost:						
Receivables from customers	90,898,111	79,057,653	45,428,175	19,183,146	528,783,731	763,350,816
Other receivables	5,775,560	193,692	749,201	163,276	9,785,849	16,667,578
Other assets	135,528	–	–	796	13,698	150,022
Total financial assets	₱452,786,996	₱98,785,798	₱92,753,812	₱96,158,966	₱859,686,494	₱1,600,172,066
Financial Liabilities						
Deposit liabilities:						
Demand	₱219,090,952	₱–	₱–	₱–	₱–	₱219,090,952
Savings *	332,014,541	–	–	–	–	332,014,541
Time and LTNCDs *	184,257,674	98,415,142	19,409,706	22,530,166	30,400,359	355,013,047
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	20,905,000	30,667,331	17,594,662	254,995	–	69,421,988
Gross contractual receivable	(20,620,440)	(30,260,033)	(17,395,227)	(254,871)	–	(68,530,571)
Bills and acceptances payable	35,960,884	12,411,424	1,155,713	2,419,107	1,038,240	52,985,368
Bonds payable	–	–	952,406	952,406	55,263,239	57,168,051
Accrued interest payable and accrued other expenses payable	1,380,858	419,761	439,484	74,873	421,666	2,736,642
Other liabilities	6,022,785	1,091,687	276,512	313,888	2,388,506	10,093,378
Total financial liabilities	₱779,012,254	₱112,745,312	₱22,433,256	₱26,290,564	₱89,512,010	₱1,029,993,396

* High-yield savings accounts are included under time deposits

Parent Company						
2022						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets						
COCI	₱22,103,095	₱–	₱–	₱–	₱–	₱22,103,095
Due from BSP and other banks	111,505,536	–	–	–	–	111,505,536
Interbank loans receivable	8,343,252	515,186	2,202,032	4,108,738	–	15,169,208
Securities held under agreements to resell	60,878,039	3,784,201	–	–	–	64,662,240
Financial assets at FVTPL:						
Government securities	199,530	1,080,139	296,110	1,053,949	6,650,083	9,279,811
Private debt securities	12,015	19,521	16,338	47,874	3,066,295	3,162,043
Equity securities	–	–	–	–	–	–
Derivative assets:						
Gross contractual receivable	40,036,392	7,664,843	10,330,480	3,259,807	15,337	61,306,859
Gross contractual payable	(39,050,764)	(7,542,887)	(10,098,003)	(3,240,344)	–	(59,931,998)
Financial assets at FVOCI:						
Government securities	87,589,100	3,614,649	9,331,816	9,478,986	141,160,507	251,175,058
Private debt securities	3,417,893	1,161,551	279,351	805,777	42,009,216	47,673,788
Equity securities	1,167,175	–	–	–	23,198,643	24,365,818
Investment securities at amortized cost:						
Government securities	6,043,708	10,034,076	6,717,704	2,834,979	149,073,174	174,703,641
Private debt securities	1,243,240	6,416,993	11,655,875	10,450,844	37,189,899	66,956,851
Financial assets at amortized cost:						
Receivables from customers	91,699,945	72,873,522	30,410,181	12,306,340	524,244,914	731,534,902
Other receivables	6,061,538	884,433	1,524,007	780,377	8,674,736	17,925,091
Other assets	49,981	–	–	–	1,479	51,460
Total financial assets	₱401,299,675	₱100,506,227	₱62,665,891	₱41,887,327	₱935,284,283	₱1,541,643,403
Financial Liabilities						
Deposit liabilities:						
Demand	₱221,728,550	₱–	₱–	₱–	₱–	₱221,728,550
Savings *	358,566,639	–	–	–	–	358,566,639
Time and LTNCDs *	136,408,742	94,156,313	23,621,363	16,100,141	21,651,079	291,937,638

(Forward)



Parent Company						
2022						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual receivable	₱27,156,350	₱38,707,232	₱17,167,707	₱557,813	₱—	₱83,589,102
Gross contractual payable	(26,737,134)	(38,304,103)	(16,951,759)	(556,312)	—	(82,549,308)
Bills and acceptances payable	7,298,446	3,565,575	23,537	43,936	3,100,957	14,032,451
Bonds payable	—	—	17,771,674	685,787	42,883,029	61,340,490
Accrued interest payable and accrued other expenses payable	3,017,246	136,048	161,180	1,283	478,314	3,794,071
Other liabilities	6,054,793	462,927	192,156	956,649	1,753,787	9,420,312
Total financial liabilities	₱733,493,632	₱98,723,992	₱41,985,858	₱17,789,297	₱69,867,166	₱961,859,945

* High-yield savings accounts are included under time deposits

Parent Company						
2021						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets						
COCI	₱27,454,459	₱—	₱—	₱—	₱—	₱27,454,459
Due from BSP and other banks	185,028,359	—	—	—	—	185,028,359
Interbank loans receivable	18,525,861	10,555,921	667,490	568,146	—	30,317,418
Securities held under agreements to resell	15,802,951	—	—	—	—	15,802,951
Financial assets at FVTPL:						
Government securities	57,054	18,448	34,500	11,385,854	4,781,166	16,277,022
Private debt securities	186	16,568	174,279	27,688	2,415,238	2,633,959
Equity securities	—	—	—	—	—	—
Derivative assets:						
Gross contractual receivable	61,530,679	14,896,451	7,909,765	4,589,910	13,210	88,940,015
Gross contractual payable	(60,680,112)	(14,704,947)	(7,645,129)	(4,534,606)	—	(87,564,794)
Financial assets at FVOCI:						
Government securities	78,586,305	4,636,909	3,109,299	1,613,622	148,755,225	236,701,360
Private debt securities	3,444,953	1,412,324	8,989,090	854,325	45,106,745	59,807,437
Equity securities	—	—	—	22,989,975	1,283,856	24,273,831
Investment securities at amortized cost:						
Government securities	6,361,583	214,935	6,969,499	6,040,436	54,925,559	74,512,012
Private debt securities	5,269,632	2,317,994	25,944,968	33,115,292	61,667,118	128,315,004
Financial assets at amortized cost:						
Receivables from customers	85,985,911	76,497,759	43,568,177	17,225,437	523,447,491	746,724,775
Other receivables	5,992,211	176,561	744,595	110,020	9,764,687	16,788,074
Other assets	134,840	—	—	—	1,502	136,342
Total financial assets	₱433,494,872	₱96,038,923	₱90,466,533	₱93,986,099	₱852,161,797	₱1,566,148,224

Financial Liabilities						
Deposit liabilities:						
Demand	₱218,277,561	₱—	₱—	₱—	₱—	₱218,277,561
Savings *	330,484,688	—	—	—	—	330,484,688
Time and LTNCDs *	191,793,693	96,312,545	16,617,361	22,101,239	30,269,130	357,093,968
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual receivable	20,904,918	30,667,331	17,594,655	254,995	—	69,421,899
Gross contractual payable	(20,620,440)	(30,260,033)	(17,395,227)	(254,853)	—	(68,530,553)
Bills and acceptances payable	35,960,884	12,204,336	741,537	1,590,756	647,075	51,144,588
Bonds payable	—	—	952,406	952,406	55,263,239	57,168,051
Accrued interest payable and accrued other expenses payable	1,355,922	417,706	436,059	60,189	419,695	2,689,571
Other liabilities	5,422,424	987,104	236,490	233,850	2,029,972	8,909,840
Total financial liabilities	₱783,579,650	₱110,328,989	₱19,183,281	₱24,938,582	₱88,629,111	₱1,026,659,613

* High-yield savings accounts are included under time deposits



4.3.1 BSP Reporting for Liquidity Positions and Leverage

To promote short-term resilience of banks' liquidity risk profile, BSP requires banks and other regulated entities to maintain:

- over a 30-calendar day horizon, an adequate level of unencumbered high-quality liquid assets (HQLA) that consist of cash or assets that can be converted into cash to offset the net cash outflows they could encounter under a liquidity stress scenario; and
- a stable funding profile in relation to the composition of their assets and off-balance sheet activities.

To monitor the liquidity levels, the Group computes for its Liquidity Coverage Ratio (LCR), which is the ratio of HQLA to the total net cash outflows. As of December 31, 2022 and 2021, LCR reported to the BSP with certain adjustments is shown in the table below:

	Consolidated		Parent Company	
	2022	2021	2022	2021
LCR	246.25%	188.31%	240.35%	177.54%

The Group also computes for its Net Stable Funding Ratio (NSFR), which is the ratio of the available stable funding to the required stable funding. Both LCR and NSFR should be maintained no lower than 100.00% on a daily basis under normal situations. As of December 31, 2022 and 2021, NSFR reported to the BSP with certain adjustments is shown in the table below (amounts, except ratios, are expressed in millions):

	Consolidated		Parent Company	
	2022	2021	2022	2021
Available stable funding	₱852,706	₱867,468	₱843,395	₱862,121
Required stable funding	621,402	630,819	621,765	639,013
NSFR	137.22%	137.51%	135.65%	134.91%

4.4 Market Risk

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institutions' overall portfolio. Market risk arises from market making, dealing, and position taking in interest rate, foreign exchange and equity markets. The succeeding sections provide discussion on the impact of market risk on the Parent Company's trading and structural portfolios.

4.4.1 Trading Market Risk

Trading market risk exists in the Parent Company as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. The Parent Company is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. For internal monitoring of the risks in the trading portfolio, the Parent Company uses the Value at Risk (VaR) as a primary risk measurement tool. It adopts both the Parametric VaR methodology and Historical Simulation Methodology (with 99.00% confidence level) to measure the Parent Company's trading market risk. Both the Parametric models and Historical Simulation models were validated by an external independent validator. Volatilities used in the parametric are updated on a daily basis and are based on historical data for a rolling 400-day period while yields and prices in the historical VaR approach are also updated daily. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to



the ALCO and ROC on a monthly basis. All risk reports discussed in the ROC meeting are noted by the BOD. The VaR figures are back tested to validate the robustness of the VaR model. Results of backtesting on a rolling one year period are reported also to the ROC.

The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The use of VaR has limitations because it is based on historical volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market movements may be under-estimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over- estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

VaR estimates the potential loss on the current portfolio assuming a specified time horizon and level of confidence at 99.00%. The use of a 99.00% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

The validity of the assumptions underlying the Parent Company's VaR models can only be checked by appropriate backtesting procedures. Backtesting is a formal statistical framework that consists of verifying that actual losses are within the projected VaR approximations. The Parent Company adopts both the clean backtesting and dirty backtesting approaches approach in backtesting. Clean backtesting, consists of comparing the VaR estimates with some hypothetical profit or loss (P&L) values of the portfolio, having kept its composition unchanged. In this case, the same portfolio is repriced or marked-to-market at the end of the time interval and the hypothetical P&L is then compared with the VaR. The other method, called dirty backtesting, consists of comparing the VaR estimates with the actual P&L values at the end of the time horizon. This method, however, may pose a problem if the portfolio has changed drastically because of trading activities between the beginning and the end of the time horizon since VaR models assume that the portfolio is "frozen" over the horizon. The Parent Company uses the regulatory 3-zone (green, yellow and red) boundaries in evaluating the backtesting results.

For the years 2022 and 2021, the number of observations which fell outside the VaR is within the allowable number of exceptions in the green and yellow zones to conclude that there is no problem with the quality and accuracy of the VaR models at 99.00% confidence level. Nonetheless, closer monitoring and regular review of the model's parameters and assumptions are being conducted.

To complement the VaR approximations, the Parent Company conducts stress testing on a quarterly basis, the results of which are being reported to the BOD. Scenarios used in the conduct of stress test are event driven and represent the worst one-off event of a specific risk factor. Results of stress testing are analyzed in terms of the impact to earnings and capital.

Since VaR is an integral part of the Parent Company's market risk management, VaR limits have been established annually for all financial trading activities and exposures. Calculated VaR compared against the VaR limits are monitored. Limits are based on the tolerable risk appetite of the Parent Company. VaR is computed on an undiversified basis; hence, the Parent Company does not consider the correlation effects of the three trading portfolios.



The tables below show the trading VaR (in millions):

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
December 29, 2022	₱1.98	₱130.50	₱0.00	₱132.48
Average Daily	6.77	161.09	0.00	167.09
Highest	25.45	889.57	0.00	895.51
Lowest	0.87	118.10	0.00	131.61

* FX VaR is the bankwide foreign exchange risk

** The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
December 29, 2021	₱3.67	₱87.21	₱42.28	₱133.17
Average Daily	6.93	401.78	39.50	448.21
Highest	24.90	670.75	48.48	701.79
Lowest	0.88	87.21	23.49	133.17

* FX VaR is the bankwide foreign exchange risk

** The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days

4.4.2 Non-Trading Market Risk

Interest rate risk

The Group seeks to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Interest margins may increase as a result of such changes but may be reduced or may create losses in the event that unexpected movements arise.

Repricing mismatches will expose the Group to interest rate risk. The Group measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of a “repricing gap” analysis using the repricing characteristics of its financial instrument positions tempered with approved assumptions. To evaluate earnings exposure, interest rate sensitive liabilities in each time band are subtracted from the corresponding interest rate assets to produce a “repricing gap” for that time band. The difference in the amount of assets and liabilities maturing or being repriced over a one year period would then give the Group an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Vice versa, positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

During a period of rising interest rates, a company with a positive gap is better positioned because the company’s assets are refinanced at increasingly higher interest rates increasing the net interest margin of the company over time. During a period of falling interest rates, a company with a positive gap would show assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

For risk management purposes, the loan accounts are assessed based on next repricing date, thus as an example, if a loan account is scheduled to reprice three years from year-end report date, slotting of the account will be based on the date of interest repricing. Deposits with no specific maturity dates are excluded in the one-year repricing gap except for the portion of volatile regular savings deposits which are assumed to be withdrawn during the one year period and assumed to be replaced by a higher deposit rate.



The Group uses the Earnings at Risk (EaR) methodology to measure the likely interest margin compression in case of adverse change in interest rates given the Group repricing gap. The repricing gap covering the one-year period is multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement. The Group BOD sets a limit on the level of EaR exposure tolerable to the Group. EaR exposure and compliance to the EaR limit is monitored monthly by the RMG and subject to a quarterly stress test.

The following table sets forth the repricing gap position of the Group and the Parent Company:

	Consolidated					
	2022					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱57,044,759	₱12,537,877	₱3,792,192	₱7,078,521	₱40,258,194	₱120,711,543
Interbank loans receivable and securities held under agreements to resell	69,845,933	4,825,901	2,118,690	4,023,440	—	80,813,964
Receivables from customers and other receivables - gross**	38,027,100	45,572,755	34,155,255	35,259,733	188,411,533	341,426,376
Total financial assets	₱164,917,792	₱62,936,533	₱40,066,137	₱46,361,694	₱228,669,727	₱542,951,883
Financial Liabilities*						
Deposit liabilities:						
Savings	₱114,430,938	₱82,873,557	₱27,876,786	₱50,253,238	₱244,506,016	₱519,940,535
Time***	57,117,230	30,218,746	11,043,959	9,460,545	4,272,828	112,113,308
Bonds payable	—	—	16,696,885	—	41,742,212	58,439,097
Bills and acceptances payable	9,382,521	3,640,490	17,418	369,964	1,569,980	14,980,373
Total financial liabilities	₱180,930,689	₱116,732,793	₱55,635,048	₱60,083,747	₱292,091,036	₱705,473,313
Repricing gap	(₱16,012,897)	(₱53,796,260)	(₱15,568,911)	(₱13,722,053)	(₱63,421,309)	(₱162,521,430)
Cumulative gap	(16,012,897)	(69,809,157)	(85,378,068)	(99,100,121)	(162,521,430)	

* Financial instruments that are not subject to repricing/rollforward were excluded

** Receivables from customers excludes residual value of leased assets (Note 10)

***Excludes LTNCD

	Consolidated					
	2021					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱125,574,144	₱12,580,589	₱4,001,191	₱7,196,019	₱38,758,402	₱188,110,345
Interbank loans receivable and securities held under agreements to resell	34,549,285	10,771,927	1,466,248	1,115,301	—	47,902,761
Receivables from customers and other receivables - gross**	128,716,224	64,304,858	18,404,771	30,948,461	103,944,768	346,319,082
Total financial assets	₱288,839,653	₱87,657,374	₱23,872,210	₱39,259,781	₱142,703,170	₱582,332,188
Financial Liabilities*						
Deposit liabilities:						
Savings	₱135,672,175	₱68,263,209	₱23,605,886	₱49,986,458	₱220,893,955	₱498,421,683
Time***	93,532,161	43,039,858	4,787,996	3,235,736	7,133,803	151,729,554
Bonds payable	—	—	—	—	53,383,421	53,383,421
Bills and acceptances payable	42,931,168	8,030,146	43,984	259,804	1,688,695	52,953,797
Total financial liabilities	₱272,135,504	₱119,333,213	₱28,437,866	₱53,481,998	₱283,099,874	₱756,488,455
Repricing gap	₱16,704,149	(₱31,675,839)	(₱4,565,656)	(₱14,222,217)	(₱140,396,704)	(₱174,156,267)
Cumulative gap	16,704,149	(14,971,690)	(19,537,346)	(33,759,563)	(174,156,267)	

* Financial instruments that are not subject to repricing/rollforward were excluded

** Receivables from customers excludes residual value of leased assets (Note 10)

***Excludes LTNCD



Parent Company						
2022						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱53,592,812	₱10,577,151	₱3,520,771	₱6,789,024	₱37,820,976	₱112,300,734
Interbank loans receivable and securities held under repurchase agreement	69,014,896	4,333,680	2,118,690	3,791,340	—	79,258,606
Receivable from customers and other receivables - gross**	38,027,100	45,572,755	34,155,255	35,259,733	188,411,533	341,426,376
Total financial assets	₱160,634,808	₱60,483,586	₱39,794,716	₱45,840,097	₱226,232,509	₱532,985,716
Financial Liabilities*						
Deposit liabilities:						
Savings	₱113,443,295	₱82,873,557	₱27,876,786	₱50,253,238	₱244,481,764	₱518,928,640
Time***	59,700,130	28,124,706	8,370,715	8,430,094	4,140,440	108,766,085
Bonds payable	—	—	16,696,885	—	41,742,212	58,439,097
Bills and acceptances payable	9,231,579	3,540,473	—	—	1,115,983	13,888,035
Total financial liabilities	₱182,375,004	₱114,538,736	₱52,944,386	₱58,683,332	₱291,480,399	₱700,021,857
Repricing gap	(₱21,740,196)	(₱54,055,150)	(₱13,149,670)	(₱12,843,235)	(₱65,247,890)	(₱167,036,141)
Cumulative gap	(21,740,196)	(75,795,346)	(88,945,016)	(101,788,251)	(167,036,141)	

* Financial instruments that are not subject to repricing/rollforward were excluded.

** Receivable from customers excludes residual value of leased assets (Note 10).

***Excludes LTNCD.

Parent Company						
2021						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱121,537,698	₱10,920,763	₱3,158,864	₱7,169,884	₱37,294,450	₱180,081,659
Interbank loans receivable and securities held under repurchase agreement	33,268,898	10,642,100	1,066,128	1,115,301	—	46,092,427
Receivable from customers and other receivables - gross**	128,716,224	64,304,858	18,404,771	30,948,461	103,944,768	346,319,082
Total financial assets	₱283,522,820	₱85,867,721	₱22,629,763	₱39,233,646	₱141,239,218	₱572,493,168
Financial Liabilities*						
Deposit liabilities:						
Savings	₱134,107,855	₱68,263,209	₱23,605,886	₱49,986,458	₱221,049,602	₱497,013,010
Time***	95,172,643	44,321,054	5,379,430	6,190,653	7,002,570	158,066,350
Bonds payable	—	—	—	—	53,383,421	53,383,421
Bills and acceptances payable	42,808,063	7,284,147	—	—	1,020,808	51,113,018
Total financial liabilities	₱272,088,561	₱119,868,410	₱28,985,316	₱56,177,111	₱282,456,401	₱759,575,799
Repricing gap	₱11,434,259	(₱34,000,689)	(₱6,355,553)	(₱16,943,465)	(₱141,217,183)	(₱187,082,631)
Cumulative gap	11,434,259	(22,566,430)	(28,921,983)	(45,865,448)	(187,082,631)	

* Financial instruments that are not subject to repricing/rollforward were excluded

** Receivables from customers excludes residual value of leased assets (Note 10)

***Excludes LTNCD

The following table sets forth, for the year indicated, the impact of changes in interest rates on the Group's and the Parent Company's repricing gap for the years ended December 31, 2022 and 2021:

Consolidated				
	2022		2021	
	Statement of Income	Equity	Statement of Income	Equity
+50bps	(₱352,749)	(₱352,749)	(₱75,953)	(₱75,953)
-50bps	352,749	352,749	75,953	75,953
+100bps	(705,498)	(705,498)	(151,907)	(151,907)
-100bps	705,498	705,498	151,907	151,907



	Parent Company			
	2022		2021	
	Statement of Income	Equity	Statement of Income	Equity
+50bps	(P372,994)	(P372,994)	(P118,226)	(P118,226)
-50bps	372,994	372,994	118,226	118,226
+100bps	(745,988)	(745,988)	(236,452)	(236,452)
-100bps	745,988	745,988	236,452	236,452

As one of the long-term goals in the risk management process, the Group has also implemented the adoption of the economic value approach in measuring the impact of the interest rate risk in the banking books to complement the earnings at risk approach using the modified duration approach. Cognizant of this requirement, the Group has undertaken the initial activities such as identification of the business requirement and design of templates for each account and the inclusion of this requirement in the Asset Liability Management business requirement definition.

Foreign currency risk

Foreign exchange is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financials and cash flows.

Foreign currency liabilities generally consist of foreign currency deposits in the Parent Company's FCDU books, accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Parent Company and foreign currency-denominated borrowings appearing in the regular books of the Parent Company.

Foreign currency deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, the Parent Company has additional foreign currency assets and liabilities in its foreign branch network.

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the Group is involved.

The table below summarizes the exposure to foreign exchange rate risk excluding those under the FCDU, categorized by currency (amounts in Philippine peso equivalent).

	Consolidated					
	2022			2021		
	USD	Others*	Total	USD	Others*	Total
Assets						
COCI and due from BSP	P84,087	P220,965	P305,052	P215,072	P493,719	P708,791
Due from other banks	15,808,462	6,252,360	22,060,822	14,159,849	4,403,189	18,563,038
Interbank loans receivable and securities held under agreements to resell	1,055,631	1,963,052	3,018,683	1,824,404	2,314,037	4,138,441
Loans and receivables	27,845,651	9,647,963	37,493,614	27,522,800	11,002,833	38,525,633
Financial assets at FVTPL	631	1,708	2,339	171,178	1,506	172,684
Financial assets at FVOCI	836,677	1,359,428	2,196,105	519,881	1,569,257	2,089,138
Investment securities at amortized cost	145,145	512,077	657,222	133,824	174,946	308,770
Other assets	123,263	1,119,773	1,243,036	5,819,720	1,223,698	7,043,418
Total assets	45,899,547	21,077,326	66,976,873	50,366,728	21,183,185	71,549,913

(Forward)



	Consolidated					
	2022			2021		
	USD	Others*	Total	USD	Others*	Total
Liabilities						
Deposit liabilities	₱8,239,094	₱7,994,078	₱16,233,172	₱8,006,094	₱7,778,145	₱15,784,239
Derivative liabilities				130	93	223
Bills and acceptances payable	11,984,358	16,950	12,001,308	49,117,805	276,958	49,394,763
Accrued interest payable	93,140	82,035	175,175	53,461	14,072	67,533
Other liabilities	26,256,370	2,199,950	28,456,320	1,115,069	2,211,066	3,326,135
Total liabilities	46,572,962	10,293,013	56,865,975	58,292,559	10,280,334	68,572,893
Net Exposure	(₱673,415)	₱10,784,313	₱10,110,898	(₱7,925,831)	₱10,902,851	₱2,977,020

* Other currencies include UAE Dirham (AED), Australia dollar (AUD), Bahrain dollar (BHD), Brunei dollar (BND), Canada dollar (CAD), Swiss franc (CHF), China Yuan (CNY), Denmark kroner (DKK), Euro (EUR), UK pound (GBP), Hong Kong dollar (HKD), Indonesia rupiah (IDR), Japanese yen (JPY), New Zealand dollar (NZD), Saudi Arabia riyal (SAR), Sweden kroner (SEK), Singapore dollar (SGD), South Korean won (SKW), Thailand baht (THB) and Taiwan dollar (TWD)

	Parent Company					
	2022			2021		
	USD	Others*	Total	USD	Others*	Total
Assets						
COCI and due from BSP	₱67,296	₱212,487	₱279,783	₱36,108	₱236,932	₱273,040
Due from other banks	10,753,272	1,465,566	12,218,838	8,612,030	1,123,695	9,735,725
Interbank loans receivable and securities held under agreements to resell	722,689	725,368	1,448,057	1,825,466	473,239	2,298,705
Loans and receivables	24,638,723	38,217	24,676,940	24,993,494	993,679	25,987,173
Financial assets at FVTPL	216	—	216	169,672	—	169,672
Financial assets at FVOCI	836,677	1,205,124	2,041,801	519,881	1,410,078	1,929,959
Investment securities at amortized cost	5,863	512,077	517,940	5,875	174,946	180,821
Other assets	11,811,574	—	11,811,574	17,127,983	—	17,127,983
Total assets	48,836,310	4,158,839	52,995,149	53,290,509	4,412,569	57,703,078
Liabilities						
Deposit liabilities	2,280,526	4,472,986	6,753,512	2,198,873	4,037,877	6,236,750
Derivative liabilities	—	—	—	37	—	37
Bills and acceptances payable	11,927,528	—	11,927,528	48,863,921	—	48,863,921
Accrued interest payable	86,968	408	87,376	48,907	262	49,169
Other liabilities	25,952,250	1,841,698	27,793,948	822,886	1,695,641	2,518,527
Total liabilities	40,247,272	6,315,092	46,562,364	51,934,624	5,733,780	57,668,404
Net Exposure	₱8,589,038	(₱2,156,253)	₱6,432,785	₱1,355,885	(₱1,321,211)	₱34,674

* Other currencies include AED, AUD, BHD, BND, CAD, CHF, CNY, DKK, EUR, GBP, HKD, IDR, JPY, NZD, PHP, SAR, SEK, SGD, SKW, THB and TWD

The exchange rates used to convert the Group and the Parent Company's US dollar-denominated assets and liabilities into Philippine peso were ₱55.76 to USD1.00 as of December 31, 2022 and ₱51.00 to USD1.00 as of December 31, 2021.

The following tables set forth the impact of the range of reasonably possible changes in the USD:PHP exchange rate on the Group and the Parent Company's income before income tax and equity (due to the revaluation of monetary assets and liabilities) for the years ended December 31, 2022 and 2021:

	2022			
	Consolidated		Parent Company	
	Statement of Income	Equity	Statement of Income	Equity
+1.00%	(₱15,101)	₱6,734	₱77,524	(₱85,890)
-1.00%	15,101	(6,734)	(77,524)	85,890

	2021			
	Consolidated		Parent Company	
	Statement of Income	Equity	Statement of Income	Equity
+1.00%	(₱84,457)	₱79,258	₱8,360	(₱13,559)
-1.00%	84,457	(79,258)	(8,360)	13,559

The Group and the Parent Company do not expect the impact of the volatility on other currencies to be material.



5. Fair Value Measurement

The Group uses the following methods and assumptions in estimating the fair value of its assets and liabilities:

Assets and Liabilities	Fair value methodologies
Cash equivalents	At carrying amounts due to their relatively short-term maturity
Derivatives	Based on either: • quoted market prices; • prices provided by independent parties; or • prices derived using acceptable valuation models
Debt securities	For quoted securities – based on market prices from debt exchanges For unquoted securities ¹ – estimated using either: • quoted market prices of comparable investments; or • discounted cash flow methodology
Equity securities	For quoted securities – based on market prices from stock exchanges For unquoted securities – estimated using either: • quoted market prices of comparable investments ²; or • adjusted net asset value method ³ and applying a discount for lack of marketability
Loans and receivables	For loans with fixed interest rates – estimated using the discounted cash flow methodology ⁴ For loans with floating interest rates – at their carrying amounts
Investment properties	Appraisal by independent external and in-house appraisers based on highest and best use of the property (i.e., current use of the properties) ⁵ using either: • market data approach ⁶; or • replacement cost approach ⁷
Short-term financial liabilities	At carrying amounts due to their relatively short-term maturity
Long-term financial liabilities	For quoted debt issuances – based on market prices from debt exchanges For unquoted debt issuances – estimated using the discounted cash flow methodology ⁸

Notes:

¹ using interpolated PHP BVAL rates provided by the Philippine Dealing and Exchange Corporation (for government securities) and PHP BVAL rates plus additional credit spread (for corporate/private securities)

² using the most relevant multiples (e.g., earnings, book value)

³ measures the company's value by adjusting the carrying value of its assets to their fair values, and then subtracting the fair value of its liabilities

⁴ using the current incremental lending rates for similar loans

⁵ considering other factors such as size, shape and location of the properties, price per square meter, reproduction costs new, time element, discount, among others

⁶ using recent sales of similar properties within the same vicinity and considering the economic conditions prevailing at the time of the valuations and comparability of similar properties sold

⁷ estimating the investment required to duplicate the property in its present condition

⁸ using the current incremental borrowing rates for similar borrowings



Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities:

- Level 1 - Quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to their fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level of input that is significant to their fair value measurement is unobservable

The Group and the Parent Company held the following assets and liabilities measured at fair value, and at cost but for which fair values are disclosed:

	Consolidated				
	2022				
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	₱4,371,671	₱27,009	₱4,344,662	₱—	₱4,371,671
Private debt securities	1,610,681	146,495	1,464,186	—	1,610,681
Derivative assets	1,361,951	—	1,361,951	—	1,361,951
Equity securities	2,898	2,898	—	—	2,898
Financial assets at FVOCI:					
Government securities	117,939,783	55,867,413	62,072,370	—	117,939,783
Equity securities	24,812,872	233,298	1,128,254	23,451,320	24,812,872
Private debt securities	15,430,870	244,224	15,186,646	—	15,430,870
	₱165,530,726	₱56,521,337	₱85,558,069	₱23,451,320	₱165,530,726
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	₱1,039,776	₱—	₱1,039,776	₱—	₱1,039,776
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost*	₱110,467,960	₱14,695,749	₱96,707,252	₱—	₱111,403,001
Receivables from customers**	578,120,332	—	—	610,493,878	610,493,878
	₱688,588,292	₱14,695,749	₱96,707,252	₱610,493,878	₱721,896,879
Nonfinancial Assets					
Investment property:					
Land***	₱12,508,051	₱—	₱—	₱29,868,859	₱29,868,859
Buildings and improvements***	1,286,935	—	—	3,510,670	3,510,670
	₱13,794,986	₱—	₱—	₱33,379,529	₱33,379,529
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	₱112,113,308	₱—	₱—	₱112,113,308	₱112,113,308
LTNCDs	19,130,012	—	18,922,562	—	18,922,562
Bonds payable	58,439,097	39,955,398	16,878,070	—	56,833,468
Bills payable	7,702,325	—	—	7,625,229	7,625,229
	₱197,384,742	₱39,955,398	₱35,800,632	₱119,738,537	₱195,494,567

* Net of expected credit losses (Note 9)

** Net of expected credit losses and unearned and other deferred income (Note 10)

*** Net of impairment losses (Note 13)



Consolidated					
2021					
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	₱7,956,013	₱3,309,163	₱4,646,850	₱—	₱7,956,013
Private debt securities	1,841,548	949,208	892,340	—	1,841,548
Derivative assets	1,365,051	—	1,365,051	—	1,365,051
Equity securities	5,045	5,045	—	—	5,045
Financial assets at FVOCI:					
Government securities	120,453,593	63,357,650	57,095,943	—	120,453,593
Equity securities	24,418,218	252,902	500,259	23,665,057	24,418,218
Private debt securities	23,115,479	10,175,734	12,939,745	—	23,115,479
	₱179,154,947	₱78,049,702	₱77,440,188	₱23,665,057	₱179,154,947
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	₱891,531	₱—	₱891,531	₱—	₱891,531
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost*	₱89,455,843	₱17,676,548	₱77,195,379	₱—	₱94,871,927
Receivables from customers**	593,615,093	—	—	627,304,434	627,304,434
	₱683,070,936	₱17,676,548	₱77,195,379	₱627,304,434	₱722,176,361
Nonfinancial Assets					
Investment property:					
Land***	₱9,582,916	₱—	₱—	₱26,914,713	₱26,914,713
Buildings and improvements***	1,152,980	—	—	3,030,859	3,030,859
	₱10,735,896	₱—	₱—	₱29,945,572	₱29,945,572
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	₱151,729,554	₱—	₱—	₱151,729,554	₱151,729,554
LTNCDs	28,245,390	—	28,314,622	—	28,314,622
Bonds payable	53,383,421	38,997,788	15,727,174	—	54,724,962
Bills payable	45,843,901	—	—	45,860,995	45,860,995
	₱279,202,266	₱38,997,788	₱44,041,796	₱197,590,549	₱280,630,133

* Net of expected credit losses (Note 9)

** Net of expected credit losses and unearned and other deferred income (Note 10)

*** Net of impairment losses (Note 13)

Parent Company					
2022					
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	₱4,371,671	₱27,008	₱4,344,663	₱—	₱4,371,671
Private debt securities	1,464,186	—	1,464,186	—	1,464,186
Derivative assets	1,359,828	—	1,359,828	—	1,359,828
Financial assets at FVOCI:					
Government securities	117,660,744	55,415,814	62,244,930	—	117,660,744
Equity securities	24,365,818	233,128	681,370	23,451,320	24,365,818
Private debt securities	15,179,345	244,224	14,935,121	—	15,179,345
	₱164,401,592	₱55,920,174	₱85,030,098	₱23,451,320	₱164,401,592
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	₱1,039,776	₱—	₱1,039,776	₱—	₱1,039,776

(Forward)



Parent Company					
2022					
	Carrying Value	Level 1	Level 2	Level 3	Total
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost					
Investment securities at amortized cost*	₱110,328,678	₱14,556,467	₱96,707,252	₱—	₱111,263,719
Receivables from customers**	564,069,218	—	—	596,443,214	596,443,214
	674,397,896	14,556,467	96,707,252	596,443,214	707,706,933
Nonfinancial Assets					
Investment property:					
Land***	₱11,953,099	₱—	₱—	₱29,264,637	₱29,264,637
Buildings and improvements***	1,311,721	—	—	3,316,776	3,316,776
	₱13,264,820	₱—	₱—	₱32,581,413	₱32,581,413
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	₱108,766,087	₱—	₱—	₱108,766,087	₱108,766,087
LTNCDs	19,130,012	—	18,922,562	—	18,922,562
Bonds payable	58,439,097	39,955,398	16,878,070	—	56,833,468
Bills payable	6,609,988	—	—	6,532,891	6,532,891
	₱192,945,184	₱39,955,398	₱35,800,632	₱115,298,978	₱191,055,008

* Net of expected credit losses (Note 9)

** Net of expected credit losses and unearned and other deferred income (Note 10)

*** Net of impairment losses (Note 13)

Parent Company					
2021					
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	₱7,956,013	₱3,309,163	₱4,646,850	₱—	₱7,956,013
Private debt securities	1,692,224	799,884	892,340	—	1,692,224
Derivative assets	1,362,041	—	1,362,041	—	1,362,041
Financial assets at FVOCI:					
Government securities	120,466,974	63,198,471	57,268,503	—	120,466,974
Equity securities	23,963,897	252,732	452,259	23,258,906	23,963,897
Private debt securities	23,115,479	10,175,734	12,939,745	—	23,115,479
	₱178,556,628	₱77,735,984	₱77,561,738	₱23,258,906	₱178,556,628
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	₱891,346	₱—	₱891,346	₱—	₱891,346
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost					
Investment securities at amortized cost*	₱89,327,894	₱17,548,599	₱77,195,379	₱—	₱94,743,978
Receivables from customers**	579,021,317	—	—	612,711,110	612,711,110
	₱668,349,211	₱17,548,599	₱77,195,379	₱612,711,110	₱707,455,088
Nonfinancial Assets					
Investment property:					
Land***	₱9,053,906	₱—	₱—	₱25,982,290	₱25,982,290
Buildings and improvements***	1,124,421	—	—	2,761,872	2,761,872
	₱10,178,327	₱—	₱—	₱28,744,162	₱28,744,162
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	₱158,066,350	₱—	₱—	₱158,066,350	₱158,066,350
LTNCDs	28,245,390	—	28,314,622	—	28,314,622
Bonds payable	53,383,421	38,997,788	15,727,174	—	54,724,962
Bills payable	44,003,122	—	—	44,020,216	44,020,216
	₱283,698,283	₱38,997,788	₱44,041,796	₱202,086,566	₱285,126,150

* Net of expected credit losses (Note 9)

** Net of expected credit losses and unearned and other deferred income (Note 10)

*** Net of impairment losses (Note 13)



As of December 31, 2022 and 2021, there were no transfers between Level 1 and Level 2 fair value measurements.

The following table summarizes the significant unobservable inputs used to calculate the fair value of Level 3 financial assets at FVOCI of the Group and the Parent Company as of December 31, 2022 and the range of values indicating the highest and lowest level input used in the valuation techniques.

	Significant Unobservable Input	2022		2021	
		-2%	+2%	-2%	+2%
Equity securities	Discount for lack of marketability	₱555,656	(₱555,656)	₱550,659	(₱550,659)

For certain unquoted equity securities, the Group imputes a discount for lack of marketability which is a valuation consideration often based on observed data and empirical evidence. Certain valuation studies suggest that private companies typically sell at lower transaction pricing multiples than similar public companies.

6. Segment Information

6.1 Business Segments

The Group's operating businesses are determined and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. The Group's business segments follow:

- Retail Banking - principally handling individual customer's deposits, and providing consumer type loans, credit card facilities and fund transfer facilities;
- Corporate Banking - principally handling loans and other credit facilities and deposit accounts for corporate and institutional customers;
- Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of Treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking; and
- Other Segments - include, but not limited to, trust, leasing, remittances and other support services. Other support services of the Group comprise of operations and finance.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is credited to or charged against business segments based on pool rate which approximates the marginal cost of funds.

For management purposes, business segment report is done on a quarterly basis. Business segment information provided to the BOD, the chief operating decision maker (CODM), is based on the reportorial requirements under the Regulatory Accounting Principles (RAP) of the BSP, which differ from PFRS due to the manner of provisioning for impairment and credit losses, measurement of investment properties, and the fair value measurement of financial instruments. The report submitted to CODM represents only the results of operation for each of the reportable segment.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.



Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment revenues pertain to the net interest margin and other operating income earned by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

The Group has no significant customer which contributes 10.00% or more of the consolidated revenue.

Business segment information of the Group follows:

2022						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱1,067,003	₱27,860,354	₱8,535,524	₱20,517	(₱155,828)	₱37,327,570
Inter-segment	20,436,564	(13,698,864)	(6,737,700)	—	—	—
Net interest margin after inter-segment transactions	21,503,567	14,161,490	1,797,824	20,517	(155,828)	37,327,570
Other income	5,008,794	8,159,543	(128,555)	3,629,778	(488,667)	16,180,893
Segment revenue	26,512,361	22,321,033	1,669,269	3,650,295	(644,495)	53,508,463
Other expenses	13,047,668	9,261,629	628,690	2,069,057	(644,495)	24,362,549
Segment result	₱13,464,693	₱13,059,404	₱1,040,579	₱1,581,238	₱—	29,145,914
Unallocated expenses						12,630,698
Income before income tax						16,515,216
Income tax						4,931,228
Net income						11,583,988
Non-controlling interests						51,670
Net income for the year attributable to equity holders of the Parent Company						₱11,532,318
Other segment information:						
Capital expenditures	₱166,520	₱26,621	₱19,998	₱9,628	₱—	₱222,767
Unallocated capital expenditure						1,205,888
Total capital expenditure						₱1,428,655
Depreciation and amortization	₱1,308,317	₱399,629	₱45,770	₱351,829	₱—	₱2,105,545
Unallocated depreciation and amortization						2,120,201
Total depreciation and amortization						₱4,225,746
Provision for (reversal of) impairment, credit and other losses	₱840,755	₱5,281,808	(₱8,104)	₱1,083,658	₱—	₱7,198,117

* The adjustments and eliminations column mainly represent the RAP to PFRS adjustments

2021						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱471,810	₱28,638,348	₱5,631,755	₱128,036	(₱25,122)	₱34,844,827
Inter-segment	17,316,847	(15,099,161)	(2,217,686)	—	—	—
Net interest margin after inter-segment transactions	17,788,657	13,539,187	3,414,069	128,036	(25,122)	34,844,827
Other income	4,774,488	325,327	1,071,713	36,632,015	399,445	43,202,988
Segment revenue	22,563,145	13,864,514	4,485,782	36,760,051	374,323	78,047,815
Other expenses	15,835,760	11,135,265	28,780	1,872,452	374,323	29,246,580
Segment result	₱6,727,385	₱2,729,249	₱4,457,002	₱34,887,599	₱—	48,801,235
Unallocated expenses						10,830,638
Income before income tax						37,970,597

(Forward)



2021						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Income tax						P5,545,194
Net income from continuing operations						32,425,403
Net income from discontinued operations						(735,365)
Net income						31,690,038
Non-controlling interests						59,412
Net income for the year attributable to equity holders of the Parent Company						P31,630,626
Other segment information:						
Capital expenditures	P253,520	P22,288	P47,096	P436,928	P-	P759,832
Unallocated capital expenditure						1,016,364
Total capital expenditure						P1,776,196
Depreciation and amortization	P810,644	P341,467	P21,707	P452,128	P-	P1,625,946
Unallocated depreciation and amortization						1,219,771
Total depreciation and amortization						P2,845,717
Provision for (reversal of) impairment, credit and other losses	P4,355,124	P8,171,174	(P600,974)	P953,687	P-	P12,879,011
2020						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	P103,187	P30,817,596	P4,802,612	P140,191	(P43,123)	P35,820,463
Inter-segment	17,402,385	(17,307,550)	(94,835)	-	-	-
Net interest margin after inter-segment transactions	17,505,572	13,510,046	4,707,777	140,191	(43,123)	35,820,463
Other income	3,431,422	2,194,121	3,976,885	1,252,087	(383,782)	10,470,733
Segment revenue	20,936,994	15,704,167	8,684,662	1,392,278	(426,905)	46,291,196
Other expenses	14,579,502	18,655,970	1,152,761	739,242	(426,905)	34,700,570
Segment result	P6,357,492	(P2,951,803)	P7,531,901	P653,036	P-	11,590,626
Unallocated expenses						11,042,209
Income before income tax						548,417
Income tax						(1,866,402)
Net income from continuing operations						2,414,819
Net income from discontinued operations						210,669
Net income						2,625,488
Non-controlling interests						10,835
Net income for the year attributable to equity holders of the Parent Company						P2,614,653
Other segment information:						
Capital expenditures	P631,935	P3,521	P12,986	P202,179	P-	P850,621
Unallocated capital expenditure						664,098
Total capital expenditure						P1,514,719
Depreciation and amortization	P949,266	P102,145	P3,281	P503,681	P-	P1,558,373
Unallocated depreciation and amortization						1,596,195
Total depreciation and amortization						P3,154,568
Provision for impairment, credit and other losses	P3,054,829	P13,223,352	P269,915	P334,525	P-	P16,882,621

* The adjustments and eliminations column mainly represent the RAP to PFRS adjustments



As of December 31, 2022						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱699,718,901	₱318,631,627	₱102,166,641	₱69,835,932	(₱45,196,025)	₱1,145,157,076
Unallocated assets						—
Total assets						₱1,145,157,076
Segment liabilities	₱680,567,910	₱227,645,082	₱21,889,505	₱93,262,996	(₱48,114,051)	₱975,251,442
Unallocated liabilities						—
Total liabilities						₱975,251,442

* The adjustments and eliminations column mainly represent the RAP to PFRS adjustments

As of December 31, 2021						
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱730,811,300	₱264,879,265	₱113,978,883	₱95,128,444	(₱21,793,763)	₱1,183,004,129
Unallocated assets						7,780,533
Total assets						₱1,190,784,662
Segment liabilities	₱726,607,402	₱214,925,795	₱15,636,431	₱85,879,581	(₱21,417,503)	₱1,021,631,706
Unallocated liabilities						7,930,000
Total liabilities						₱1,029,561,706

*The adjustments and eliminations column mainly represent the RAP to PFRS adjustments

6.2 Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in four principal geographical areas of the world. The distribution of assets, liabilities, credit commitments, capital expenditures, and revenues by geographic region of the Group follows:

	Non-current Assets*		Liabilities		Credit Commitments	
	2022	2021	2022	2021	2022	2021
Philippines	₱536,693,910	₱562,892,766	₱930,350,192	₱980,065,000	₱43,941,525	₱45,038,930
Asia (excluding Philippines)	18,796,243	21,098,989	33,199,104	39,749,446	—	—
USA and Canada	2,079,055	1,576,258	11,598,988	9,629,585	—	—
United Kingdom	797	1,002	103,158	117,675	—	—
	₱557,570,005	₱585,569,015	₱975,251,442	₱1,029,561,706	₱43,941,525	₱45,038,930

* Gross of allowance for impairment and credit losses (Note 16) and unearned and other deferred income (Note 10)

	Capital Expenditures			Revenues		
	2022	2021	2020	2022	2021	2020
Philippines	₱1,394,685	₱1,728,280	₱1,511,914	₱59,259,052	₱83,243,604	₱56,002,435
Asia (excluding Philippines)	33,178	45,649	1,726	1,221,488	1,561,499	867,185
USA and Canada	792	2,267	1,079	839,476	694,003	348,775
United Kingdom	—	—	—	105,279	106,259	202,787
	₱1,428,655	₱1,776,196	₱1,514,719	₱61,425,295	₱85,605,365	₱57,421,182

The Philippines is the home country of the Parent Company, which is also the main operating company. The Group offers a wide range of financial services as discussed in Note 1. Additionally, most of the remittance services are managed and conducted in Asia, Canada, USA and United Kingdom.

The areas of operations include all the primary business segments.



7. Due from Bangko Sentral ng Pilipinas

This account consists of:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Demand deposit (Note 17)	₱74,701,360	₱81,273,307	₱74,701,360	₱81,273,307
Term deposit facility (TDF)	20,000,000	79,728,605	20,000,000	79,728,605
	₱94,701,360	₱161,001,912	₱94,701,360	₱161,001,912

TDFs bear annual interest rates ranging from to 5.00% to 6.43% in 2022, from 1.50% to 1.88% in 2021 and 1.62% to 3.80% in 2020.

8. Interbank Loans Receivable and Securities Held Under Agreements to Resell

8.1 Interbank Loans Receivables

Interbank loans receivables of the Group and the Parent Company bear interest ranging from:

	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Peso-denominated	1.5% - 6.4%	1.0% - 2.0%	0.0% - 3.7%	1.5% - 6.4%	1.0% - 2.0%	0.0% - 3.7%
Foreign currency-denominated	0.4% - 5.3%	0.0% - 1.5%	0.0% - 2.2%	0.4% - 5.3%	0.0% - 1.5%	0.0% - 2.2%

The amount of the Group's and the Parent Company's interbank loans receivable considered as cash and cash equivalents follow:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Interbank loans receivable	₱16,291,470	₱32,112,667	₱14,736,112	₱30,302,334
Less: Allowance for credit losses (Note 16)	1,369	6,579	1,369	6,579
	16,290,101	32,106,088	14,734,743	30,295,755
Less: Interbank loans receivable not considered as cash and cash equivalents	6,507,649	1,652,710	5,910,030	1,253,379
	₱9,782,452	₱30,453,378	₱8,824,713	₱29,042,376

8.2 Securities Held Under Agreements to Resell

Securities held under agreements to resell bear interest ranging from 2.00% to 5.50%, from 1.50% to 2.50%, and from 2.00% to 3.25% in 2022, 2021 and 2020, respectively. As of December 31, 2022 and 2021, allowance for credit losses on securities held under agreements to resell amounted to ₱2.2 million and ₱3.6 million, respectively (refer to Note 16.2).

The fair value of the treasury bills pledged under these agreements as of December 31, 2022 and 2021 amounted to ₱64.3 billion and ₱16.0 billion, for the Group and the Parent Company (refer to Note 35).



8.3 Interest Income on Interbank Loans Receivable and Securities Held Under Agreements to Resell

In 2022, 2021 and 2020, interest income on interbank loans receivable and securities held under agreements to resell amounted to ₱954.6 million, ₱400.4 million, and ₱536.3 million, respectively, for the Group and ₱896.7 million, ₱348.2 million, and ₱478.5 million, respectively, for the Parent Company.

9. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Financial assets at FVTPL	₱7,347,201	₱11,167,657	₱7,195,685	₱11,010,278
Financial assets at FVOCI	158,183,525	167,987,290	157,205,907	167,546,350
Investment securities at amortized cost	110,467,960	89,455,843	110,328,678	89,327,894
	₱275,998,686	₱268,610,790	₱274,730,270	₱267,884,522

9.1 Financial Assets at FVTPL

This account consists of:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Government securities	₱4,371,671	₱7,956,013	₱4,371,671	₱7,956,013
Private debt securities	1,610,681	1,841,548	1,464,186	1,692,224
Derivative assets (Notes 23 and 35)	1,361,951	1,365,051	1,359,828	1,362,041
Equity securities	2,898	5,045	—	—
	₱7,347,201	₱11,167,657	₱7,195,685	₱11,010,278

The nominal interest rates of debt securities at FVTPL range from:

	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Government securities	1.4% - 8.0%	1.4% - 9.5%	2.6% - 8.0%	1.4% - 8.0%	1.4% - 9.5%	2.6% - 8.0%
Private debt securities	4.9% - 6.9%	4.9% - 6.9%	4.9% - 7.0%	4.9% - 6.9%	4.9% - 6.9%	4.9% - 7.0%

9.2 Financial Assets at FVOCI

This account consists of:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Government securities (Note 19)	₱117,939,783	₱120,453,593	₱117,660,744	₱120,466,974
Private debt securities (Note 19)	15,430,870	23,115,479	15,179,345	23,115,479
Equity securities				
Quoted	792,216	669,585	734,046	621,415
Unquoted (Note 33)	24,020,656	23,748,633	23,631,772	23,342,482
	₱158,183,525	₱167,987,290	₱157,205,907	₱167,546,350



Unquoted equity securities include the Parent Company's retained 49.00% interest in PNB Holdings Corporation (PNB Holdings) amounting to ₱23.2 billion and ₱23.0 billion as of December 31, 2022 and 2021, respectively (refer to Note 12.4). The fair value was determined using the adjusted net asset value method as discussed in Note 5. Further, the Parent Company applied 16.50% discount for lack of marketability by referring to a number of recent initial public offerings.

The effective interest rates of debt securities at FVOCI range from:

	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Government securities	0.2% - 26.2%	0.1% - 18.3%	0.2% - 18.3%	0.2% - 26.2%	0.1% - 18.3%	0.2% - 18.3%
Private debt securities	0.5% - 6.4%	0.4% - 6.9%	2.0% - 6.9%	0.5% - 6.4%	0.4% - 6.9%	2.0% - 6.9%

As of December 31, 2022 and 2021, the fair value of financial assets at FVOCI in the form of government bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreement transactions amounted to ₱2.5 billion and ₱32.8 billion, respectively (refer to Note 19.1). The counterparties have an obligation to return the securities to the Parent Company once the obligations have been settled. In case of default, the counterparties have the right to hold the securities and sell them as settlement of the repurchase agreement.

The movements in 'Net unrealized gains (losses) on financial assets at FVOCI' of the Group and the Parent Company are as follows:

	Consolidated		Parent Company	
	2022	2021	2021	2021
Balance at the beginning of the year	(₱703,737)	₱3,054,403	(₱703,737)	₱3,054,403
Changes in fair values:				
Debt securities	(5,808,581)	(1,696,025)	(5,799,196)	(1,673,631)
Equity securities	394,654	(21,809)	401,920	63,722
Provisions for (reversals of) credit losses (Note 16)	(12,566)	66,752	(12,069)	64,122
Realized losses (gains)	1,058,318	(1,540,192)	1,058,318	(1,540,192)
Share in net unrealized gains (losses) of subsidiaries and an associate (Note 12)	(885,481)	(558,030)	(902,788)	(663,471)
	(5,957,393)	(694,901)	(5,957,552)	(695,047)
Income tax effect (Note 30)	(1,882)	(8,836)	(1,723)	(8,690)
	(₱5,959,275)	(₱703,737)	(₱5,959,275)	(₱703,737)

As of December 31, 2022 and 2021, the allowance for credit losses on debt securities at FVOCI (included in 'Net unrealized gain (loss) on financial assets at FVOCI') amounted to ₱121.6 million and ₱134.2 million, respectively, for the Group, and ₱119.5 million and ₱131.5 million, respectively, for the Parent Company (refer to Note 16.2). Movements in ECL on debt securities at FVOCI are mostly driven by movements in the corresponding gross figures.



9.3 Investment Securities at Amortized Cost

This account consists of:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Government securities (Notes 19 and 32)	₱78,197,433	₱34,133,294	₱78,058,151	₱34,005,345
Private debt securities	36,118,377	59,144,715	36,118,377	59,144,715
	114,315,810	93,278,009	114,176,528	93,150,060
Less allowance for credit losses (Note 16)	3,847,850	3,822,166	3,847,850	3,822,166
	₱110,467,960	₱89,455,843	₱110,328,678	₱89,327,894

The effective interest rates of investment securities at amortized cost range from:

	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Government securities	0.8% - 7.5%	0.1% - 7.4%	0.1% - 7.8%	0.8% - 7.5%	0.1% - 7.4%	0.1% - 7.8%
Private debt securities	0.8% - 8.3%	0.4% - 6.9%	0.3% - 8.3%	0.8% - 8.3%	0.4% - 6.9%	0.3% - 8.3%

In 2022 and 2021, movements in allowance for expected credit losses on investment securities at amortized cost are mostly driven by newly originated assets which remained in Stage 1.

As of December 31, 2022 and 2021, the fair value of investment securities at amortized cost in the form of government bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions amounted to ₱5.5 billion and ₱5.6 billion, respectively, with corresponding carrying values of ₱5.5 billion and ₱5.3 billion, respectively (refer to Note 19.1). As of December 31, 2022 and 2021, government securities amounting to ₱1.6 billion are deposited with the BSP in compliance with trust regulations (refer to Note 32).

9.4 Interest Income on Investment Securities at Amortized Cost and FVOCI

This account consists of:

	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Continuing operations:						
Financial assets at FVOCI	₱4,442,846	₱2,698,223	₱2,453,720	₱4,432,605	₱2,698,419	₱2,407,180
Investment securities at amortized cost	3,712,076	3,265,371	3,750,255	3,710,487	3,264,195	3,748,623
	8,154,922	5,963,594	6,203,975	8,143,092	5,962,614	6,155,803
Discontinued operations (Note 36):						
Financial assets at FVOCI	—	11,135	38,756	—	—	—
Investment securities at amortized cost	—	8,695	43,478	—	—	—
	—	19,830	82,234	—	—	—
	₱8,154,922	₱5,983,424	₱6,286,209	₱8,143,092	₱5,962,614	₱6,155,803

9.5 Trading and Investment Securities Gains (Losses) - net

This account consists of:

	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Continuing operations:						
Financial assets at FVTPL						
Government securities	(₱146,580)	₱—	₱395,156	(₱146,580)	₱—	₱395,156
Private debt securities	(64,458)	(825,476)	561,385	(61,631)	(954,145)	673,706
Equity securities	(197)	2,323	(71,685)	—	—	(64,507)
Derivatives (Note 23)	—	(23,472)	(2,532)	—	(23,472)	(2,532)

(Forward)



	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Financial assets at FVOCI						
Government securities	P=	P1,510,133	P2,031,425	P=	P1,510,133	P2,031,425
Private debt securities	(1,058,318)	30,057	423,839	(1,058,318)	30,057	423,272
Equity securities	—	2	—	—	2	—
Investment securities at amortized cost	(11,230)	38,005	1	(11,230)	38,005	1
	(1,280,783)	731,572	3,337,589	(1,277,759)	600,580	3,456,521
Discontinued operations (Note 36):						
Financial assets at FVTPL						
Investment in unit investment trust funds (UITF)	—	—	43	—	—	—
Equity securities	—	—	7	—	—	—
Financial assets at FVOCI						
Government securities	—	—	8,829	—	—	—
Investment securities at amortized cost	—	—	294	—	—	—
	—	—	9,173	—	—	—
	(P1,280,783)	P731,572	P3,346,762	(P1,277,759)	P600,580	P3,456,521

Trading gains on investment securities at amortized cost pertain to investments which were redeemed by the respective issuers prior to their contractual maturity.

10. Loans and Receivables

10.1 Breakdown of Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Receivables from customers:				
Loans and discounts	P579,484,209	P597,979,601	P567,288,274	P586,259,980
Credit card receivables	14,382,681	13,156,945	14,382,681	13,156,945
Customers' liabilities on letters of credit and trust receipts	10,378,461	8,315,300	10,248,556	8,143,281
Customers' liabilities on acceptances (Note 19)	7,272,876	7,109,896	7,272,876	7,109,896
Bills purchased (Note 22)	1,220,029	1,364,543	935,960	1,087,961
Lease contracts receivable (Note 29)	873,878	2,615,992	—	5,850
	613,612,134	630,542,277	600,128,347	615,763,913
Less unearned and other deferred income	756,049	1,118,244	612,582	856,408
	612,856,085	629,424,033	599,515,765	614,907,505
Other receivables:				
Accrued interest receivable	6,911,100	6,053,656	6,807,292	5,962,235
Sales contract receivables	6,240,309	6,029,384	6,198,127	5,980,029
Accounts receivable	5,478,103	4,191,402	4,380,640	3,579,515
Miscellaneous	559,099	596,037	539,032	1,295,454
	19,188,611	16,870,479	17,925,091	16,817,233
	632,044,696	646,294,512	617,440,856	631,724,738
Less allowance for credit losses (Note 16)	38,944,781	39,340,761	39,445,838	39,225,977
	P593,099,915	P606,953,751	P577,995,018	P592,498,761

Included in 'Surplus reserves' is the amount of P4.2 billion and P4.5 billion as of December 31, 2022 and 2021, respectively, which pertains to the excess of 1.00% general loan loss provisions over the computed ECL for Stage 1 accounts as prescribed by BSP Circular 1011, *Guidelines on the Adoption of PFRS 9* (refer to Note 25.3).



Below is the reconciliation of loans and receivables as to classes:

	Consolidated								Total
	Corporate Loans	LGU	Credit Cards	Retail SMEs	Housing Loans	Auto Loans	Other Loans	Other Receivables	
Receivables from customers:									
Loans and discounts	₱523,188,581	₱2,855,671	₱-	₱ 5,688,129	₱28,589,332	₱7,028,228	₱12,134,268	₱-	₱579,484,209
Credit card receivables	-	-	14,382,681	-	-	-	-	-	14,382,681
Customers' liabilities on letters of credit and trust receipts	9,756,981	-	-	74,244	-	-	547,236	-	10,378,461
Customers' liabilities on acceptances (Note 19)	7,254,333	-	-	10,482	-	-	8,061	-	7,272,876
Lease contracts receivable (Note 29)	251,200	-	-	622,678	-	-	-	-	873,878
Bills purchased (Note 22)	989,512	-	-	8,829	-	-	221,688	-	1,220,029
	541,440,607	2,855,671	14,382,681	6,404,362	28,589,332	7,028,228	12,911,253	-	613,612,134
Other receivables:									
Accrued interest receivable	-	-	-	-	-	-	-	6,911,100	6,911,100
Sales contract receivables (Note 33)	-	-	-	-	-	-	-	6,240,309	6,240,309
Accounts receivable	-	-	-	-	-	-	-	5,478,103	5,478,103
Miscellaneous	-	-	-	-	-	-	-	559,099	559,099
	541,440,607	2,855,671	14,382,681	6,404,362	28,589,332	7,028,228	12,911,253	19,188,611	632,800,745
Less: Unearned and other deferred income	444,999	10,479	-	104,108	309	(62,106)	256,303	1,957	756,049
Allowance for credit losses (Note 16)	24,679,610	74,637	1,288,228	1,565,064	4,347,845	1,520,319	1,262,007	4,207,071	38,944,781
	₱516,315,998	₱2,770,555	₱13,094,453	₱4,735,190	₱24,241,178	₱5,570,015	₱11,392,943	₱14,979,583	₱593,099,915

	Consolidated								Total
	Corporate Loans	LGU	Credit Cards	Retail SMEs	Housing Loans	Auto Loans	Other Loans	Other Receivables	
Receivables from customers:									
Loans and discounts	₱537,441,467	₱4,332,372	₱-	₱7,551,964	₱30,917,379	₱8,838,908	₱8,897,511	₱-	₱597,979,601
Credit card receivables	-	-	13,156,945	-	-	-	-	-	13,156,945
Customers' liabilities on letters of credit and trust receipts	8,236,285	-	-	79,015	-	-	-	-	8,315,300
Customers' liabilities on acceptances (Note 19)	7,107,448	-	-	2,448	-	-	-	-	7,109,896
Lease contracts receivable (Note 29)	768,872	-	-	1,841,270	-	-	5,850	-	2,615,992
Bills purchased (Note 22)	1,123,658	-	-	48,973	-	-	191,912	-	1,364,543
	554,677,730	4,332,372	13,156,945	9,523,670	30,917,379	8,838,908	9,095,273	-	630,542,277
Other receivables:									
Accrued interest receivable	-	-	-	-	-	-	-	6,053,656	6,053,656
Sales contract receivables (Note 33)	-	-	-	-	-	-	-	6,029,384	6,029,384
Accounts receivable	-	-	-	-	-	-	-	4,191,402	4,191,402
Miscellaneous	-	-	-	-	-	-	-	596,037	596,037
	554,677,730	4,332,372	13,156,945	9,523,670	30,917,379	8,838,908	9,095,273	16,870,479	647,412,756
Less: Unearned and other deferred income	603,496	12,659	-	184,765	(190)	74,135	240,624	2,755	1,118,244
Allowance for credit losses (Note 16)	25,630,373	78,695	2,407,927	1,815,980	3,432,766	1,478,746	967,208	3,529,066	39,340,761
	₱528,443,861	₱4,241,018	₱10,749,018	₱7,522,925	₱27,484,803	₱7,286,027	₱7,887,441	₱13,338,658	₱606,953,751

	Parent Company								Total
	Corporate Loans	LGU	Credit Cards	Retail SMEs	Housing Loans	Auto Loans	Other Loans	Other Receivables	
Receivables from customers:									
Loans and discounts	₱512,843,742	₱2,855,671	₱-	₱4,855,370	₱27,663,392	₱7,028,228	₱12,041,871	₱-	₱567,288,274
Credit card receivables	-	-	14,382,681	-	-	-	-	-	14,382,681
Customers' liabilities on letters of credit and trust receipts	9,627,076	-	-	74,244	-	-	547,236	-	10,248,556
Customers' liabilities on acceptances (Note 19)	7,254,333	-	-	10,482	-	-	8,061	-	7,272,876
Bills purchased (Note 22)	705,443	-	-	8,829	-	-	221,688	-	935,960
	530,430,594	2,855,671	14,382,681	4,948,925	27,663,392	7,028,228	12,818,856	-	600,128,347
Other receivables:									
Accrued interest receivable	-	-	-	-	-	-	-	6,807,292	6,807,292
Sales contract receivables	-	-	-	-	-	-	-	6,198,127	6,198,127
Accounts receivable	-	-	-	-	-	-	-	4,380,640	4,380,640
Miscellaneous	-	-	-	-	-	-	-	539,032	539,032
	530,430,594	2,855,671	14,382,681	4,948,925	27,663,392	7,028,228	12,818,856	17,925,091	618,053,438
Less: Unearned and other deferred income	397,855	10,479	-	8,545	-	(62,106)	256,303	1,506	612,582
Allowance for credit losses (Note 16)	25,961,987	74,637	1,288,228	1,004,130	4,336,786	1,520,319	1,261,966	3,997,785	39,445,838
	₱504,070,752	₱2,770,555	₱13,094,453	₱3,936,250	₱23,326,606	₱5,570,015	₱11,300,587	₱13,925,800	₱577,995,018



	Parent Company								Total
	2021								
	Corporate Loans	LGU	Credit Cards	Retail SMEs	Housing Loans	Auto Loans	Other Loans	Other Receivables	
Receivables from customers:									
Loans and discounts	P529,367,021	P4,332,372	P-	P6,281,693	P30,022,079	P8,838,908	P7,417,907	P-	P586,259,980
Credit card receivables	-	-	13,156,945	-	-	-	-	-	13,156,945
Customers' liabilities on letters of credit and trust receipts	8,064,266	-	-	79,015	-	-	-	-	8,143,281
Customers' liabilities on acceptances (Note 19)	7,107,448	-	-	2,448	-	-	-	-	7,109,896
Lease contracts receivable (Note 29)	-	-	-	-	-	-	5,850	-	5,850
Bills purchased (Note 22)	847,077	-	-	48,973	-	-	191,911	-	1,087,961
	545,385,812	4,332,372	13,156,945	6,412,129	30,022,079	8,838,908	7,615,668	-	615,763,913
Other receivables:									
Accrued interest receivable	-	-	-	-	-	-	-	5,962,235	5,962,235
Sales contract receivables	-	-	-	-	-	-	-	5,980,029	5,980,029
Accounts receivable	-	-	-	-	-	-	-	3,579,515	3,579,515
Miscellaneous	-	-	-	-	-	-	-	1,295,454	1,295,454
	545,385,812	4,332,372	13,156,945	6,412,129	30,022,079	8,838,908	7,615,668	16,817,233	632,581,146
Less: Unearned and other deferred income	518,725	12,659	-	8,150	(190)	74,135	240,624	2,305	856,408
Allowance for credit losses (Note 16)	26,900,880	78,695	2,407,927	653,014	3,414,969	1,478,746	954,262	3,337,484	39,225,977
	P517,966,207	P4,241,018	P10,749,018	P5,750,965	P26,607,300	P7,286,027	P6,420,782	P13,477,444	P592,498,761

As of December 31, 2022, the Parent Company has completed the purchase of certain loans from PNB-Mizuho Leasing and Finance Corporation (PMLFC), a joint venture company owned by the Parent Company and Mizuho Leasing Co., Ltd., with a total amount of ₱116.3 million.

10.2 Lease Contract Receivables

An analysis of the Group's and the Parent Company's lease contract receivables follows:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Minimum lease payments				
Due within one year	₱446,485	₱1,232,961	₱—	₱5,850
Due beyond one year but not over five years	196,987	643,821	—	—
Due beyond five years	—	14,344	—	—
	643,472	1,891,126	—	5,850
Residual value of leased equipment				
Due within one year	107,634	505,784	—	—
Due beyond one year but not over five years	122,772	219,082	—	—
	230,406	724,866	—	—
Gross investment in lease contract receivables (Note 29)	₱873,878	₱2,615,992	₱—	₱5,850

10.3 Interest Income on Loans and Receivables

As of December 31, 2022 and 2021, 69.5% and 69.4%, respectively, of the total receivables from customers of the Group were subject to interest repricing. As of December 31, 2022 and 2021, 70.5% and 68.3%, respectively, of the total receivables from customers of the Parent Company were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.1% to 9.0% in 2022, from 1.0% to 9.0% in 2021 and from 1.1% to 9.0% in 2020 for foreign currency-denominated receivables, and from 1.1% to 31.5% in 2022, from 1.1% to 31.5% in 2021 and from 1.1% to 21.0% in 2020 for peso-denominated receivables.

Sales contract receivables bear fixed interest rates per annum ranging from 4.2% to 20.2% in 2022 and from 3.3% to 21.0% in 2021 and 2020.



11. Property and Equipment

11.1 Details of Property and Equipment

The composition of and movements in property and equipment follow:

Consolidated 2022								
	Land	Building	Furniture, Fixtures and Equipment	Long-term Leasehold Land	Construction in-progress	Leasehold Improvements	Right-of- Use Asset – Bank Premises (Note 33)	Total
Cost								
Balance at beginning of year	P5,143,242	P3,634,023	P8,719,235	P571,906	P378,559	P2,008,756	P5,390,721	P25,846,442
Additions	–	45,380	300,223	–	135,284	66,196	803,905	1,350,988
Disposals	(413)	–	(459,135)	–	–	–	–	(459,548)
Transfers/others	(1,647)	7,965	(158,870)	24,225	(195,456)	(164,710)	(367,364)	(855,857)
Balance at end of year	5,141,182	3,687,368	8,401,453	596,131	318,387	1,910,242	5,827,262	25,882,025
Accumulated Depreciation and Amortization								
Balance at beginning of year	–	2,053,670	5,558,050	62,882	–	1,885,809	1,644,824	11,205,235
Depreciation and amortization	–	182,676	1,117,484	5,769	–	160,907	1,205,712	2,672,548
Disposals	–	–	(386,208)	–	–	–	–	(386,208)
Transfers/others	–	16,828	(257,988)	11,186	–	(146,832)	(375,178)	(751,984)
Balance at end of year	–	2,253,174	6,031,338	79,837	–	1,899,884	2,475,358	12,739,591
Allowance for Impairment Losses (Note 16)	543,175	625,712	–	–	–	–	–	1,168,887
Net Book Value at End of Year	P4,598,007	P808,482	P2,370,115	P516,294	P318,387	P10,358	P3,351,904	P11,973,547

Consolidated 2021								
	Land	Building	Furniture, Fixtures and Equipment	Long-term Leasehold Land	Construction in-progress	Leasehold Improvements	Right-of- Use Asset – Bank Premises (Note 33)	Total
Cost								
Balance at beginning of year	P11,681,540	P7,306,064	P8,021,090	P558,206	P450,453	P1,831,386	P2,402,907	P32,251,646
Additions	–	52,562	958,466	–	21,483	88,230	3,352,354	4,473,095
Disposals	(6,903,931)	(4,996,308)	(227,513)	–	–	–	–	(12,127,752)
Transfers/others	365,633	1,271,705	(32,808)	13,700	(93,377)	89,140	(364,540)	1,249,453
Balance at end of year	5,143,242	3,634,023	8,719,235	571,906	378,559	2,008,756	P5,390,721	25,846,442
Accumulated Depreciation and Amortization								
Balance at beginning of year	–	3,539,412	4,729,038	51,455	–	1,707,836	1,176,303	11,204,044
Depreciation and amortization	–	377,186	1,000,213	5,362	–	191,025	564,168	2,137,954
Disposals	–	(2,313,920)	(129,362)	–	–	–	–	(2,443,282)
Transfers/others	–	450,992	(41,839)	6,065	–	(13,052)	(95,647)	306,519
Balance at end of year	–	2,053,670	5,558,050	62,882	–	1,885,809	1,644,824	11,205,235
Allowance for Impairment Losses (Note 16)	543,175	625,712	–	–	–	–	–	1,168,887
Net Book Value at End of Year	P4,600,067	P954,641	P3,161,185	P509,024	P378,559	P122,947	P3,745,897	P13,472,320

	Parent Company						
	2022						
	Land	Building	Furniture, Fixtures and Equipment	Construction in-progress	Leasehold Improvements	Right-of- Use Asset – Bank Premises (Note 33)	Total
Cost							
Balance at beginning of year	P5,143,242	P3,560,275	P6,647,669	P378,560	P1,902,569	P5,812,506	P23,444,821
Additions	–	45,380	289,121	135,284	66,196	803,905	1,339,886
Disposals	(413)	–	(233,905)	–	–	–	(234,318)
Transfers/others	(1,647)	4,479	(169,363)	(195,457)	(167,372)	(353,768)	(883,128)
Balance at end of year	5,141,182	3,610,134	6,533,522	318,387	1,801,393	6,262,643	23,667,261
Accumulated Depreciation and Amortization							
Balance at beginning of year	–	2,041,441	4,474,160	–	1,813,420	2,133,922	10,462,943
Depreciation and amortization	–	181,529	912,988	–	156,953	1,159,332	2,410,802
Disposals	–	–	(233,799)	–	–	–	(233,799)
Transfers/others	–	14,997	(255,263)	–	(169,815)	(350,524)	(760,605)
Balance at end of year	–	2,237,967	4,898,086	–	1,800,558	2,942,730	11,879,341
Allowance for Impairment Losses (Note 16)	543,175	625,712	–	–	–	–	1,168,887
Net Book Value at End of Year	P4,598,007	P746,455	P1,635,436	P318,387	P835	P3,319,913	P10,619,033



Parent Company							
2021							
	Land	Building	Furniture, Fixtures and Equipment	Construction in-progress	Leasehold Improvements	Right-of- Use Asset – Bank Premises (Note 33)	Total
Cost							
Balance at beginning of year	₱11,681,540	₱7,234,289	₱6,217,199	₱450,452	₱1,733,319	₱2,335,489	₱29,652,288
Additions	–	52,562	514,992	21,483	86,693	3,350,486	4,026,216
Disposals	(6,903,931)	(4,996,308)	(42,151)	–	–	–	(11,942,390)
Transfers/others	365,633	1,269,732	(42,371)	(93,375)	82,557	126,531	1,708,707
Balance at end of year	5,143,242	3,560,275	6,647,669	378,560	1,902,569	5,812,506	23,444,821
Accumulated Depreciation and Amortization							
Balance at beginning of year	–	3,529,281	3,797,886	–	1,645,854	1,103,399	10,076,420
Depreciation and amortization	–	376,090	764,403	–	184,959	510,723	1,836,175
Disposals	–	(2,313,920)	(42,105)	–	–	–	(2,356,025)
Transfers/others	–	449,990	(46,024)	–	(17,393)	519,800	906,373
Balance at end of year	–	2,041,441	4,474,160	–	1,813,420	2,133,922	10,462,943
Allowance for Impairment Losses (Note 16)	543,175	625,712	–	–	–	–	1,168,887
Net Book Value at End of Year	₱4,600,067	₱893,122	₱2,173,509	₱378,560	₱89,149	₱3,678,584	₱11,812,991

The total recoverable value of certain property and equipment of the Group and the Parent Company for which impairment loss has been recognized or reversed amounted to ₱1.2 billion as of December 31, 2022 and ₱1.5 billion as of December 31, 2021.

Certain property and equipment of the Parent Company with carrying amount of ₱75.6 million and ₱92.6 million are temporarily idle as of December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, property and equipment of the Parent Company with gross carrying amount of ₱12.6 billion are fully depreciated but are still being used.

Gain (loss) on disposal of property and equipment in 2022, 2021 and 2020 amounted to ₱34.9 million, ₱8.4 million, and ₱7.8 million, respectively, for the Group and ₱32.0 million, (₱0.8 million) and ₱1.3 million, respectively, for the Parent Company (refer to Note 26.2).

11.2 Depreciation and Amortization

This account consists of:

	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Continuing operations:						
Depreciation						
Property and equipment (Note 33)	₱2,672,548	₱2,137,954	₱2,322,515	₱2,410,802	₱1,836,175	₱1,897,919
Investment properties (Note 13)	152,917	76,575	259,128	128,095	55,337	167,536
Chattel mortgage properties	6,375	2,717	14,188	–	–	–
Amortization of intangible assets (Note 14)	1,393,906	628,471	558,737	1,370,523	607,559	541,814
	4,225,746	2,845,717	3,154,568	3,909,420	2,499,071	2,607,269
Discontinued operations (Note 36):						
Investment properties	–	42,450	711	–	–	–
Property and equipment	–	6,592	26,761	–	–	–
Intangible assets	–	–	2,101	–	–	–
	–	49,042	29,573	–	–	–
	₱4,225,746	₱2,894,759	₱3,184,141	₱3,909,420	₱2,499,071	₱2,607,269

11.3 Project Real Estate (Project RE)

On September 10, 2020, the Parent Company's BOD approved Project RE, which is the Parent Company's strategic plan to realize the market value of certain real estate properties with a total carrying value of ₱12.6 billion booked under 'Property and equipment' amounting to ₱8.4 billion and 'Investment property' amounting to ₱4.2 billion (refer to Note 13). Project RE aims to reduce the low-earning assets of the Parent Company to strengthen its financial position. As part of a series of



transactions which will be carried out to meet the objectives of Project RE, on September 25, 2020, the Parent Company's BOD approved the subscription of additional 466,770,000 shares of PNB Holdings with a par value of ₱100 per share, to be issued out of an increase in the authorized capital stock of PNB Holdings, at a subscription price of ₱100 per share in exchange for the above real estate properties (refer to Note 12.4).

12. Investments in Subsidiaries and an Associate

The consolidated financial statements of the Group include:

		Principal Place of Business/Country of Incorporation	Functional Currency	Percentage of Ownership	
	Industry			Direct	Indirect
Subsidiaries					
Allied Integrated Holdings, Inc. (AIHI)	Holding Company	Philippines	PHP	100.00	–
PNB Capital and Investment Corporation (PNB Capital)	Investment	- do -	PHP	100.00	–
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	PHP	100.00	–
PNB Corporation – Guam ^(a)	Remittance	USA	USD	100.00	–
PNB International Investments Corporation (PNB IIC)	Investment	- do -	USD	100.00	–
PNB Remittance Centers, Inc. (PNB RCI) ^(b)	Remittance	- do -	USD	–	100.00
PNB Remittance Co. (Nevada) ^(c)	Remittance	- do -	USD	–	100.00
PNB RCI Holding Co. Ltd. (PNB RHCL)	Holding Company	- do -	USD	–	100.00
PNB Remittance Co. (Canada) ^(d)	Remittance	Canada	CAD	–	100.00
PNB Europe PLC (PNB Europe)	Banking	United Kingdom	GBP	100.00	–
Allied Commercial Bank (ACB)	Banking	China	CNY	99.04	–
PNB-Mizuho Leasing and Finance Corporation (PMLFC)	Leasing/Financing	Philippines	PHP	75.00	–
PNB-Mizuho Equipment Rentals Corporation ^(e)	Rental	- do -	PHP	–	75.00
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	HKD	100.00	–
Allied Banking Corporation (Hong Kong) Limited (ABCHKL)	Banking	- do -	HKD	51.00	–
ACR Nominees Limited ^(f)	Service	- do -	HKD	–	51.00
Oceanic Holding (BVI) Ltd.	Holding Company	British Virgin Islands	USD	27.78	–
Associate					
Allianz-PNB Life Insurance, Inc. (APLII)	Insurance	Philippines	PHP	44.00	–

^(a) Ceased operations on June 30, 2012 and license status became dormant thereafter

^(b) Owned through PNB IIC

^(c) Owned through PNB RCI

^(d) Owned through PNB RHCL

^(e) Owned through PMLFC

^(f) Owned through ABCHKL

The details of this account follow:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Investment in Subsidiaries				
ACB	₱—	₱—	₱6,087,520	₱6,087,520
AIHI	—	—	3,435,041	10,935,041
PNB IIC	—	—	2,028,202	2,028,202
PNB Europe PLC	—	—	1,327,393	1,327,393
ABCHKL	—	—	947,586	947,586
PNB Capital	—	—	850,000	850,000
PNB GRF	—	—	753,061	753,061
PMLFC	—	—	481,943	481,943
OHBVI	—	—	291,841	291,841
PNB Securities	—	—	62,351	62,351
PNB Corporation – Guam	—	—	7,672	7,672
	—	—	16,272,610	23,772,610
Investment in an Associate – APLII	3,365,089	2,973,089	3,365,089	2,973,089
Accumulated equity in net earnings (losses) of subsidiaries and an associate:				
Balance at beginning of year	214,939	164,150	(237,283)	63,633
Equity in net earnings (losses) for the year	(56,060)	50,789	747,341	(650,134)
Cash dividends declared by a subsidiary	—	—	(792,000)	(300,000)
Effect of loss of control over PNB Holdings	—	—	—	616,231
Effect of disposal group classified as held for sale (Note 36)	—	—	—	32,987
	158,879	214,939	(281,942)	(237,283)

(Forward)



	Consolidated		Parent Company	
	2022	2021	2022	2021
Accumulated share in:				
Aggregate reserves (losses) on life insurance policies	₱136,096	(₱626,394)	₱136,096	(₱626,394)
Net unrealized losses on financial assets at FVOCI (Note 9)	(979,407)	(93,926)	(968,953)	(66,165)
Accumulated translation adjustments	—	—	1,770,747	1,381,305
Remeasurement gain on retirement plan	8,107	399	90,457	78,289
	(835,204)	(719,921)	1,028,347	767,035
	₱2,688,764	₱2,468,107	₱20,384,104	₱27,275,451

In 2002, the Parent Company underwent a quasi-reorganization which was approved by the SEC on November 7, 2002. As of December 31, 2022 and 2021, the acquisition cost of the investments in the Parent Company's separate financial statements includes the balance of ₱2.1 billion consisting of the translation adjustment and accumulated equity in net earnings, net of dividends subsequently received from the quasi-reorganization date, that were closed to deficit on restructuring date and are not available for dividend declaration.

12.1 Investment in AIHI (formerly PNB Savings Bank or PNBSB)

On March 1, 2020, the Parent Company acquired the assets and assumed the liabilities of PNBSB in exchange for cash, equivalent to the fair values of the net assets acquired. The Parent Company recognized the net assets of PNBSB at their carrying values, and the excess of the carrying values over the settlement price amounting to ₱390.5 million is accounted for as 'Other equity reserves' in the parent company financial statements. On March 5, 2020, PNBSB surrendered its banking license to the BSP.

On October 28, 2020, the BOD of PNBSB approved, among others, the change in the name of the corporation from "PNB Savings Bank" to "Allied Integrated Holdings, Inc." and the shortening of the corporation's term to December 31, 2022. On December 3, 2020, the Monetary Board (MB) of the BSP approved the conversion of PNBSB to a holding company and on February 23, 2021, the SEC approved the change of the corporate name.

On February 10, 2022, the SEC approved the decrease of AIHI's authorized capital stock from ₱15.0 billion divided into 149,975,000 common shares with par value of ₱100 each and 25,000 preferred shares with par value of ₱100 each to ₱3.0 billion divided into 30,000,000 common shares with par value of ₱100 each. Consequently, on February 18, 2022, out of the ₱10.5 billion subscribed and paid-up capital of the Parent Company in AIHI, the latter returned ₱7.5 billion to the Parent Company.

12.2 Investment in PNB Capital

On December 16, 2022 and December 17, 2021, the BOD of PNB Capital approved the declaration of cash dividends amounting to ₱792.0 million and ₱300.0 million, which were subsequently paid to the Parent Company on December 22, 2022 and June 29, 2022, respectively.

12.3 Investment in PMLFC

On June 24, 2022, the BOD of the Parent Company approved the proposal to amend the Articles of Incorporation of PMLFC, shortening its corporate term to March 31, 2024, subject to necessary approvals. On December 23, 2022 the SEC approved the above amendment. The Parent Company and its joint venture partner, Mizuho Leasing Co. Ltd., mutually agreed to wind down operations of PMLFC due to the impact of the COVID-19 pandemic to the operations of the joint venture company and the domestic leasing industry.



As of December 31, 2022 and 2021, the carrying value of the Parent Company's equity investment in PMLFC is already reduced to nil. However, by virtue of the Parent Company's commitment to provide further funding in PMLFC, the Parent Company recognized additional losses amounting to ₱95.5 million and ₱164.5 million in 2022 and 2021, respectively and representing its share in the accumulated net losses of PMLFC. Further, the Parent Company recognized provision for liability amounting to ₱649.7 million and ₱125.1 million relating to the undrawn loan commitments of PMLFC as of December 31, 2022 and 2021, respectively, recorded under 'Other liabilities' in the statement of financial position (refer to Notes 22 and 33).

12.4 Investment in PNB Holdings

On January 13, 2021, the SEC approved the increase in the authorized capital stock of PNB Holdings from ₱500.0 million divided into 5,000,000 shares with par value of ₱100 per share, to ₱50.5 billion divided into 505,000,000 shares with the same par value. On the same date, the Parent Company proceeded with the subscription of additional 466,770,000 shares of PNB Holdings shares in exchange for certain real estate properties with fair values of ₱46.7 billion (refer to Notes 11.3 and 13).

On April 23, 2021, the Parent Company's BOD approved the property dividend declaration of up to 239,353,710 common shares of PNB Holdings, representing 51.00% ownership, with a par value of ₱100 per share, to all stockholders of record as of May 18, 2021, or ₱23.9 billion.

On December 24, 2021, the SEC approved the property dividend declaration. On the same date, the Parent Company assessed that it has lost control over PNB Holdings, and accordingly classified its retained interest of 49.00% in PNB Holdings as financial asset at FVOCI with no recycling to profit or loss, in accordance with PFRS 9. Such investment was remeasured from its carrying amount of ₱6.6 billion to its fair value as of December 24, 2021 of ₱23.0 billion, resulting in a gain on remeasurement of ₱16.5 billion and ₱16.4 billion in the consolidated and parent company financial statements, respectively (refer to Note 33).

Further, the Group and the Parent Company recognized gain on loss of control over PNB Holdings of ₱17.0 billion and ₱17.1 billion in the consolidated and parent company financial statements, respectively. On December 21, 2021, the Parent Company was able to secure ruling from the Bureau of Internal Revenue (BIR) that the transfer of properties to PNB Holdings is not subject to tax, except for documentary stamps tax (DST). Further, on March 10, 2022, the Parent Company was able to secure another ruling from the BIR that the property dividends distribution is exempt from tax, except for DST.

The Parent Company was able to demonstrate loss of control over PNB Holdings because of the following:

- Declaration of 51.00% ownership in PNB Holdings as property dividends
- Execution of proxy in favor of LTG for the remaining 49.00% held by the Group
- Election of new BOD made by the stockholders of PNB Holdings in January 2021, effectively resulting in the Group having no representations in the BOD of PNB Holdings
- Appointment of key management personnel by the BOD of PNB Holdings, resulting in the Group having no officers and staff participating in the day-to-day operations of PNB Holdings
- Approval of the SEC of the property dividend declaration and distribution to all stockholders as of May 18, 2021



The foregoing corporate actions were taken by PNB and LTG to allow PNB to focus on its core banking business. Accordingly, these factors demonstrate that the Group no longer exercises control over PNB Holdings as certain elements of control under PFRS 10, *Consolidated Financial Statements*, are no longer demonstrated. The Group also reclassified the results of operations of PNB Holdings as discontinued operations (refer to Note 36.2).

Further, the Group no longer has a significant influence over PNB Holdings by virtue of the execution of a proxy in favor of LTG to vote all shares registered in the name of PNB on any and all matters in the Annual Stockholders' Meeting of PNB Holdings and the fact that LTG controls both PNB and PNB Holdings.

12.5 Investment in PNB General Insurers Co., Inc. (PNB Gen)

On December 29, 2020, the Parent Company and PNB Holdings entered into a Sale and Purchase Agreement (SPA) for the sale of all their respective shareholdings in PNB Gen to Alliedbankers Insurance Corporation (ABIC), an affiliate, for a total purchase price of ₱1.5 billion, which was paid as follows:

- PNB Holdings Purchase Price (₱521.8 million) – fully paid on December 28, 2020
- PNB Purchase Price (₱1.0 billion) – paid in four tranches until April 30, 2021, earning interest at 6.00% per annum

The SPA also provides for a grant of an exclusive bancassurance arrangement with ABIC with a minimum guaranteed term of 15 years for an additional consideration of ₱50.0 million, on top of the total purchase price.

On December 29, 2020, the Insurance Commission approved the above transaction. As of December 31, 2020, only the sale of PNB Holdings of its shares in PNB Gen met all the closing conditions for the sale. Accordingly, PNB Holdings closed and completed the sale of its 34.25% shareholdings in PNB Gen, recognizing gain on sale of ₱344.7 million, which is included under 'Equity in net earnings of subsidiaries' in the 2020 parent company statement of income, but treated as an equity transaction in the consolidated financial statements as 'Other equity reserves'.

In 2021, the Group and the Parent Company recognized loss on sale of its shares in PNB Gen amounting to ₱149.5 million and ₱134.9 million, respectively, recorded under 'Gain on loss of control of subsidiaries - net'. The Parent Company also received interest income of ₱14.1 million from ABIC for this transaction (refer to Note 33.1).

12.6 Material Non-Controlling Interests

Proportion of equity interest held by material NCI follows:

Principal Activities	Equity interest of NCI		Accumulated balances of material NCI		Profit allocated to material NCI	
	2022	2021	2022	2021	2022	2021
ABCHKL Banking	49.00%	49.00%	₱2,179,752	₱1,912,800	₱79,115	₱65,399
OHBVI Holding Company	72.22%	72.22%	1,079,035	985,794	1,239	201



The following table presents financial information of ABCHKL as of December 31, 2022 and 2021:

	2022	2021
Statement of Financial Position		
Current assets	₱9,548,596	₱8,426,632
Non-current assets	2,282,698	2,583,273
Current liabilities	6,616,975	6,299,157
Non-current liabilities	834,454	807,075
Statement of Comprehensive Income		
Revenues	₱415,387	₱374,407
Expenses	253,928	240,940
Net income	161,459	133,467
Total comprehensive income	502,413	320,506
Statement of Cash Flows		
Net cash provided by operating activities	₱610,988	₱543,634
Net cash provided by (used in) investing activities	21,293	(320)
Net cash used in financing activities	—	(6,768)

The following table presents financial information of OHBVI as of December 31, 2022 and 2021:

	2022	2021
Statement of Financial Position		
Current assets	₱1,494,051	₱1,364,988
Statement of Comprehensive Income		
Revenues/Net income/Total comprehensive income	₱1,715	₱278
Statement of Cash Flows		
Net cash provided by operating activities	₱129,062	₱79,927

The Parent Company determined that it controls OHBVI through its combined voting rights of 70.56% which arises from its direct ownership of 27.78% and voting rights of 42.78% assigned by certain stockholders of OHBVI to the Parent Company through a voting trust agreement.

12.7 Investment in APLII

On June 6, 2016, the Parent Company entered into agreements with Allianz SE (Allianz), a German company engaged in insurance and asset management, for the sale of the 51.00% interest in PNB Life Insurance, Inc. (PNB Life) for a total consideration of USD66.0 million to form a new joint venture company named “Allianz-PNB Life Insurance, Inc.”; and a 15-year exclusive distribution access to the branch network of the Parent Company and PNBSB (Exclusive Distribution Rights or EDR).

The purchase consideration of USD66.0 million was allocated between the sale of the 51.00% interest in PNB Life and the EDR amounting to USD44.9 million (₱2.1 billion) and USD21.1 million (₱1.0 billion), respectively. The consideration allocated to the EDR was recognized as ‘Deferred revenue - Bancassurance’ (Note 22) and is amortized to income over 15 years from date of sale. The Parent Company also receives variable annual and fixed bonus earn-out payments based on milestones achieved over the 15-year term of the distribution agreement.



After receiving respective approvals from the BSP on December 6, 2022 and June 14, 2021, the Parent Company recorded additional investments in APLII amounting to ₱392.0 million and ₱245.0 million, respectively.

Summarized financial information of APLII as of December 31, 2022 and 2021 follows:

	2022	2021
Current assets	₱1,452,894	₱2,189,208
Noncurrent assets	90,446,895	76,895,902
Total assets	91,899,789	79,085,110
Current liabilities	1,535,802	3,217,567
Noncurrent liabilities	87,928,050	73,827,220
Total liabilities	89,463,852	77,044,787
Net assets	2,435,937	2,040,323
Percentage of ownership of the Group	44%	44%
Share in the net assets of the associate	₱1,071,812	₱897,742

The difference between the share in the net assets of APLII and the carrying value of the investments represents premium on acquisition/retained interest.

Summarized statement of comprehensive income of APLII in 2022 and 2021 follows:

	2022	2021
Revenues	₱4,344,038	₱3,729,488
Costs and expenses	4,486,380	3,614,058
Net income (loss)	(142,342)	115,430
Other comprehensive loss	(262,006)	(313,853)
Total comprehensive loss	(₱404,348)	(₱198,423)
Group's share in comprehensive loss for the year	(₱177,913)	(₱87,306)

12.8 Significant Restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the regulatory supervisory frameworks within which insurance and banking subsidiaries operate.

13. Investment Properties

This account consists of real properties as follows:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Foreclosed or acquired in settlement of loans	₱13,615,263	₱10,556,014	₱13,085,097	₱9,998,445
Held for lease	179,723	179,882	179,723	179,882
Total	₱13,794,986	₱10,735,896	₱13,264,820	₱10,178,327



The composition of and movements in this account follow:

	Consolidated 2022		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱11,531,525	₱3,126,505	₱14,658,030
Additions	4,013,930	327,627	4,341,557
Disposals	(1,087,296)	(88,890)	(1,176,186)
Transfers/others	12,978	(27,682)	(14,704)
Balance at end of year	14,471,137	3,337,560	17,808,697
Accumulated Depreciation			
Balance at beginning of year	–	1,717,312	1,717,312
Depreciation (Note 11)	–	152,917	152,917
Disposals	–	(35,454)	(35,454)
Transfers/others	–	3,267	3,267
Balance at end of year	–	1,838,042	1,838,042
Allowance for Impairment Losses (Note 16)	1,963,086	212,583	2,175,669
Net Book Value at End of Year	₱12,508,051	₱1,286,935	₱13,794,986

	Consolidated 2021		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱14,840,368	₱4,354,738	₱19,195,106
Additions	280,030	244,693	524,723
Disposals	(3,600,962)	(1,324,806)	(4,925,768)
Transfers/others	12,089	(148,120)	(136,031)
Balance at end of year	11,531,525	3,126,505	14,658,030
Accumulated Depreciation			
Balance at beginning of year	–	2,165,680	2,165,680
Depreciation (Note 11)	–	76,575	76,575
Disposals	–	(502,878)	(502,878)
Transfers/others	–	(22,065)	(22,065)
Balance at end of year	–	1,717,312	1,717,312
Allowance for Impairment Losses (Note 16)	1,948,609	256,213	2,204,822
Net Book Value at End of Year	₱9,582,916	₱1,152,980	₱10,735,896

	Parent Company 2022		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱11,001,803	₱2,947,345	₱13,949,148
Additions	4,013,930	327,618	4,341,548
Disposals	(1,087,296)	(88,890)	(1,176,186)
Transfers/others	(12,964)	2,614	(10,350)
Balance at end of year	13,915,473	3,188,687	17,104,160
Accumulated Depreciation			
Balance at beginning of year	–	1,595,151	1,595,151
Depreciation (Note 11)	–	128,095	128,095
Disposals	–	(35,454)	(35,454)
Transfers/others	–	580	580
Balance at end of year	–	1,688,372	1,688,372
Allowance for Impairment Losses (Note 16)	1,962,374	188,594	2,150,968
Net Book Value at End of Year	₱11,953,099	₱1,311,721	₱13,264,820



	Parent Company		
	2021		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱14,322,250	₱4,215,771	₱18,538,021
Additions	280,030	54,381	334,411
Disposals	(3,600,962)	(1,324,806)	(4,925,768)
Transfers/others	485	1,999	2,484
Balance at end of year	11,001,803	2,947,345	13,949,148
Accumulated Depreciation			
Balance at beginning of year	–	2,042,691	2,042,691
Depreciation (Note 11)	–	55,337	55,337
Disposals	–	(502,877)	(502,877)
Balance at end of year	–	1,595,151	1,595,151
Allowance for Impairment Losses (Note 16)	1,947,897	227,773	2,175,670
Net Book Value at End of Year	₱9,053,906	₱1,124,421	₱10,178,327

Included in the real estate properties transferred to PNB Holdings in exchange for 466,770,000 shares of PNB Holdings are investment properties with carrying value of ₱4.2 billion (refer to Notes 11.3 and 12.4).

Foreclosed properties of the Parent Company still subject to redemption period by the borrowers amounted to ₱199.9 million and ₱229.8 million, as of December 31, 2022 and 2021, respectively. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. The Group and the Parent Company are exerting continuing efforts to dispose these properties.

The total recoverable value of certain investment properties of the Group and the Parent Company that were impaired amounted to ₱7.4 billion and ₱4.7 billion as of December 31, 2022 and 2021, respectively.

For the Group and the Parent Company, direct operating expenses on investment properties that generated rental income during the year (other than depreciation and amortization), included under 'Litigation and assets acquired expenses', amounted to ₱29.2 million, ₱28.2 million and ₱6.0 million in 2022, 2021, and 2020, respectively. Direct operating expenses on investment properties that did not generate rental income included under 'Litigation and assets acquired expenses', amounted to ₱208.3 million, ₱173.3 million and ₱204.6 million in 2022, 2021, and 2020, respectively (refer to Note 27. 2).



14. Goodwill and Intangible Assets

These accounts consist of:

	Consolidated				
	2022				
	Intangible Assets with Finite Lives				
	CDI	CRI	Software Cost	Total	Goodwill
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱4,705,633	₱6,995,365	₱11,221,410
Additions	—	—	881,572	881,572	—
Others	—	—	(106,242)	(106,242)	—
Balance at end of year	1,897,789	391,943	5,480,963	7,770,695	11,221,410
Accumulated Amortization					
Balance at beginning of year	1,687,978	391,943	2,486,010	4,565,931	—
Amortization (Note 11)	189,779	—	1,204,127	1,393,906	—
Others	—	—	(53,064)	(53,064)	—
Balance at end of year	1,877,757	391,943	3,637,073	5,906,773	—
Net Book Value at End of Year	₱20,032	₱—	₱1,843,890	₱1,863,922	₱11,221,410

	Consolidated				
	2021				
	Intangible Assets with Finite Lives				
	CDI	CRI	Software Cost	Total	Goodwill
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱4,134,403	₱6,424,135	₱11,221,410
Additions	—	—	655,455	655,455	—
Others	—	—	(84,225)	(84,225)	—
Balance at end of year	1,897,789	391,943	4,705,633	6,995,365	11,221,410
Accumulated Amortization					
Balance at beginning of year	1,498,199	391,943	2,021,980	3,912,122	—
Amortization (Note 11)	189,779	—	438,692	628,471	—
Others	—	—	25,338	25,338	—
Balance at end of year	1,687,978	391,943	2,486,010	4,565,931	—
Net Book Value at End of Year	₱209,811	₱—	₱2,219,623	₱2,429,434	₱11,221,410

	Parent Company				
	2022				
	Intangible Assets with Finite Lives				
	CDI	CRI	Software Cost	Total	Goodwill
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱5,679,926	₱7,969,658	₱11,361,768
Additions	—	—	848,426	848,426	—
Others	—	—	(105,306)	(105,306)	—
Balance at end of year	1,897,789	391,943	6,423,046	8,712,778	11,361,768
Accumulated Amortization					
Balance at beginning of year	1,687,978	391,943	3,560,780	5,640,701	—
Amortization (Note 11)	189,779	—	1,180,744	1,370,523	—
Others	—	—	(52,062)	(52,062)	—
Balance at end of year	1,877,757	391,943	4,689,462	6,959,162	—
Net Book Value at End of Year	₱20,032	₱—	₱1,733,584	₱1,753,616	₱11,361,768

	Parent Company				
	2021				
	Intangible Assets with Finite Lives				
	CDI	CRI	Software Cost	Total	Goodwill
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱5,167,531	₱7,457,263	₱11,361,768
Additions	—	—	612,515	612,515	—
Others	—	—	(100,120)	(100,120)	—
Balance at end of year	1,897,789	391,943	5,679,926	7,969,658	11,361,768

(Forward)



	Parent Company				
	2021				
	Intangible Assets with Finite Lives				Goodwill
	CDI	CRI	Software Cost	Total	
Accumulated Amortization					
Balance at beginning of year	₱1,498,199	₱391,943	₱3,128,461	₱5,018,603	₱–
Amortization (Note 11)	189,779	–	417,780	607,559	–
Others	–	–	14,539	14,539	–
Balance at end of year	1,687,978	391,943	3,560,780	5,640,701	–
Net Book Value at End of Year	₱209,811	₱–	₱2,119,146	₱2,328,957	₱11,361,768

14.1 CDI and CRI

CDI and CRI are the intangible assets acquired through the merger of the Parent Company with Allied Banking Corporation (ABC). CDI includes the stable level of deposit liabilities of ABC which is considered as favorably priced source of funds by the Parent Company. CRI pertains to ABC's key customer base which the Parent Company expects to bring more revenue through loan availments. CDI is allocated to Retail Banking CGU while CRI is allocated to Corporate Banking CGU. CDI and CRI are assessed for impairment where indicator(s) of objective evidence of impairment has been identified.

14.2 Software Cost

Software cost as of December 31, 2022 and 2021 includes capitalized development costs amounting to ₱2.0 billion, related to the Parent Company's core banking system.

14.3 Goodwill

The Parent Company accounted for the business combination with ABC under the acquisition method of PFRS 3. The Group has elected to measure the NCI in the acquiree at proportionate share of identifiable assets and liabilities. The business combination resulted in the recognition of goodwill amounting to ₱13.4 billion, allocated to the three CGUs which are also reportable segments.

Goodwill is reviewed for impairment annually in the fourth quarter of the reporting period, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The impairment test is done by comparing the recoverable amount of each CGU with its carrying amount. The carrying amount of a CGU is derived based on its net assets plus the amount of goodwill allocated to the CGU. The recoverable amount is the higher of a CGU's fair value less costs to sell and its VIU. In 2021, the goodwill impairment test performed by the Parent Company resulted in an impairment in value of ₱2.2 billion in the Corporate Banking segment (recorded under 'Provision for impairment, credit and other losses') with the recoverable amount being lower than its carrying amount. As of December 31, 2022 and 2021, goodwill for each CGU amounted to:

	Gross Carrying Amount	Impairment in Value	Net Carrying Amount
Retail Banking	₱6,110,312	₱–	₱6,110,312
Corporate Banking	4,190,365	2,153,997	2,036,368
Treasury	3,074,730	–	3,074,730
	₱13,375,407	₱2,153,997	₱11,221,410



The recoverable amounts of the CGUs have been determined on the basis of the VIU calculation using the discounted cash flows (DCF) model. The DCF model uses earnings projections based on financial budgets approved by senior management and the BOD of the Parent Company covering a three-year period and are discounted to their present value. Estimating future earning involves judgment which takes into account past and actual performance and expected developments in the respective markets and in the overall macro-economic environment.

The following rates were applied to the cash flow projections:

	2022			2021		
	Retail Banking	Corporate Banking	Treasury	Retail Banking	Corporate Banking	Treasury
Pre-tax discount rate	13.23%	13.23%	11.23%	10.48%	10.48%	8.32%
Projected growth rate	5.50%	5.50%	5.50%	6.60%	6.60%	6.60%

The calculation of VIU is most sensitive to estimates of future cash flows from the business, interest margin, discount rates, projected long-term growth rates (derived based on the forecast local gross domestic product) used to extrapolate cash flows beyond the budget period.

The discount rate applied have been determined based on cost of equity for Retail and Corporate Banking segments and weighted average cost of capital (WACC) for Treasury segment. WACC is computed by multiplying the cost of equity and the post-tax cost of debt by their relevant weights using debt-equity mix of comparable listed banks, and adding the products together. The cost of equity is derived using the capital asset pricing model which is comprised of a market risk premium, risk-free interest rate and the beta factor, all of which were obtained from external sources of information. The post-tax cost of debt is comprised of the risk-free interest rate and the Group's credit spread, after applying the prevailing corporate income tax.

As of December 31, 2022, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

15. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Financial				
Return checks and other cash items	₱46,253	₱133,631	₱46,253	₱133,631
Security deposits (Note 33)	18,309	12,984	—	—
Miscellaneous	5,769	3,407	5,207	2,711
	70,331	150,022	51,460	136,342
Nonfinancial				
Deferred charges (Note 33)	1,477,860	1,065,090	1,472,352	1,053,876
Creditable withholding taxes	856,206	1,686,145	612,550	1,436,059
Real estate inventories held under development (Note 33)	638,875	638,875	638,875	638,875
Prepaid expenses	340,243	645,222	276,417	587,871
Documentary stamps on hand	317,932	357,884	317,378	356,586
Chattel mortgage properties - net of depreciation	211,619	227,187	82,012	99,691
Stationeries and supplies	81,073	87,651	80,838	87,476
Input value-added tax	75,276	119,762	—	—
Other investments	26,276	30,760	22,517	27,270
Dividends receivable (Note 12)	—	—	—	300,000
Miscellaneous (Note 28)	1,101,671	868,538	869,644	847,524
	5,127,031	5,727,114	4,372,583	5,435,228
	5,197,362	5,877,136	4,424,043	5,571,570
Less allowance for credit and impairment losses (Note 16)	1,041,840	1,069,216	1,025,047	1,046,072
	₱4,155,522	₱4,807,920	₱3,398,996	₱4,525,498



‘Deferred charges’ include the share of the Group in the cost of transportation equipment acquired under the Group’s car plan which shall be amortized monthly.

‘Real estate inventories held under development’ represents parcels of land contributed by the Parent Company under joint arrangements with real estate developers to be developed as residential condominium units and subdivision lots.

‘Chattel mortgage properties’ pertain to motor vehicles, equipment and assets other than real estate properties, which were acquired by the Group in settlement of loans. As of December 31, 2022 and 2021, accumulated depreciation on the chattel mortgage properties amounted to ₱229.1 million and ₱241.8 million, respectively, for the Group and ₱215.3 million and ₱227.5 million, respectively, for the Parent Company. As of December 31, 2022 and 2021, the total recoverable value of certain chattel mortgage properties of the Group and the Parent Company that were impaired is at ₱1.2 million and ₱0.9 million, respectively.

‘Miscellaneous financial assets’ include revolving fund, petty cash fund and miscellaneous cash and other cash items. ‘Miscellaneous nonfinancial assets’ include postages, refundable deposits, notes taken for interest and sundry debits.

16. Impairment, Credit and Other Losses

16.1 Provision for Impairment, Credit and Other Losses

This account consists of:

	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Continuing operations:						
Provision for credit losses	₱7,159,781	₱10,980,450	₱16,054,991	₱7,171,812	₱11,220,504	₱15,723,927
Provision for (reversal of) impairment and other losses	38,336	(255,436)	827,630	133,841	(248,764)	810,408
Impairment in value of goodwill (Note 14)	—	2,153,997	—	—	2,153,997	—
	7,198,117	12,879,011	16,882,621	7,305,653	13,125,737	16,534,335
Discontinued operations (Note 36):						
Provision for credit and impairment losses	—	88,141	29,781	—	—	—
	₱7,198,117	₱12,967,152	₱16,912,402	₱7,305,653	₱13,125,737	₱16,534,335

16.2 Allowance for Impairment and Credit Losses

Changes in the allowance for credit losses on financial assets follow:

	Consolidated						
	2022						
	Securities Held Under Agreements to Resell	Due from Other Banks	Interbank Loans Receivable	Financial Assets at FVOCI	Investment Securities at Amortized Cost	Loans and Receivables	Other Assets
Balance at beginning of year	₱3,644	₱10,593	₱6,579	₱134,151	₱3,822,166	₱39,340,761	₱500
Provisions (reversals)	(1,456)	(695)	(5,210)	(12,566)	25,684	7,154,524	(500)
Accounts charged-off	—	—	—	—	—	(2,785,836)	—
Loan settlement through dacion (Note 33)	—	—	—	—	—	(4,591,743)	—
Transfers and others	—	—	—	—	—	(172,925)	—
Balance at end of year	₱2,188	₱9,898	₱1,369	₱121,585	₱3,847,850	₱38,944,781	₱—



Consolidated 2021								
	Securities Held Under Agreements to Resell	Due from Other Banks	Interbank Loans Receivable	Financial Assets at FVOCI	Investment Securities at Amortized Cost	Loans and Receivables	Other Assets	Total
Balance at beginning of year	P-	P9,898	P2,883	P67,399	P3,982,398	P32,414,652	P500	P36,477,730
Provisions (reversals)	3,644	695	3,696	66,752	(142,249)	11,047,912	-	10,980,450
Accounts charged-off	-	-	-	-	-	(1,439,313)	-	(1,439,313)
Sale of receivables (Note 26)	-	-	-	-	-	(2,520,236)	-	(2,520,236)
Transfers and others	-	-	-	-	(17,983)	(162,254)	-	(180,237)
Balance at end of year	P3,644	P10,593	P6,579	P134,151	P3,822,166	P39,340,761	P500	P43,318,394

Parent Company 2022								
	Securities Held Under Agreements to Resell	Due from Other Banks	Interbank Loans Receivable	Financial Assets at FVOCI	Investment Securities at Amortized Cost	Loans and Receivables	Other Assets	Total
Balance at beginning of year	P3,644	P9,873	P6,579	P131,521	P3,822,166	P39,225,977	P500	P43,200,260
Provisions (reversals)	(1,456)	-	(5,210)	(12,069)	25,684	7,165,363	(500)	7,171,812
Accounts charged-off	-	-	-	-	-	(2,078,219)	-	(2,078,219)
Loan settlement through dacion (Note 33)	-	-	-	-	-	(4,591,743)	-	(4,591,743)
Transfers and others	-	-	-	-	-	(275,540)	-	(275,540)
Balance at end of year	P2,188	P9,873	P1,369	P119,452	P3,847,850	P39,445,838	P-	P43,426,570

Parent Company 2021								
	Securities Held Under Agreements to Resell	Due from Other Banks	Interbank Loans Receivable	Financial Assets at FVOCI	Investment Securities at Amortized Cost	Loans and Receivables	Other Assets	Total
Balance at beginning of year	P-	P9,873	P2,883	P67,399	P3,982,398	P31,499,881	P500	P35,562,934
Provisions (reversals)	3,644	-	3,696	64,122	(142,249)	11,291,291	-	11,220,504
Accounts charged-off	-	-	-	-	-	(1,439,313)	-	(1,439,313)
Sale of receivables (Note 26)	-	-	-	-	-	(2,520,236)	-	(2,520,236)
Transfers and others	-	-	-	-	(17,983)	394,354	-	376,371
Balance at end of year	P3,644	P9,873	P6,579	P131,521	P3,822,166	P39,225,977	P500	P43,200,260

Movements in the allowance for impairment and other losses on nonfinancial assets follow:

Consolidated								
	2022				2021			
	Property and Equipment	Investment Properties	Other Assets	Total	Property and Equipment	Investment Properties	Other Assets	Total
Balance at beginning of year	P1,168,887	P2,204,822	P1,068,716	P4,442,425	P1,168,887	P2,583,670	P1,040,096	P4,792,653
Provisions:								
Continuing operations	-	33,299	5,037	38,336	-	(238,052)	(17,384)	(255,436)
Discontinued operation	-	-	-	-	-	-	88,141	88,141
Disposals	-	(55,884)	(10,077)	(65,961)	-	(197,986)	(4,772)	(202,758)
Transfers and others	-	(6,568)	(21,836)	(28,404)	-	57,190	(37,365)	19,825
Balance at end of year	P1,168,887	P2,175,669	P1,041,840	P4,386,396	P1,168,887	P2,204,822	P1,068,716	P4,442,425

Parent Company								
	2022				2021			
	Property and Equipment	Investment Properties	Other Assets	Total	Property and Equipment	Investment Properties	Other Assets	Total
Balance at beginning of year	P1,168,887	P2,175,670	P1,045,572	P4,390,129	P1,168,887	P2,573,532	P1,039,713	P4,782,132
Provisions (reversals)	-	33,299	100,542	133,841	-	(238,051)	(10,713)	(248,764)
Disposals	-	(55,884)	(3,725)	(59,609)	-	(197,986)	(4,772)	(202,758)
Transfers and others	-	(2,117)	(117,342)	(119,459)	-	38,175	21,344	59,519
Balance at end of year	P1,168,887	P2,150,968	P1,025,047	P4,344,902	P1,168,887	P2,175,670	P1,045,572	P4,390,129



The reconciliation of allowance for loans and receivables are shown below:

	Consolidated							
	2022		2021		2022		2021	
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Corporate Loans								
Beginning Balance	₱459,223	₱859,753	₱24,311,397	₱25,630,373	₱437,633	₱690,482	₱18,092,141	₱19,220,256
Transfers to Stage 1	124,442	(122,231)	(2,211)	—	1,375,088	(51,070)	(1,324,018)	—
Transfers to Stage 2	(13,026)	7,561,264	(7,548,238)	—	(21,796)	170,627	(148,831)	—
Transfers to Stage 3	(2,707)	(181,214)	183,921	—	(41,035)	(97,886)	138,921	—
Provisions (reversals)	1,040,999	(1,848,298)	4,928,180	4,120,881	1,136,551	501,195	10,381,492	12,019,238
Accounts charged off	—	—	(48,784)	(48,784)	—	—	(1,100)	(1,100)
Loan settlement through dacion (Note 33)	—	—	(4,580,430)	(4,580,430)	—	—	—	—
Sale of receivables (Note 26)	—	—	—	—	—	—	(2,520,236)	(2,520,236)
Effect of collections and other movements	(153,893)	(314,918)	26,381	(442,430)	(2,427,218)	(353,595)	(306,972)	(3,087,785)
Ending Balance	1,455,038	5,954,356	17,270,216	24,679,610	459,223	859,753	24,311,397	25,630,373
LGU								
Beginning Balance	265	10,632	67,798	78,695	24,040	1,737	24,916	50,693
Provisions (reversals)	261	(2,141)	(2,104)	(3,984)	22,642	3,902	2,296	28,840
Effect of collections and other movements	(54)	(20)	—	(74)	(46,417)	4,993	40,586	(838)
Ending Balance	472	8,471	65,694	74,637	265	10,632	67,798	78,695
Credit Cards								
Beginning Balance	61,472	26,686	2,319,769	2,407,927	38,224	26,246	2,523,198	2,587,668
Transfers to Stage 1	14,583	(5,637)	(8,946)	—	39,251	(6,432)	(32,819)	—
Transfers to Stage 2	(1,666)	2,188	(522)	—	(2,254)	5,721	(3,467)	—
Transfers to Stage 3	(2,726)	(3,171)	5,897	—	(9,135)	(9,282)	18,417	—
Provisions (reversals)	375,074	71,292	212,023	658,389	(98,840)	17,705	1,085,746	1,004,611
Accounts charged off	—	—	(2,014,455)	(2,014,455)	—	—	(1,399,465)	(1,399,465)
Effect of collections and other movements	44,772	(7,616)	199,211	236,367	94,226	(7,272)	128,159	215,113
Ending Balance	491,509	83,742	712,977	1,288,228	61,472	26,686	2,319,769	2,407,927
Retail SMEs								
Beginning Balance	156,723	16,002	1,643,255	1,815,980	361,274	20,786	1,426,132	1,808,192
Transfers to Stage 1	15,101	(386)	(14,715)	—	7,502	(1,634)	(5,868)	—
Transfers to Stage 2	(51,349)	51,549	(200)	—	(351)	2,151	(1,800)	—
Transfers to Stage 3	(736)	(1,050)	1,786	—	(5,680)	(6,204)	11,884	—
Provisions (reversals)	155,930	22,928	341,744	520,602	31,995	(1,617)	42,831	73,209
Accounts charged off	—	—	(694,970)	(694,970)	—	—	—	—
Effect of collections and other movements	(75,048)	(62,412)	60,912	(76,548)	(238,017)	2,520	170,076	(65,421)
Ending Balance	200,621	26,631	1,337,812	1,565,064	156,723	16,002	1,643,255	1,815,980
Housing Loans								
Beginning Balance	256,953	54,367	3,121,446	3,432,766	99,896	107,786	2,166,204	2,373,886
Transfers to Stage 1	527,271	(17,691)	(509,580)	—	395,713	(45,005)	(350,708)	—
Transfers to Stage 2	(5,794)	71,159	(65,365)	—	(2,061)	35,012	(32,951)	—
Transfers to Stage 3	(33,977)	(26,337)	60,314	—	(11,394)	(53,478)	64,872	—
Provisions (reversals)	(206,039)	(335,412)	1,327,486	786,035	391,794	(7,381)	(888,382)	(503,969)
Effect of collections and other movements	(90,744)	369,022	(149,234)	129,044	(616,995)	17,433	2,162,411	1,562,849
Ending Balance	447,670	115,108	3,785,067	4,347,845	256,953	54,367	3,121,446	3,432,766
Auto Loans								
Beginning Balance	8,996	2,166	1,467,584	1,478,746	146,165	43,152	843,487	1,032,804
Transfers to Stage 1	85,614	(671)	(84,943)	—	58,625	(2,965)	(55,660)	—
Transfers to Stage 2	(197)	5,619	(5,422)	—	(113)	8,396	(8,283)	—
Transfers to Stage 3	(350)	(1,213)	1,563	—	(615)	(3,229)	3,844	—
Provisions (reversals)	(72,234)	(3,455)	456,812	381,123	73,402	6,628	(708,378)	(628,348)
Accounts charged off	—	—	(6,354)	(6,354)	—	—	(9,133)	(9,133)
Effect of collections and other movements	(985)	(193)	(332,018)	(333,196)	(268,468)	(49,816)	1,401,707	1,083,423
Ending Balance	20,844	2,253	1,497,222	1,520,319	8,996	2,166	1,467,584	1,478,746
Other Loans								
Beginning Balance	242,940	8,236	716,032	967,208	72,427	59,443	1,922,895	2,054,765
Transfers to Stage 1	302,607	(3,134)	(299,473)	—	222,313	(12,979)	(209,334)	—
Transfers to Stage 2	(50)	27,615	(27,565)	—	(875)	90,473	(89,598)	—
Transfers to Stage 3	(506)	(2,527)	3,033	—	(4,109)	(20,370)	24,479	—
Provisions (reversals)	(290,921)	(7,934)	330,031	31,176	(131,066)	(583)	(333,647)	(465,296)
Accounts charged off	—	—	(12,647)	(12,647)	—	—	(20,328)	(20,328)
Effect of collections and other movements	(238,320)	55,941	458,649	276,270	84,250	(107,748)	(578,435)	(601,933)
Ending Balance	15,750	78,197	1,168,060	1,262,007	242,940	8,236	716,032	967,208

(Forward)



	Consolidated							
	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Other Receivables								
Beginning Balance	₱81,507	₱33,359	₱3,414,200	₱3,529,066	₱69,326	₱19,486	₱3,197,574	₱3,286,386
Transfers to Stage 1	26	(5)	(21)	—	1,295	(15)	(1,280)	—
Transfers to Stage 2	(758)	10,530	(9,772)	—	(967)	22,649	(21,682)	—
Transfers to Stage 3	(4,861)	(15,475)	20,336	—	(12,748)	(67,882)	80,630	—
Provisions (reversals)	(10,889)	20,157	651,034	660,302	(598,194)	(13,427)	131,248	(480,373)
Accounts charged off	—	—	(8,626)	(8,626)	—	—	(9,287)	(9,287)
Loan settlement through dacion (Note 33)	—	—	(11,313)	(11,313)	—	—	—	—
Effect of collections and other movements	22,968	99,664	(84,990)	37,642	622,795	72,548	36,997	732,340
Ending Balance	87,993	148,230	3,970,848	4,207,071	81,507	33,359	3,414,200	3,529,066
Total Loans and Receivables								
Beginning Balance	1,268,079	1,011,201	37,061,481	39,340,761	1,248,985	969,118	30,196,547	32,414,650
Transfers to Stage 1	1,069,644	(149,755)	(919,889)	—	2,099,787	(120,100)	(1,979,687)	—
Transfers to Stage 2	(72,840)	7,729,924	(7,657,084)	—	(28,417)	335,029	(306,612)	—
Transfers to Stage 3	(45,863)	(230,987)	276,850	—	(84,716)	(258,331)	343,047	—
Provisions (reversals)	992,181	(2,082,863)	8,245,206	7,154,524	828,284	506,422	9,713,206	11,047,912
Accounts charged off	—	—	(2,785,836)	(2,785,836)	—	—	(1,439,313)	(1,439,313)
Loan settlement through dacion (Note 33)	—	—	(4,591,743)	(4,591,743)	—	—	—	—
Sale of receivables (Note 26)	—	—	—	—	—	—	(2,520,236)	(2,520,236)
Effect of collections and other movements	(491,304)	139,468	178,911	(172,925)	(2,795,844)	(420,937)	3,054,529	(162,252)
Ending Balance	₱2,719,897	₱6,416,988	₱29,807,896	₱38,944,781	₱1,268,079	₱1,011,201	₱37,061,481	₱39,340,761

	Parent Company							
	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Corporate Loans								
Beginning Balance	₱798,447	₱848,687	₱25,253,746	₱26,900,880	₱314,124	₱680,087	₱18,033,402	₱19,027,613
Transfers to Stage 1	124,373	(122,162)	(2,211)	—	1,375,022	(51,067)	(1,323,955)	—
Transfers to Stage 2	(13,026)	7,561,264	(7,548,238)	—	(21,486)	170,317	(148,831)	—
Transfers to Stage 3	(2,707)	(181,214)	183,921	—	(41,034)	(97,886)	138,920	—
Provisions (reversals)	1,040,810	(1,848,298)	4,631,517	3,824,029	856,709	501,195	10,912,432	12,270,336
Accounts charged off	—	—	(48,784)	(48,784)	—	—	(1,100)	(1,100)
Loan settlement through dacion (Note 33)	—	—	(4,580,430)	(4,580,430)	—	—	—	—
Sale of receivables (Note 26)	—	—	—	—	—	—	(2,520,236)	(2,520,236)
Effect of collections and other movements	(276,166)	(304,138)	446,596	(133,708)	(1,684,888)	(353,959)	163,114	(1,875,733)
Ending Balance	1,671,731	5,954,139	18,336,117	25,961,987	798,447	848,687	25,253,746	26,900,880
LGU								
Beginning Balance	265	10,632	67,798	78,695	24,040	1,737	24,916	50,693
Provisions (reversals)	261	(2,141)	(2,104)	(3,984)	22,642	3,902	2,296	28,840
Effect of collections and other movements	(54)	(20)	—	(74)	(46,417)	4,993	40,586	(838)
Ending Balance	472	8,471	65,694	74,637	265	10,632	67,798	78,695
Credit Cards								
Beginning Balance	61,472	26,686	2,319,769	2,407,927	38,224	26,246	2,523,198	2,587,668
Transfers to Stage 1	14,583	(5,637)	(8,946)	—	39,251	(6,432)	(32,819)	—
Transfers to Stage 2	(1,666)	2,188	(522)	—	(2,254)	5,721	(3,467)	—
Transfers to Stage 3	(2,726)	(3,171)	5,897	—	(9,135)	(9,282)	18,417	—
Provisions (reversals)	375,074	71,292	212,023	658,389	(98,840)	17,705	1,085,746	1,004,611
Accounts charged off	—	—	(2,014,455)	(2,014,455)	—	—	(1,399,465)	(1,399,465)
Effect of collections and other movements	44,772	(7,616)	199,211	236,367	94,226	(7,272)	128,159	215,113
Ending Balance	491,509	83,742	712,977	1,288,228	61,472	26,686	2,319,769	2,407,927
Retail SMEs								
Beginning Balance	151,201	3,712	498,101	653,014	336,912	10,289	559,389	906,590
Transfers to Stage 1	14,744	(29)	(14,715)	—	7,502	(1,634)	(5,868)	—
Transfers to Stage 2	(50,978)	51,178	(200)	—	(351)	2,151	(1,800)	—
Transfers to Stage 3	(305)	(780)	1,085	—	(5,680)	(6,204)	11,884	—
Provisions (reversals)	155,930	22,928	347,446	526,304	31,995	(1,617)	42,831	73,209
Effect of collections and other movements	(88,589)	(53,680)	(32,919)	(175,188)	(219,177)	727	(108,335)	(326,785)
Ending Balance	182,003	23,329	798,798	1,004,130	151,201	3,712	498,101	653,014

(Forward)



	Parent Company							
	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Housing Loans								
Beginning Balance	₱240,858	₱54,367	₱3,119,744	₱3,414,969	₱90,814	₱104,984	₱2,171,817	₱2,367,615
Transfers to Stage 1	527,271	(17,691)	(509,580)	—	395,354	(45,005)	(350,349)	—
Transfers to Stage 2	(5,666)	71,031	(65,365)	—	(2,061)	35,012	(32,951)	—
Transfers to Stage 3	(15,874)	(26,337)	42,211	—	(11,312)	(53,478)	64,790	—
Provisions (reversals)	(287,450)	37,093	1,338,362	1,088,005	384,586	(7,381)	(888,382)	(511,177)
Effect of collections and other movements	(13,157)	(3,683)	(149,348)	(166,188)	(616,523)	20,235	2,154,819	1,558,531
Ending Balance	445,982	114,780	3,776,024	4,336,786	240,858	54,367	3,119,744	3,414,969
Auto Loans								
Beginning Balance	8,996	2,166	1,467,584	1,478,746	22,525	6,943	1,003,336	1,032,804
Transfers to Stage 1	85,614	(671)	(84,943)	—	58,625	(2,965)	(55,660)	—
Transfers to Stage 2	(197)	5,619	(5,422)	—	(113)	8,396	(8,283)	—
Transfers to Stage 3	(350)	(1,213)	1,563	—	(615)	(3,229)	3,844	—
Provisions (reversals)	(72,234)	(3,455)	456,812	381,123	73,402	6,628	(708,378)	(628,348)
Accounts charged off	—	—	(6,354)	(6,354)	—	—	(9,133)	(9,133)
Effect of collections and other movements	(985)	(193)	(332,018)	(333,196)	(144,828)	(13,607)	1,241,858	1,083,423
Ending Balance	20,844	2,253	1,497,222	1,520,319	8,996	2,166	1,467,584	1,478,746
Other Loans								
Beginning Balance	242,936	8,236	703,090	954,262	72,423	59,443	1,910,728	2,042,594
Transfers to Stage 1	302,597	(3,134)	(299,463)	—	222,313	(12,979)	(209,334)	—
Transfers to Stage 2	(50)	27,615	(27,565)	—	(875)	90,473	(89,598)	—
Transfers to Stage 3	(506)	(2,527)	3,033	—	(4,109)	(20,370)	24,479	—
Provisions (reversals)	(290,923)	(7,934)	330,052	31,195	(131,066)	(583)	(333,615)	(465,264)
Accounts charged off	—	—	—	—	—	—	(20,328)	(20,328)
Effect of collections and other movements	(238,315)	42,305	472,519	276,509	84,250	(107,748)	(579,242)	(602,740)
Ending Balance	15,739	64,561	1,181,666	1,261,966	242,936	8,236	703,090	954,262
Other Receivables								
Beginning Balance	45,243	32,820	3,259,421	3,337,484	74,242	19,393	3,390,669	3,484,304
Transfers to Stage 1	26	(5)	(21)	—	1,295	(15)	(1,280)	—
Transfers to Stage 2	(758)	10,530	(9,772)	—	(967)	22,649	(21,682)	—
Transfers to Stage 3	(4,861)	(15,475)	20,336	—	(12,748)	(67,882)	80,630	—
Provisions (reversals)	(10,889)	20,157	651,034	660,302	(598,737)	(13,427)	131,248	(480,916)
Accounts charged off	—	—	(8,626)	(8,626)	—	—	(9,287)	(9,287)
Loan settlement through dacion (Note 33)	—	—	(11,313)	(11,313)	—	—	—	—
Effect of collections and other movements	5,581	(10,719)	25,076	19,938	582,158	72,102	(310,877)	343,383
Ending Balance	34,342	37,308	3,926,135	3,997,785	45,243	32,820	3,259,421	3,337,484
Total Loans and Receivables								
Beginning Balance	1,549,418	987,306	36,689,253	39,225,977	973,304	909,122	29,617,455	31,499,881
Transfers to Stage 1	1,069,208	(149,329)	(919,879)	—	2,099,362	(120,097)	(1,979,265)	—
Transfers to Stage 2	(72,341)	7,729,425	(7,657,084)	—	(28,107)	334,719	(306,612)	—
Transfers to Stage 3	(27,329)	(230,717)	258,046	—	(84,633)	(258,331)	342,964	—
Provisions (reversals)	910,579	(1,710,358)	7,965,142	7,165,363	540,691	506,422	10,244,178	11,291,291
Accounts charged off	—	—	(2,078,219)	(2,078,219)	—	—	(1,439,313)	(1,439,313)
Loan settlement through dacion (Note 33)	—	—	(4,591,743)	(4,591,743)	—	—	—	—
Sale of receivables (Note 26)	—	—	—	—	—	—	(2,520,236)	(2,520,236)
Effect of collections and other movements	(566,913)	(337,744)	629,117	(275,540)	(1,951,199)	(384,529)	2,730,082	394,354
Ending Balance	₱2,862,622	₱6,288,583	₱30,294,633	₱39,445,838	₱1,549,418	₱987,306	₱36,689,253	₱39,225,977



16.3 Gross Carrying Amounts of Loans and Receivables

Movements of the gross carrying amounts of loans and receivables are shown below:

	Consolidated							
	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Corporate Loans								
Beginning Balance	₱473,712,387	₱24,933,143	₱55,428,704	₱554,074,234	₱444,131,392	₱30,217,054	₱50,749,511	₱525,097,957
Newly originated assets which remained in Stage 1 at yearend	122,147,585	—	—	122,147,585	227,012,002	—	—	227,012,002
Newly originated assets which moved to Stages 2 and 3 at yearend	—	4,634,768	3,170,272	7,805,040	—	4,990,294	8,456,400	13,446,694
Transfers to Stage 1	2,158,216	(2,153,301)	(4,915)	—	11,278,904	(4,981,067)	(6,297,837)	—
Transfers to Stage 2	(25,259,322)	53,397,854	(28,138,532)	—	(7,592,547)	7,936,935	(344,388)	—
Transfers to Stage 3	(1,160,805)	(2,473,557)	3,634,362	—	(1,383,777)	(4,625,936)	6,009,713	—
Accounts charged off	—	—	(48,784)	(48,784)	—	—	(1,100)	(1,100)
Loan settlement through dacion (Note 33)	—	—	(5,958,906)	(5,958,906)	—	—	—	—
Sale of receivables (Note 26)	—	—	—	—	—	—	(5,478,200)	(5,478,200)
Effect of collections and other movements	(132,121,107)	(4,705,073)	(197,381)	(137,023,561)	(199,733,587)	(8,604,137)	2,334,605	(206,003,119)
Ending Balance	439,476,954	73,633,834	27,884,820	540,995,608	473,712,387	24,933,143	55,428,704	554,074,234
LGU								
Beginning Balance	4,216,332	46,154	57,227	4,319,713	6,390,022	7,450	24,916	6,422,388
Newly originated assets which remained in Stage 1 at yearend	35,962	—	—	35,962	108,593	—	—	108,593
Effect of collections and other movements	(1,499,080)	(10,834)	(569)	(1,510,483)	(2,282,283)	38,704	32,311	(2,211,268)
Ending Balance	2,753,214	35,320	56,658	2,845,192	4,216,332	46,154	57,227	4,319,713
Credit Cards								
Beginning Balance	10,468,937	269,413	2,418,595	13,156,945	9,198,867	199,627	3,132,075	12,530,569
Newly originated assets which remained in Stage 1 at yearend	998,216	—	—	998,216	992,672	—	—	992,672
Newly originated assets which moved to Stages 2 and 3 at yearend	—	39,134	20,775	59,909	—	28,877	21,120	49,997
Transfers to Stage 1	71,224	(61,373)	(9,851)	—	105,067	(60,241)	(44,826)	—
Transfers to Stage 2	(218,986)	219,544	(558)	—	(192,298)	196,528	(4,230)	—
Transfers to Stage 3	(309,359)	(40,798)	350,157	—	(684,443)	(88,078)	772,521	—
Accounts charged off	—	—	(2,014,455)	(2,014,455)	—	—	(1,399,465)	(1,399,465)
Effect of collections and other movements	2,147,359	(110,006)	144,713	2,182,066	1,049,072	(7,300)	(58,600)	983,172
Ending Balance	13,157,391	315,914	909,376	14,382,681	10,468,937	269,413	2,418,595	13,156,945
Retail SMEs								
Beginning Balance	6,432,116	159,012	2,747,777	9,338,905	10,689,770	881,726	867,413	12,438,909
Newly originated assets which remained in Stage 1 at yearend	1,238,722	—	—	1,238,722	3,054,855	—	—	3,054,855
Newly originated assets which moved to Stages 2 and 3 at yearend	—	130,105	111,941	242,046	—	52,047	121,159	173,206
Transfers to Stage 1	23,795	(6,761)	(17,034)	—	192,038	(118,733)	(73,305)	—
Transfers to Stage 2	(16,610)	17,943	(1,333)	—	(119,746)	196,940	(77,194)	—
Transfers to Stage 3	(14,693)	(12,200)	26,893	—	(172,180)	(193,682)	365,862	—
Accounts charged off	—	—	(694,970)	(694,970)	—	—	—	—
Effect of collections and other movements	(3,667,627)	54,870	(211,692)	(3,824,449)	(7,212,621)	(659,286)	1,543,842	(6,328,065)
Ending Balance	3,995,703	342,969	1,961,582	6,300,254	6,432,116	159,012	2,747,777	9,338,905
Housing Loans								
Beginning Balance	20,002,043	486,743	10,428,783	30,917,569	15,883,951	1,257,045	7,971,308	25,112,304
Newly originated assets which remained in Stage 1 as at yearend	1,992,738	—	—	1,992,738	1,334,034	—	—	1,334,034
Newly originated assets which moved to Stages 2 and 3 at yearend	—	47,129	50,829	97,958	—	52,555	28,779	81,334
Transfers to Stage 1	2,075,863	(155,598)	(1,920,265)	—	1,842,273	(438,646)	(1,403,627)	—
Transfers to Stage 2	(417,363)	651,867	(234,504)	—	(254,573)	380,851	(126,278)	—
Transfers to Stage 3	(1,240,805)	(238,698)	1,479,503	—	(1,803,489)	(519,103)	2,322,592	—
Accounts charged off	—	—	—	—	—	—	—	—
Effect of collections and other movements	(3,526,363)	(118,344)	(774,535)	(4,419,242)	2,999,847	(245,959)	1,636,009	4,389,897
Ending Balance	18,886,113	673,099	9,029,811	28,589,023	20,002,043	486,743	10,428,783	30,917,569
Auto Loans								
Beginning Balance	5,868,366	162,915	2,733,492	8,764,773	7,794,010	600,641	2,693,060	11,087,711
Newly originated assets which remained in Stage 1 at yearend	1,746,814	—	—	1,746,814	1,568,420	—	—	1,568,420
Newly originated assets which moved to Stages 2 and 3 at yearend	—	21,772	17,342	39,114	—	15,431	26,153	41,584
Transfers to Stage 1	343,352	(46,882)	(296,470)	—	531,091	(257,287)	(273,804)	—
Transfers to Stage 2	(121,463)	144,467	(23,004)	—	(184,128)	222,315	(38,187)	—
Transfers to Stage 3	(227,317)	(87,418)	314,735	—	(722,315)	(273,436)	995,751	—
Accounts charged off	—	—	(6,354)	(6,354)	—	—	(9,133)	(9,133)

(Forward)



	Consolidated							
	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Effect of collections and other movements	(P2,591,894)	(P92,662)	(P769,457)	(P3,454,013)	(P3,118,712)	(P144,749)	(P660,348)	(P3,923,809)
Ending Balance	5,017,858	102,192	1,970,284	7,090,334	5,868,366	162,915	2,733,492	8,764,773
Other Loans								
Beginning Balance	7,321,531	367,134	1,165,984	8,854,649	15,054,993	1,531,084	5,340,142	21,926,219
Newly originated assets which remained in Stage 1 at yearend	3,478,963	—	—	3,478,963	2,883,321	—	—	2,883,321
Newly originated assets which moved to Stages 2 and 3 at yearend	—	969,907	27,777	997,684	—	20,323	236,874	257,197
Transfers to Stage 1	774,098	(43,098)	(731,000)	—	1,379,908	(552,924)	(826,984)	—
Transfers to Stage 2	(12,420)	181,997	(169,577)	—	(1,253,877)	1,419,173	(165,296)	—
Transfers to Stage 3	(1,057,002)	(2,473,557)	3,530,559	—	(642,400)	(183,343)	825,743	—
Accounts charged off	—	—	(12,647)	(12,647)	—	—	(20,328)	(20,328)
Effect of collections and other movements	(1,373,244)	2,544,541	(1,834,996)	(663,699)	(10,100,414)	(1,867,179)	(4,224,167)	(16,191,760)
Ending Balance	9,131,926	1,546,924	1,976,100	12,654,950	7,321,531	367,134	1,165,984	8,854,649
Other Receivables								
Beginning Balance	14,609,695	(1,203,874)	3,461,903	16,867,724	14,846,752	(1,417,280)	4,363,870	17,793,342
Newly originated assets which remained in Stage 1 at yearend	714,679	—	—	714,679	(11,596)	—	—	(11,596)
Newly originated assets which moved to Stages 2 and 3 at yearend	—	52,632	35,331	87,963	—	21,867	19,079	40,946
Transfers to Stage 1	14,435	(5,955)	(8,480)	—	53,294	(45,655)	(7,639)	—
Transfers to Stage 2	(162,383)	270,582	(108,199)	—	(39,576)	448,866	(409,290)	—
Transfers to Stage 3	(16,131)	(50,442)	66,573	—	(39,376)	(97,570)	136,946	—
Accounts charged off	—	—	(8,626)	(8,626)	—	—	(9,287)	(9,287)
Loan settlement through dacion (Note 33)	—	—	(13,656)	(13,656)	—	—	—	—
Effect of collections and other movements	(91,186)	1,226,286	403,470	1,538,570	(199,803)	(114,102)	(631,776)	(945,681)
Ending Balance	15,069,109	289,229	3,828,316	19,186,654	14,609,695	(1,203,874)	3,461,903	16,867,724
Total Loans and Receivables								
Beginning Balance	542,631,407	25,220,640	78,442,465	646,294,512	523,989,757	33,277,347	75,142,295	632,409,399
Newly originated assets which remained in Stage 1 at yearend	132,353,679	—	—	132,353,679	236,942,301	—	—	236,942,301
Newly originated assets which moved to Stages 2 and 3 at yearend	—	5,895,447	3,434,267	9,329,714	—	5,181,394	8,909,564	14,090,958
Transfers to Stage 1	5,460,983	(2,472,968)	(2,988,015)	—	15,382,575	(6,454,553)	(8,928,022)	—
Transfers to Stage 2	(26,208,547)	54,884,254	(28,675,707)	—	(9,636,745)	10,801,608	(1,164,863)	—
Transfers to Stage 3	(4,026,112)	(5,376,670)	9,402,782	—	(5,447,980)	(5,981,148)	11,429,128	—
Accounts charged off	—	—	(2,785,836)	(2,785,836)	—	—	(1,439,313)	(1,439,313)
Loan settlement through dacion (Note 33)	—	—	(5,972,562)	(5,972,562)	—	—	—	—
Sale of receivables (Note 26)	—	—	—	—	—	—	(5,478,200)	(5,478,200)
Effect of collections and other movements	(142,723,142)	(1,211,222)	(3,240,447)	(147,174,811)	(218,598,501)	(11,604,008)	(28,124)	(230,230,633)
Ending Balance	P507,488,268	P76,939,481	P47,616,947	P632,044,696	P542,631,407	P25,220,640	P78,442,465	P646,294,512

	Parent Company							
	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Corporate Loans								
Beginning Balance	P464,785,519	P24,852,656	P55,228,912	P544,867,087	P435,934,894	P30,214,439	P50,511,255	P516,660,588
Newly originated assets which remained in Stage 1 at yearend	115,715,916	—	—	115,715,916	220,776,849	—	—	220,776,849
Newly originated assets which moved to Stages 2 and 3 at yearend	—	4,616,638	3,170,128	7,786,766	—	4,988,831	8,456,400	13,445,231
Transfers to Stage 1	2,181,944	(2,177,029)	(4,915)	—	11,276,501	(4,980,418)	(6,296,083)	—
Transfers to Stage 2	(25,259,322)	53,397,854	(28,138,532)	—	(7,469,151)	7,813,539	(344,388)	—
Transfers to Stage 3	(1,057,002)	(2,473,557)	3,530,559	—	(1,383,777)	(4,625,936)	6,009,713	—
Accounts charged off	—	—	(48,784)	(48,784)	—	—	(1,100)	(1,100)
Loan settlement through dacion (Note 33)	—	—	(5,958,906)	(5,958,906)	—	—	—	—
Sale of receivables (Note 26)	—	—	—	—	—	—	(5,478,200)	(5,478,200)
Effect of collections and other movements	(128,846,725)	(4,626,775)	1,144,160	(132,329,340)	(194,349,797)	(8,557,799)	2,371,315	(200,536,281)
Ending Balance	427,520,330	73,589,787	28,922,622	530,032,739	464,785,519	24,852,656	55,228,912	544,867,087
LGU								
Beginning Balance	4,216,332	46,154	57,227	4,319,713	6,390,022	7,450	24,916	6,422,388
Newly originated assets which remained in Stage 1 at yearend	35,962	—	—	35,962	108,593	—	—	108,593
Effect of collections and other movements	(1,499,080)	(10,834)	(569)	(1,510,483)	(2,282,283)	38,704	32,311	(2,211,268)
Ending Balance	2,753,214	35,320	56,658	2,845,192	4,216,332	46,154	57,227	4,319,713

(Forward)



	Parent Company							
	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Credit Cards								
Beginning Balance	₱10,468,937	₱269,413	₱2,418,595	₱13,156,945	₱9,198,867	₱199,627	₱3,132,075	₱12,530,569
Newly originated assets which remained in Stage 1 at yearend	998,216	—	—	998,216	992,672	—	—	992,672
Newly originated assets which moved to Stages 2 and 3 at yearend	—	39,134	20,775	59,909	—	28,877	21,120	49,997
Transfers to Stage 1	71,224	(61,373)	(9,851)	—	105,067	(60,241)	(44,826)	—
Transfers to Stage 2	(218,986)	219,544	(558)	—	(192,298)	196,528	(4,230)	—
Transfers to Stage 3	(309,359)	(40,798)	350,157	—	(684,443)	(88,078)	772,521	—
Accounts charged off	—	—	(2,014,455)	(2,014,455)	—	—	(1,399,465)	(1,399,465)
Effect of collections and other movements	2,147,359	(110,006)	144,713	2,182,066	1,049,072	(7,300)	(58,600)	983,172
Ending Balance	13,157,391	315,914	909,376	14,382,681	10,468,937	269,413	2,418,595	13,156,945
Retail SMEs								
Beginning Balance	5,193,066	53,425	1,157,488	6,403,979	7,334,196	313,830	1,175,641	8,823,667
Newly originated assets which remained in Stage 1 at yearend	1,238,487	—	—	1,238,487	2,829,299	—	—	2,829,299
Newly originated assets which moved to Stages 2 and 3 at yearend	—	118,816	34,130	152,946	—	35,119	79,327	114,446
Transfers to Stage 1	18,280	(1,246)	(17,034)	—	108,463	(70,731)	(37,732)	—
Transfers to Stage 2	(11,941)	13,274	(1,333)	—	(18,421)	30,420	(11,999)	—
Transfers to Stage 3	(12,020)	(11,609)	23,629	—	(135,027)	(173,631)	308,658	—
Effect of collections and other movements	(2,881,696)	144,889	(118,225)	(2,855,032)	(4,925,444)	(81,582)	(356,407)	(5,363,433)
Ending Balance	3,544,176	317,549	1,078,655	4,940,380	5,193,066	53,425	1,157,488	6,403,979
Housing Loans								
Beginning Balance	19,118,020	486,743	10,417,506	30,022,269	15,372,581	1,041,658	8,072,951	24,487,190
Transferred loans	—	—	—	—	—	—	—	—
Newly originated assets which remained in Stage 1 at yearend	1,898,095	—	—	1,898,095	1,222,996	—	—	1,222,996
Newly originated assets which moved to Stages 2 and 3 at yearend	—	17,655	50,829	68,484	—	52,555	28,779	81,334
Transfers to Stage 1	2,076,403	(156,138)	(1,920,265)	—	1,840,598	(438,646)	(1,401,952)	—
Transfers to Stage 2	(417,145)	651,867	(234,722)	—	(254,573)	380,851	(126,278)	—
Transfers to Stage 3	(1,196,361)	(238,698)	1,435,059	—	(1,798,685)	(519,103)	2,317,788	—
Effect of collections and other movements	(3,458,304)	(121,191)	(745,961)	(4,325,456)	2,735,103	(30,572)	1,526,218	4,230,749
Ending Balance	18,020,708	640,238	9,002,446	27,663,392	19,118,020	486,743	10,417,506	30,022,269
Auto Loans								
Beginning Balance	5,868,366	162,915	2,733,492	8,764,773	7,794,010	600,641	2,693,060	11,087,711
Transferred loans	—	—	—	—	—	—	—	—
Newly originated assets which remained in Stage 1 at yearend	1,746,814	—	—	1,746,814	1,568,420	—	—	1,568,420
Newly originated assets which moved to Stages 2 and 3 at yearend	—	21,772	17,342	39,114	—	15,431	26,153	41,584
Transfers to Stage 1	343,352	(46,882)	(296,470)	—	531,091	(257,287)	(273,804)	—
Transfers to Stage 2	(121,463)	144,467	(23,004)	—	(184,128)	222,315	(38,187)	—
Transfers to Stage 3	(227,317)	(87,418)	314,735	—	(722,315)	(273,436)	995,751	—
Accounts charged off	—	—	(6,354)	(6,354)	—	—	(9,133)	(9,133)
Effect of collections and other movements	(2,591,894)	(92,662)	(769,457)	(3,454,013)	(3,118,712)	(144,749)	(660,348)	(3,923,809)
Ending Balance	5,017,858	102,192	1,970,284	7,090,334	5,868,366	162,915	2,733,492	8,764,773
Other Loans								
Beginning Balance	5,855,851	367,134	1,152,059	7,375,044	13,385,322	1,531,084	5,326,698	20,243,104
Newly originated assets which remained in Stage 1 at yearend	3,478,963	—	—	3,478,963	2,883,091	—	—	2,883,091
Newly originated assets which moved to Stages 2 and 3 at yearend	—	969,907	27,777	997,684	—	20,323	236,874	257,197
Transfers to Stage 1	773,086	(43,098)	(729,988)	—	1,379,908	(552,924)	(826,984)	—
Transfers to Stage 2	(12,420)	181,997	(169,577)	—	(1,253,877)	1,419,173	(165,296)	—
Transfers to Stage 3	(1,057,002)	(2,473,557)	3,530,559	—	(642,400)	(183,343)	825,743	—
Accounts charged off	—	—	—	—	—	—	(20,328)	(20,328)
Effect of collections and other movements	1,051	2,544,541	(1,834,730)	710,862	(9,896,193)	(1,867,179)	(4,224,648)	(15,988,020)
Ending Balance	9,039,529	1,546,924	1,976,100	12,562,553	5,855,851	367,134	1,152,059	7,375,044
Other Receivables								
Beginning Balance	13,007,324	515,733	3,291,871	16,814,928	13,610,734	304,633	4,231,158	18,146,525
Newly originated assets which remained in Stage 1 at yearend	714,679	—	—	714,679	696,937	—	—	696,937
Newly originated assets which moved to Stages 2 and 3 as at year-end	—	52,632	35,331	87,963	—	21,867	17,538	39,405
Transfers to Stage 1	14,435	(5,955)	(8,480)	—	53,270	(45,648)	(7,622)	—
Transfers to Stage 2	(162,383)	270,582	(108,199)	—	(39,322)	448,612	(409,290)	—
Transfers to Stage 3	(16,131)	(50,442)	66,573	—	(39,357)	(97,570)	136,927	—
Accounts charged off	—	—	(8,626)	(8,626)	—	—	(9,287)	(9,287)

(Forward)



	Parent Company							
	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loan settlement through dacion (Note 33)	P=	P=	(P13,656)	(P13,656)	P=	P=	P=	P=
Effect of collections and other movements	421,713	(502,587)	409,171	328,297	(1,274,938)	(116,161)	(667,553)	(2,058,652)
Ending Balance	13,979,637	279,963	3,663,985	17,923,585	13,007,324	515,733	3,291,871	16,814,928
Total Loans and Receivables								
Beginning Balance	528,513,415	26,754,173	76,457,150	631,724,738	509,020,626	34,213,362	75,167,754	618,401,742
Transferred Loans	-	-	-	-	-	-	-	-
Newly originated assets which remained in Stage 1 at yearend	125,827,132	-	-	125,827,132	231,078,857	-	-	231,078,857
Newly originated assets which moved to Stages 2 and 3 as at year-end	-	5,836,554	3,356,312	9,192,866	-	5,163,003	8,866,191	14,029,194
Transfers to Stage 1	5,478,724	(2,491,721)	(2,987,003)	-	15,294,898	(6,405,895)	(8,889,003)	-
Transfers to Stage 2	(26,203,660)	54,879,585	(28,675,925)	-	(9,411,770)	10,511,438	(1,099,668)	-
Transfers to Stage 3	(3,875,192)	(5,376,079)	9,251,271	-	(5,406,004)	(5,961,097)	11,367,101	-
Accounts charged off	-	-	(2,078,219)	(2,078,219)	-	-	(1,439,313)	(1,439,313)
Loan settlement through dacion (Note 33)	-	-	(5,972,562)	(5,972,562)	-	-	-	-
Sale of receivables (Note 26)	-	-	-	-	-	-	(5,478,200)	(5,478,200)
Effect of collections and other movements	(136,707,576)	(2,774,625)	(1,770,898)	(141,253,099)	(212,063,192)	(10,766,638)	(2,037,712)	(224,867,542)
Ending Balance	P493,032,843	P76,827,887	P47,580,126	P617,440,856	P528,513,415	P26,754,173	P76,457,150	P631,724,738

17. Deposit Liabilities

17.1 Regulatory Reserve Requirements

As of December 31, 2022 and 2021, non-FCDU deposit liabilities are subject to reserves equivalent to 12.00% while peso-denominated LTNCDs are subject to reserves equivalent to 4.00%.

Available reserves booked under 'Due from BSP' amounted to P74.7 billion and P81.3 billion as of December 31, 2022 and 2021, respectively (refer to Note 7).

17.2 Information on LTNCDs

LTNCDs issued by the Parent Company consist of:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value	
					2022	2021
October 11, 2019	April 11, 2025	P4,600,000	4.38%	Quarterly	P4,584,136	P4,578,946
February 27, 2019	August 27, 2024	8,220,000	5.75%	Quarterly	8,198,193	8,187,523
October 26, 2017	April 26, 2023	6,350,000	3.88%	Quarterly	6,347,683	6,339,910
April 27, 2017	October 27, 2022	3,765,000	3.75%	Quarterly	-	3,761,261
December 6, 2016	June 6, 2022	5,380,000	3.25%	Quarterly	-	5,377,750
		P28,315,000			P19,130,012	P28,245,390

17.3 Interest Expense on Deposit Liabilities

This account consists of:

	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Time	P2,437,557	P1,411,973	P2,852,325	P2,434,206	P1,411,974	P2,852,325
Savings	1,589,891	1,942,687	2,930,115	1,605,241	2,014,705	2,778,153
LTNCDs	1,140,954	1,269,356	1,429,301	1,140,954	1,269,356	1,429,301
Demand	203,265	189,750	167,277	202,752	189,750	167,277
	P5,371,667	P4,813,766	P7,379,018	P5,383,153	P4,885,785	P7,227,056



As of December 31, 2022 and 2021, noninterest-bearing deposit liabilities amounted to ₱27.8 billion and ₱28.6 billion, respectively, for the Group, and ₱27.7 billion and ₱28.5 billion, respectively, for the Parent Company.

The remaining deposit liabilities of the Group and the Parent Company generally earn annual fixed interest rates ranging from:

	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Peso-denominated	0.10% - 6.12%	0.10% - 6.75%	0.10% - 10.00%	0.10% - 6.12%	0.10% - 5.00%	0.10% - 10.00%
Foreign currency-denominated	0.00% - 5.50%	0.01% - 3.00%	0.01% - 4.75%	0.00% - 5.50%	0.01% - 3.00%	0.01% - 4.75%

In 2022, 2021 and 2020, interest expense on LTNCDs for both the Group and the Parent Company includes amortization of transaction costs amounting to ₱29.6 million, ₱33.4 million and ₱59.9 million, respectively. Unamortized transaction costs of the LTNCDs amounted to ₱40.0 million and ₱69.6 million as of December 31, 2022 and 2021, respectively.

18. Financial Liabilities at Fair Value Through Profit or Loss

As of December 31, 2022 and 2021, this account consists of currency forwards with negative fair values amounting to ₱1.0 billion and ₱891.5 million, respectively, for the Group, and ₱1.0 billion and ₱891.3 million, respectively, for the Parent Company (refer to Notes 23 and 35).

19. Bills and Acceptances Payable

19.1 Information on Bills and Acceptances Payable

This account consists of:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Bills payable to:				
Foreign banks	₱6,665,834	₱8,263,434	₱6,609,593	₱7,849,009
BSP and local banks (Note 33)	1,036,491	37,482,381	395	36,154,113
Others	—	98,086	—	—
	7,702,325	45,843,901	6,609,988	44,003,122
Acceptances outstanding (Note 10)	7,278,048	7,109,896	7,278,047	7,109,896
	₱14,980,373	₱52,953,797	₱13,888,035	₱51,113,018

As of December 31, 2022 and 2021, bills payable with a carrying amount of ₱6.6 billion and ₱38.5 billion are secured by a pledge of financial assets at FVOCI with fair values of ₱2.5 billion and ₱32.8 billion, respectively, and investment securities at amortized cost with carrying values of ₱5.5 billion and ₱5.3 billion, respectively, and fair values of ₱5.5 billion and ₱5.6 billion, respectively (refer to Notes 9.2 and 9.3).



19.2 Interest Expense on Bills Payable and Other Borrowings

This account consists of:

	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Continuing operations:						
Bills payable	₱229,600	₱391,404	₱663,567	₱163,385	₱315,097	₱482,810
Lease liabilities (Note 29)	171,885	112,591	120,675	170,692	107,052	120,181
Others	32,488	7,926	62,198	29,467	2,931	34,487
	433,973	511,921	846,440	363,544	425,080	637,478
Discontinued operations (Note 36):						
Lease liabilities	—	3,528	2,900	—	—	—
	₱433,973	₱515,449	₱849,340	₱363,544	₱425,080	₱637,478

Bills payable of the Group and the Parent Company earn annual fixed interest rates ranging from:

	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Peso-denominated	1.9%- 5.5%	1.0% - 2.0%	4.0% - 6.5%	1.9%- 5.5%	1.0% - 2.0%	4.0% - 6.5%
Foreign currency-denominated	0.3%- 4.3%	0.1% - 1.2%	0.1% - 4.4%	0.3%- 4.3%	0.1% - 1.2 %	0.1% - 4.4%

20. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Accrued taxes and other expenses	₱8,131,353	₱7,106,616	₱7,523,206	₱6,865,474
Accrued interest (Note 33)	986,040	659,034	964,494	638,907
	₱9,117,393	₱7,765,650	₱8,487,700	₱7,504,381

Accrued taxes and other expenses consist of:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Financial liabilities:				
Promotional expenses	₱1,354,700	₱802,454	₱1,354,700	₱802,454
Information technology-related expenses	583,844	541,510	583,844	541,510
Rent and utilities payable	501,319	362,868	494,591	359,805
Management, directors and other professional fees	262,753	285,648	236,466	263,133
Repairs and maintenance	160,350	85,128	159,976	83,762
	2,862,966	2,077,608	2,829,577	2,050,664
Nonfinancial liabilities:				
Monetary value of leave credits	1,532,890	1,920,153	1,490,640	1,878,856
PDIC insurance premiums	879,310	970,140	863,832	954,662
Other taxes and licenses	854,359	477,917	724,002	428,290
Employee benefits	583,136	443,886	561,179	421,505
Other expenses	1,418,692	1,216,912	1,053,976	1,131,497
	5,268,387	5,029,008	4,693,629	4,814,810
	₱8,131,353	₱7,106,616	₱7,523,206	₱6,865,474

‘Other expenses’ include janitorial, representation and entertainment, communication and other operating expenses.



21. Bonds Payable

This account consists of:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value	
					2022	2021
<u>Fixed rate medium term senior notes</u>						
June 27, 2019	September 27, 2024	USD750,000	3.28%	Semi-annually	₱41,722,415	₱38,117,754
April 26, 2018	April 27, 2023	300,000	4.25%	Semi-annually	16,716,682	15,265,667
					₱58,439,097	₱53,383,421

The fixed rate medium term senior notes are drawdowns from the Parent Company's Medium Term Note Programme (the MTN Programme), which was established on April 13, 2018 with an initial nominal size of US\$1.0 billion. On June 14, 2019, the Parent Company increased the size of its MTN Programme to US\$2.0 billion. Both issued fixed rate medium term senior notes are listed in the Singapore Exchange Securities Trading Limited. As of December 31, 2022 and 2021, the unamortized transaction costs of bonds payable amounted to ₱92.8 million and ₱168.7 million, respectively. In 2022 and 2021, amortization of transaction costs amounting to ₱75.9 million and ₱83.5 million, were charged to 'Interest expense on bonds payable' in the statements of income.

22. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Financial				
Accounts payable	₱5,036,170	₱4,724,720	₱4,564,107	₱4,285,545
Dormant credits	1,591,380	1,303,713	1,553,892	1,272,553
Manager's checks and demand drafts outstanding	1,548,448	1,256,121	1,548,448	1,256,121
Bills purchased - contra (Note 10)	877,767	1,053,517	877,767	1,053,517
Accounts payable - electronic money	315,290	408,858	315,290	408,858
Due to other banks (Note 33)	276,770	154,949	82,132	52,198
Margin deposits and cash letters of credit	224,033	325,829	211,196	314,326
Payment order payable	220,949	196,718	220,949	196,206
Deposits on lease contracts	75,129	593,903	30,364	53,774
Transmission liability	40,280	58,308	—	—
Deposit for keys on safety deposit boxes	16,167	16,742	16,167	16,742
	10,222,383	10,093,378	9,420,312	8,909,840
Nonfinancial				
Provisions (Notes 12 and 34)	1,107,015	1,095,325	1,367,067	685,230
Due to Treasurer of the Philippines	891,709	882,769	891,709	882,769
Deferred revenue - Credit card-related	646,361	548,630	646,361	548,630
Deferred revenue - Bancassurance (Note 12)	500,474	573,674	500,474	573,674
Retirement benefit liability (Note 28)	384,838	926,259	382,449	923,116
Withholding tax payable	310,530	309,897	309,363	304,039
Deferred tax liabilities (Note 30)	165,721	165,228	—	—
SSS, Philhealth, Employer's compensation premiums and Pag-IBIG contributions payable	48,081	43,359	47,797	42,989
Miscellaneous	1,550,528	1,081,353	528,273	642,564
	5,605,257	5,626,494	4,673,493	4,603,011
	₱15,827,640	₱15,719,872	₱14,093,805	₱13,512,851



‘Deferred revenue - Bancassurance’ pertains to the allocated portion of the consideration received for the disposal of APLII related to the EDR and the exclusive bancassurance arrangement for the non-life insurance business with ABIC (refer to Note 12.7). In 2022 and 2021, amortization of other deferred revenue amounting to ₱73.2 million were recognized under ‘Service fees and commission income’ (refer to Note 26.1).

‘Miscellaneous’ include interoffice floats, remittance-related payables, overages, advance rentals and sundry credits.

23. Derivative Financial Instruments

The tables below show the fair values of the derivative financial instruments entered into by the Group and the Parent Company, recorded as ‘Financial assets at FVTPL’ (refer to Note 9.1) or ‘Financial liabilities at FVTPL’ (refer to Note 18), together with the notional amounts.

The notional amount is the amount of a derivative’s underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2022 and 2021 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	Consolidated			
	2022			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Currency forwards and spots:				
BUY:				
USD	₱749,512	₱760,764	55.76	₱1,539,816
SGD	303	–	0.74	7
EUR	243	57,543	1.06	72,318
HKD	172	–	0.13	24
SELL:				
USD	604,222	65	55.76	644,843
EUR	3,803	70,519	1.06	62,040
GBP	2,765	–	1.20	2,000
NZD	319	–	0.63	400
JPY	216	11,911	0.01	534,700
PHP	200	138,260	1.00	2,743,406
HKD	187	236	0.13	321,189
AUD	9	55	0.67	700
SGD	–	348	0.74	1,700
CAD	–	75	0.73	1,700
	₱1,361,951	₱1,039,776		

*The notional amounts and average forward rates pertain to original currencies.

	Consolidated			
	2021			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Currency forwards and spots:				
BUY:				
USD	₱1,355,660	₱274	51.00	₱3,861,673
GBP	47	16	1.35	6,325
SGD	31	–	0.74	1
EUR	6	5	1.13	12,645
PHP	–	1,544	1.00	1,788,750

(Forward)



Consolidated				
2021				
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
SELL:				
JPY	₱6,124	₱9	0.01	1,080,000
HKD	1,714	108	0.13	2,217,580
USD	990	887,819	51.00	1,374,345
PHP	290	8	1.00	509,708
CAD	141	11	0.78	2,125
GBP	30	884	1.35	8,500
SGD	16	436	0.74	1,400
EUR	2	153	1.13	19,443
AUD	—	228	0.72	500
NZD	—	36	0.68	400
	₱1,365,051	₱891,531		

*The notional amounts and average forward rates pertain to original currencies.

Parent Company				
2022				
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Currency forwards and spots:				
BUY:				
USD	₱748,234	₱760,764	55.76	₱1,225,921
SGD	303	—	0.74	7
EUR	—	57,543	1.06	67,540
SELL:				
USD	603,979	65	55.76	640,066
EUR	3,803	70,519	1.06	62,040
GBP	2,765	—	1.20	2,000
NZD	319	—	0.63	400
JPY	216	11,911	0.01	534,700
PHP	200	138,260	1.00	2,743,406
AUD	9	55	0.67	700
SGD	—	348	0.74	1,700
HKD	—	236	0.13	5,000
CAD	—	75	0.73	1,700
	₱1,359,828	₱1,039,776		

*The notional amounts and average forward rates pertain to original currencies.

Parent Company				
2021				
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Currency forwards and spots:				
BUY:				
USD	₱1,354,160	₱185	51.00	₱1,652,850
GBP	47	16	1.35	6,325
EUR	2	—	1.13	50
SGD	31	—	0.74	1
PHP	—	1,544	1.00	1,788,750
SELL:				
JPY	6,124	9	0.01	1,080,000
USD	986	887,816	51.00	1,361,750
PHP	290	8	1.00	509,708
HKD	214	26	0.13	24,700
CAD	141	11	0.78	2,125
GBP	30	884	1.35	8,500
SGD	16	436	0.74	1,400
AUD	—	228	0.72	500
EUR	—	147	1.13	3,500
NZD	—	36	0.68	400
	₱1,362,041	₱891,346		

*The notional amounts and average forward rates pertain to original currencies.



The rollforward analysis of net derivative assets (liabilities) in 2022 and 2021 follows:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Balance at the beginning of the year:				
Derivative assets	₱1,365,051	₱370,653	₱1,362,041	₱365,558
Derivative liabilities	891,531	701,239	891,346	700,802
	473,520	(330,586)	470,695	(335,244)
Changes in fair value				
Currency forwards and spots*	(147,028)	805,748	(147,028)	806,069
Interest rate swaps and warrants**	—	(23,472)	—	(23,472)
	(147,028)	782,276	(147,028)	782,597
Net availments (settlements)	(4,317)	21,830	(3,615)	23,342
Balance at end of year:				
Derivative assets	₱1,361,951	₱1,365,051	₱1,359,828	₱1,362,041
Derivative liabilities	1,039,776	891,531	1,039,776	891,346
	₱322,175	₱473,520	₱320,052	₱470,695

* Presented as part of 'Foreign exchange gains - net'

** Recorded under 'Trading and investment securities gains - net' (refer to Note 9.5)

24. Maturity Analysis of Assets and Liabilities

The following tables show an analysis of assets and liabilities of the Group and Parent Company analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from reporting date:

	Consolidated					
	2022			2021		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
Cash and other cash items	₱22,217,915	₱—	₱22,217,915	₱27,552,773	₱—	₱27,552,773
Due from BSP	94,701,360	—	94,701,360	161,001,912	—	161,001,912
Due from other banks	26,020,081	—	26,020,081	27,232,676	—	27,232,676
Interbank loans receivable (Note 8)	16,291,470	—	16,291,470	32,112,667	—	32,112,667
Securities held under agreements to resell (Note 8)	64,526,051	—	64,526,051	15,800,317	—	15,800,317
Financial assets at FVTPL (Note 9)	7,347,201	—	7,347,201	11,167,657	—	11,167,657
Financial assets at FVOCI (Note 9)	86,697,820	71,485,705	158,183,525	75,692,741	92,294,549	167,987,290
Investment securities at amortized cost (Note 9)	35,359,598	78,956,212	114,315,810	45,931,953	47,346,056	93,278,009
Loans and receivables (Note 10)	225,461,251	407,109,088	632,570,339	200,773,178	445,914,712	646,687,890
Other assets (Note 15)	51,331	19,000	70,331	136,324	13,698	150,022
	578,674,078	557,570,005	1,136,244,083	597,402,198	585,569,015	1,182,971,213
Nonfinancial Assets						
Property and equipment (Note 11)	—	25,882,025	25,882,025	—	25,846,442	25,846,442
Investment in an associate (Note 12)	—	2,688,764	2,688,764	—	2,468,107	2,468,107
Investment properties (Note 13)	—	17,808,697	17,808,697	—	14,658,030	14,658,030
Deferred tax assets (Note 30)	—	6,616,902	6,616,902	—	6,405,505	6,405,505
Goodwill (Note 14)	—	11,221,410	11,221,410	—	13,375,407	13,375,407
Intangible assets (Note 14)	—	7,770,695	7,770,695	—	6,995,365	6,995,365
Residual value of leased assets (Note 10)	107,634	122,772	230,406	505,784	219,082	724,866
Other assets (Note 15)	2,945,525	2,181,506	5,127,031	4,041,342	1,685,772	5,727,114
	3,053,159	74,292,771	77,345,930	4,547,126	71,653,710	76,200,836
Less: Allowance for impairment and credit losses (Note 16)			47,192,482			49,780,665
Unearned and other deferred income (Note 10)			756,049			1,118,244
Accumulated depreciation and amortization (Notes 11, 13 and 14)			20,484,406			17,488,478
			₱1,145,157,076			₱1,190,784,662

(Forward)



	Consolidated					
	2022			2021		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Financial Liabilities						
Deposit liabilities (Note 17)	₱850,430,921	₱20,796,800	₱871,227,721	₱856,415,554	₱38,508,755	₱894,924,309
Financial liabilities at FVTPL (Note 18)	1,039,776	—	1,039,776	891,531	—	891,531
Bills and acceptances payable (Note 19)	11,867,176	3,113,197	14,980,373	49,780,354	3,173,443	52,953,797
Accrued interest payable (Note 20)	980,446	5,594	986,040	657,063	1,971	659,034
Accrued other expenses payable (Note 20)	2,384,652	478,314	2,862,966	1,657,913	419,695	2,077,608
Bonds payable (Note 21)	16,716,682	41,722,415	58,439,097	—	53,383,421	53,383,421
Other liabilities (Note 22)	8,437,866	1,784,517	10,222,383	7,704,872	2,388,506	10,093,378
	891,857,519	67,900,837	959,758,356	917,107,287	97,875,791	1,014,983,078
Nonfinancial Liabilities						
Lease liabilities (Note 29)	709,214	2,927,177	3,636,391	2,698,373	1,067,018	3,765,391
Accrued taxes and other expenses (Note 20)	3,069,330	2,199,057	5,268,387	2,288,247	2,740,761	5,029,008
Income tax payable	983,051	—	983,051	157,735	—	157,735
Other liabilities (Note 22)	2,727,209	2,878,048	5,605,257	2,564,240	3,062,254	5,626,494
	7,488,804	8,004,282	15,493,086	7,708,595	6,870,033	14,578,628
	₱899,346,323	₱75,905,119	₱975,251,442	₱924,815,882	₱104,745,824	₱1,029,561,706
	Parent Company					
	2022			2021		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
Cash and other cash items	₱22,103,095	₱—	₱22,103,095	₱27,454,459	₱—	₱27,454,459
Due from BSP	94,701,360	—	94,701,360	161,001,912	—	161,001,912
Due from other banks	17,609,247	—	17,609,247	19,333,873	—	19,333,873
Interbank loans receivable (Note 8)	14,736,112	—	14,736,112	30,302,334	—	30,302,334
Securities held under agreements to resell (Note 8)	64,526,051	—	64,526,051	15,800,317	—	15,800,317
Financial assets at FVTPL (Note 9)	7,195,685	—	7,195,685	11,010,278	—	11,010,278
Financial assets at FVOCI (Note 9)	86,716,076	70,489,831	157,205,907	75,706,122	91,840,228	167,546,350
Investment securities at amortized cost (Note 9)	35,359,598	78,816,930	114,176,528	45,814,197	47,335,863	93,150,060
Loans and receivables (Note 10)	214,331,618	403,721,820	618,053,438	193,490,020	439,091,126	632,581,146
Other assets (Note 15)	49,981	1,479	51,460	134,840	1,502	136,342
	557,328,823	553,030,060	1,110,358,883	580,048,352	578,268,719	1,158,317,071
Nonfinancial Assets						
Property and equipment (Note 11)	—	23,667,261	23,667,261	—	23,444,821	23,444,821
Investment in subsidiaries and an associate (Note 12)	—	20,384,104	20,384,104	—	27,275,451	27,275,451
Investment properties (Note 13)	—	17,104,160	17,104,160	—	13,949,148	13,949,148
Deferred tax assets (Note 30)	—	6,574,190	6,574,190	—	6,271,578	6,271,578
Goodwill (Note 14)	—	11,361,768	11,361,768	—	13,515,765	13,515,765
Intangible assets (Note 14)	—	8,712,778	8,712,778	—	7,969,658	7,969,658
Other assets (Note 15)	2,328,923	2,043,660	4,372,583	3,761,622	1,673,606	5,435,228
	2,328,923	89,847,921	92,176,844	3,761,622	94,100,027	97,861,649
Less: Allowance for impairment and credit losses (Note 16)			47,652,020			49,612,865
Unearned and other deferred income (Note 10)			612,582			856,408
Accumulated amortization and depreciation (Notes 11, 13 and 14)			20,526,875			17,698,795
			₱1,133,744,250			₱1,188,010,652
Financial Liabilities						
Deposit liabilities (Note 17)	₱846,551,824	₱20,078,556	₱866,630,380	₱861,706,050	₱37,819,145	₱899,525,195
Financial liabilities at FVTPL (Note 18)	1,039,776	—	1,039,776	891,346	—	891,346
Bills and acceptances payable (Note 19)	10,818,915	3,069,120	13,888,035	48,305,700	2,807,318	51,113,018
Accrued interest payable (Note 20)	964,494	—	964,494	638,907	—	638,907
Accrued other expenses payable (Note 20)	2,351,263	478,314	2,829,577	1,630,969	419,695	2,050,664

(Forward)



	Parent Company					
	2022			2021		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Bonds payable (Note 21)	₱16,716,682	₱41,722,415	₱58,439,097	₱—	₱53,383,421	₱53,383,421
Other liabilities (Note 22)	7,666,525	1,753,787	9,420,312	6,909,027	2,000,813	8,909,840
	886,109,479	67,102,192	953,211,671	920,081,999	96,430,392	1,016,512,391
Nonfinancial Liabilities						
Lease liabilities (Note 29)	676,900	2,927,177	3,604,077	2,686,906	1,011,504	3,698,410
Accrued taxes and other expenses (Note 20)	2,507,506	2,186,123	4,693,629	2,086,159	2,728,651	4,814,810
Income tax payable	916,235	—	916,235	89,328	—	89,328
Other liabilities (Note 22)	1,531,794	3,141,699	4,673,493	1,538,221	3,064,790	4,603,011
	5,632,435	8,254,999	13,887,434	6,400,614	6,804,945	13,205,559
	₱891,741,914	₱75,357,191	₱967,099,105	₱926,482,613	₱103,235,337	₱1,029,717,950

25. Equity

25.1 Capital Stock

This account consists of (amounts in thousands, except for par value and number of shares):

	Shares	Amount
Common - ₱40 par value		
Authorized	1,750,000,001	₱70,000,000
Issued and outstanding		
Balance at the beginning and end of the year	1,525,764,850	₱61,030,594

The history of share issuances of the Parent Company since its initial public offering follows:

Date	Type of issuance	Number of common shares	Par value	Offer price
July 2019	Stock rights	276,625,172	₱40.00	₱43.38
February 2014	Stock rights	162,931,262	40.00	71.00
February 2013	Share-for-share swap with ABC common and preferred shares	423,962,500	40.00	97.90
September 2000	Pre-emptive stock rights	71,850,215	100.00	60.00
September 1999	Stock rights	68,740,086	100.00	137.80
December 1995	Third public offering	7,200,000	100.00	260.00
April 1992	Second public offering	8,033,140	100.00	265.00
June 1989	Initial public offering	10,800,000	100.00	100.00

In January 2013, the SEC approved the conversion of the Parent Company's 195,175,444 authorized preferred shares into common shares, thereby increasing its authorized common shares to 1,250,000,001.

The Parent Company's shares are listed in the PSE. As of December 31, 2022 and 2021, the Parent Company had 36,192 and 36,286 stockholders, respectively.

On July 22, 2019, the Parent Company successfully completed its Stock Rights Offering (SRO) of 276,625,172 common shares with a par value of ₱40.0 per share at a price of ₱43.38 each, raising gross proceeds of ₱12.0 billion. Out of the total transaction costs from the SRO, underwriting fees amounting to ₱10.0 million paid to PNB Capital, being one of the joint lead managers, was eliminated against 'Capital Paid in Excess of Par Value' in the consolidated financial statements.



25.2 Surplus

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11-2008 differs to a certain extent from the computation following BSP guidelines.

As of December 31, 2022 and 2021, surplus amounting to ₱9.6 billion, representing the balances of the following equity items that have been applied to eliminate the Parent Company's deficit through quasi-reorganizations in 2002 and 2000, is not available for dividend declaration without prior approval from the SEC and the BSP:

Revaluation increment on land and buildings	₱7,691,808
Accumulated translation adjustment	1,315,685
Accumulated equity in net earnings of investees	563,048
	₱9,570,541

25.3 Surplus Reserves

This account consists of:

	2022	2021
Reserves under BSP Circular 1011 (Note 10)	₱4,218,928	₱4,461,857
Reserves for trust business (Note 32)	630,314	605,583
Reserves for self-insurance	80,000	80,000
	₱4,929,242	₱5,147,440

'Reserves under BSP Circular 1011' represents the appropriation for the excess of 1.00% general loan loss provisions over the computed ECL for Stage 1 accounts in accordance with BSP Circular 1011.

'Reserves for self-insurance' represents the amount set aside to cover losses due to fire or defalcation by, and other unlawful acts of, the Parent Company's personnel or third parties.

25.4 Accumulated Translation Adjustment

As part of the Group's rehabilitation program in 2002, the SEC approved on November 7, 2002 the application of the accumulated translation adjustment of ₱1.6 billion to eliminate the Parent Company's remaining deficit of ₱1.3 billion, including ₱0.6 billion accumulated equity in net earnings as of December 31, 2001, after applying the total reduction in par value amounting to ₱7.6 billion.

The SEC approval is subject to the following conditions:

- remaining translation adjustment of ₱310.7 million as of December 31, 2001 (shown as part of 'Capital paid in excess of par value' in the statement of financial position) will not be used to wipe out losses that may be incurred in the future without prior approval of SEC;
- for purposes of dividend declaration, any future surplus account of the Parent Company shall be restricted to the extent of the deficit wiped out by the translation adjustment.



25.5 Other Equity Reserves

On August 26, 2016, the Parent Company's BOD approved the grant of centennial bonus to its employees, officers and directors on record as of July 22, 2016, in the form of the Parent Company's shares of stock. The acquisition and distribution of the estimated 3.0 million shares shall be done over a period of five years, and are subject to service conditions. The grant is accounted for as equity-settled share-based payments. Grant date is April 27, 2017 when the fair value of the centennial bonus shares is ₱65.20. In 2021 and 2020, the Parent Company awarded 306 thousand and 316 thousand, respectively, centennial bonus shares and applied the settlement of the awards against 'Other equity reserves' amounting to ₱29.0 million and ₱6.4 million, respectively.

25.6 Capital Management

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

The Parent Company and its financial allied subsidiaries are subject to the regulatory requirements of the BSP. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Parent Company may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous periods. The Group has complied with all externally imposed capital requirements throughout the year.

25.6.1 BSP Reporting for Capital Management

Under existing BSP regulations, the determination of the Group's compliance with regulatory requirements and ratios is based on the amount of the Group's unimpaired capital (regulatory net worth) reported to the BSP, which is determined based on RAP, which differ from PFRS in some respects. In addition, the risk-based capital ratio of a bank or Capital Adequacy Ratio (CAR), expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% at all times for both solo basis (head office and branches) and consolidated basis (Parent Company and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on RAP. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

On May 16, 2002, the BSP approved the booking of additional appraisal increment on properties of ₱431.8 million and recognition of the same in determining the CAR, and booking of translation adjustment of ₱1.6 billion representing the increase in peso value of the investment in foreign subsidiaries for purposes of the quasi-reorganization and rehabilitation of the Parent Company, provided that the same shall be excluded for dividend purposes.

On August 29, 2019, the MB of the BSP approved the integration of PNBSB with the Parent Company. One of the integration incentives granted by the BSP was a temporary capital relief by not deducting the amount of investment of the Parent Company in PNBSB from CET1 Capital in computing the CAR on a solo basis. The relief commenced on the date of net asset transfer and shall become effective until approval by the SEC of the reduction of authorized capital stock of PNBSB.



As of December 31, 2022 and 2021, CAR reported to the BSP with certain adjustments is shown in the table below (amounts, except ratios, are expressed in millions):

Consolidated	2022		2021	
	Actual	Required	Actual	Required
CET1 Capital (Gross)	₱158,834		₱152,857	
Less: Regulatory Adjustments to CET 1	48,221		48,541	
CET1 Capital (Net) / Tier 1 Capital	110,613		104,316	
Add: Tier 2 Capital	6,109		5,634	
Total qualifying capital	₱116,722	₱75,873	₱109,950	₱80,490
Total risk-weighted assets	₱758,730		₱804,903	
Tier 1 capital ratio	14.58%		12.96%	
Total capital ratio	15.38%		13.66%	

Parent Company	2022		2021	
	Actual	Required	Actual	Required
CET1 Capital (Gross)	₱154,537		₱149,117	
Less: Regulatory Adjustments to CET 1	61,587		61,982	
CET1 Capital (Net) / Tier 1 Capital	92,950		87,135	
Add: Tier 2 Capital	5,878		5,442	
Total qualifying capital	₱98,828	₱73,356	₱92,577	₱79,135
Total risk-weighted assets	₱733,556		₱791,349	
Tier 1 capital ratio	12.67%		11.01%	
Total capital ratio	13.47%		11.70%	

The Group considered BSP regulations, which set out a minimum CET1 ratio of 6.00% and Tier 1 capital ratio of 7.50%, and require capital conservation buffer of 2.50% comprised of CET1 capital.

In line with its ICAAP document, the Parent Company maintains a capital level that not only meets the BSP's CAR requirement, but also covers all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning and strategic management with risk management. The Parent Company has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. The Parent Company complies with the required annual submission of updated ICAAP.

25.6.2 BSP Reporting for Basel III Leverage Ratio

BSP also requires the Basel III Leverage Ratio (BLR), which is designed to act as a supplementary measure to the risk-based capital requirements. BLR intends to restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes, which can damage the broader financial system and the economy. Likewise, it reinforces the risk-based requirements with a simple, non-risk based "backstop" measure. BLR is computed as the capital measure (Tier 1 capital) divided by the total exposure measure and should not be less than 5.00%.

As of December 31, 2022 and 2021, BLR reported to the BSP with certain adjustments is shown in the table below (amounts, except ratios, are expressed in millions):

	Consolidated		Parent Company	
	2022	2021	2022	2021
Tier 1 capital	₱110,613	₱104,316	₱92,950	₱87,135
Total exposure measure	1,176,190	1,189,481	1,150,463	1,171,530
BLR	9.40%	8.77%	8.08%	7.44%

BLR is computed based on RAP.



26. Other Operating Income

26.1 Service Fees and Commission Income

This account consists of:

	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Continuing operations:						
Deposit-related	₱1,585,441	₱1,326,692	₱1,058,033	₱1,585,441	₱1,326,692	₱1,054,359
Loan-related	1,122,258	1,432,909	1,072,459	1,114,379	1,425,149	1,124,608
Underwriting fees	1,032,640	511,032	227,494	—	—	—
Bancassurance (Note 22)	873,039	495,512	206,686	873,039	495,512	206,686
Remittance (Note 33)	680,875	652,262	646,494	357,161	351,392	340,364
Credit card-related	669,862	697,962	622,302	669,862	697,962	622,302
Interchange fees	458,456	383,271	329,059	458,456	383,271	329,059
Trust fees (Note 32)	317,782	319,422	314,851	317,782	319,422	314,851
Miscellaneous	257,256	521,264	207,194	187,249	311,329	142,290
	6,997,609	6,340,326	4,684,572	5,563,369	5,310,729	4,134,519
Discontinued operations:						
Miscellaneous (Note 36)	—	110	19,718	—	—	—
	₱6,997,609	₱6,340,436	₱4,704,290	₱5,563,369	₱5,310,729	₱4,134,519

‘Credit card-related fees’ and ‘Interchange fees’ were generated from the credit card business of the Parent Company.

‘Miscellaneous’ includes income from securities brokering activities and other fees and commission.

26.2 Net Gains on Sale or Exchange of Assets

This account consists of:

	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Net gains from sale of investment properties	₱5,703,909	₱15,192	₱11,775	₱5,701,642	₱8,268	₱11,806
Net gains from foreclosure and repossession of investment properties	1,751,739	138,697	72,109	1,751,739	138,697	13,209
Net gains from sale of other assets	241,807	52,206	—	241,807	60,880	—
Net gains from sale of receivables	42,786	766,968	104,181	42,786	766,968	104,181
Net gains (losses) from sale of property and equipment (Note 11)	34,913	8,399	7,777	32,027	(789)	1,297
	₱7,775,154	₱981,462	₱195,842	₱7,770,001	₱974,024	₱130,493

In September 2021, the Parent Company sold certain NPLs with aggregate outstanding balances before sale, including accrued interest, of ₱5.5 billion, resulting in a gain from sale of receivables of ₱767.0 million.



27. Miscellaneous Income and Expenses

27.1 Miscellaneous Income

This account consists of:

	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Continuing operations:						
Recoveries	₱303,435	₱85,164	₱33,000	₱221,253	₱84,463	₱24,685
Rental income (Notes 29 and 33)	275,865	513,904	680,332	47,345	211,775	383,733
Miscellaneous - Loan-related	205,253	25,763	29,224	205,253	25,763	29,224
Income from assets acquired	95,736	183,173	258,708	95,736	183,173	253,128
Dividends	51,211	63,608	86,139	11,139	23,584	45,811
Miscellaneous - Credit card-related	12,605	15,912	8,812	12,605	15,912	8,812
Referral fees	3,301	2,491	3,188	—	—	—
Miscellaneous - Trade-related	351	188	17,055	351	188	17,055
Others	188,935	179,844	128,241	127,751	214,968	144,304
	1,136,692	1,070,047	1,244,699	721,433	759,826	906,752
Discontinued operations (Note 36):						
Rental income	—	375,556	—	—	—	—
Others	—	111,401	243,860	—	—	—
	—	486,957	243,860	—	—	—
	₱1,136,692	₱1,557,004	₱1,488,559	₱721,433	₱759,826	₱906,752

‘Others’ consist of income from wire transfers, tellers’ overages, and penalty payments received by the Group which are related to loan accounts.

27.2 Miscellaneous Expenses

This account consists of:

	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Continuing operations:						
Secretarial, janitorial and messengerial	₱1,790,422	₱1,682,794	₱1,631,137	₱1,779,543	₱1,669,906	₱1,605,223
Insurance	1,778,214	1,997,478	1,833,686	1,763,300	1,983,103	1,787,331
Information technology	1,193,975	1,304,930	1,448,623	1,165,865	1,283,294	1,431,600
Marketing expenses	1,070,147	719,070	737,110	1,063,239	713,832	732,788
Litigation and assets acquired expenses (Note 13)	373,740	395,386	248,302	373,549	394,534	243,489
Travelling	339,868	284,484	289,765	333,898	280,090	282,758
Management and other professional fees	279,363	294,090	363,710	220,880	245,853	291,457
Stationery and supplies	269,669	269,813	265,226	260,333	261,679	255,914
Common use service area (CUSA) charges (Note 33)	188,770	—	—	188,770	—	—
Postage, telephone and cable	156,800	151,560	163,160	127,895	124,270	125,244
Entertainment, amusement and recreation (EAR) (Note 30)	154,987	189,098	147,421	145,423	181,251	137,152
Value-added tax on leases	141,988	88,116	—	141,988	88,116	—
Repairs and maintenance	79,303	70,375	62,161	79,303	70,375	62,161
Freight	41,599	42,418	30,973	41,547	42,320	29,428
Fuel and lubricants	16,301	14,172	14,157	13,751	11,477	10,931
Loss on loan modifications	—	—	1,587,605	—	—	1,587,605
Others (Note 33)	176,796	698,971	190,403	111,146	624,455	54,893
	8,051,942	8,202,755	9,013,439	7,810,430	7,974,555	8,637,974

(Forward)



	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Discontinued operations:						
Management and other professional fees (Note 33)	P=	P109,776	P1,843	P=	P=	P=
Insurance	—	10,363	457	—	—	—
Information technology	—	2,906	6,918	—	—	—
Marketing expenses	—	2,236	8,514	—	—	—
Secretarial, janitorial and messengerial	—	1,620	6,015	—	—	—
Postage, telephone and cable	—	751	3,232	—	—	—
Travelling	—	508	2,390	—	—	—
Stationery and supplies	—	449	2,090	—	—	—
Fuel and lubricants	—	411	2,327	—	—	—
EAR	—	142	2,575	—	—	—
Others	—	2,832	8,649	—	—	—
	—	131,994	45,010	—	—	—
	P8,051,942	P8,334,749	P9,058,449	P7,810,430	P7,974,555	P8,637,974

‘Loss on loan modifications’ pertains to the adjustment for the changes in expected cash flows of credit exposures, as a result of modifications in the original terms and conditions of the loan which include, but not limited to, changes in interest rates, principal amount, maturity date, and payment terms. The Group accommodated modifications in the terms and conditions of certain loans of borrowers, which have been directly impacted by the COVID-19 pandemic. The loss is computed as the difference between the gross carrying amount of the loan and the present value of the modified contractual cash flows, discounted at the original effective interest rate of the loan. Subsequent accretion to interest income in 2022 and 2021 amounted to P369.2 million and P351.5 million, respectively.

‘Others’ include stationery and supplies used, donation, fines, penalties, periodicals, magazines and other charges.

28. Retirement Plan

The Parent Company and certain subsidiaries of the Group have separate funded, noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The amounts of net defined benefit liability in the statements of financial position follow:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Retirement benefit liability (included in ‘Other liabilities’) (Note 22)	P384,838	P926,259	P382,449	P923,116
Net plan assets (included in ‘Other assets - miscellaneous’) (Note 15)	5,988	5,678	—	—
	P378,850	P920,581	P382,449	P923,116

The Parent Company also provides certain post-employee benefit through a guarantee of a specified return on contributions in one of its employee investment plans (EIP).



The changes in the present value obligation and fair value of plan assets are as follows:

Consolidated												
2022												
	Net benefit cost					Remeasurements in other comprehensive income						
	January 1, 2022	Current Service Cost	Past Service Cost	Net interest	Subtotal	Benefits paid	Return on plan asset excluding amount included in net interest	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions by employer	December 31, 2022
Present value of pension obligation	₱9,016,762	₱593,481	₱312,332	₱425,991	₱1,331,804	(₱1,069,819)	₱-	₱153,996	(₱1,170,195)	(₱1,016,199)	₱-	₱8,262,548
Fair value of plan assets	8,096,181	-	-	383,369	383,369	(1,069,819)	(373,885)	-	-	(373,885)	847,852	7,883,698
	₱920,581	₱593,481	₱312,332	₱42,622	₱948,435	₱-	₱373,885	₱153,996	(₱1,170,195)	(₱642,314)	(₱847,852)	₱378,850

*Net benefit costs are included in 'Compensation and fringe benefits' in the statements of income

Consolidated												
2021												
	Net benefit cost					Remeasurements in other comprehensive income						
	January 1, 2021	Current Service Cost	Past Service Cost	Net interest	Subtotal	Benefits paid	Return on plan asset excluding amount included in net interest	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions by employer	December 31, 2021
Present value of pension obligation	₱9,138,303	₱581,774	₱-	₱309,967	₱891,741	(₱635,622)	₱-	(₱114,426)	(₱263,234)	(₱377,660)	₱-	₱9,016,762
Fair value of plan assets	7,931,953	-	-	269,847	269,847	(635,622)	(220,117)	-	-	(220,117)	750,120	8,096,181
	₱1,206,350	₱581,774	₱-	₱40,120	₱621,894	₱-	₱220,117	(₱114,426)	(₱263,234)	(₱157,543)	(₱750,120)	₱920,581

*Net benefit costs are included in 'Compensation and fringe benefits' in the statements of income



Parent Company												
2022												
Net benefit cost						Remeasurements in other comprehensive income						
January 1, 2022	Current Service Cost	Past Service Cost	Net interest	Subtotal	Benefits paid	Return on plan asset excluding amount included in net interest	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions by employer	December 31, 2022	
Present value of pension obligation	₱8,959,007	₱588,010	₱312,332	₱424,265	₱1,324,607	(₱1,069,819)	₱–	₱151,832	(₱1,159,910)	(₱1,008,078)	₱–	₱8,205,717
Fair value of plan assets	8,035,891	–	–	381,705	381,705	(1,069,819)	(372,362)	–	–	(372,362)	847,853	7,823,268
	₱923,116	₱588,010	₱312,332	₱42,560	₱942,902	₱–	₱372,362	₱151,832	(₱1,159,910)	(₱635,716)	(₱847,853)	₱382,449

*Net benefit costs are included in 'Compensation and fringe benefits' in the statements of income

Parent Company												
2021												
Net benefit cost						Remeasurements in other comprehensive income						
January 1, 2021	Current Service Cost	Past Service Cost	Net interest	Subtotal	Benefits paid	Return on plan asset excluding amount included in net interest	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions by employer	December 31, 2021	
Present value of pension obligation	₱9,085,073	₱572,224	₱–	₱307,994	₱880,218	(₱635,622)	₱–	(₱111,642)	(₱259,020)	(₱370,662)	₱–	₱8,959,007
Fair value of plan assets	7,879,861	–	–	267,915	267,915	(635,622)	(219,871)	–	–	(219,871)	743,608	8,035,891
	₱1,205,212	₱572,224	₱–	₱40,079	₱612,303	₱–	₱219,871	(₱111,642)	(₱259,020)	(₱150,791)	(₱743,608)	₱923,116

*Net benefit costs are included in 'Compensation and fringe benefits' in the statements of income

In 2022, the Parent Company amended certain provisions of its defined benefit retirement plan and EIP, resulting in the recognition of past service costs amounting to ₱312.3 million.



The latest actuarial valuations for these retirement plans were made as of December 31, 2022. The following table shows the actuarial assumptions as of December 31, 2022 and 2021 used in determining the retirement benefit obligation of the Group:

	Consolidated		Parent Company			
	2022	2021	Regular Plans		EIP	
	2022	2021	2022	2021	2022	2021
Discount rate	6.92% - 7.15%	3.45% - 4.99%	6.92%	4.75%	6.93%	4.75%
Salary rate increase	6.00% - 10.00%	3.00% - 10.00%	6.00%	6.00%	—	—

The Group and the Parent Company employ asset-liability matching strategies to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement plan. Retirement plans are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations and maximize opportunities for higher potential returns at the least risk.

The current plan assets of the Group and the Parent Company are allocated to cover benefit payments in the order of their proximity to the present time. Expected benefit payments are projected and classified into short-term or long-term liabilities. Investment instruments that would match the liabilities are identified. This strategy minimizes the possibility of the asset-liability match being distorted due to the Group's and the Parent Company's failure to contribute in accordance with its general funding strategy.

The Group and the Parent Company expect to contribute ₱730.7 million and ₱724.9 million, respectively, to the defined benefit plans in 2023. The average duration of the retirement liability of the Group and the Parent Company as of December 31, 2022 is 14 years and 9 years, respectively.

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

	Consolidated		Parent Company	
	2022	2021	2022	2021
Less than one year	₱1,715,711	₱1,639,472	₱1,715,118	₱1,638,962
More than one year to five years	5,337,983	5,181,164	5,313,181	5,176,283
More than five years to 10 years	4,452,313	4,356,064	4,399,376	4,310,518
More than 10 years to 15 years	3,946,295	3,625,801	3,867,711	3,530,315
More than 15 years	9,333,106	8,998,036	8,884,949	8,592,546

The fair values of plan assets by each class as at the end of the reporting periods are as follow:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Cash and cash equivalents (Note 33)	₱3,897,238	₱3,792,281	₱3,887,225	₱3,783,563
Equity investments				
Electricity, gas and water	225,683	284,300	224,668	284,300
Real estate, renting and business activities	210,570	466,747	207,323	466,747
Financial institutions (Note 33)	161,806	177,928	156,169	165,210
Others	192,136	201,956	182,638	194,636
Debt investment				
Government securities	1,796,154	1,752,649	1,787,280	1,743,551
Private debt securities	626,677	537,016	618,124	528,473
Investment in UITFs (Note 33)	565,266	805,211	555,186	794,979
Loans and receivables	160,380	63,360	160,380	63,360
Interest and other receivables	50,782	17,232	47,121	13,491
	7,886,692	8,098,680	7,826,114	8,038,310
Accrued expenses	(2,994)	(2,499)	(2,846)	(2,420)
	₱7,883,698	₱8,096,181	₱7,823,268	₱8,035,890



All equity and debt investments held have quoted prices in active markets. Fair value of investments in UITFs is based on their published net asset value per share. The remaining plan assets do not have quoted market prices in an active market, thus, their fair value is determined using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of loans and receivables.

The fair value of the plan assets as of December 31, 2022 and 2021 for the Group includes investments in the Parent Company shares of stock with fair value amounting to ₱156.2 million and ₱165.2 million, respectively (refer to Note 33.3).

The plan assets have diverse investments and do not have any concentration risk.

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

2022				
	Consolidated		Parent Company	
	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)
Discount rate	+1.00%	(₱452,402)	+1.00%	(₱446,082)
	-1.00%	504,175	-1.00%	496,643
Salary increase rate	+1.00%	469,231	+1.00%	461,837
	-1.00%	(432,648)	-1.00%	(426,285)
Employee turnover rate	+10.00%	61,043	+10.00%	60,283
	-10.00%	(61,043)	-10.00%	(60,283)

2021				
	Consolidated		Parent Company	
	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)
Discount rate	+1.00%	(₱545,838)	+1.00%	(₱538,945)
	-1.00%	618,425	-1.00%	610,126
Salary increase rate	+1.00%	557,244	+1.00%	549,222
	-1.00%	(504,192)	-1.00%	(497,358)
Employee turnover rate	+10.00%	(201,187)	+10.00%	(200,279)
	-10.00%	201,187	-10.00%	200,279

Full actuarial valuations were performed to test the sensitivity of the defined benefit obligation to a 1.00% increment in salary increase rate and a 1.00% decrement in the discount rate. The results also provide a good estimate of the sensitivity of the defined benefit obligation to a 1.00% decrement in salary increase rate and a 1.00% increment in the discount rate.

29. Leases

29.1 Group as Lessee

The Group has entered into commercial leases for its branch sites, ATM offsite location and other equipment. These non-cancelable leases have lease terms of 1 to 25 years. Most of these lease contracts include escalation clauses, an annual rent increase of 2.00% to 10.00%. The Group ROU asset is composed of the Parent Company's branch sites and its subsidiaries offices under lease arrangements.



The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises judgement in determining whether these extension and termination options are reasonably certain to be exercised.

Rent expense charged against current operations (included in 'Occupancy and equipment-related costs' in the statements of income) amounted to ₱270.2 million, ₱251.5 million and ₱580.6 million in 2022, 2021 and 2020, respectively, for the Group, of which ₱201.6 million, ₱223.2 million and ₱532.9 million in 2022, 2021, and 2020, respectively, pertain to the Parent Company. Rent expenses in 2022, 2021 and 2020 pertain to expenses from short-term leases and leases of low-value assets.

As of December 31, 2022 and 2021, the Group has no contingent rent payable.

As of December 31, 2022 and 2021, the carrying amounts of 'Lease liabilities' are as follows:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Balance at beginning of year	₱3,765,391	₱1,366,016	₱3,698,410	₱1,370,206
Additions	799,014	3,377,981	789,687	3,298,634
Payments	(1,113,225)	(1,231,287)	(1,068,038)	(1,213,912)
Interest expense (Note 19)	171,885	112,591	170,692	107,052
Effect of loss of control over PNB Holdings	—	179,095	—	136,430
Effect of discontinued operations (Note 36)	—	(39,005)	—	—
Transfers	13,326	—	13,326	—
	₱3,636,391	₱3,765,391	₱3,604,077	₱3,698,410

The Parent Company has lease contracts with its affiliates (Note 33).

Future minimum rentals payable under non-cancelable leases follow:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Within one year	₱1,010,202	₱1,097,903	₱925,509	₱1,086,436
Beyond one year but not more than five years	3,172,151	2,498,020	3,058,101	2,486,540
More than five years	801,283	1,446,578	705,688	1,446,578
	₱4,983,636	₱5,042,501	₱4,689,298	₱5,019,554

29.2 Group as Lessor Under Operating Leases

The Parent Company has entered into commercial property leases on its investment properties. These non-cancelable leases have lease terms of one to five years. Some leases include escalation clauses (such as 5.00% per year). In 2022, 2021 and 2020, total rent income (included under 'Miscellaneous income') amounted to ₱275.9 million, ₱513.9 million and ₱680.3 million, respectively, for the Group and ₱47.3 million, ₱211.8 million and ₱383.7 million, respectively, for the Parent Company (refer to Note 27.1).

Future minimum rentals receivable of the Group under non-cancelable operating leases follow:

	2022	2021
Within one year	₱42,163	₱645,654
Beyond one year but not more than five years	460,051	102,795
	₱502,214	₱748,449



29.3 Group as Lessor Under Finance Leases

Leases where the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased asset are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease (effective interest method). Lease payments relating to the period are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

The future minimum lease receivables under finance leases are disclosed under 'Loans and Receivables' in Note 10.2.

30. Income and Other Taxes

30.1 Philippine Tax Landscape and Regulations

Under Philippine tax laws, the Parent Company and certain subsidiaries are subject to percentage and other taxes (presented as 'Taxes and licenses' in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp tax.

Income taxes include the corporate income tax, discussed below, and final taxes paid which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from the FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for (benefit from) income tax' in the statements of income.

On March 26, 2021, Republic Act No. 11534, otherwise known as Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act was signed into law. CREATE reduced the RCIT rate from 30.00% to 25.00% depending on the criteria set by the law effective July 1, 2020. With the implementation of CREATE, interest expense allowed as a deductible expense shall be reduced by 20.00% of the interest income subjected to final tax, compared to the 33.00% reduction prior to the CREATE.

The regulations also provide for MCIT of 2.00% (prior to CREATE) and 1.00% from (July 1, 2020 to June 30, 2023 before reverting to 2.00%) on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group's and the Parent Company's income tax liability and taxable income, respectively, over a three-year period from the year of inception. For the taxable years 2020 and 2021, the NOLCO incurred can be carried over as a deduction for the next five (5) consecutive taxable years, pursuant to Revenue Regulations (RR) No. 25-2020.

Impact of CREATE Law

Applying the provisions of the CREATE Law, the Group and the Parent Company is subjected to lower regular corporate income tax rate of 25.00% effective July 1, 2020. The following are the impact of CREATE in the 2021 financial statements of the Group and the Parent Company:

- Based on the provisions of Revenue Regulations (RR) No. 5-2021 dated April 8, 2021 issued by the BIR, the transitory RCIT and MCIT rates applicable to the Group and the Parent Company for the taxable year 2020 is 27.50% and 1.50%, respectively. This resulted in reduction in the current income tax due for the taxable year 2020 amounting to ₱365.1 million and ₱361.4 million



for the Group and the Parent Company, respectively. The reduced amounts were reflected in the 2020 Annual Income Tax Returns filed in 2021. For financial reporting purposes, such reductions in the 2020 current income taxes were recognized in the 2021 financial statements as reduction to 2021 income tax expense.

- The deferred tax assets as of December 31, 2021 were also remeasured using the lower RCIT rate of 25.00%. The net decrease in the deferred tax balances amounting to ₱1.5 billion for the Group and the Parent Company, reduced the provision for deferred tax by ₱1.5 billion for the Group and the Parent Company, and other comprehensive income by ₱9.2 million and ₱9.4 million for the Group and the Parent Company.

There were no tax-related contingent liabilities and contingent assets arising from the changes in the tax rates due to CREATE Act.

Current tax regulations also provide for the ceiling on the amount of EAR expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Parent Company and some of its subsidiaries is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. EAR charged against current operations (included in 'Miscellaneous expenses' in the statements of income) amounted to

₱155.0 million in 2022, ₱189.1 million in 2021, and ₱147.4 million in 2020 for the Group, and ₱145.4 million in 2022, ₱181.3 million in 2021, and ₱137.2 million in 2020 for the Parent Company (refer to Note 27.2).

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 15.00%. Income derived by the FCDU from foreign currency-denominated transactions with non-residents, OBUs, local commercial banks including branches of foreign banks, is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

30.2 Provision for (Benefit from) Income Tax

This account consists of:

	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Continuing operations:						
Current						
Regular	₱3,463,008	₱1,549,711	₱3,215,178	₱3,238,970	₱1,316,245	₱3,186,427
Final	1,807,104	1,411,669	1,459,926	1,784,869	1,372,443	1,388,839
	5,270,112	2,961,380	4,675,104	5,023,839	2,688,688	4,575,266
Deferred	(338,884)	2,583,814	(6,541,506)	(339,814)	2,323,873	(6,520,787)
	4,931,228	5,545,194	(1,866,402)	4,684,025	5,012,561	(1,945,521)
Discontinued operations (Note 36):						
Current						
Regular	—	177,048	68,831	—	—	—
Final	—	15,813	20,519	—	—	—
	—	192,861	89,350	—	—	—
Deferred	—	(84,259)	(768)	—	—	—
	—	108,602	88,582	—	—	—
	₱4,931,228	₱5,653,796	(₱1,777,820)	₱4,684,025	₱5,012,561	(₱1,945,521)



30.3 Deferred Taxes

The amounts of net deferred tax assets in the statements of financial position follow:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Deferred tax assets	₱6,616,902	₱6,405,505	₱6,574,190	₱6,271,578
Deferred tax liabilities (Note 22)	165,721	165,228	–	–
	₱6,451,181	₱6,240,277	₱6,574,190	₱6,271,578

The components of net deferred tax assets reported in the statements of financial position follow:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Deferred tax assets on:				
Allowance for impairment, credit and other losses	₱9,055,746	₱8,467,637	₱9,070,709	₱8,395,806
Accumulated depreciation on investment properties and appraisal increment	520,544	495,884	520,544	495,884
Accrued expenses	372,660	469,714	372,660	469,714
Deferred revenues	162,342	129,050	162,342	129,050
Retirement liability	50,617	52,434	–	–
Unrealized losses on financial assets at FVTPL and FVOCI	–	42,169	–	42,169
Others	8,476	9,812	–	–
	10,170,385	9,666,700	10,126,255	9,532,623
Deferred tax liabilities on:				
Revaluation increment on land and buildings ^{1/}	1,536,217	1,536,629	1,536,217	1,536,629
Fair value adjustments on asset foreclosures and dacion transactions	1,414,221	1,066,381	1,265,883	918,043
Unrealized foreign exchange gains	339,957	340,458	339,957	340,458
Gain on remeasurement of previously held interest	246,651	246,651	246,651	246,651
Fair value adjustments due to business combination	161,634	210,574	161,634	210,574
Unrealized gains on financial assets at FVTPL and FVOCI	1,882	8,836	1,723	8,690
Others	18,642	16,894	–	–
	3,719,204	3,426,423	3,552,065	3,261,045
	₱6,451,181	₱6,240,277	₱6,574,190	₱6,271,578

^{1/} Balance includes deferred tax liability amounting to ₱613.7 million acquired from business combination

As of December 31, 2022 and 2021, the Group's net deferred tax liabilities as disclosed in 'Other liabilities' (refer to Note 22) include deferred tax liabilities on fair value adjustments due to business combination amounting to ₱148.3 million.

Benefit from deferred tax credited directly to OCI pertaining to remeasurement losses on retirement plan amounted to nil and ₱2.5 million in 2022 and 2021, respectively, for the Group. Provision for deferred tax charged directly to OCI pertaining to net unrealized gains on financial assets at FVOCI amounting to ₱32.7 million for the Group and the Parent Company in 2022, and ₱87.6 million for the Group and the Parent Company in 2021.



Unrecognized deferred tax assets

The Parent Company and certain subsidiaries did not recognize deferred tax assets on the following unused tax credit and losses and temporary differences since they believe that the related tax benefits will not be realized in the future:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Allowance for impairment and credit losses	₱8,615,344	₱13,997,827	₱8,615,344	₱6,642,377
Unamortized past service cost	2,140,071	2,540,326	2,140,071	2,540,326
Derivative liabilities	1,037,348	891,346	1,037,348	891,346
Unrealized losses on financial assets	870,774	—	870,774	—
Unrealized foreign exchange loss	627,501	1,450,079	627,501	1,450,079
Retirement liability	382,449	923,116	382,449	923,116
Lease liability	284,486	21,752	284,162	19,825
NOLCO	140,800	140,800	—	—
Unearned interest and discount	—	334,355	—	334,355
	₱14,098,773	₱20,299,601	₱13,957,649	₱12,801,424

Details of the Group's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2020	₱89,960	₱—	₱89,960	2025
2021	50,840	—	50,840	2026
	₱140,800	₱—	₱140,800	

Unrecognized deferred tax liabilities

As of December 31, 2022, there was a deferred tax liability of ₱840.4 million (₱736.1 million in 2021) for temporary differences of ₱3.4 billion (₱2.9 billion in 2021) related to investment in certain subsidiaries. However, this liability was not recognized because the Parent Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

30.4 Statutory Income Tax Reconciliation

The reconciliation between the statutory income tax rate to effective income tax rate follows:

	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Statutory income tax rate	25.00%	25.00%	30.00%	25.00%	25.00%	30.00%
Tax effects of:						
Non-deductible expenses	14.69	4.54	1,060.87	13.73	5.20	559.12
Net unrecognized deferred tax assets	(6.04)	6.03	(1,169.49)	(6.36)	5.46	(635.63)
Tax-exempt income	(2.91)	(21.93)	(116.17)	(2.96)	(22.94)	(65.28)
Tax-paid income	(2.01)	(0.63)	(85.73)	(2.05)	(0.66)	(47.66)
FCDU loss (income) before tax	1.49	2.61	(59.81)	1.52	2.73	(32.34)
Optional standard deduction	(0.36)	(0.08)	—	—	—	—
CREATE adjustment – deferred tax	—	0.01	—	—	0.01	—
CREATE adjustment – current tax	—	(0.95)	—	—	(0.99)	—
Effective income tax rate	29.86%	14.60%	(340.33%)	28.88%	13.81%	(191.79%)



31. Earnings Per Share

Earnings per share attributable to equity holders of the Parent Company is computed as follows:

	2022	2021	2020
a) Net income attributable to equity holders of the Parent Company	₱11,532,318	₱31,630,626	₱2,614,653
b) Weighted average number of common shares for basic earnings per share (Note 25)	1,525,765	1,525,765	1,525,765
c) Basic/Diluted earnings per share (a/b)	₱7.56	₱20.73	₱1.71

Earnings per share attributable to equity holders of the Parent Company from continuing operations is computed as follows:

	2022	2021	2020
a) Net income attributable to equity holders of the Parent Company from continuing operations	₱11,532,318	₱32,365,991	₱2,403,984
b) Weighted average number of common shares for basic earnings per share (Note 25)	1,525,765	1,525,765	1,525,765
c) Basic/Diluted earnings per share (a/b)	₱7.56	₱21.21	₱1.58

In 2022, 2021 and 2020, there are no potential common shares with dilutive effect on the basic earnings per share.

32. Trust Operations

Securities and other properties held by the Parent Company through its Trust Banking Group (TBG) in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of the Parent Company. Such assets held in trust were carried at a value of ₱152.7 billion and ₱143.3 billion as of December 31, 2022 and 2021, respectively. In connection with the trust functions of the Parent Company, government securities amounting to ₱1.6 billion (included under 'Investment securities at amortized cost') as of December 31, 2022 and 2021 are deposited with the BSP in compliance with trust regulations (refer to Note 9.3).

Trust fee income in 2022, 2021 and 2020 amounting to ₱317.8 million, ₱319.4 million and ₱314.9 million, respectively, is included under 'Service fees and commission income' (refer to Note 26.1).

In compliance with existing banking regulations, the Parent Company transferred from surplus to surplus reserves the amounts of ₱24.7 million, ₱23.2 million and ₱20.4 million in 2022, 2021 and 2020, respectively, which correspond to 10.00% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20.00% of its regulatory capital (refer to Note 25.3).



33. Related Party Transactions

33.1 Summary of Significant Related Party Transactions

Details on significant related party transactions of the Group and the Parent Company follow (transactions with subsidiaries have been eliminated in the consolidated financial statements). Transactions reported under subsidiaries represent companies where the Parent Company has control. Transactions reported under other related parties represent companies which are under common control.

	2022		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investors			
Deposit liabilities		₱1,323,009	Peso and foreign currency deposits with annual rates ranging from 0.0% to 4.75%
Net deposits	₱1,318,594		Net deposits during the period
Interest expense	17,621		Interest expense on deposits
Accrued interest payable		2,060	Accrued interest on deposit liabilities
Subsidiaries			
Receivables from customers		₱1,105,000	Term loan maturing in January 2023 with nominal interest rate of 8.4%; includes domestic bills purchased; fully provided with allowance for credit losses
Loan releases	₱1,680,302		
Loan collections	2,057,558		
Credit facilities		11,925,849	Includes omnibus line and revocable revolving credit lines, domestic bills purchase lines and letters of credit/ trust receipt lines; also includes irrevocable standby letters of credit; with provision for liability of ₱649.7 million relating to undrawn loan commitments of PMLFC
Interbank loans receivable		15,147	Foreign currency-denominated interbank term loans with interest rates ranging from 0.01% to 4.50% and maturity on March 2023 with ACB
Availments	80,632		
Settlements	94,888		
Due from other banks		269,904	Foreign currency-denominated demand deposits
Accrued interest receivable		3,187	Interest accrual on receivables from customers and interbank loans receivable
Accounts receivable		60,474	Peso and USD remittances cover
Deposit liabilities		3,494,470	Peso and foreign currency-denominated deposits with annual fixed interest rates ranging from 0.0% to 4.85% and maturities up to 2 years
Net withdrawals	9,193,250		Net withdrawals during the period
Bills payable		13,904	Foreign currency-denominated bills payable with ACB maturing in March 2023 with interest rate of 4.0%
Availments	81,140		
Settlements	97,713		
Due to other banks		122,139	Foreign currency-denominated clearing accounts used for funding and settlement of remittances with GRFC, IIC, PNB Europe, and ACB
Accrued interest payable		11,206	Accrued interest on deposit liabilities and bills payable
Interest income	102,763		Interest income on receivables from customers, due from other banks and interbank loans receivable
Interest expense	87,562		Interest expense on deposit liabilities and bills payable
Service fees and commission income	171,433		Various services rendered by PNB to its subsidiaries covered by a service level agreement; also includes PNB's share in service fees
Rental income	145		Payment received for the use or occupation of property
Miscellaneous other income	4,562		Management and other professional fees



2022			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Securities transactions			
Purchases	₱3,990		Outright purchase of securities
Sales	948,190		Outright sale of securities
Trading gain	19		Gain from sale of investment securities
Other Related Parties			
Receivables from customers		₱41,077,025	Partly secured by real estate, vehicles, deposits, government securities, among others; With interest rates ranging from 2.5% to 11.5% with remaining maturity terms ranging from 7 days to 9 years and payment terms ranging from monthly to quarterly payments; with aggregate allowance for credit losses of ₱2.9 billion
Loan releases	₱12,130,218		
Loan collections	28,633,622		
Credit facilities		94,657,106	Includes omnibus line and revocable revolving credit lines and domestic bills purchase lines; also includes irrevocable standby letters of credit which are partly secured by either cash or government securities
Sales contract receivable		1,065	Receivable from sale of property paid in installments; with interest rate of 5.0% and maturing in July 2027
Financial assets at FVOCI		23,218,499	Majority represents the retained 49.00% interest in PNB Holdings, with unrealized gain of ₱325.8 million recorded in OCI (refer to Note 12.4 for further discussion)
Accrued interest receivable		132,080	Accrued interest on receivables from customers
Security deposit		55,513	Amount given to fulfill the terms of the lease contract
Deferred charges		5,097	Lease payments under the lease contract paid in advance
Right-of-use assets		3,352,161	Lease of office space with terms up to 10 years and the corresponding accumulated amortization
Accumulated amortization of right-of-use assets		1,115,025	
Deposit liabilities		40,352,466	Peso-denominated and foreign currency-denominated demand, savings and time deposits with maturity terms ranging from 30 days to 365 days
Net deposits	4,235,274		Net deposits during the period
Bonds payable		84,840	Foreign currency bonds with interest rate of 4.25% with maturity terms of five years.
Accrued interest payable		75,597	Accrued interest payable from various deposits
Lease liabilities		2,191,862	Lease of office space with terms ranging from 20 months to 10 years
Accrued other expenses		319,882	Accruals in relation to promotional expenses
Deferred revenue		44,444	Unamortized portion of income related to the bancassurance agreement with ABIC
Service fees and commission income		3,334	Amortization of fees under the bancassurance agreement with ABIC
Interest income	723,194		Interest income on receivables from customers
Interest expense	570,304		Interest expense on deposit liabilities, bonds payable and lease liabilities
Amortization expense	555,048		Amortization of right-of-use asset relating to leases of office spaces
Miscellaneous expenses	270,820		Includes CUSA charges for the Parent Company's share in common areas on premises owned by PNB Holdings; and promotional expenses for Mabuhay Miles redemption; includes management fees paid to Eton Properties Philippines, Inc.
Securities transactions			
Purchases	13,089,879		Outright purchase of securities
Sales	6,926,458		Outright sale of securities
Trading loss	(23,612)		Loss from sale of investment securities
Rental income	8,779		Payment received for the use or occupation of property



2022			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Remittance transactions			
Fund transfers	₱2,527,729		Peso equivalent of funds transferred
Service fees	3,956		Income share and commission on remittance transactions
Associate			
Deposit liabilities		₱468,046	Peso and foreign currency-denominated deposits with annual interest rates ranging from 0% to 0.10%
Net withdrawals	₱86,560	19	Accrued interest on deposit liabilities
Accrued interest payable		27	Advance rental and security deposits received for three months
Rental deposits			
Deferred revenue		622,192	Unamortized portion of income related to the sale of APLII
Interest expense	2,066		Interest expense on deposit liabilities
Service fees and commission income	73,199		Bancassurance fees earned based on successful referrals and income related to the sale of APLII
Key Management Personnel			
Loans to officers		₱2,778	Housing loans to senior officers with interest rates ranging from 3% to 15%; Secured and unimpaired
Accrued interest receivable		9	Accrued interest on loans
Loan collections	₱714		Settlement of loans and interest
Interest income	212		Interest income on housing loans
Deposit liabilities		118,975	Peso and foreign currency-denominated deposits with interest rates ranging from 0.0% to 4.75%
Net deposits	15,019		Net deposits during the period
Interest expense	3,823		Interest expense on deposits
Accrued interest payable		144	Accrued interest on deposit liabilities
2021			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investors			
Deposit liabilities		₱4,415	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.125%
Net withdrawals	₱127,586		Net withdrawals during the period
Interest expense	5		Interest expense on deposits
Subsidiaries			
Receivables from customers		₱1,471,253	Term loan maturing in 2022 with nominal interest rates ranging from 2.60% to 5.70%; includes domestic bills purchased; with aggregate allowance for credit losses of ₱1.4 billion
Loan releases	₱1,557,106		
Loan collections	1,986,548		
Credit facilities		13,796,172	Includes omnibus line and revocable revolving credit lines, domestic bills purchase lines and letters of credit/ trust receipt lines; also includes irrevocable standby letters of credit; with provision for liability of ₱125.1 million relating to undrawn loan commitments of PMLFC
Interbank loans receivable		29,403	Foreign currency-denominated interbank term loans with interest rates ranging from 0.15% to 0.25% and maturity terms ranging from 116 to 152 days with Allied Commercial Bank Xiamen
Availments	104,698		
Settlements	94,537		
Due from other banks		248,314	Foreign currency-denominated demand and time deposits with maturities of up to 90 days with annual fixed interest rates ranging from 0.01% to 4.50% with PNB Europe.



2021			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Accrued interest receivable		₱7,520	Interest accrual on receivables from customers and interbank loans receivable
Accounts receivable		67,772	Advances to finance pension liability, remittance cover and additional working capital; Non-interest bearing, unsecured, payable on demand
Deposit liabilities		12,687,720	Peso and foreign currency denominated demand, savings, and time deposits with annual fixed interest rates ranging from 0.125% to 1.125% and maturities from 30 to 365 days
Net deposits	₱22,739		Net deposits during the period
Bills payable		30,477	Foreign currency-denominated bills payable with ACB; Interest rates range from 0.1% to 0.2% and maturity terms ranging from 116 to 152 days.
Availments	106,095		
Settlements	94,445		
Due to other banks		35,719	Foreign currency-denominated clearing accounts used for funding and settlement of remittances with GRFC, IIC, PNB Europe, and ACB
Accrued interest payable		103,473	Accrued interest on deposit liabilities and bills payable
Rental deposit		4,044	Advance rental deposit received for 2 years and 3 months
Interest income	69,370		Interest income on receivables from customers, due from other banks and interbank loans receivable
Interest expense	18,072		Interest expense on deposit liabilities and bills payable
Miscellaneous other income	2,506		Management and other professional fees
Securities transactions			
Purchases	1,890,889		Outright purchase of securities
Sales	281,588		Outright sale of securities
Trading gain	7,149		Gain from sale of investment securities
Other Related Parties			
Receivables from customers		₱57,580,429	Partly secured by real estate and aircraft; With interest rates ranging from 2.12% to 9.72% with remaining maturity terms ranging from 7 days to 10 years and payment terms ranging from monthly to quarterly payments; with aggregate allowance for credit losses of ₱11.1 billion
Loan releases	₱45,161,134		
Loan collections	30,848,903		
Credit facilities		32,168,949	Includes omnibus line and revocable revolving credit lines and domestic bills purchase lines; also includes irrevocable standby letters of credit which are partly secured by either cash or government securities
Financial assets at FVOCI		22,989,975	Retained 49.00% interest in PNB Holdings, with unrealized gain of ₱117.1 million recorded in OCI (refer to Note 12.4 for further discussion)
Accrued interest receivable		127,339	Accrued interest on receivables from customers
Right-of-use assets		3,354,358	Lease of office space with terms ranging from 20 months to 10 years
Deposit liabilities		36,117,192	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.125% to 1.125% and maturity terms ranging from 30 days to 365 days
Net deposits	15,060,480		Net deposits during the period
Bonds payable		76,499	Foreign currency bonds with interest rate of 4.25% with maturity terms of five years.
Accrued interest payable		16,900	Accrued interest payable from various deposits
Lease liabilities		3,180,228	Lease of office space with terms ranging from 20 months to 10 years
Accrued other expenses		57,369	Accruals in relation to promotional expenses



2021			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Deferred revenue		₱47,778	Unamortized portion of income related to the Bancassurance agreement with ABIC
Interest income	₱520,535		Interest income on receivables from customers and on the unpaid consideration by ABIC for the sale of shares in PNB Gen
Interest expense	211,108		Interest expense on deposit liabilities, bonds payable and lease liabilities
Depreciation expense	559,978		Amortization of right-of-use asset relating to leases of office spaces
Occupancy expenses	163,020		Expenses relating to short-term leases from PNB Holdings
Loss on sale of investment in a subsidiary	134,861		Loss on sale of 65.75% interest of the Parent Company in PNB Gen to ABIC
Service fees and commission income	2,222		Bancassurance fees earned based on successful referrals and income related to the sale of PNB Gen
Miscellaneous expenses	9,672		Promotional expenses for Mabuhay Miles redemption; includes management fees paid to Eton Properties Philippines, Inc.
Securities transactions			
Purchases	581,931		Outright purchase of securities
Sales	151,288		Outright sale of securities
Associate			
Deposit liabilities		₱554,606	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.125% to 2.0% and maturity terms ranging from 30 days.
Net deposits	₱226,926		
Rental deposits		27	Advance rental and security deposits received for three months
Deferred revenue		695,391	Unamortized portion of income related to the sale of APLII
Interest expense	412		Interest expense on deposit liabilities
Service fees and commission income	73,199		Bancassurance fees earned based on successful referrals and income related to the sale of APLII
Key Management Personnel			
Loans to officers		₱3,492	Housing loans to senior officers with interest rates ranging from 3.00% to 15.00%; Secured and unimpaired
Loan collections	₱669		Settlement of loans and interest

The related party transactions shall be settled in cash.

Remedies over a loan exposure to a related party

In April 2022, the Parent Company entered into a dacion agreement with a related party over an investment property with fair value at the time of dacion of ₱1.4 billion in settlement of certain loans. The remedy to settle the loan also provided for the conversion of the remaining debt to equity shares of the former borrower.

Transactions relating to the investment in PNB Holdings

As discussed in Note 12.4, the Parent Company executed a proxy in favor of LTG to vote for the remaining 49.00% held by the Group in PNB Holdings. As a result, the Group accounted for its retained interest in PNB Holdings as financial asset at FVOCI with no recycling to profit and loss. The Group and the Parent Company recognized a gain of ₱33.5 billion from the loss of control and remeasurement of the retained interest in PNB Holdings (refer to Note 12.4).



Financial assets at FVTPL traded through PNB Securities

As of December 31, 2022 and 2021, the Parent Company's financial assets at FVTPL include equity securities traded through PNB Securities with a fair value of ₱15.4 million and ₱130.3 million, respectively. The Parent Company recognized trading gains amounting to ₱0.1 million in 2022 and ₱7.1 million in 2021 and trading losses of ₱61.5 million in 2020 from the transactions facilitated by PNB Securities.

Joint arrangements with Eton Properties Philippines, Inc. (EPPI)

The Parent Company and EPPI signed two joint venture agreements (JVAs) for the development of two real estate properties of the Parent Company included under 'Other assets' (refer to Note 15) and with carrying values of ₱1.2 billion at the time of signing. EPPI and the Group are under common control. These two projects are among the Parent Company's strategies in reducing its non-performing assets. The Parent Company contributed the aforementioned properties into the joint venture (JV) as approved by BSP. EPPI, on the other hand, contributed its resources and technical expertise for the completion of the said JV. The Parent Company is prohibited to contribute funds for the development of the JV. Income from the sale of the properties under the JV will be shared by the Parent Company and EPPI in accordance with the terms of the JVAs.

In July 2016, the Parent Company executed deeds of conveyance to EPPI on the areas of the land under the JVA arrangement. The execution of the deeds of conveyance was made to facilitate the issuance of the condominium certificates of title to the buyers.

33.2 Remuneration of Key Management Personnel and Directors

The compensation of the key management personnel for the Group and Parent Company follows:

	2022	2021	2020
Short-term employee benefits	₱517,114	₱460,711	₱481,184
Post-employment benefits	47,424	50,629	55,308
	₱564,538	₱511,340	₱536,492

Non-executive directors are entitled to a per diem as follows: ₱50,000 for each BOD meeting attended and ₱25,000 for each BOD committee meeting attended, provided that in no case shall the total per diem exceed ₱0.25 million per month for committee meetings. No other emoluments are granted to non-executive directors of the Parent Company except for the aforementioned per diem. There is no profit-sharing arrangement between the Parent Company and its BOD. In 2022 and 2021, total per diem given to non-executive directors amounted to ₱62.6 million and ₱67.5 million, respectively, recorded in 'Miscellaneous expenses' in the statements of income. Directors' remuneration covers all BOD activities and membership of committees and subsidiary companies.

In 2021 and 2020, key management personnel received 20,099 and 21,474, respectively, Parent Company shares in relation to the centennial bonus distribution.

33.3 Transactions with Retirement Plans

Management of the retirement funds of the Group and the Parent Company is handled by its TBG. The fair values and carrying values of the funds of the Group amounted to ₱7.9 billion and ₱8.1 billion as of December 31, 2022 and 2021, respectively and the fair values of the funds of the Parent Company amounted to ₱7.8 billion and ₱8.0 billion as of December 31, 2022 and 2021, respectively.



Relevant information on transactions with the retirement plans follows:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Investment in PNB UITFs	₱558,013	₱805,211	₱555,186	₱794,979
Deposits with PNB	481,123	1,006,570	480,913	1,005,202
Investment in PNB shares	156,169	165,210	156,169	165,210
Total Fund Assets	₱1,195,305	₱1,976,991	₱1,192,268	₱1,965,391
Unrealized gain (loss) on PNB shares	(₱9,041)	(₱76,030)	(₱9,041)	(₱76,030)
Unrealized gain (loss) on PNB UITF	(35,926)	8,296	(35,926)	8,296
Interest income	18,314	3,607	17,412	3,607
	(26,653)	(64,127)	(27,555)	(64,127)
Trust fees	(9,152)	(9,139)	(9,290)	(9,139)
Net Fund Losses	(₱35,805)	(₱73,266)	(₱36,845)	(₱73,266)

As of December 31, 2022 and 2021, the retirement funds of the Group and the Parent Company include 8,219,406 PNB shares, respectively, classified as financial assets at FVTPL. There are no limitations and restrictions over the PNB shares while the corresponding voting rights are exercised by a trust officer or any of its designated alternate officer of TBG.

In addition to the regular retirement funds, TBG also manages the funds of the Parent Company's EIP.

34. Provisions, Contingent Liabilities and Other Commitments

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

There were no significant settlements made in 2022 and 2021.

In the ordinary course of the Group's operations, certain entities within the Group have pending tax assessments/claims which are in various stages of protest/appeal with the tax authorities, the amounts of which cannot be reasonably estimated. Management believes that the bases of said protest/appeal are legally valid such that the ultimate resolution of these assessments/claims would not have material effects on the consolidated financial position and results of operations.



35. Offsetting of Financial Assets and Liabilities

The effects of rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements to the Group and the Parent Company's financial statements are disclosed in the succeeding tables.

Consolidated

2022						
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative assets	₱61,149,066	₱59,787,115	₱1,361,951	₱73,039	₱-	₱1,288,912
Securities held under agreements to resell (Note 8)	64,523,863	-	64,523,863	-	64,334,349	189,514
Total	₱125,672,929	₱59,787,115	₱65,885,814	₱73,039	₱64,334,349	₱1,478,426
2021						
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative assets	₱88,929,845	₱87,564,794	₱1,365,051	₱240,111	₱-	₱1,124,940
Securities held under agreements to resell (Note 8)	15,796,673	-	15,796,673	-	16,084,357	-
Total	₱104,726,518	₱87,564,794	₱17,161,724	₱240,111	₱16,084,357	₱1,124,940
2022						
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities	₱70,051,569	₱69,011,793	₱1,039,776	₱456,745	₱-	₱583,031
Securities sold under agreements to repurchase (Notes 9 and 19)*	6,595,689	-	6,595,689	-	7,981,190	-
Total	₱76,647,258	₱69,011,793	₱7,635,465	₱456,745	7,981,190	₱583,031

* Included in bills and acceptances payable in the statements of financial position



2021						
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities	₱70,313,430	₱69,421,899	₱891,531	₱49,120	₱–	₱842,411
Securities sold under agreements to repurchase (Notes 9 and 19)*	38,494,178	–	38,494,178	–	38,336,528	157,650
Total	₱108,807,608	₱69,421,899	₱39,385,709	₱49,120	₱38,336,528	₱1,000,061

* Included in bills and acceptances payable in the statements of financial position

Parent Company

2022						
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure
			[a]	[b]	[c]	
Derivative assets	₱61,146,943	₱59,787,115	₱1,359,828	₱73,039	₱–	₱1,286,789
Securities held under agreements to resell (Notes 8 and 19)	64,523,863	–	64,523,863	–	64,334,349	189,514
Total	₱125,670,806	₱59,787,115	₱65,883,691	₱73,039	₱64,334,349	₱1,476,303

2021						
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative assets	₱88,926,835	₱87,564,794	₱1,362,041	₱55,079	₱–	₱1,306,962
Securities held under agreements to resell (Notes 8 and 19)	15,796,673	–	15,796,673	–	16,084,357	–
Total	₱104,723,508	₱87,564,794	₱17,158,714	₱55,079	₱16,084,357	₱1,306,962

2022						
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities	₱70,051,569	₱69,011,793	₱1,039,776	₱456,745	₱–	₱583,031
Securities sold under agreements to repurchase (Notes 9 and 19)*	6,595,689	–	6,595,689	–	7,981,190	–
Total	₱76,647,258	₱69,011,793	₱7,635,465	₱456,745	7,981,190	₱583,031

* Included in bills and acceptances payable in the statements of financial position



2021						
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
				Fair value of		Net exposure
				Financial instruments	financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities	₱70,313,245	₱69,421,899	₱891,346	₱135,912	₱—	₱755,434
Securities sold under agreements to repurchase (Notes 9 and 19)*	38,494,178	—	38,494,178	—	38,336,528	157,650
Total	₱108,807,423	₱69,421,899	₱39,385,524	₱135,912	₱38,336,528	₱913,084

* Included in bills and acceptances payable in the statements of financial position

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

36. Discontinued Operations

36.1 PNB Gen

The results of operation of PNB Gen are presented below:

	2021	2020
Interest Income on		
Loans and receivables	₱35	₱202
Investment securities at amortized cost and FVOCI (Note 9)	19,830	81,734
Deposits with banks and others	34	5,087
	19,899	87,023
Interest Expense on		
Lease liabilities (Note 19)	530	2,698
Net Interest Income	19,369	84,325
Net Service Fees and Commission Income (Note 26)	110	19,718
Insurance premium	202,543	955,640
Insurance benefits and claims	143,605	716,820
Net Insurance Premium	58,938	238,820
Other Income		
Foreign exchange gains (losses) - net	1,804	(2,878)
Trading and investment securities gains - net (Note 9)	—	9,123
Total Operating Income	80,221	349,108
Operating Expenses		
Compensation and fringe benefits	37,040	152,265
Depreciation and amortization (Note 11)	6,592	28,862
Provision for (reversal of) credit losses (Note 16)	1,174	29,781
Occupancy and equipment-related costs	903	1,910
Taxes and licenses	290	4,750
Miscellaneous (Note 27)	8,832	43,539
Total Operating Expenses	54,831	261,107
Income Before Income Tax	25,390	88,001
Provision for Income Tax (Note 30)	4,774	20,418
Net Income from Discontinued Operations	₱20,616	₱67,583



Net insurance premium consists of:

	2021	2020
Net insurance premiums		
Gross earned premium	₱385,904	₱2,385,857
Reinsurer's share of gross earned premiums	(183,361)	(1,430,217)
	202,543	955,640
Less net insurance benefits and claims		
Gross insurance contract benefits and claims paid	207,003	2,241,488
Reinsurer's share of gross insurance contract benefits and claims paid	(130,493)	(1,983,736)
Gross change in insurance contract liabilities	48,017	1,410,172
Reinsurer's share of change in insurance contract liabilities	19,078	(951,104)
	143,605	716,820
	₱58,938	₱238,820

Net cash flows of PNB Gen follow:

	2021	2020
Net cash flows from operating activities	(₱36,288)	(₱27,016)
Net cash flows from investing activities	18,740	(242,063)
Net cash flows from financing activities	(1,912)	(22,648)
	(₱19,460)	(₱291,727)

36.2 PNB Holdings

The results of operation of PNB Holdings are presented below:

	2021	2020
Interest Income on		
Investment securities at amortized cost and FVOCI (Note 9)	₱—	₱500
Deposits with banks and others	1,143	5
	1,143	505
Interest Expense on		
Lease liabilities (Note 19)	2,998	202
Net Interest Income (Expense)	(1,855)	303
Net Service Fees and Commission Expense	(45,849)	(60)
Other Income		
Trading and investment securities gains - net (Note 9)	—	50
Miscellaneous income (Note 27)	486,957	243,860
Total Operating Income	439,253	244,153

(Forward)



	2021	2020
Interest Income on		
Investment securities at amortized cost and FVOCI (Note 9)	₱—	₱500
Deposits with banks and others	1,143	5
	1,143	505
Interest Expense on		
Lease liabilities (Note 19)	2,998	202
Net Interest Income (Expense)	(1,855)	303
Net Service Fees and Commission Expense	(45,849)	(60)
Operating Expenses		
Taxes and licenses	646,070	30,241
Occupancy and equipment-related costs	191,781	380
Provision for credit losses (Note 16)	86,967	—
Depreciation and amortization (Note 11)	42,450	711
Compensation and fringe benefits	976	100
Miscellaneous (Note 27)	123,162	1,471
Total Operating Expenses	1,091,406	32,903
Income (Loss) Before Income Tax	(652,153)	211,250
Provision for Income Tax (Note 30)	103,828	68,164
Net Income (Loss) from Discontinued Operations	(₱755,981)	₱143,086

Net cash flows of PNB Holdings follow:

	2021	2020
Net cash flows from operating activities	₱790,488	(₱2,151)
Net cash flows from investing activities	—	524,081
Net cash flows from financing activities	(567,887)	48
	₱222,601	₱521,978

37. Events After the Reporting Date

In addition to the loans transferred to the Parent Company as discussed in Note 10, on January 31, 2023, the Parent Company and PMLFC entered into a Receivables Purchase Agreement for the transfer of another tranche of receivables of PMLFC to the Parent Company for a total consideration of ₱178.7 million.



38. Notes to Statements of Cash Flows

38.1 Cash Flows from Financing Activities

The changes in liabilities arising from financing activities in 2022 and 2021 follow:

Consolidated				
2022				
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱52,953,797	(₱39,495,624)	₱1,522,200	₱14,980,373
Bonds payable	53,383,421	–	5,055,676	58,439,097
Lease liabilities	3,765,391	(1,113,225)	984,225	3,636,391
	₱110,102,609	(₱40,608,849)	₱7,562,101	₱77,055,861

Consolidated				
2021				
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱87,159,450	(₱36,426,226)	₱2,220,573	₱52,953,797
Bonds payable	64,056,335	(13,870,000)	3,197,086	53,383,421
Lease liabilities	1,366,016	(1,231,287)	3,630,662	3,765,391
	₱152,581,801	(₱51,527,513)	₱9,048,321	₱110,102,609

Parent Company				
2022				
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱51,113,018	(₱38,736,538)	₱1,511,555	₱13,888,035
Bonds payable	53,383,421	–	5,055,676	58,439,097
Lease liabilities	3,698,410	(1,068,038)	973,705	3,604,077
	₱108,194,849	(₱39,804,576)	₱7,540,936	₱75,931,209

Parent Company				
2021				
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱84,817,360	(₱35,919,013)	₱2,214,671	₱51,113,018
Bonds payable	64,056,335	(13,870,000)	3,197,086	53,383,421
Lease liabilities	1,370,206	(1,213,912)	3,542,116	3,698,410
	₱150,243,901	(₱51,002,925)	₱8,953,873	₱108,194,849

Others include the effects of foreign exchange revaluations, additional lease liabilities, amortization of transaction costs, accretion of interest, and effect of loss of control of a subsidiary.



38.2 Non-Cash Transactions

The following are non-cash transactions of the Group and the Parent Company in 2022 and 2021 relating to their long-term leases:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Additions to right-of-use assets (Note 11)	₱803,905	₱3,352,354	₱803,905	₱3,350,486
Additional lease liabilities (Note 29)	799,014	3,377,981	789,687	3,298,634

On January 13, 2021, the Parent Company subscribed to additional 466,770,000 shares of PNB Holdings in exchange for certain real estate properties with fair values of ₱46.7 billion. On April 23, 2021, the Parent Company declared 51.00% ownership in PNB Holdings as property dividends to all stockholders of record as of May 18, 2021 (refer to Note 12.4).

On December 17, 2021, the BOD of PNB Capital approved the declaration of cash dividends amounting to ₱300.0 million. The Parent Company received such cash dividends from PNB Capital on June 29, 2022 (refer to Note 12.2).

The Group acquired investment properties through foreclosure, dacion and rescission amounting to ₱4.3 billion, ₱524.7 million, and ₱86.7 million in 2022, 2021 and 2020, respectively. The Parent Company acquired investment properties acquired through foreclosure and rescission amounted to ₱4.3 billion, ₱334.4 million and ₱78.0 million in 2022, 2021 and 2020, respectively (refer to Note 13). Included in the ₱4.3 billion foreclosures is the dacion in settlement of a certain loan in exchange for an investment property, and the debt-to-equity conversion of the remaining loan exposures of the former borrower (refer to Note 33.1).

The Group applied creditable withholding taxes against its income tax payable amounting to ₱2.4 billion, ₱1.6 billion and ₱2.8 billion in 2022, 2021 and 2020, respectively. The Parent Company applied creditable withholding taxes against its income tax payable amounting to ₱2.4 billion, ₱1.6 billion and ₱2.7 billion in 2022, 2021, and 2020, respectively.

39. Approval of the Release of the Financial Statements

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the Parent Company's BOD on March 13, 2023.

40. Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010, which provides that the notes to the financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.



40.1 Taxes Paid or Accrued During the Taxable Year

The Parent Company paid or accrued the following types of taxes for the tax period January to December 2022 (in absolute amounts):

Taxes and licenses

	Amount
Gross receipts tax	₱2,341,737,766
Documentary stamp taxes	3,600,000,000
Real estate tax	39,108,997
Local taxes	173,742,331
Others	278,632,255
	₱6,433,221,349

Withholding taxes

	Remitted	Outstanding
Withholding taxes on compensation and benefits	₱972,704,187	₱185,316,904
Final income taxes withheld on interest on deposits and yield on deposit substitutes	621,327,643	94,632,147
Expanded withholding taxes	186,839,828	22,368,470
Withholding taxes on the amount withdrawn from the decedent's deposit account	32,970,113	1,418,330
VAT withholding taxes	6,047,534	188,832
Other final taxes	99,850,992	8,099,828
	₱1,919,740,297	₱312,024,511

40.2 Tax Cases and Assessments

As of December 31, 2022 and 2021, the Parent Company has no final tax assessment but has outstanding cases filed in courts for various claims for tax refund. Management is of the opinion that the ultimate outcome of these cases will not have a material impact on the financial statements of the Parent Company.

41. Report on the Supplementary Information Required Under BSP Circular No. 1074

41.1 Basic Quantitative Indicators of Financial Performance

The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated			Parent Company		
	2022	2021	2020	2022	2021	2020
Return on average equity (a/b)	7.00%	19.98%	1.69%	7.10%	20.08%	1.94%
a) Net income	₱11,583,988	₱31,690,038	₱2,625,488	₱11,532,318	₱31,283,762	₱2,959,932
b) Average total equity	165,564,295	158,602,982	155,479,204	162,468,924	155,768,842	152,657,314
Return on average assets (c/d)	0.99%	2.62%	0.22%	0.99%	2.60%	0.26%
c) Net income	₱11,583,988	₱31,690,038	₱2,625,488	₱11,532,318	₱31,283,762	₱2,959,932
d) Average total assets	1,167,970,869	1,210,959,231	1,186,712,205	1,160,877,451	1,204,106,165	1,144,703,450
Net interest margin on average earning assets (e/f)	3.61%	3.27%	3.35%	3.62%	3.26%	3.37%
e) Net interest income	₱37,327,570	₱34,844,827	₱35,820,463	₱36,590,225	₱34,003,443	₱34,649,027
f) Average interest earning assets	1,033,972,342	1,064,649,949	1,068,225,934	1,010,841,903	1,042,450,632	1,028,955,579

Note: Average balances are the sum of beginning and ending balances of the respective statement of financial position accounts divided by two (2)



41.2 Description of Capital Instruments Issued

As of December 31, 2022 and 2021, the Parent Company has only one class of capital stock, which are common shares.

41.3 Significant Credit Exposures as to Industry Sector

An industry sector analysis of the Group's and the Parent Company's receivables from customers before taking into account allowance for credit losses is shown below.

	Consolidated				Parent Company			
	2022		2021		2022		2021	
	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%
Primary target industry:								
Financial intermediaries	₱123,572,805	20.16	₱127,322,501	20.22	₱124,585,259	20.78	₱128,833,193	20.95
Wholesale and retail	94,635,306	15.44	89,964,601	14.29	89,062,370	14.86	85,521,203	13.91
Electricity, gas and water	77,908,127	12.71	72,603,754	11.53	77,908,992	13.00	72,543,926	11.80
Manufacturing	64,750,821	10.57	57,374,303	9.12	62,394,048	10.41	46,719,362	7.60
Transport, storage and communication	41,702,691	6.80	50,593,556	8.04	40,836,136	6.81	57,003,954	9.27
Agriculture, hunting and forestry	6,846,668	1.12	10,984,068	1.75	6,685,454	1.12	8,472,952	1.38
Public administration and defense	1,868,664	0.30	8,668,925	1.38	1,868,663	0.31	10,984,068	1.79
Secondary target industry:								
Real estate, renting and business activities	96,701,343	15.78	98,619,763	15.67	93,010,341	15.51	95,143,733	15.47
Construction	30,989,724	5.06	30,123,753	4.79	30,923,083	5.16	29,341,619	4.77
Others	73,881,893	12.06	83,171,564	13.21	72,242,925	12.05	80,345,800	13.07
	₱612,858,042	100.00	₱629,426,788	100.00	₱599,517,271	100.00	₱614,909,810	100.00

41.4 Breakdown of Total Loans

41.4.1 As to Security

The information relating to receivables from customers (gross of allowance for credit losses) as to secured and unsecured and as to collateral follows:

	Consolidated				Parent Company			
	2022		2021		2022		2021	
	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%
Secured:								
Real estate mortgage	₱61,579,391	10.05	₱65,400,278	10.40	₱52,764,741	8.80	₱55,459,239	9.03
Chattel mortgage	12,560,778	2.05	23,572,533	3.75	12,425,497	2.07	22,348,756	3.63
Bank deposit hold-out	3,844,755	0.63	4,375,531	0.70	3,698,931	0.62	4,137,837	0.67
Others	30,856,608	5.03	20,528,460	3.26	28,814,577	4.81	17,144,181	2.79
	108,841,532	17.76	113,876,802	18.09	97,703,746	16.30	99,090,013	16.11
Unsecured	504,016,510	82.24	515,549,986	81.91	501,813,525	83.70	515,819,797	83.89
	₱612,858,042	100.00	₱629,426,788	100.00	₱599,517,271	100.00	₱614,909,810	100.00



41.4.2 As to Status

The table below shows the status of the Group and the Parent Company's loans (gross allowance for credit losses) as to performing and non-performing loans (NPL) per product line:

	Consolidated			
	2022		2021	
	Performing	NPL	Performing	NPL
Corporate	₱517,026,645	₱26,814,155	₱497,743,877	₱46,315,906
Commercial	15,227,846	3,727,358	10,464,612	3,869,552
Credit cards	11,889,481	2,493,200	10,721,147	2,435,798
Consumer	24,706,149	10,973,208	42,329,698	15,546,198
	₱568,850,121	₱44,007,921	₱561,259,334	₱68,167,454

	Parent Company			
	2022		2021	
	Performing	NPL	Performing	NPL
Corporate	₱508,724,119	₱24,153,812	₱491,798,885	₱45,983,507
Commercial	15,475,530	2,027,403	9,398,044	2,006,364
Credit cards	11,889,481	2,493,200	10,721,147	2,435,798
Consumer	21,423,352	13,330,374	37,088,108	15,477,957
	₱557,512,482	₱42,004,789	₱549,006,184	₱65,903,626

Loans and receivables are considered NPL, even without any missed contractual payments, when considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, are considered NPL if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics are considered NPL after contractual due date or after they have become past due. Restructured loans are considered NPL. However, if prior to restructuring, the loans were categorized as performing, such classification is retained.

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

In 2022, the Parent Company adopted BSP Memorandum No. M-2021-056, *Regulatory Treatment of Restructured Loans for Purposes of Measuring Expected Credit Losses*, which provides guidance on the regulatory treatment of loans with terms and conditions that have been modified due to the impact of the COVID-19 pandemic, especially consumption loans, for purposes of measuring ECL and classifying the accounts as NPL.

The table below shows the gross and net NPL ratios of the Group and the Parent Company as reported to the BSP (with certain adjustments) as of December 31, 2022 and 2021:

	2022		2021	
	Gross NPL	Net NPL	Gross NPL	Net NPL
Consolidated	6.34%	2.58%	10.07%	5.27%
Parent Company	6.19%	2.54%	9.97%	5.21%



41.5 Information on Related Party Loans

In the ordinary course of business, the Parent Company has loans and other transactions with its subsidiaries and affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRI). Under the Parent Company's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of direct credit accommodations to each of the Parent Company's DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Parent Company.

In the aggregate, DOSRI loans generally should not exceed the Parent Company's equity or 15.00% of the Parent Company's total loan portfolio, whichever is lower. As of December 31, 2022 and 2021, the Parent Company is in compliance with such regulations.

The information relating to the DOSRI loans of the Group and Parent Company follows:

	2022		2021	
	DOSRI loans	Related party loans (inclusive of DOSRI loans)	DOSRI loans	Related party loans (inclusive of DOSRI loans)
Total outstanding loans	₱39,017	₱42,182,025	₱4,606,070	₱59,914,803
Percent of DOSRI/related party loans to total loan portfolio	0.01%	6.22%	0.70%	9.08%
Percent of unsecured DOSRI/related party loans to total DOSRI/related party loans	1.56%	86.52%	0.03%	64.94%
Percent of past due DOSRI/related party loans to total DOSRI/related party loans	3.52%	2.62%	—	10.17%
Percent of non-performing DOSRI/related party loans to total DOSRI/related party loans	3.52%	2.62%	—	44.00%

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

Under BSP regulations, total outstanding exposures to each of the Parent Company's subsidiaries and affiliates shall not exceed 10.00% of the Group's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the Parent Company.

41.6 Aggregate Amount of Secured Liabilities and Assets Pledged as Security

As of December 31, 2022 and 2021, 'Bills payable' amounting to ₱6.6 billion and ₱38.5 billion in Note 19, respectively, are secured by a pledge of certain 'Financial assets at FVOCI' amounting to ₱2.5 billion and ₱32.8 billion respectively, and 'Investment securities at amortized cost' amounting to ₱5.5 billion and ₱5.3 billion, respectively.



41.7 Contingencies and Commitments Arising from Off-Balance Sheet Items

The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts as reported to BSP:

	Consolidated		Parent Company	
	2022	2021	2022	2021
Trust department accounts	₱152,746,479	₱143,335,871	₱152,746,479	₱143,335,871
Derivative forwards	151,543,370	158,060,387	147,448,673	153,621,017
Standby letters of credit	43,922,556	37,361,325	43,702,875	37,198,406
Unutilized credit card lines	41,981,905	41,690,462	41,981,905	41,690,462
Deficiency claims receivable	28,065,650	22,862,480	28,065,650	22,862,480
Derivative spots	7,474,525	19,204,658	7,474,525	19,204,658
Inward bills for collection	1,116,689	2,591,812	1,116,689	2,589,780
Outward bills for collection	355,358	182,354	300,396	78,770
Unused commercial letters of credit	204,707	219,246	204,707	219,246
Items held as collateral	165,282	248,046	165,270	248,025
Confirmed export letters of credit	94,784	86,188	94,784	86,188
Shipping guarantees issued	22,800	20,822	20,655	18,861
Other contingent accounts	76,663	14,440	7,592	7,185



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Philippine National Bank

Medium Term Note Programme



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