**NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY,**
**IN OR INTO THE UNITED STATES**

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

**Confirmation of Your Representation**: You have accessed the attached document on the basis that you have confirmed your representation to Citigroup Global Markets Limited, SMBC Nikko Securities (Hong Kong) Limited, Standard Chartered Bank (collectively, the **Dealers**) and Rizal Commercial Banking Corporation (**RCBC**) that: (1) you are outside the United States, the electronic mail address that you gave us and to which this electronic mail has been delivered, is not located in the United States and, to the extent you purchase the securities described in the attached Offering Circular, you will be doing so pursuant to Regulation S under the United States Securities Act of 1933, as amended (the **Securities Act**); and (2) that you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither RCBC, the Trustee, the Dealers, any Agent (each as defined in the Offering Circular) nor any of their respective employees, representatives or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version available on request.

**Restrictions**: The attached document is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the notes described therein.

Nothing in this electronic transmission constitutes an offer of securities for sale in the United States or any other jurisdiction. Any securities to be issued have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. Accordingly, the attached Offering Circular may not be circulated, distributed, forwarded, delivered or redistributed, electronically or otherwise, to persons within the United States, and may not be relied upon as a basis for an investment decision or for any other purpose by any person within the United States.

You are reminded that you have accessed the attached Offering Circular on the basis that you are a person into whose possession this 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 this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

**Actions that You May Not Take**: If you receive this document by e-mail, you should not reply by e-mail to this announcement, and you may not purchase any notes by doing so. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected.

**YOU ARE NOT AUTHORISED AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING CIRCULAR, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING CIRCULAR IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED 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.**

You are responsible for protecting against viruses and other destructive items. If you receive this document by e-mail, 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.

**OFFERING CIRCULAR**

# RIZAL COMMERCIAL BANKING CORPORATION

*(A banking corporation organised and existing under Philippine laws)*

## U.S.$4,000,000,000

## Medium Term Note Programme

---

Under this U.S.$4,000,000,000 Medium Term Note Programme (the **Programme**), Rizal Commercial Banking Corporation (the **Issuer** or the **Bank**), may from time to time issue notes (the **Notes**) denominated in any currency agreed between it 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 exceed U.S.$4,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement 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 "*Overview of the Programme*" and any additional Dealer appointed by the Bank under the Programme from time to time (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 such Notes.

**An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "*Investment Considerations*".**

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the **SGX-ST**) in relation to the Programme and application will be made for permission to deal in and quotation of any Notes that may 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 herein. The approval in-principle from, the admission to the Official List of, and the listing and quotation of any Notes on, the SGX-ST is not to be taken as an indication of the merits of the Bank, the Programme or the Notes. Unlisted Notes may be issued under the Programme. The relevant Final Terms (as defined below) in respect of any Series (as defined in "*Terms and Conditions of the Notes*") will specify whether or not such Notes will be listed and, if so, on which exchange(s) the Notes are to be listed. There is no assurance that the application to the Official List of the SGX-ST for the listing of the Notes of any Series will be approved.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in a final terms document (the **Final Terms**) which, with respect to Notes to be listed on the SGX-ST will be submitted to the SGX-ST before the listing of Notes of such Tranche.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Bank and the relevant Dealer. The Bank may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Programme has been rated. Notes issued under the Programme may be rated or unrated. Where a Series (as defined below) of Notes is rated, the relevant rating for such Notes shall be specified in the applicable Final Terms. Such rating will not necessarily be the same as the rating(s) assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. See "*Form of the Notes*" for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer, see "*Subscription and Sale*".

The Bank may agree with any Dealer and the Trustee (as defined herein) that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplemental Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

*Arranger*
**SMBC Nikko**

*Dealers*

**Citi** **SMBC Nikko** **Standard Chartered Bank**

The date of this Offering Circular is 20 December 2024.

*This page has been intentionally left blank.*

The Bank accepts responsibility for the information contained in this Offering Circular and the Final Terms for each Tranche of Notes issued under the Programme. To the best of its knowledge (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 likely to affect the import of such information.

This Offering Circular has been prepared by the Bank for use in connection with the offer and sale of the Notes outside the United States. The Bank and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States. Distribution of this Offering Circular by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Bank of any of its contents to any such U.S. person or other person within the United States, is prohibited.

Subject as provided in the applicable Final Terms, the only persons authorised to use this Offering Circular in connection with an offer of Notes are the persons named in the applicable Final Terms as the relevant Dealer or the Managers, as the case may be.

Copies of Final Terms will be available from the Bank's registered office and the specified office set out below of each of the Paying Agents (as defined in the Conditions).

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated in it by reference (see "*Documents Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that those documents are incorporated and form part of this Offering Circular.

SMBC Nikko Securities (Hong Kong) Limited (the **Arranger**) and together with Citigroup Global Markets Limited and Standard Chartered Bank (the **Dealers**), the Trustee and the Agents have not independently verified any of the information contained in this Offering Circular and can give no assurance that this information is accurate, truthful or complete. Accordingly, no representation or warranty or undertaking, express or implied, is made or given and no responsibility or liability is accepted by the Arranger, the Dealers, the Trustee or the Agents as to the accuracy, completeness or sufficiency of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer or the Guarantor in connection with the Programme, and nothing contained or incorporated in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Arranger, the Dealers, the Trustee or the Agents. 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, the Arranger, any of the Dealers, the Trustee or any of 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 Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

To the fullest extent permitted by law, none of the Arranger, the Dealers, the Trustee, the Agents or any of their respective affiliates or advisors accepts any responsibility for the contents of this Offering Circular or any statement made or purported to be made by the Arranger, the Dealers, the Trustee, the Agents or any of their respective affiliates or advisors or any of their behalf in connection with the Issuer, the Guarantor, the Group or the issue and offering of the Notes. Each of the Arranger, the Dealers, the Trustee, the Agents and their respective affiliates and advisors accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Arranger, the Dealers, the Trustee, the Agents or any of their respective affiliates or advisors undertakes to review the financial condition or affairs of the Issuer, the Guarantor or the Group for so long as the Notes remain outstanding nor to advise any investor or potential investor of the Notes of any information coming to the attention of any of the Arranger, the Dealers, the Trustee, the Agents or their respective affiliates or advisors.

No person is or has been authorised by the Bank to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Bank, the Arranger, the Trustee, any Agent or any of the Dealers. Neither the delivery of this Offering Circular nor any sale made in connection herewith, under any circumstances, creates any implication.

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 Bank, the Arranger, the Trustee, any Agent or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should determine for itself the relevance of the information contained in this Offering Circular and should make its own independent investigation of the Bank's financial condition and affairs, and its own appraisal of its creditworthiness. 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 Bank, the Arranger, the Trustee, any Agent or any of the Dealers to any person to subscribe for or to purchase any Notes. None of the Dealers, the Arranger, the Trustee or the Agents undertake to review the financial condition or affairs of the Bank during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers, the Arranger, the Trustee or any Agent.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply: that there has been no change in the affairs of the Bank, its subsidiaries and/or associated companies since its date (or the date on which this Offering Circular has been most recently amended or supplemented); that there has been no adverse change in the financial position of the Bank since the date hereof (or the date on which this Offering Circular has been most recently amended or supplemented); that any other information contained herein concerning the Bank is correct at any time subsequent to the date hereof (or the date on which this Offering Circular has been most recently amended or supplemented); that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arranger, the Trustee, the Agents and the Dealers expressly do not undertake to review the financial condition or affairs of the Bank during the life of the Programme or to advise any investor in the Notes issued under the Programme of any information coming to their attention.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions from the Securities Act and applicable securities laws, Notes may not be offered, sold or (in the case of the Notes in bearer form) delivered within the United States or to U.S. persons (as defined in Regulation S). For a description of certain restrictions on offers and sales of Notes and on distribution of this Offering Circular, see "*Subscription and Sale*".

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area (the **EEA**) or the United Kingdom (the **UK**) or offered to the public in a Member State of the EEA or the UK in circumstances which would have required the publication of a prospectus under Regulation (EU) 2017/1129 (the **Prospectus Regulation**) or the Prospectus Regulation as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the **EUWA**) (the **UK Prospectus Regulation**), the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as of the date of issue of the 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 Bank, the Arranger, the Trustee, the Agents or the Dealers represent 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 Bank, the Arranger, the Trustee, the Agents or the Dealers which is intended to 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 EEA, the United Kingdom, Japan, Hong Kong, Philippines, Thailand, Singapore and the People's Republic of China (the **PRC**), for further information see "*Subscription and Sale*".

In making an investment decision, investors must rely on their own examination of the Bank and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Circular or confirmed the accuracy or determined the adequacy of the information contained in this Offering Circular. Any representation to the contrary is unlawful.

None of the Bank, the Arranger, the Trustee, the Agents or the Dealers 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 Arranger, 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 Arranger, the Dealers, the Trustee, the Agents nor any of their respective affiliates have undertaken, nor are they responsible for, any assessment of the Eligible Projects (as defined in the "*Sustainable Finance Framework*" section of this Offering Circular), any verification of whether the Eligible Projects meet any eligibility criteria set out in the Sustainable Finance Framework (as defined in the "*Sustainable Finance 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 Projects (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 Sustainable Finance 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 Bank's website at https://www.rcbc.com/sustainability but, for the avoidance of doubt, will not be incorporated by reference into this Offering Circular. None of the Arranger, the Dealers, the Trustee, the Agents nor any of their respective affiliates make any representation as to the suitability or content of such materials.

**MiFID II product governance / target market** – The Final Terms in respect of any Notes may include a legend entitled "MiFID II product governance" which will outline the target market assessment 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 the target market assessment; 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 subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers 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 Final Terms in respect of any Notes may include a legend entitled "UK MiFIR Product Governance" which will outline the target market assessment 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 the 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 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 Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MIFIR Product Governance Rules.

**IMPORTANT – EEA RETAIL INVESTORS –** If the Final Terms 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 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 (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 **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.

**IMPORTANT – UK RETAIL INVESTORS** – If the Final Terms 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 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 (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 Prospectus Regulation as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by the PRIIPs Regulation 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) OF THE SECURITIES AND FUTURES ACT 2001 OF SINGAPORE, AS MODIFIED OR AMENDED FROM TIME TO TIME**

Unless otherwise stated in the Final Terms 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 of Singapore) 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).

**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 Final Terms 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.

## SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

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 judgments 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 judgments obtained in courts or arbitral tribunals outside of the Philippines predicated upon the laws of jurisdictions other than in the Philippines.

The enforceability of foreign judgments in the Philippines is specifically provided for in the 1997 Rules of Civil Procedure (particularly Section 48 of Rule 39 and Section 24 of Rule 132 of the Rules of Court of the Philippines) which states that a judgment or final order of a tribunal of a foreign country having jurisdiction to give the judgment or final order: (a) in case of a judgment or final order upon property, is final 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. In either case, the judgment or final order may be rejected if there is a defect relating to jurisdiction or notice to the other party, collusion, fraud or clear mistake of law or fact. In addition, Article 17 of the Civil Code of the Philippines provides that the judgment must not be contrary to laws that have for their object public order, public policy and good customs in and of the Philippines. Furthermore, 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.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated, the financial information included in this Offering Circular is presented on a consolidated basis and has been derived from the consolidated financial statements of the Bank. The Bank's audited consolidated financial statements as of and for the financial years ended 31 December 2023, 2022 and 2021 have been prepared in accordance with Financial Reporting Standards in the Philippines (**PFRS**) for banks. The interim condensed consolidated financial statements as at and for the nine months ended 30 September 2024 have been prepared in accordance with the Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. The Bank's financial statements as at and for the years ended 31 December 2023, 2022, and 2021 were audited in accordance with the Philippine Standards on Auditing (**PSA**), and the interim condensed consolidated financial statements as at and for the nine months ended 30 September 2024 were reviewed in accordance with the Philippine

Standard on Review Engagements (**PSRE**) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, by Punongbayan & Araullo, the independent accountants.

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, Punongbayan & Araullo 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.

## CONVENTIONS WHICH APPLY TO THIS OFFERING CIRCULAR

Unless otherwise indicated, all references to the "Bank", the "Issuer" or "RCBC", refer to Rizal Commercial Banking Corporation. 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 "BSP" are references to *Bangko Sentral ng Pilipinas*, the central bank of the Philippines. All references to the "Government" herein are references to the Government of the Philippines. All references to "United States", "US" or "U.S." herein are to the United States of America. All references to "United Kingdom" or "UK" herein are to the United Kingdom of Great Britain and Northern Ireland. All references to "Pesos" and "₱" herein are to the lawful currency of the Philippines, all references to "U.S. dollar", "U.S. Dollar", "U.S. dollars", "U.S. Dollars", "U.S.$" and "U.S.$" are to the lawful currency of the United States herein, all references to "HK$" herein are to the lawful currency of the Hong Kong Special Administrative Region, all references to "S$" herein are to the lawful currency of Singapore, all references to "euro" and "€" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended and all references to "£" refer to pounds sterling. Unless otherwise specified or the context otherwise requires, all references to "loans" herein are to loans and discounts, bills purchases, receivables from cardholders and customers' liabilities under acceptances and trust receipts and excludes interbank loans.

For convenience, certain U.S. dollar amounts have been translated into Peso amounts and certain Peso amounts have been translated into U.S. dollar amounts, based on the prevailing exchange rate of ₱56.03= U.S.$1.00 as of 30 September 2024, being the closing exchange rate for Pesos against U.S. dollars dealt on that date on the Philippine Dealing System (**PDS**) and published in the major Philippine financial press on that date. 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.

References in this document to the "Group" shall mean the Bank and its consolidated subsidiaries.

Rounding adjustments have been made in calculating some of the financial information included in this Offering Circular. As a result, numerical figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

Unless otherwise indicated, the description of the Bank's business activities in this Offering Circular is presented on a consolidated basis.

In this Offering Circular, unless the contrary intention appears, a reference to a law or a provision of a law is a reference to that law or provision as extended, amended or re-enacted.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The Bank has included statements in this Offering Circular which contain words or phrases such as **will, would, aim, aimed, is likely, are likely, believe, expect, expected to, will continue, anticipated, estimate, estimating, intend, plan, seeking to, future, objective, should, can, could, may**, and similar expressions or variations of such expressions, that are "forward-looking statements". However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding the expected financial position, business strategy, plans and prospects of the Bank (including the financial forecasts, profit projections, statements as to the expansion plans of the Bank, expected growth in the Bank and other related matters), if any, are forward-looking statements and accordingly, are only predictions. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Bank to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors are discussed in greater detail under the section "*Investment Considerations – Risks Relating to this Offering Circular – Risks Relating to Forward-Looking Statements*".

Given the risks and uncertainties that may cause the actual future results, performance or achievements of the Bank to be materially different from the results, performance or achievements expected, expressed or implied by the forward-looking statements in this Offering Circular, undue reliance must not be placed on such forward-looking statements. None of the Bank, the Arranger, the Trustee or any of the Dealers or the Agents represents or warrants that the actual future results, performance or achievements of the Bank will be as discussed in those statements.

Further, the Bank disclaims any responsibility, and undertakes no obligation, to update or revise any forward-looking statement contained herein to reflect any changes in the expectations with respect thereto after the date of this Offering Circular or to reflect any changes in events, conditions or circumstances on which such statements are based.

## CAUTIONARY STATEMENT REGARDING INDUSTRY AND MARKET DATA

Market data and certain industry forecasts used throughout this Offering Circular were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information are not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Bank, the Arranger or the Dealers makes any representation as to the accuracy or completeness of that information.

## SUPPLEMENTARY OFFERING CIRCULAR

The Bank has given an undertaking to the Dealers that if at any time during the duration of the Programme there is, among others, a significant change to the Bank affecting any matter contained in this Offering Circular, the inclusion of which would reasonably be required by investors and their professional advisers and would reasonably be expected by them to be found in this Offering Circular, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Bank and the rights attaching to the Notes, the Bank shall prepare an amendment or supplement to this Offering Circular or publish a replacement Offering Circular for use in connection with any subsequent offering of the Notes and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

**TABLE OF CONTENTS**

**IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) IN THE APPLICABLE FINAL TERMS 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, STABILISATION MAY NOT NECESSARILY OCCUR. 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 CEASE 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 STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

## DOCUMENTS INCORPORATED BY REFERENCE

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

(a) the most recently published audited consolidated and non-consolidated annual financial statements and, if published later, the most recently published consolidated interim financial statements (if any) of the Bank, in each case together with any audit or review reports prepared in connection therewith (where relevant); and

(b) all supplements (other than the Final Terms) or amendments to this Offering Circular circulated by the Bank from time to time,

save that 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 are available at the website of The Philippine Stock Exchange, Inc. at https://edge.pse.com.ph/.

**Any published unaudited interim financial statements of the Bank which are, from time to time, deemed to be incorporated by reference in this Offering Circular will not have been audited by the auditors of the Bank. Accordingly, there can be no assurance that, had an audit been conducted in respect of such financial statements, the information presented therein would not have been materially different, and investors should not place undue reliance upon them (see "*Investment Considerations – Risks Relating to This Offering Circular – Risks relating to unaudited, reviewed interim financial statements deemed incorporated by reference*")**.

The Bank 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 Bank at its registered office set out at the end of this Offering Circular.

The Bank will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Offering Circular which is capable of affecting the assessment of any Notes, prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of Notes.

# OVERVIEW OF THE PROGRAMME

***The following overview 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 Final Terms. The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event a new Offering Circular or a supplement to the Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.***

Words and expressions defined in "*Form of the Notes*" and "*Terms and Conditions of the Notes*" shall have the same meanings in this overview.

| | |
|---|---|
| Issuer: ........................................ | Rizal Commercial Banking Corporation. |
| Investment Considerations: ......... | There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. These are set out under "*Investment Considerations*". 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 – Risks Relating to the Notes*" and include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Notes and certain market risks. |
| Description: ................................ | Medium Term Note Programme. |
| Arranger: .................................... | SMBC Nikko Securities (Hong Kong) Limited. |
| Dealers:...................................... | Citigroup Global Markets Limited, SMBC Nikko Securities (Hong Kong) Limited, Standard Chartered Bank and any other Dealers appointed in accordance with the Programme Agreement (as defined in "*Subscription and Sale*").<br><br>The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to **Dealers** are to all persons appointed as a dealer in respect of one or more Tranches or the whole Programme (in each case, whose appointment has not been terminated). |
| Certain Restrictions: ................... | Each issue of Notes denominated in a currency 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 "*Subscription and Sale*") including the following restrictions applicable at the date of this Offering Circular.<br><br>*Notes having a maturity of less than one year*<br><br>Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the UK, 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 and Transfer and Selling Restrictions*". |
| Principal Paying Agent:................ | The Bank of New York Mellon, London branch. |
| Registrar: ................................... | The Bank of New York Mellon SA/NV, Luxembourg Branch |
| Transfer Agent:............................ | The Bank of New York Mellon, London branch. |
| Trustee:...................................... | The Bank of New York Mellon, London branch. |
| Programme Size:......................... | Up to U.S.$4,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement. |
| 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 (each, a **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 completed in the Final Terms. |
| Currencies:................................. | Notes may be denominated in, subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer. |
| Maturities:.................................. | The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, 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 (as set out in the applicable Final Terms). |
| Issue Price: ................................ | Notes will be issued on a fully-paid basis and at an issue price which may be at par or at a discount to, or premium over, par. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments. |
| Form of Notes:............................ | The Notes will be issued in bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and *vice versa*. |

| | |
|---|---|
| Clearing Systems: ...................... | Euroclear and Clearstream and, in relation to any Tranche of Notes, such other clearing system as may be agreed between the Issuer, the Trustee, the relevant Paying Agent and the relevant Dealer. |
| Initial Delivery of Notes: .............. | On or before the issue date for each Tranche, the Global Note representing Bearer Notes or Registered Notes may be deposited with a common depositary for Euroclear and Clearstream. Global Notes may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Trustee, the relevant Paying Agent and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems. |
| 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:<br><br>(a) on the basis of a reference rate set out in the applicable Final Terms; or<br><br>(b) on such other basis as may be agreed between the Issuer and the relevant Dealer.<br><br>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. |
| Other provisions in relation to Floating Rate Notes:................... | Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.<br><br>Interest on Floating Rate 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. |
| Zero Coupon Notes: ................... | Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest. |
| 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. |
| 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.

Redemption: ................................ The applicable Final Terms 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 reasons; or (iii) following an Event of Default (as defined in Condition 10.1)), or that the 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 terms of any such redemption, including notice periods, any relevant conditions to be satisfied and the relevant redemption dates and prices will be indicated in the applicable Final Terms.

The applicable Final Terms 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 Final Terms.

Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions – Notes having a maturity of less than one year*" above.

Denomination of Notes: ............... The 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 amount 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 relevant Specified Currency, see "*Certain Restrictions – Notes having a maturity of less than one year*" above, and save that the minimum denomination of each Note admitted to trading on a regulated market within the EEA or the UK or offered to the public in a Member State of the EEA or the UK in circumstances which would have required the publication of a prospectus under the Prospectus Regulation or the UK Prospectus Regulation, as applicable (each, as defined below), will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).

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 provided in Condition 8 unless required by law. 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. |
| 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, as set out in Condition 3. |
| Rating:......................................... | The Programme has been rated. Notes issued under the Programme may be rated or unrated. Where a Series (as defined below) of Notes is rated, the relevant rating for such Notes shall be specified in the applicable Final Terms. Such rating will not necessarily be the same as the rating(s) assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, revision or withdrawal at any time by the assigning rating agency. |
| Listing and Admission to Trading:....................................... | Approval in-principle has been received from the SGX-ST in relation to the Programme and application will be made for permission to deal in and quotation of any Notes that may 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 herein. The approval- in-principle from, the admission to the Official List of, and the listing and quotation of any Notes on, the SGX-ST is not to be taken as an indication of the merits of the Bank, the Programme or the Notes. Unlisted Notes may be issued under the Programme. The relevant Final Terms in respect of any Series will specify whether or not such Notes will be listed and, if so, on which exchange(s) the Notes are to be listed. There is no assurance that the application to the SGX-ST for the listing and quotation of the Notes of any Series will be approved. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in other currencies).<br><br>Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.<br><br>The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets. |

| | |
|---|---|
| Governing Law: ........................... | The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and construed in accordance with, English law. |
| Selling Restrictions: ..................... | There are restrictions on the offer, sale and transfer of the Notes in the United States, the EEA, the United Kingdom, Japan, Hong Kong, Singapore, the Philippines, Thailand and the PRC and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "*Subscription and Sale*". |

# FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons. Bearer Notes will be issued outside the United States in reliance on Regulation S under the Securities Act (**Regulation S**) and Registered Notes will be issued outside the United States in reliance on the exemption from registration provided by Regulation S.

**Bearer Notes**

Each Tranche of Bearer Notes will be in bearer form and will initially be issued in the form of a temporary global note (a **Temporary Bearer Global Note**) or, if so specified in the applicable Final Terms, a permanent global note (a **Permanent Bearer Global Note** and, together with a Temporary Bearer Global Note, each, a **Bearer Global Note**) 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 Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream**).

Whilst 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 the Temporary Bearer Global 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 Euroclear and/or Clearstream, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the **Exchange Date**) which is 40 days after a 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) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. 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 Final Terms 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 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; (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 no successor 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 represented by the Permanent Bearer Global Note in definitive form and a certificate to such effect signed by two Directors of the Issuer is given to the Trustee. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, 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 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 (other than Temporary Bearer Global Notes), receipts and interest coupons relating to such Notes where TEFRA D is specified in the applicable Final Terms:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL 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 Bearer Notes, receipts or interest coupons or talons.

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, as the case may be.

**Registered Notes**

The Registered Notes of each Tranche will initially be represented by a global note in registered form (a **Registered Global Note**).

Registered Global Notes will be deposited with a common depositary for Euroclear and Clearstream, and registered in the name of the nominee for the Common Depositary of, Euroclear and Clearstream. 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.

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 6.4) as the registered holder of the Registered Global Notes. None of the Issuer, the Trustee, the Principal Paying Agent, any other Agent or the Registrar 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 Registered Notes in definitive form 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 6.4) 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. For these purposes, **Exchange Event** means that (i) an Event of Default has occurred and is continuing; (ii) in the case of Notes registered in the name of a nominee for a common depositary for Euroclear and Clearstream, 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 such case, no successor 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 represented by the Registered Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream or any person acting on their behalf (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than ten days after the date of receipt of the first relevant notice by the Registrar.

**Transfer of Interests**

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, in each case to the extent applicable.

**General**

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), 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 at a point after the Issue Date of the further Tranche, the Notes of such further Tranche shall be assigned a common code and International Securities Identification Number (**ISIN**) which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

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 Final Terms.

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.

The Issuer may agree with any Dealer and the Trustee that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event, a supplement to this Offering Circular or a new Offering Circular will be made available which will describe the effect of the agreement reached in relation to such Notes.

## APPLICABLE FINAL TERMS

**[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**); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. 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 (as amended, **UK MiFIR**); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. 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 (the **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 Regulation (EU) 2017/1129 (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 –** 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 (the **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 (the **EUWA**); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (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, as modified or amended from time to time (the **SFA**) - [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]

*Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.*

[*Date*]

**RIZAL COMMERCIAL BANKING CORPORATION**

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]**
**under the U.S.$4,000,000,000**
**Medium Term Note Programme**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Offering Circular dated 20 December 2024 [and the supplemental Offering Circular dated [*date*]] (together, the **Offering Circular**). This document constitutes the Final Terms of the Notes described herein and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular.

[*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 Conditions (the **Conditions**) set forth in the Offering Circular dated [*original date*] [and the supplement dated [*date*]] (together, the **Offering Circular**). This document constitutes the Final Terms of the Notes described herein and must be read in conjunction with the Offering Circular, save in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] and are attached hereto.]

[*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 Final Terms.*]

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

[*In the case of any Notes which are to be offered to the public in a Member State of the European Economic Area or the United Kingdom in circumstances which would have required the publication of a prospectus under Regulation (EU) 2017/1129 or Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018, the minimum specified denomination will be €100,000 (or its equivalent in any other currency as of the date of Issue of the Notes) and the provisions regarding denomination below should be read accordingly.*]

| | | | |
|---|---|---|---|
| 1. | (a) | Issuer: | Rizal Commercial Banking Corporation (LEI: CIKZWI6KV077KV2E2J69) |
| | (b) | Branch: | [ ] *[if applicable]* |
| 2. | (a) | Series Number: | [ ] |

[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.

| | | | |
|---|---|---|---|
| | (b) | Tranche Number: | [ ] |
| | (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/the date that is 40 days after the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [ ] 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: | [ ] per cent, of the Aggregate Nominal Amount [plus accrued interest from *[insert date] (if applicable)*] |
| | (b) | Private banking rebate: | [Applicable/Not Applicable] |
| 6. | Net Proceeds: | | [ ] *(include for listed issues if required by the stock exchange on which the Notes are listed.)* |
| 7. | (a) | Specified Denominations: | [ ]<br><br>*(N.B. Notes must have a minimum denomination of €100,000 (or equivalent))*<br><br>*(Note: where Bearer multiple denominations above €100,000 or equivalent are being used the following sample wording should be followed:*<br><br>*"[€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].")* |
| | (b) | Calculation Amount (in relation to calculation of interest in global form see Conditions): | [ ] *(If only one Specified Denomination, insert the Specified Denomination.*<br><br>*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.)* |
| 8. | (a) | Issue Date: | [ ] |

| | | | |
|---|---|---|---|
| | (b) | Interest Commencement Date: | [*specify*/Issue Date/Not Applicable]<br><br>(*N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.*) |
| | (c) | Trade Date: | [ ] |
| 9. | Maturity Date: | | [*Specify date or for Floating Rate Notes –* Interest Payment Date falling in or nearest to [*specify month and year*]] |
| 10. | Interest Basis: | | [ ] per cent. Fixed Rate] [[EURIBOR] +/− [ ] per cent. Floating Rate]<br>[Zero Coupon]<br>[*specify other*]<br>(further particulars specified below) |
| 11. | Redemption/Payment Basis: | | [Redemption at par]<br>[Index Linked Redemption]<br>[Dual Currency Redemption]<br>[Partly Paid]<br>[Instalment]<br>[*specify other*] |
| 12. | Change of Interest Basis or Redemption/Payment Basis: | | [Specify details of any provision for change of Notes into another Interest Basis or Redemption/ Payment Basis][Not Applicable] |
| 13. | Put/Call Options: | | [Investor Put]<br>[Issuer Call]<br>[(further particulars specified below)] |
| 14. | (a) | Status of the Notes: | Senior |
| | (b) | Date Board approval for issuance of Notes obtained: | [ ]<br>*(N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Notes).* |
| | (c) | Date regulatory approval/consent for issuance of Notes obtained: | [ ]/[None required] |
| 15. | Listing: | | [[ ] (*specify*)/None] |
| 16. | Additional Tax considerations: | | [*specify*/None] |

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

| | | | |
|---|---|---|---|
| 17. | Fixed Rate Note Provisions: | | [Applicable/Not Applicable]<br>(*If not applicable, delete the remaining subparagraphs of this paragraph*) |
| | (a) | Rate(s) of Interest: | [ ] per cent. 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) for Notes in definitive form (and in relation to Notes in global form see Conditions): | [ ] per Calculation Amount |
| | (d) | Broken Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions): | [[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable] |
| | (e) | Day Count Fraction: | [30/360] [Actual/Actual (ICMA)] |
| | (f) | Determination Date(s): | [[ ] in each year] [Not Applicable]<br><br>(*Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon*) |
| | (g) | Other terms relating to the method of calculating interest for Fixed Rate Notes: | [None/*Give details*] |
| 18. | Floating Rate Note Provisions: | | [Applicable/Not Applicable]<br><br>(*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 (b) below/, not subject to any adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable] |
| | (b) | Business Day Convention: | [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ [Not Applicable]]<br><br>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*) |
| | (c) | Additional Business Centre(s): | [ ] |
| | (d) | Interest Period: | [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) above, 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) above] (*Only applicable in the case of SOFR Payment Delay where Specified Interest Period Date is required*) |
| (e) | Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): | [ ] |
| (f) | Screen Rate Determination: | [Applicable/Not Applicable]<br><br>(*If not applicable, delete the remaining items of this subparagraph*) |
| • | Reference Rate: | [[ ] month [EURIBOR/SOFR Benchmark/specify *other Reference Rate*] (*Either EURIBOR, SOFR Benchmark or other, although additional information is required if other, including fallback provisions in the Agency Agreement.*)] |
| • | Interest Determination Date(s): | [ ]<br><br>*(Second day on which T2 is open prior to the start of each Interest Period if EURIBOR)*<br><br>[*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*]<br><br>[*The Specified Interest Period Date [(as defined in subparagraph (d) 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: | [ ] |

[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.

| | | |
|---|---|---|
| | | (*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*) |
| • | 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] |

[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.

| | | | |
|---|---|---|---|
| | (g) | Linear Interpolation: | [Not Applicable/Applicable – the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)] |
| | (h) | Margin(s): | [+/−] [ ] per cent. per annum |
| | (i) | Minimum Rate of Interest: | [ ] per cent. per annum |
| | (j) | Maximum Rate of Interest: | [ ] per cent. per annum |
| | (k) | Day Count Fraction: | [[Actual/Actual (ISDA)][Actual/Actual]<br>Actual/365 (Fixed)<br>Actual/365 (Sterling)<br>Actual/360<br>[30/360][360/360][Bond Basis]<br>[30E/360][Eurobond basis]<br>30E/360 (ISDA)] |
| | (l) | [Ratings Step-up/Step-down: | [Applicable/Not Applicable]<br><br>(*If not applicable, delete the remaining subparagraphs of this paragraph)*] |
| | (m) | Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: | [ ] |
| 19. | Zero Coupon Note Provisions: | | [Applicable/Not Applicable]<br><br>(*If not applicable, delete the remaining subparagraphs of this paragraph*) |
| | (a) | Accrual Yield: | [ ] per cent. 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]<br>[Actual/360]<br>[Actual/365] |
| 20. | Index Linked Interest Note: | | [Applicable/Not Applicable]<br><br>(*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 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) | Specified Period(s)/Specified Interest Payment Dates: | [ ] |
| | (f) | Business Day Convention: | [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*] |
| | (g) | Additional Business Centre(s): | [ ] |
| | (h) | Minimum Rate of Interest: | [ ] per cent. per annum |
| | (i) | Maximum Rate of Interest: | [ ] per cent. per annum |
| | (j) | Day Count Fraction: | [ ] |
| 21. | Dual Currency Interest Note Provisions: | | [Applicable/Not Applicable]<br><br>(*if not applicable, delete the remaining subparagraphs of this paragraph*) |
| | (a) | Rate of Exchange/method of calculating Rate of Exchange: | [*give or annex details*] |
| | (b) | Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): | [ ] |
| | (c) | Provisions applicable where calculation by reference to Rate of Exchange 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. | Issuer Call: | | [Applicable/Not Applicable]<br><br>(*If not applicable, delete the remaining subparagraphs of this paragraph*) |
| | (a) | Optional Redemption Date(s): | [ ] |

| | | | |
|---|---|---|---|
| | (b) | Optional Redemption Amount and method, if any, of calculation of such amount(s): | [[ ] per Calculation Amount/[Spens Amount/Make-whole Amount/] *specify other*/see Appendix] |
| | (c) | If redeemable in part: | |
| | | (i) Minimum Redemption Amount: | [ ] |
| | | (ii) Maximum Redemption Amount: | [ ] |
| | (d) | Notice period: | [ ]<br><br>(*N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee.*) |
| 23. | Investor Put: | | [Applicable/Not Applicable]<br><br>(*If not applicable, delete the remaining subparagraphs of this paragraph*) |
| | (a) | Optional Redemption Date(s): | [ ] |
| | (b) | Optional Redemption Amount and method, if any, of calculation of such amount(s): | [[ ] per Calculation Amount/*specify other*/see Appendix] |
| | (c) | Notice periods: | [ ]<br><br>(*N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 15 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee.*) |
| 24. | Final Redemption Amount: | | [[ ] per Calculation Amount/*specify other*/see Appendix] |
| 25. | Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required): | | [[ ] per Calculation Amount/*specify other*/ see Appendix] |

| | | |
|---|---|---|
| | | (*N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be.*) |

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

| | | |
|---|---|---|
| 26. | Form of Notes: | [Bearer Notes<br><br>[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes upon an Exchange Event]<br><br>[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]<br><br>[Permanent Global Note exchangeable for Definitive Notes upon an Exchange Event]<br><br>(*N.B. The option for an issue of Notes to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 7 includes language substantially to the following effect:*<br><br>*"[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]."*)]<br><br>[Registered Notes:<br><br>[Global Note registered in the name of a nominee for a common depositary for Euroclear and Clearstream]] |
| 27. | Additional Financial Centre(s): | [Not Applicable/*give details*]<br><br>(*Note that this paragraph relates to the date of payment and not the end dates of Interest Periods for the purposes of calculating the amount of interest, to which sub-paragraphs 17(c) and 19(g) relate*) |
| 28. | Talons for future Coupons to be attached to Definitive Notes: | [Yes/No] (*If yes, give details*) |
| 29. | Details relating to Instalment Notes: | [Applicable/Not Applicable] |

| | | |
|---|---|---|
| | | (*If not applicable, delete the remaining subparagraphs of this paragraph*) |
| | (a) Instalment Amount(s): | [*give details*] |
| | (b) Instalment Date(s): | [*give details*] |
| 30. | Other terms or special conditions: | [Not Applicable/*give details*] |
| 31. | Ratings: | [The Notes to be issued [[have been]/[are expected to be]] rated [*insert details*] by [*insert the legal name of the relevant credit rating agency entity(ies)*]<br><br>(*The above disclosure is only required if the ratings of the Notes are different to those stated in the Offering Circular*) |
| 32. | Governing law: | English law |

**DISTRIBUTION**

| | | |
|---|---|---|
| 33. | Method of distribution | [Syndicated/Non-syndicated] |
| | (a) If syndicated, names of Managers: | [Not Applicable/*give names*] |
| | (b) Stabilising Manager(s) (if any): | [Not Applicable/*give name*] |
| | (c) If non-syndicated, name of relevant Dealer: | [Not Applicable/*give name*] |
| 34. | U.S. Selling Restrictions: | [Reg. S Category [1/2]; TEFRA D/TEFRA C/TEFRA not applicable] |
| 35. | Additional selling restrictions: | [Not Applicable/*give details*]<br><br>(*Additional selling restrictions are only likely to be relevant for certain structured Notes, such as commodity-linked Notes*) |
| 36. | Prohibition of Sales to EEA Retail Investors: | [Applicable/Not Applicable] |
| 37. | Prohibition of Sales to UK Retail Investors: | [Applicable/Not Applicable] |
| 38. | Singapore Sales to Institutional and Accredited Investors only: | [Applicable/Not Applicable] |

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

| | | |
|---|---|---|
| 39. | [Green Bonds, Social Bonds or Sustainability Bonds]: | [Applicable]/[Not Applicable]<br><br>(*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] |

**HONG KONG SFC CODE OF CONDUCT**

| | | |
|---|---|---|
| 40. | 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] |
| 41. | 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] |
| 42. | Marketing and Investor Targeting Strategy: | [As indicated in the Offering Circular] / [*Describe if different from the Offering Circular*] |

**PURPOSE OF FINAL TERMS**

These Final Terms comprise the final terms required for issue and admission to trading of the Notes described herein pursuant to the U.S.$4,000,000,000 Medium Term Note Programme of Rizal Commercial Banking Corporation.

**OPERATIONAL INFORMATION**

| | |
|---|---|
| ISIN: | [ ] |
| Common Code: | [ ] |
| Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): | [Not Applicable/*give name(s) and number(s)*] |
| Delivery: | Delivery [against/free of] payment |
| Names and addresses of additional Paying Agent(s) (if any): | [Not Applicable/*give details*] |

## 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 Projects in accordance with certain prescribed eligibility criteria as described in the Sustainable Finance Framework. See "*Use of Proceeds*" and "*Sustainable Finance 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 Final Terms comprises the final terms required to list the issue of Notes described herein pursuant to the US$4,000,000,000 Medium Term Note Programme of Rizal Commercial Banking Corporation.]

## RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms.

Signed on behalf of Rizal Commercial Banking Corporation

By: ____________________________
*Duly authorised*

By: ____________________________

*Duly authorised*

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below), each Definitive Bearer Note and each Definitive Registered Note, but, in the case of Definitive Bearer Notes and Definitive Registered Notes, 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 agreed, such Definitive Bearer Note or Definitive Registered Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Applicable Final Terms" for a description of the content of Final Terms 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 Rizal Commercial Banking Corporation (the **Issuer**) constituted by an Amended and Restated Trust Deed dated 5 February 2018, as supplemented by a Supplemental Trust Deed dated 20 December 2024 (as further modified and/or supplemented and/or restated from time to time, the **Trust Deed**) and made between the Issuer and The Bank of New York Mellon, London Branch (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 Specified Denomination in the Specified Currency;

(b) any Global Note in bearer form (each a **Bearer Global Note**);

(c) any Global Note in registered form (each a **Registered Global Note**);

(d) any definitive Notes in bearer form (**Definitive Bearer Notes** and, together with Bearer Global Notes, the **Bearer Notes**) issued in exchange for a Global Note in bearer form; and

(e) any 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 Global Note in registered form).

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Amended and Restated Agency Agreement dated 20 December 2024 (as further amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) and made between the Issuer, the Trustee, The Bank of New York Mellon, London Branch as principal paying agent (the **Principal Paying Agent**, which expression shall include any successor principal paying agent) and transfer agent (the **Transfer Agent**, which expression shall include any successor transfer agent), The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the **Registrar**, which expression shall include any successor registrar) and The Bank of New York Mellon, London Branch as paying agent (the **Paying Agent**, and together with the Principal Paying Agent and the Registrar, the **Paying Agents**, which expression shall include any additional or successor paying agent).

Interest-bearing Definitive Bearer Notes have interest coupons (**Coupons**) and, if indicated in the applicable Final Terms, 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 final terms for this Note (or the relevant provisions thereof) are set out in the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions (the **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 Final Terms** are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to **Noteholders** or **holders** in relation to any Notes 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 holders of the Receipts (the **Receiptholders**) and the holders of the Coupons (the **Couponholders**, which expression shall, unless the context otherwise requires, include the holders of the Talons), 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 (a) expressed to be consolidated and form a single series; and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement (i) are available to Noteholders during normal business hours from the specified office for the time being of the Trustee being at 160 Queen Victoria Street, London EC4V 4LA, United Kingdom and from the specified office of the Principal Paying Agent, the Registrar, Transfer Agents and the other Paying Agents (the **Agents**); or (ii) may be provided by email to a Noteholder following their prior written request to the Trustee or the Agents and provision of proof of holding and identity (in a form satisfactory to the Trustee and the relevant Agent, as the case may be). Copies of the applicable Final Terms are available for viewing at the registered office of the Issuer, and copies may be obtained from the Issuer or the Principal Paying Agent save that, if this Note is an unlisted Note of any Series, the applicable Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the Principal Paying 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, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms 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, the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these 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 Final Terms, the applicable Final Terms will prevail.

## 1. FORM, DENOMINATION AND TITLE

1.1 The Notes are in bearer form or in registered form as specified in the applicable Final Terms and, in the case of definitive Notes, serially numbered, in the currency (the Specified Currency) and the denominations (the Specified Denomination(s)) specified in the applicable Final Terms. 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.

1.2 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 Final Terms.

1.3 This Note may also 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 Final Terms.

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

1.5 Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery, and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer, the Trustee and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note 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.

1.6 For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV (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 and the Agents 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 Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Trustee and any 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.

1.7 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 (without further enquiry or evidence) 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 and the Trustee shall not be liable in any way for relying on such evidence and/or information.

1.8 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 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 Final Terms or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Trustee.

1.9 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, 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 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 transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in the authorised denominations set out in the applicable Final Terms 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 in definitive form

Subject as provided in paragraphs 2.5 and 2.6 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 Final Terms). In order to effect any such transfer:

(a) the Noteholder or Noteholders 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 any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof 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 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 and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 3 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of 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 uninsured 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 only part 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, called for partial redemption.

### 2.4 Costs of registration

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

### 2.5 Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered during the period of (a) 15 days ending on (and including) the due date for redemption of, or payment of any Instalment Amount in respect of, that Note; and (b) seven days ending on (and including) any Record Date (as defined in Condition 6.4).

### 2.6 Exchanges and transfers of Registered Notes generally

Holders of Definitive Registered Notes may exchange such Notes for interests in a Registered Global Note of the same type at any time.

## 3. STATUS OF THE NOTES

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.

## 4. NEGATIVE PLEDGE

### 4.1 Negative Pledge

So long as any of the Notes remains outstanding, the Issuer will not and the Issuer shall ensure that no Principal Subsidiary will create or have outstanding any mortgage, charge, lien, pledge or other security interest (each a **Security Interest**) upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness (as defined below), 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:

(a) 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 Noteholders; or

(b) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as 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 75 per cent. of the votes cast) of the Notes.

### 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) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities which are for the time being, or are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market; and (ii) any guarantee or indemnity of any such indebtedness;

(b) **Principal Subsidiary** means at any time a Subsidiary of the Issuer:

(i) whose net profits (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose net assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, are equal to) not less than five per cent. of the consolidated net profits or, as the case may be, consolidated net assets of the Issuer and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Issuer and its Subsidiaries, provided that:

(A) if the then latest audited consolidated accounts of the Issuer and its Subsidiaries show (I) a net loss for the relevant financial period then there shall be substituted for the words "net profits" for the purposes of this definition and/or (II) negative assets at the end of the relevant financial period then there shall be substituted for the words "net assets" the words "total assets" for the purposes of this definition;

(B) in the case of a Subsidiary of the Issuer acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, the reference to the then latest audited consolidated accounts of the Issuer and its Subsidiaries for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Issuer;

(ii) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer which immediately prior to such transfer is a Principal Subsidiary, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (ii) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (i) above or, prior to or after such date, by virtue of any other applicable provision of this definition; or

(iii) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, generate net profits equal to) not less than five per cent. of the consolidated net profits, or represent (or, in the case aforesaid, are equal to) not less than five per cent. of the consolidated net assets of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (i) above, provided that the transferor Subsidiary (if a Principal Subsidiary) shall upon such transfer forthwith cease to be a Principal Subsidiary unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, generate net profits equal to) not less than five per cent. of the consolidated net profits, or its assets represent (or, in the case aforesaid, are equal to) not less than five per cent. of the consolidated net assets of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (i) above, and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (iii) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (i) above or, prior to or after such date, by virtue of any other applicable provision of this definition.

A report signed by two directors of the Issuer (whether or not addressed to the Trustee) delivered by the Issuer to the Trustee that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary, may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall be conclusive and binding on all parties and the Trustee shall not be liable in any way for relying on such report; and

(c) a **Subsidiary** means, in relation to the Issuer, any company (i) in which the Issuer holds a majority of the voting rights; or (ii) of which the Issuer is a member and has the right to appoint or remove a majority of the board of directors; or (iii) of which the Issuer is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Issuer.

## 5. INTEREST

### 5.1 Interest on Fixed Rate Notes

(a) 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.

(b) If the Bearer Notes are in definitive form, except as provided in the applicable Final Terms, 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 Final Terms, amount to the Broken Amount so specified.

(c) 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.

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

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

(ii) 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 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:

(i) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:

(A) 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 (I) the number of days in such Determination Period; and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(1) 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

(2) 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;

(ii) if "30/360" is specified in the applicable Final Terms, 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; and

(iii) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Accrual Period divided by 365.

(e) 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

(i) 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:

(A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

(B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, 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 Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) Such interest will be payable in respect of each Interest Period (which expression shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date) or the relevant payment date if the Notes become payable on a date other than an Interest Payment Date.

(iii) If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in 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)(i) above, the Floating Rate Convention, such Interest Payment Date (I) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (b) below shall apply *mutatis mutandis*; or (II) 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 (a) such Interest Payment Date shall be brought forward to the immediately preceding Business Day; and (b) 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.

(iv) In these Conditions, **Business Day** means:

(A) 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 Singapore, Manila and London and any Additional Business Centre (other than T2) specified in the applicable Final Terms;

(B) if T2 is specified as an Additional Business Centre in the applicable Final Terms, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer System or any successor or replacement for that system (**T2**) is open; and

(C) either (I) in relation to any sum payable in a Specified Currency other than euro, 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 T2 is open.

(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 Final Terms.

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

(A) Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

I. the offered quotation; or

II. 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 at 11.00 a.m. (Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) 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.

(B) 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)I above, no such offered quotation appears or, in the case of (A)II above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

(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 Final Terms, 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 Final Terms 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 Final Terms, 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 Final Terms 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 Final Terms to determine Compounded SOFR Average) or the SOFR

Observation Period (where SOFR Observation Shift is specified in the applicable Final Terms 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 Final Terms:

(1) SOFR Lag:

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

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;

$\mathbf{d_0}$ 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 $d_0$, 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 Final Terms);

"$\mathbf{n_i}$" 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;

$\mathbf{SOFR_{i\text{-}xUSBD}}$ 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:

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

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;

**$d_0$** 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 $d_0$, 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 Final Terms); 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:

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

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 Final Terms), 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 Final Terms);

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

$d_0$ 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 $d_0$, 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*"**);

$\mathbf{n_i}$ 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;

$\mathbf{SOFR_i}$ 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 Final Terms, 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:

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

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;

$\mathbf{d_0}$ 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 $d_0$, 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*"**);

$\mathbf{n_i}$ 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;

$\mathbf{SOFR_i}$ 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;

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

**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 Final Terms) prior to the Interest Payment Date relating to the relevant Interest Period, the Maturity Date or the relevant Optional Redemption Date, as applicable.

(C) If **Compounded SOFR Index** is specified as applicable in the applicable Final Terms, 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 Final Terms); 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 Final Terms;

**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 Final Terms) 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 Final Terms) 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 Final Terms).

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 Final Terms as being other than EURIBOR or SOFR Benchmark, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(iv) In these Conditions:

**Reference Rate** means the rate specified in the applicable Final Terms; 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 Final Terms 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

(i) If the applicable Final Terms 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 (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.

(ii) If the applicable Final Terms 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 (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.

(iii) Unless otherwise stated in the applicable Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

(d) Determination of Rate of Interest and calculation of Interest Amounts

(i) The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, 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. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal

Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

(ii) The Principal Paying Agent 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:

(A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Floating Rate Notes or Index Linked Interest 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 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 Final Terms, 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 Final Terms, the actual number of days in the Interest Period divided by 365;

(iii) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, 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 Final Terms, 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 Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"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

"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 Final Terms, 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:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"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

"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;

(vii) if "30E/360 (ISDA)" is specified in the applicable Final Terms, 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:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless (A) that day is the last day of February; or (B) such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (A) that day is the last day of February but not the Maturity Date; or (B) 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 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, the Trustee and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth Singapore Business Day thereafter. 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 **Singapore 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 Singapore.

(f) Determination or Calculation by Agent Appointed 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 subparagraphs (b)(i) or (b)(ii) above or as otherwise specified in the applicable Final Terms, as the case may be, and in each case in accordance with paragraph (d) above, the Trustee at its discretion may, and if so requested in writing by the holders of at least 20 per cent. in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, engage another agent, at the Issuer's cost, to so determine the Rate of Interest at such rate as, in such agent's 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 Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, such agent engaged by the Trustee 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. Provided that the Trustee shall have exercised due care in its selection of such agent, the Trustee shall not be liable by reason of any action, omission, inaction, misconduct or default on the part of any such agent.

(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 5.2, whether by the Principal Paying Agent or, if applicable, the Calculation Agent or the Trustee shall (in the absence of manifest error) be binding on the Issuer, the Trustee, the Principal Paying Agent, the Registrar, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of its own wilful default, fraud or gross negligence), no liability shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent and (in the absence of its own wilful misconduct, fraud or gross negligence) no liability shall attach to the Trustee in connection with the exercise or non-exercise by it of its 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, the Principal Paying Agent and the Calculation 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) 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.

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 Paying Agents (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 Paying Agents 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 Final Terms:

(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 directors 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 Paying Agents (if required). Further, none of the Trustee, the Calculation Agent(s) nor the Paying 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 Final Terms; 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 Final Terms) or SOFR Index Determination Time (where Compounded SOFR Index is specified in the applicable Final Terms), 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 Final Terms.

### 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 Final Terms.

### 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; or

(b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 14.

## 6. PAYMENTS

### 6.1 Method of payment

(a) Subject as provided below:

   (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency 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); and

   (ii) 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.

(b) 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 Section 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.

### 6.2 Presentation of Definitive Bearer Notes, Receipts and Coupons

(a) 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)).

(b) Payments of instalments of principal (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 only 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 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.

(c) 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.

(d) 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.

(e) 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.

(f) 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 only against surrender of the relevant Definitive Bearer Note.

### 6.3 Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of Bearer Global Notes 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 against presentation or surrender of any Bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Note by the Paying Agent to which it was presented and such record shall be prima facie evidence that the payment in question has been made.

### 6.4 Payments in respect of Registered Notes

(a) Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note (whether or not in global form) 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 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 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. 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) 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) 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) and (in the case of a payment in euro) any bank which processes payments in euro.

(b) Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note (whether or not in global form) will be made by transfer on the due date 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 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 fifteenth day (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. 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 in respect of a Registered Note, 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 of principal will be made in the same manner as payment of the principal amount of such Registered Note.

(c) 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.

### 6.5 General provisions applicable to payments

(a) 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 their share of each payment so made by the Issuer or to the order of, the holder of such Global Note.

(b) 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:

(i) 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;

(ii) 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

(iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

### 6.6 Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, 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 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:

(i) in the case of Notes in definitive form only, the relevant place of presentation;

(ii) each Additional Financial Centre (other than T2) specified in the applicable Final Terms; and

(b) if T2 is specified as an Additional Financial Centre in the applicable Final Terms, a day on which T2 is open; and

(c) either (i) in relation to any sum payable in a Specified Currency other than euro, 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 T2 is open.

### 6.7 Interpretation of principal and interest

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

(i) 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;

(ii) the Final Redemption Amount of the Notes;

(iii) the Early Redemption Amount of the Notes;

(iv) the Optional Redemption Amount(s) (if any) of the Notes;

(v) in relation to Notes redeemable in instalments, the Instalment Amounts;

(vi) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7.5); and

(vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

(b) 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 Final Terms in the relevant Specified Currency on the Maturity Date.

### 7.2 Redemption for tax reasons

(a) 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 either 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:

(i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay 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 a Tax Jurisdiction (as defined in Condition 8) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

(ii) 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 or give effect to such treatment, as the case may be, were a payment in respect of the Notes then due.

(b) Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the Issuer (i) 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; and the Trustee shall be entitled to accept the certificate as conclusive evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders and shall make available such certificates for inspection during normal business hours at its registered office for the time being.

(c) 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 appropriate) 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 in the applicable Final Terms, the Issuer may, having given:

(a) not less than 15 nor more than 30 days' notice to the Noteholders (in accordance with Condition 14); and

(b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Trustee and the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar,

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or only some of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms 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 not more than the Maximum Redemption Amount in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, 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, 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. 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 paragraph 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)

(a) If Investor Put is specified as being applicable in the applicable Final Terms, with respect to the Notes, 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 Final Terms, 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 Optional Redemption Date. Registered Notes may be redeemed under this Condition 7.4 in any multiple of their lowest Specified Denomination. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

(b) Put Notices

(i) 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, at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a **Put Notice**) and in which 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 2.2. If this Note is a Definitive Bearer Note, the Put Notice must be accompanied by the Note or evidence satisfactory to the Paying Agent concerned that the Note will, following delivery of the Put Notice, be held to its order or under its control; and

(B) if this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, to exercise the right to require redemption of the Note the holder of this Note must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream (which may include notice being given on his instruction by Euroclear or Clearstream or any common depositary for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream from time to time.

(ii) Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream given by a holder of any Note pursuant to this Condition 7.4 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and the Trustee has declared the Notes to be due and payable pursuant to Condition 10, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 7.4.

### 7.5 Early Redemption Amounts

For the purpose of Condition 7.2 above and Condition 10.1, 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 a 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 Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or

(c) 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 =$\mathrm{RP} \times (1 + \mathrm{AY})^{\mathrm{Y}}$

where:

**RP** means the Reference Price;

**AY** means the Accrual Yield expressed as a decimal; and

y is a fraction the numerator of which is 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 of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

### 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 of Instalment Notes will be determined pursuant to Condition 7.5.

### 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 Final Terms.

### 7.8 Purchases

The Issuer or any Subsidiary of the Issuer may at any time purchase Notes (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 so cancelled and the 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 and cannot 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 Condition 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(c) 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 Notes has been received by the Principal Paying Agent or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 14.

## 8. TAXATION

8.1 All payments of principal and interest in respect of the Notes, Receipts and Coupons by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) presented for payment in the Republic of the Philippines; or

(b) the holder of which is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of the holder having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or

(c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6.6); or

(d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

8.2 As used herein:

**Tax Jurisdiction** means the Republic of the Philippines or any political subdivision or any authority thereof or therein having power to tax; and

the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Trustee, the Principal Paying Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

## 9. PRESCRIPTION

9.1 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) therefore.

9.2 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

The Trustee at its discretion may, and if so requested in writing by the holders of at least 20 per cent. in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution 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 as provided in the Trust Deed if any of the following events (each an **Event of Default**) shall occur:

(a) *Non-payment*: default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of five days in the case of principal and seven days in the case of interest; or

(b) *Breach of other obligations*: the Issuer fails to perform or observe any of its other obligations under these Conditions or the Trust Deed and (except in any case where, in the opinion of the Trustee, the failure is determined to be 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 the period of 14 days next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

(c) *Cross-default*: (A) any Indebtedness for Borrowed Money (as defined below) of the Issuer or any Subsidiary becomes due and repayable prematurely by reason of an Event of Default (however described); (B) the Issuer or any Subsidiary fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment; (C) any security given by the Issuer or any Subsidiary for any Indebtedness for Borrowed Money becomes enforceable; or (D) default is made by the Issuer or any Subsidiary in making any payment due under any guarantee and/or indemnity given by it in relation to 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 (A) to (D) above, amounts to at least US$15,000,000 (or its equivalent in any other currency); or

(d) *Winding up:* any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or any of its Principal Subsidiaries, save for the purposes of reorganisation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution; or

(e) *Enforcement proceedings*: a distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out upon or against any of the assets or revenues of the Issuer or any Principal Subsidiary and is not discharged or stayed within 60 days; or

(f) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer or any Principal Subsidiary; or

(g) *Insolvency, etc*: the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms previously approved in writing by an Extraordinary Resolution, or the Issuer or any of its Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

(h) *Appointment of receiver, manager, administrator:* (i) proceedings are initiated against the Issuer or any of its Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Principal Subsidiaries or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them, or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of any of them; and (ii) in any case (other than the appointment of an administrator) is not discharged within 14 days; or

(i) *Arrangement or Composition:* the Issuer or any of its Principal Subsidiaries 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) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

(j) *Cessation of Business*: any Principal Subsidiary ceases or threatens to cease to carry on all or substantially all of its business or operations, except (i) for the purposes of, or pursuant to and followed by, a consolidation or amalgamation with, or merger into, the Issuer or any other Subsidiary or a consolidation, merger or sale of assets permitted under Condition 15.4; (ii) for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reorganisation (other than as described in (i) above) the terms of which shall have previously been approved by an Extraordinary Resolution of the Noteholders; or (iii) by way of a voluntary winding-up or dissolution where there are surplus assets in such Principal Subsidiary and such surplus assets are transferred to or otherwise vested in the Issuer or any other Subsidiary; 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, in the case of a Principal Subsidiary, all or substantially all 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) *Consent and authorisations*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes; (ii) to ensure that those obligations are legally binding and enforceable, and to make the Notes admissible in evidence in the courts of England is not taken, fulfilled or done; or

(n) *Analogous event*: any event occurs which, under the laws of any relevant jurisdiction, has an analogous effect to any of the events referred to in paragraphs (d) to (m) above.

### 10.2 Enforcement

(a) 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 or so requested in writing by the holders of at least 20 per cent. 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.

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

### 10.3 Interpretation

In these Conditions,

**Indebtedness for Borrowed Money** means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or any borrowed money or any liability under or in respect of any acceptance or acceptance credit.

## 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 at the specified office of the Principal Paying Agent (in the case of Bearer Notes, Receipts or Coupons) or 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 may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## 12. AGENTS

12.1 The names of the initial Agents and their initial specified offices are set out below.

12.2 The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Agent and/or appoint additional or other 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 or admitted to trading by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Transfer Agent (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;

(c) there will at all times be a Registrar and a Transfer Agent which, so long as Registered Notes are listed on any stock exchange or admitted to listing by any other relevant authority, will have a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and

(d) so long as the 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.

12.3 In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.5. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 and not more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

12.4 In acting under the Agency Agreement, the 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 Noteholder, Receiptholder or Couponholder. 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 any 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

14.1 All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in Asia, which is expected to be *The Business Times*. 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 other relevant authority on which the Bearer Notes are for the time being listed or by which they have been admitted to trading including publication on the website of the relevant stock exchange or relevant authority if required by those rules. 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.

14.2 All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after 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 in a daily newspaper of general circulation in the place or places required by those rules.

14.3 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 publication in such newspaper(s) or such websites or such mailing the delivery of the relevant notice to Euroclear and/or Clearstream for communication by them to the holders of the Notes and, 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 on the website of the relevant stock exchange and/or 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 third day after the day on which the said notice was given to Euroclear and/or Clearstream.

14.4 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, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream, as the case may be, may approve for this purpose.

## 15. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

### 15.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings (including by way of conference call or by use of a 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 five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one 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 or the Coupons or the Trust Deed (including 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 one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or, at any adjourned such meeting, one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. 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 75 per cent. of the votes cast on such resolution; (ii) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes for the time being outstanding 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 75 per cent. in nominal amount of the Notes for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Noteholders. An Extraordinary Resolution passed by the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and whether or not they voted on the resolution, and on all Receiptholders and Couponholders.

### 15.2 Modification and Waiver

(a) The Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to any modification 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, or determine, without any such consent as aforesaid, that any Event of Default or potential Event of Default shall not be treated as such, 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, in the opinion of the Trustee, is proven. Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

(b) In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), 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.

### 15.3 Substitution of Issuer

The Trustee may, without the consent of the Noteholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes, the Receipts, the Coupons and the Trust Deed of another company, being a Subsidiary of 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 Consolidation, Merger and Sale of Assets

The Issuer shall not consolidate with or merge into any other company or entity, and the Issuer may not, directly or indirectly, sell, convey, transfer or lease all or substantially all of its properties and assets to any company or other entity unless:

(a) the company or other entity formed by or surviving such consolidation or merger or the person, company or other entity which acquires by conveyance or transfer, or which leases, all or substantially all of the properties and assets of the Issuer shall expressly assume by way of supplemental agency agreement the due and punctual payment of the principal of, and interest on, the Notes and the performance of the Notes, the Agency Agreement on the part of the Issuer to be performed or observed;

(b) immediately after giving effect to such transaction, no Event of Default with respect to the Notes, and no event, which after notice or lapse of time, or both, would become an Event of Default with respect to the Notes, shall have happened and be continuing;

(c) the Issuer has delivered to the Trustee (i) a certificate signed by two directors of the Issuer; and (ii) an opinion of independent legal advisers of recognised standing stating that such consolidation, merger, conveyance, transfer or lease and any such supplemental agency agreement comply with this Condition 15.4 and that all conditions precedent relating to such transaction have been complied with; and

(d) immediately after giving effect to such consolidation, amalgamation or merger of the Issuer, no internationally recognised rating agency has, in respect of the Notes, issued any notice downgrading its credit rating for such Notes or indicating that it intends to downgrade its credit rating for such Notes.

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

16.1 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 secured and/or pre-funded to its satisfaction.

16.2 The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any of its Subsidiaries and 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, 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 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 the date from which interest starts to accrue 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 person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, 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, the Coupons, the Talons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Agency Agreement, the Notes, the Receipts, the Coupons and the Talons are governed by, and shall be construed in accordance with, English law.

### 19.2 Submission to jurisdiction

(a) The Issuer irrevocably agrees, for the benefit of the Trustee, the Noteholders, the Receiptholders and the Couponholders, that the courts of England 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 accordingly submits to the exclusive jurisdiction of the English courts.

(b) The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee, the Noteholders, the Receiptholders and the Couponholders may take 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 the Coupons (including any Proceeding relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and the Coupons) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

### 19.3 Appointment of Process Agent

The Issuer appoints Law Debenture Corporate Services Limited at its registered officer at 8th Floor, 100 Bishopsgate, London EC2V 4AG, England as its agent for service of process, and undertakes that, in the event of Debenture Corporate Services Limited ceasing so to act or ceasing to be registered in England, it will appoint another person approved by the Trustee as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

### 19.4 Waiver of immunity

The Issuer hereby irrevocably and unconditionally waives with respect to the Notes, the Receipts and the Coupons any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

# SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected financial information has been derived from the audited consolidated financial statements of the Bank and its subsidiaries as of and for the years ended 31 December 2021, 2022, 2023 and the reviewed consolidated financial statements of the Bank and its subsidiaries as of and for the nine months ended 30 September 2024. The Bank's audited consolidated financial statements as of and for the years ended 31 December 2021, 2022 and 2023 and the reviewed consolidated financial statements of the Bank and its subsidiaries as of and for the nine months ended 30 September 2024 have been prepared in accordance with PFRS for banks.

Investors should read the following summary of consolidated financial and other data relating to the Bank in conjunction with the financial statements and the related notes included elsewhere in this Offering Circular. See “*Index to Financial Statements*”.

### Consolidated Statements of Profit or Loss

| | For the year ended 31 December | | | For the nine months ended 30 September | |
|---|---|---|---|---|---|
| | **2021** | **2022** | **2023** | **2023** | **2024** |
| | | | **(₱ millions)** | | |
| **INTEREST INCOME** | | | | | |
| Loans and receivables ............................................ | 31,900 | 34,970 | 49,407 | 35,674 | 44,804 |
| Trading and investment securities ............................................ | 4,448 | 9,755 | 13,239 | 9,710 | 12,093 |
| Others ............................................ | 763 | 1,110 | 3,643 | 2,627 | 1,620 |
| | **37,111** | **45,835** | **66,289** | **48,011** | **58,517** |
| **INTEREST EXPENSE** | | | | | |
| Bills payable and other borrowings | 4,221 | 4,562 | 4,625 | 3,523 | 4,142 |
| Deposit liabilities ........................................... | 4,059 | 10,057 | 28,035 | 20,242 | 23,443 |
| | **8,280** | **14,619** | **32,660** | **23,765** | **27,585** |
| **NET INTEREST INCOME** .................................................. | **28,831** | **31,216** | **33,629** | **24,246** | **30,932** |
| **IMPAIRMENT LOSSES – NET** .................................................. | **6,048** | **5,706** | **6,888** | **4,957** | **5,612** |
| Financial assets ........................................... | 5,013 | 5,347 | 6,677 | - | - |
| Non-financial assets ........................................... | 1,035 | 359 | 211 | - | - |
| **NET INTEREST INCOME AFTER IMPAIRMENT LOSSES** ............................................ | **22,783** | **25,510** | **26,741** | **19,289** | **25,320** |
| **OTHER OPERATING INCOME** | | | | | |
| Gain on assets sold – net ............................................ | 101 | 3,088 | 6,957 | 4,104 | 920 |
| Service fees and commissions ............................................ | 4,549 | 5,469 | 6,658 | 4,750 | 6,275 |
| Trading and securities gains (losses) – net ............................................ | 863 | ( 37 ) | 444 | 128 | 515 |

| | For the year ended 31 December | | | For the nine months ended 30 September | |
|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2023 | 2024 |
| | | | (₱ millions) | | |
| Trust fees ............................................ | 392 | 415 | 423 | 306 | -[9] |
| Foreign exchange gains (losses) – net ............................................ | 181 | 1,567 | ( 15 ) | 781 | ( 2,063) |
| Share in net earnings (loss) of associates ............................................ | 12 | 32 | 92 | 91 | 53 |
| Miscellaneous – net ............................................ | 1,465 | 2,704 | 1,809 | 1,546 | 1,135 |
| | **7,563** | **13,238** | **16,368** | **11,706** | **6,835** |
| **TOTAL OPERATING INCOME** | **30,346** | **38,748** | **43,109** | **30,995** | **32,155** |
| **OTHER OPERATING EXPENSES** | | | | | |
| Employee benefits ............................................ | 6,371 | 6,563 | 7,150 | 5,355 | 6,036 |
| Taxes and licences ............................................ | 3,475 | 4,645 | 6,534 | 4,676 | 4,671 |
| Depreciation and amortisation ............................................ | 3,020 | 3,037 | 3,365 | 2,544 | 2,505 |
| Occupancy and equipment – related ............................................ | 2,820 | 2,908 | 3,262 | 2,454 | 2,815 |
| Miscellaneous ............................................ | 6,849 | 7,947 | 9,283 | 6,864 | 7,262 |
| | **22,535** | **25,100** | **29,594** | **21,893** | **23,289** |
| **PROFIT BEFORE TAX** .................................................. | 7,811 | 13,648 | 13,515 | 9,102 | 8,866 |
| **TAX EXPENSE** .................................................. | 728 | 1,568 | 1,298 | 71 | 2,651 |
| **NET PROFIT** .................................................. | **7,083** | **12,080** | **12,217** | **9,031** | **6,215** |
| **ATTRIBUTABLE TO:** | | | | | |
| **PARENT COMPANY SHAREHOLDERS** ............................................ | **7,082** | **12,080** | **12,218** | **9,032** | **6,215** |
| **NON-CONTROLLING INTERESTS** ............................................ | **1** | **-** | **( 1 )** | **( 1 )** | **-** |
| | **7,083** | **12,080** | **12,217** | **9,031** | **6,215** |
| **EARNINGS PER SHARE** | | | | | |
| Basic and diluted | **3.09** | **5.42** | **5.07** | **3.92** | **2.97** |

## Consolidated Statements of Financial Position

| | As of 31 December | | | For the nine months ended 30 September |
|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 |
| | | (₱ millions) | | |
| **RESOURCES** | | | | |

[9] Trust fees reduced by 100% due to the spin-off of the Bank's trust operations to a standalone trust corporation effective 2 January 2024.

| | As of 31 December | | | For the nine months ended 30 September |
|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 |
| | (₱ millions) | | | |
| Cash and other cash items | 14,691 | 18,078 | 19,875 | 14,560 |
| Due from the Bangko Sentral ng Pilipinas | 130,170 | 156,664 | 151,762 | 99,003 |
| Due from other banks | 12,162 | 5,836 | 14,892 | 8,501 |
| Loans and receivables arising from reverse repurchase agreement | 11,691 | 8,724 | 35,799 | 30,420 |
| Trading and investment securities – net | 219,235 | 374,365 | 330,742 | 398,100 |
| Loans and receivables – net | 538,302 | 558,869 | 649,929 | 697,725 |
| Investments in subsidiaries and associates – net | 344 | 379 | 509 | 568 |
| Bank premises, furniture, fixtures and equipment – net | 12,660 | 11,264 | 9,129 | 8,266 |
| Investment properties – net | 3,572 | 2,616 | 543 | 642 |
| Deferred tax assets – net | 3,206 | 3,740 | 5,775 | 6,086 |
| Other resources – net | 13,100 | 13,573 | 19,377 | 21,101 |
| **TOTAL RESOURCES** | **959,133** | **1,154,108** | **1,238,332** | **1,284,972** |
| **LIABILITIES AND EQUITY** | | | | |
| Deposit Liabilities | 672,459 | 857,244 | 956,712 | 990,440 |
| Bills payable | 55,904 | 66,660 | 50,858 | 59,153 |
| Bonds payable | 87,215 | 74,411 | 34,939 | 26,578 |
| Accrued taxes, interest and other expenses | 6,097 | 8,428 | 12,082 | 10,249 |
| Other liabilities | 26,378 | 31,004 | 31,466 | 40,453 |
| **TOTAL LIABILITIES** | **848,053** | **1,037,747** | **1,086,057** | **1,126,873** |
| **EQUITY** | | | | |
| **Attributable to:** | | | | |
| **Parent Company Shareholders** | 111,062 | 116,353 | 152,269 | 158,093 |
| **Non-controlling Interests** | 18 | 8 | 6 | 6 |
| | **111,080** | **116,361** | **152,275** | **158,099** |
| **TOTAL LIABILITIES AND EQUITY** | **959,133** | **1,154,108** | **1,238,332** | **1,284,972** |

## Selected Financial Ratios

| | As of 31 December | | | For the nine months ended 30 September |
|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 |
| | (per cent., except as otherwise indicated) | | | |
| Return on assets(1) | 0.84 | 1.20 | 1.06 | 0.7 |
| Return on shareholders' equity(2) | 6.71 | 11.24 | 9.53 | 5.2 |
| Net interest margin(3) | 4.07 | 3.70 | 3.43 | 3.8 |
| Cost-income margin(4) | 61.92 | 56.46 | 59.19 | 61.7 |
| Loans-to-deposits(5) | 82.53 | 66.62 | 71.7 | 73.17 |
| Tier I capital adequacy ratio(6) | 14.37 | 14.42 | 16.53 | 15.43 |
| Total capital adequacy ratio(7) | 15.23 | 15.29 | 17.37 | 16.3 |
| Total equity-to-total assets(8) | 11.58 | 10.08 | 12.30 | 12.13 |
| Total non-performing loans to-total loans – excluding interbank loans(9) | 4.10 | 2.10 | 1.75 | 2.13 |
| Total non-performing loans-to-total loans – including interbank loans(10) | 3.78 | 2.03 | 1.68 | 2.08 |
| Allowance for loan impairment losses to total gross loans(11) | 4.17 | 2.60 | 2.44 | 2.46 |
| Allowances for loan impairment losses-to-total non-performing loans(12) | 66.97 | 68.27 | 69.18 | 63.18 |
| Earnings per share (₱)(13) | 3.09 | 5.42 | 5.07 | 2.97 |

Notes:

(1) Net profit divided by average total resources for the period indicated.

(2) Net profit divided by average total capital funds for the period indicated.

(3) Net interest income divided by average interest-earning assets.

(4) Total operating expenses divided by the sum of net interest income and other income.

(5) Total gross loans divided by total deposits.

(6) Tier I capital divided by total risk-weighted assets.

(7) Total qualifying capital divided by total risk-weighted assets. .

(8) Total capital funds divided by total resources.

(9) Total non-performing loans divided by total loans excluding interbank loans.

(10) Total non-performing loans divided by total loans including interbank loans.

(11) Total allowance for loan impairment losses divided by total gross loans.

(12) Total allowance for loan impairment losses divided by non-performing loans.

(13) Net profit divided by weighted average common shares.

# RECENT FINANCIAL DEVELOPMENTS

The following is a summary discussion of the changes in the financial information of the Bank as of and for the nine months ended 30 September 2024.

**Comparison of the Reviewed Consolidated Statement of Financial Position as of 30 September 2024 to the Audited Consolidated Statement of Financial Position as of 31 December 2023**

***Resources***

Cash and Other Cash Items decreased by 26.7 per cent. or ₱5.3 billion from ₱19,875 million as of 31 December 2023 to ₱14,560 million as of 30 September 2024 as a result of the lower cash requirements as compared to year-end.

Amount due from the Bangko Sentral ng Pilipinas decreased by 34.8 per cent. or ₱52.8 billion from ₱151,762 million as of 31 December 2023 to ₱99,003 million as of 30 September 2024 due to lower BSP Term Deposits as short-term investment.

Amount due from Other Banks decreased by 42.9 per cent. or ₱6.4 billion from ₱14,892 million as of 31 December 2023 to ₱8,501 million as of 30 September 2024 due to lower funding requirements and decrease in foreign bank placements as a result of redeployment of funds.

Loans arising from Reverse Repurchase Agreements decreased by 15.0 per cent. or ₱5.4 billion from ₱35,799 million as of 31 December 2023 to ₱30,420 million as of 30 September 2024 due to lower placements with the BSP.

Trading and Investment Securities – net, increased by 20.4 per cent. or ₱67.4 billion from ₱330,742 million as of 31 December 2023 to ₱398,100 million as of 30 September 2024 attributable to the 54.0 per cent. or ₱44.6 billion growth in Financial Assets at Fair Value Other Comprehensive Income (**FVOCI**), 8.8 per cent. or ₱20.8 billion increase in Investment Securities at Amortised Cost and the 17.9 per cent. or ₽2.1 billion increase in Financial Assets at Fair Value Through Profit or Loss (**FVTPL**).

Loans and Receivables – net, increased by 7.4 per cent. or ₱47.8 billion from ₱649,929 million as of 31 December 2023 to ₱697,725 million as of 30 September 2024 mainly driven by the 28.6 per cent. growth in consumer loans.

Investment in Associates - net, increased by 11.7 per cent. or ₱59.5 million from ₱509 million as of 31 December 2023 to ₱568 million as of 30 September 2024 on account of higher income from investments in associates.

Bank Premises, Furniture, Fixtures & Equipment – net, decreased by 9.5 per cent. or ₱863.1 million from ₱9,129 million as of 31 December 2023 to ₱8,266 million as of 30 September 2024 attributable to the amortisation of right-of use assets.

Investment Properties – net, increased by 18.2 per cent. or ₱99.0 million from ₱543 million as of 31 December 2023 to ₱642 million as of 30 September 2024 mainly due to foreclosures for the period.

Deferred Tax Assets increased by 5.4 per cent. or ₱310.8 million from ₱5,775 million as of 31 December 2023 to ₱6,086 million as of 30 September 2024 mainly due to the additional recognition of deferred tax assets during the period.

Other Resources – net, increased by 8.9 per cent. or ₱1.7 billion from ₱19,377 million as of 31 December 2023 to ₱21,101 million as of 30 September 2024 largely due to higher other assets held in trust, prepaid expenses and assets held-for-sale and disposal group.

As a result of the foregoing, consolidated total resources increased by 3.8 per cent. or ₱46.6 million from ₱1,238,332 million as of 31 December 2023 to ₱1,284,972 million as of 30 September 2024.

***Liabilities and Capital Funds***

Deposit liabilities increased by 3.5 per cent. or ₱33.7 billion from ₱956,712 million as of 31 December 2023 to ₱990,440 million as of 30 September 2024 on account of the growth in time deposits by ₱34.1 billion during the period.

Bills Payable increased by 16.3 per cent. or ₱8.3 billion from ₱50,858 million as of 31 December 2023 to ₱59,153 million as of 30 September 2024 primarily due to increase in foreign borrowings during the period.

Bonds Payable decreased by 23.9 per cent. or ₱8.4 billion from ₱34,939 million as of 31 December 2023 to ₱26,578 million as of 30 September 2024 primarily due to maturities of the U.S.$300.0 million Senior Notes in September 2024 and the ₱14.8 billion Green Bonds in May 2024, net of the issuance of the U.S.$400 million Senior Notes Sustainability Bonds in January 2024.

Accrued Taxes, Interest and Other Expenses decreased by 15.2 per cent. or ₱1.8 billion from ₱12,082 million as of 31 December 2023 to ₱10,249 million as of 30 September 2024 mainly due to the decreases in accrued interest and accrued other expenses.

Other Liabilities increased by 28.6 per cent. or ₱9.0 billion from ₱31,466 million as of 31 December 2023 to ₱40,453 million as of 30 September 2024 primarily due to the increase in trade payables and outstanding acceptances.

Total Capital Funds stood at ₱158.1 billion, which is higher by ₱5.8 billion or 3.8 per cent. on account of the ₱6.2 billion net income for the period and significant improvement in valuation of FVOCI investments, offset by the ₱3.6 billion cash dividends paid by the Bank.

As a result of the foregoing, consolidated total liabilities increased by 3.8 per cent. or ₱40.8 billion from ₱1,086,057 million as of 31 December 2023 to ₱1,126,873 million as of 30 September 2024.

**Comparison of the Reviewed Consolidated Statement of Income for the nine months ended 30 September 2024 to the Reviewed Consolidated Statement of Income for the nine months ended 30 September 2023**

***Interest Income***

Total interest income increased by 21.9 per cent. or ₱10.5 billion from ₱48,011 million for the nine-month period ended 30 September 2023 to ₱58,517 million for the nine-month period ended 30 September 2024 driven by the growth in volume and better average yields.

Interest income on loans and receivables went up by 25.6 per cent. or ₱9,130 million from ₱35,674 million for the nine-month period ended 30 September 2023 to ₱44,804 million for the nine-month period ended 30 September 2024 driven by higher volume and better average yields.

Interest income on investment securities increased by 24.5 per cent. or ₱2,383 million from ₱9,710 million for the nine-month period ended 30 September 2023 to ₱12,093 million for the nine-month period ended 30 September 2024 driven by higher volume and better average yields.

Other interest income decreased by 38.4 per cent. or ₱1.0 billion from ₱2,627 million for the nine-month period ended 30 September 2023 to ₱1,620 million for the nine-month period ended 30 September 2024 mainly due to the lower BSP placements during the period.

### *Interest Expense*

Total interest expense increased by 16.1 per cent. or ₱3.8 billion from ₱23,765 million for the nine-month period ended 30 September 2023 to ₱27,585 million for the nine-month period ended 30 September 2024 due to higher interest expense on deposit liabilities due to growth in volume and the impact of higher average costs.

Interest expense on deposit liabilities grew by 15.8 per cent. or ₱3,201 million from ₱20,242 million for the nine-month period ended 30 September 2023 to ₱23,443 million for the nine-month period ended 30 September 2024 primarily as a result of the growth in time deposits.

Interest expense on bills payable and other borrowings increased by 17.6 per cent. or ₱618.9 million from ₱3,523 million for the nine-month period ended 30 September 2023 to ₱4,142 million for the nine-month period ended 30 September 2024 due to higher average costs.

The Group booked total impairment losses of ₱5,612 million for the nine-month period ended 30 September 2024, up by 13.2 per cent. or ₱665 million from ₱4,957 million for the nine-month period ended 30 September 2023, mainly due to higher impairment provisions for credit card receivables.

As a result of the foregoing, net interest income increased by 27.6 per cent. or ₱6.7 billion from ₱24.2 billion for the nine months ended 30 September 2023 to ₱30.9 billion for the nine months ended 30 September 2024.

### *Other Operating Income*

Trading and securities gain – net increased by 302.3 per cent. or ₱387 million from ₱128 million for the nine-month period ended 30 September 2023 to ₱515 million as of 30 September 2024, largely from better marked to market valuation and higher realized trading gains.

Service fees and commissions increased by 32.1 per cent. or ₱1.5 billion from ₱4,750 million for the nine-month period ended 30 September 2023 to ₱6,275 million for the nine-month period ended 30 September 2024 largely due to increase in fee-based income.

Foreign exchange gains (losses) – net, lowered by 364.1 per cent. or ₱2.8 billion from a gain of ₱781 million for the nine-month period ended 30 September 2023 to a loss of ₱2,063 million as of 30 September 2024 largely on account of lower foreign exchange position profits and lower gains from commercial transactions.

Trust fees reduced by 100 per cent. due to the spin-off of the Bank's Trust Operations to a standalone trust corporation effective 2 January 2024.

Gain on assets sold – net, decreased by 77.6 per cent. or ₱3,184 million from ₱4,104 million for the nine-month period ending 30 September 2023 to ₱920 million for the nine-month period ending 30 September 2024 due to the higher gain on sale of various real estate properties sold last year.

Miscellaneous income decreased by 26.6 per cent. or ₱411 million from ₱1,546 million for the nine-month period ended 30 September 2023 to ₱1,135 million for the nine-month period ended as of 30 September 2024 due to lower recoveries and rental income.

As a result of the foregoing, other operating income decreased by 41.6 per cent. or ₱4,871 million from ₱11,706 million for the nine-month period ended 30 September 2023 to ₱6,835 million for the nine-month period ended 30 September 2024. This accounted for 18.1 per cent. of total operating income.

### *Other Operating Expense*

Employee benefits increased by 12.7 per cent. or ₱680.6 million from ₱5,355 million for the nine-month period ended 30 September 2023 to ₱6,036 million for the nine-month period ended 2024 driven by increase in headcount.

Occupancy and equipment-related costs increased by 14.7 per cent. or ₱360.8 million from ₱2,454 million for the nine-month period ended 30 September 2023 to ₱2,815 million for the nine-month period ended 2024 largely due to higher information technology costs and increase in rental expenses.

Taxes and licenses declined by 0.1 per cent. or ₱5.0 million from ₱4,676 million for the nine-month period ended 30 September 2023 to ₱4,671 million for the nine-month period ended 2024 mainly attributable to the decrease in documentary stamps used during the period.

Depreciation and amortisation was recorded at ₱2,505 million for the nine-month period ended 30 September 2024, down by 1.5 per cent. or ₱39.4 million from ₱2,544 million for the nine-month period ended 30 September 2023 mainly on account of the decrease in equipment depreciation.

Miscellaneous expenses increased by 5.8 per cent. or ₱398.7 million from ₱6,864 million for the nine-month period ended 30 September 2023 to ₱7,262 million for the nine-month period ended 30 September 2024 largely as a result of higher credit card-related expenses and other volume-driven expenses.

As a result of the foregoing, other operating expenses increased by 6.4 per cent. or ₱1.4 billion from ₱21.9 billion for the nine-month period ended 30 September 2023 to ₱23.3 billion for the nine-month period ended 30 September 2024. This accounted for 61.7 per cent. of total operating income.

### *Tax expense*

Tax expense increased by 3633.8 per cent. or ₱2.6 billion from ₱71 million for the nine-month period ended 30 September 2023 to ₱2,651 million for the nine-month period ended 30 September 2024 mainly due to lower deferred income tax benefit recognised during the year and higher final tax on investment securities.

# USE OF PROCEEDS

The net proceeds from each issue of the Notes will be applied by the Bank:

(a) to finance its operations, refinance its existing borrowings, support its asset growth and for general corporate purposes; or

(b) if so specified in the applicable Final Terms, to finance or refinance, in whole or in part, the Eligible Projects in accordance with certain prescribed eligibility criteria as described in the Sustainable Finance Framework.

The Arranger 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 Sustainable Finance 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 Sustainable Finance Framework will be used to finance and/or re-finance Eligible Projects; or (iii) the characteristics of the Eligible Projects, 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*".

## SUSTAINABLE FINANCE FRAMEWORK

*The following section sets out a high-level summary of the Bank's Sustainable Finance Framework which has been published by the Bank and is available on the Bank's website (https://www.rcbc.com/sustainability). For the avoidance of doubt, the contents of the Bank's website are not incorporated into and does not form part of this Offering Circular.*

*None of the Arranger, 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 Sustainable Finance Framework.*

*No assurance or representation is given by the Arranger, 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 Final Terms. Any such opinion or certification is not, nor should it be deemed to be, a recommendation by the Arranger, 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 Arranger, 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 Arranger, 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 Arranger, 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 Sustainable Finance Framework.*

### Introduction

The Bank's sustainability strategy is underpinned by its belief that sustainable practices are key pillars of responsible lending which delivers meaningful impact on the environment and communities. The Bank plans to align its business strategies to support the development needs of the environment and society, as articulated in the United Nations (UN) Sustainable Development Goals (SDGs) and the Paris Agreement on Climate Change.

Under the Bank's Sustainable Finance Framework (as maybe updated or amended from time to time, the **Sustainable Finance Framework**), the Bank intends to issue sustainable finance instruments (**SFIs**) (e.g., bonds and/or loans) to fund loans and projects that have clear environmental and/or social benefits.

### Use of Proceeds

The Bank intends to allocate an amount equivalent to the net proceeds of each Green Bond, Social Bond, or Sustainability Bond to finance and/or refinance, in whole or in part, the Bank's loans to customers or its own operating activities under the "*Eligible Green Categories*" with an identified subset of "*Eligible Blue Categories*" and/or "*Eligible Social Categories*" (each, an **Eligible Category** and together, the **Eligible Categories**), as set out in the "*Use of Proceeds*" section of the Sustainable Finance Framework (the **Eligible Projects**).

For the avoidance of doubt, loans that are sanctioned for general corporate purposes must be for businesses with at least 90 per cent. of their asset or revenue derived from the Eligible Categories at the time of consideration.

Where the use of proceeds is for refinancing of operational expenditures, a maximum look-back period of three years from the issuance date of the SFI shall be applied.

**Project Evaluation and Selection**

The selection of Eligible Projects will be performed by the Bank's respective business units in nominating loans or projects in accordance with the Eligible Categories and evaluating them in accordance with the Bank's Environmental and Social Management System (ESMS) policy and the Philippines Standard Industrial Classification system.

The prospective Eligible Asset will be subject to the evaluation and approval of a separate committee composed of members from the Credit Risk, Business and Sustainable Finance teams. A project will only be approved if it meets the ESMS criteria and the Eligible Categories.

**Management of Proceeds**

***Allocation of Proceeds***

The Bank intends to allocate all proceeds from SFIs to Eligible Projects on a best-efforts basis within 24 months of issuance.

***Tracking of Proceeds***

The SFI proceeds will be managed by the Bank's Balance Sheet Management team and Sustainable Finance division using a portfolio approach, and would be allocated as follows:

- Green Bonds or Green Loans to the Eligible Green Portfolio
- Social Bonds or Social Loans to the Eligible Social Portfolio
- Blue Bonds or Blue Loans to the Eligible Blue Portfolio
- Sustainability Bonds or Sustainability Loans to both Eligible Green Portfolio and Eligible Social Portfolio

The Bank will aim to achieve and maintain, on a best-efforts basis, a level of allocation for the Eligible Projects that at least matches or exceeds the net proceeds from its SFIs.

During the life of the SFIs, if an asset ceases to fulfill the eligibility criteria, the Bank will remove the relevant asset from the relevant asset portfolio and replace it with eligible asset(s) at least equivalent in amount to the asset that was removed, when necessary, as soon as reasonably practicable. To prevent double counting, the Bank will ensure that any Eligible Projects (especially those with more than one affiliation with the Use of Proceeds category) will not be listed more than once in either of the categories.

***Use of Unallocated Proceeds***

Unallocated funds representing proceeds of any SFI issued under the Sustainable Finance Framework will be held by the Bank in cash or cash equivalents.

**Reporting**

The Bank intends to report on the allocation of proceeds in a limited assurance report (the **Assurance Report**) while the impact of the proceeds will be reported in a separate impact report, both of which will be published on the Bank's website on an annual basis until full allocation. Reporting will take place a year following the issuance of the applicable SFI and will be renewed annually until full allocation of the net proceeds.

### *External Review of the Bank's Sustainable Finance Framework*

The Bank has appointed Sustainalytics, an independent second-party opinion provider, to review the Sustainable Finance Framework for alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2023, Green Loan Principles 2023, Social Loan Principles 2023, ASEAN Sustainability Bond Standards 2018, ASEAN Green Bond Standards 2018 and ASEAN Social Bond Standards 2018. The Second Party Opinion is available on the Bank's website at https://www.rcbc.com/sustainability. For the avoidance of doubt, the contents of the Bank's website are not incorporated into and does not form part of this Offering Circular.

## INVESTMENT CONSIDERATIONS

*The Bank believes, having made all reasonable enquiries, that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and the Bank is not in a position to express a view on the likelihood of any such contingency occurring.*

*Prospective investors should pay particular attention to the fact that the Bank and its activities are governed by the legal, regulatory and business environment in the jurisdictions where it carries out its business and which may differ in some respects from that which prevails in other countries. Prospective investors should also note that certain statements set out below constitute "forward-looking statements" as discussed above.*

*The following describes some of the significant investment considerations that could affect the Bank, the Programme and the value of the Notes. In addition, some risks may be unknown to the Bank and other risks, currently believed to be immaterial, could turn out to be material. All of these could have a material adverse effect on the Bank's business, cash flows, financial condition, results of operations and prospects.*

*The Bank believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but its inability to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by it based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision. Prospective investors are recommended to seek independent advice concerning legal, accounting and tax issues relating to the specific circumstances of individual investors before deciding whether or not to invest in any Notes.*

***General Information***

*This Offering Circular describes in general terms some of the issues and risks which prospective investors should consider before making an investment in any Notes. This Offering Circular is not intended to provide and explain comprehensively all information, or to provide an in-depth analysis, necessary to make an evaluation of the financial consequences of investing in any Notes. This Offering Circular should not be construed as a recommendation to invest in any Notes, and prospective investors should invest in any Notes only if the relevant Notes are consistent with the investor's financial objectives.*

*Investors should be aware that Notes are exposed to market conditions of a general nature. Accordingly, the market price of any Notes may be influenced by, for example, economic factors that cannot be foreseen at the time of investment. Investors should be aware that the number of Notes of any Series in circulation may fluctuate over the term of the relevant Notes and that the marketability of a Series of Notes in the secondary market may change over the term of such Notes, thus limiting investors' ability to sell such Notes. In conducting its business activities, the Issuer assumes risks of a varying nature, any and all of which may affect the Issuer's performance and the value of any Notes.*

## Risks Relating to the Bank

### *The Bank may incur significant losses from its trading and investment activities due to market fluctuations and volatility*

Trading and securities gain – net accounted for 11.41 per cent., 0.28 per cent., 2.71 per cent. and 7.53 per cent. of total operating income for the years ended 31 December 2021, 2022, 2023 and the nine months ended 30 September 2024 respectively. The Bank's income from these activities is subject to substantial volatility based on, among other things, changes in interest rates, foreign currency exchange rates, debt prices, stock market fluctuations, and economic, political and other conditions that may fluctuate from time to time. Given the potential and possible unfavourable conditions in the global financial markets, there can be no assurance that, in the future, the Bank will be able to realise a stable amount of trading and foreign exchange gains, that it will not incur a loss from such trading activities or that it will 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.

A substantial portion of the Bank's assets are held in the form of Government securities. Such instruments are subject not only to market fluctuations but also to political or economic changes in the Government's sovereign debt rating. There can be no assurance that the rating of Philippine sovereign debt will not be subject to downgrades or negative outlooks. Furthermore, should the Government be unable to service its obligations, the Bank would suffer a material adverse impact on its financial condition.

With the Bank's adoption of the full version of PFRS 9 effective 1 January 2018, its investment securities may be classified as either Hold to Collect (**HTC**) which are measured at amortised cost, or Fair Value Through Profit and Loss (**FVTPL**) or Fair Value through Other Comprehensive Income (**FVOCI**), both of which are measured at market value. HTC securities are those that are held with the objective of holding the instruments to collect contractual cash flows while FVTPL securities are those that are held in order to sell them prior to contractual maturity and realise changes in fair value. FVOCI securities are those that are held to collect contractual cash flows and to sell prior to contractual maturity, and the terms of the securities give rise on specified dates to cash flows that are solely payment of principal and interest. The Bank sells HTC securities whenever permitted by the Bank's business model and allowed under PFRS 9. The Bank may change its business model and decide that securities previously classified as HTC should instead be reclassified as FVTPL or FVOCI. Although changes in the Bank's business model are expected to be rare, any change could materially alter the values of the securities reflected in the financial statements and could add to the volatility of the Bank's income.

On 19 October 2021, the BSP issued Memorandum No. M-2021-055, granting temporary regulatory relief on the capital treatment of provisioning requirements under PFRS 9, by allowing an "add-back" factor until 2023. Under that measure, covered Bangko Sentral – Supervised Financial Institutions (**BSFIs**) will be allowed to "add-back" increases in the Stage 1 and Stage 2 provisioning requirements booked under the allowance for credit losses from the end of December 2019 to CET 1 capital, over a period of two years commencing 1 January 2022, subject to a declining add-back factor.

Any future changes in PFRS may affect the financial reporting of the Bank's business.

### *The Bank may face fluctuating levels of non-performing loans and provisions for impairment of assets*

The Bank's results of operations have been, and continue to be, negatively affected by the level of its non-performing loans (**NPLs**). As of 31 December 2021, 2022, 2023 and the nine months ended 30 September 2024, the Bank's net NPLs totalled ₱18,335 million, ₱11,432 million, ₱10,910 million and ₱14,451 million (U.S.$262 million), respectively, representing 3.30 per cent., 2.00 per cent., 1.59 per cent., and 2.08 per cent. respectively, of the Bank's total loan portfolio. According to the BSP, average net NPL ratios for the Philippine banking system were 2.1 per cent., 1.5 per cent., 1.5 per cent. and 1.6 per cent. as of 31 December 2021, 2022 and 2023 and 30 September 2024, respectively. For those periods, the Bank's net NPL ratio was higher than the average net NPL ratio for Philippine banks. 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 nine months ended 30 September 2024, the Bank's NPL coverage ratio, defined as provisions divided by NPLs, was 63.7 per cent., 84.4 per cent., 89.6 per cent. and 83.1 per cent., respectively. For the years ended 31 December 2021, 2022, 2023 and the nine months ended 30 September 2024, the Bank made charges to income provisions for impairment of ₱6,048 million (U.S.$118.6 million), ₱5,706 million (U.S.$102.3 million), ₱6,888 million (U.S.$124.4 million) and ₱5,612 million (U.S.$100.2 million), respectively, representing approximately 20.98 per cent., 18.28 per cent., 20.48 per cent., and 18.14 per cent. of the Bank's net interest income for these periods. See also "*Investment Considerations – The Bank's provisioning policies in respect of NPLs require significant subjective determinations and are based on Philippine regulations which may result in a variation of how these policies are applied and may be less stringent than those in other countries".*

Ongoing volatile economic conditions in the Philippines, including volatile foreign exchange and interest rates, could adversely affect, directly or indirectly many of the Bank's customers and counterparties, causing uncertainty regarding their ability to fulfil their loan obligations, thus significantly increasing the Bank's exposure to credit risk. These and other factors could result in an increased number of NPLs in the future and would require the Bank to book additional provisions for impairment on loans.

While the Bank has instituted more aggressive NPL recovery, resolution and disposal activities and stricter credit processes, and the NPL level improved in 2023 with a few upticks in 2024 from middle market accounts, its NPL level remained flat year-to-date 2024 mainly due to the NPL flow from one account. There can be no assurance that the Bank will be successful in continuing to reduce its NPL levels. An increase in the Bank's NPLs could have a material adverse effect on its financial condition, capital adequacy and results of operations. Part of the Bank's NPL disposal strategy is to continue to sell NPLs to SPVs. The Bank may not be able to sell its NPLs at commercially reasonable terms, if at all. In addition, certain of the Bank's past sales to SPVs have not sufficiently transferred the risks and rewards of the sold NPLs to the SPVs in accordance with the applicable accounting standards. If the Bank were to include these NPLs in its statement of condition, it would be required to increase its impairment losses and its financial condition and results of operations would be negatively impacted.

***The Bank's ability to implement its growth strategy and its results of operations may be affected due to the increased oversight by and certain remedial measures that do not apply to other Philippine banks because of an alleged unauthorised transfer of funds involving the Bank in February 2016***

On 5 February 2016, there were four cases of alleged unauthorised transfer totalling U.S.$81 million that were routed from a U.S. dollar account owned by the Bangladesh Bank, the central bank of Bangladesh, with the Federal Reserve Bank of New York (**FRBNY**) into four accounts maintained at the Bank (the **BOB Incident**). The fund transfers originated from payment requests that were allegedly not initiated by the legitimate account owner. Over the course of several days, the funds were transferred and withdrawn from the Bank, before being eventually remitted to casinos. The Bank's internal investigation and assessment of the BOB Incident determined, among other things, that several rogue employees of the Bank colluded to falsify commercial documents and override the Bank's internal anti-money laundering (**AML**) alerts triggered by the suspicious transactions.

In August 2016, a special examination by the BSP as a result of the BOB Incident concluded that the Bank had conducted business in an unsafe or unsound manner by operating with a grossly inadequate money laundering and terrorist financing prevention risk management and control framework. The Monetary Board of the BSP approved the imposition of supervisory action on the Bank to pay a monetary penalty in the amount of ₱1 billion in relation to the completed special examination. Additionally, the Monetary Board of the BSP imposed a number of temporary restrictions on the Bank's activities and permanent requirements designed to strengthen the Bank's corporate governance and improve the Bank's prompt corrective action framework. Temporary restrictions imposed on the Bank by the BSP included a stay on the approval of any new branch licence requests, the prohibition against expanding the Bank's money service businesses through new relationships, and a prohibition against any new wire transfer or remittance-related products and services until further notice by the BSP. The permanent and ongoing requirements imposed by the BSP include, among other things, (i) reconstituting the Bank's Board of Directors, Audit Committee, Corporate Governance Committee and Risk Oversight Committee and organisational structure; (ii) implementing plans, processes and procedures designed to improve the Bank's AML and terrorist financing prevention framework and controls, and (iii) ensuring the effective implementation of the Bank's money laundering prevention programme and the taking of appropriate actions to correct conditions resulting from unsafe or unsound banking practices. The BSP's remedial measures or other possible future proceedings could adversely affect the Bank's ability to implement its growth strategy or results of operations. The restriction on establishing new money service business relationships has been lifted by the BSP per MB resolution 1687 dated 31 October 2019. RCBC was notified via BSP letter dated 5 November 2019.

The Bank fully recognised the BSP's ₱1 billion fine as part of miscellaneous expenses in its 2016 consolidated statements of profit or loss and has paid in full this penalty ahead of the August 2017 deadline set by the BSP. In addition, in the immediate aftermath of the BOB Incident, the Bank lost a significant portion of its deposits and its cost of funding increased, which had an adverse effect on the Bank's income performance in 2016.

Moreover, the Bank and its current and former officers and employees who had significant involvement in the BOB Incident have taken part in investigations, regulatory proceedings and litigation stemming from the same. Please refer to *"Description of the Bank – Legal Proceedings – BOB Incident"* for further details on the BOB Incident and the associated litigations and proceedings.

There can be no assurance that the BSP or other regulators or government agencies will not impose additional penalties or requirements on the Bank, including extending or increasing current permanent or ongoing requirements. There may also be additional litigation arising from the BOB Incident that may be brought by the Bangladesh Bank or any other enforcement actions. Even if the Bank were to prevail in the lawsuit initiated by the Bangladesh Bank or any other enforcement actions in connection with the BOB Incident, and prevail in the case it had initiated against the Bangladesh Bank, it may nonetheless suffer reputational harm from such lawsuits or regulatory proceedings, and/or it may have to spend significant amounts of management time and financial resources defending itself and prosecuting its own claim against the Bangladesh Bank.

***The Bank's provisioning policies in respect of NPLs require significant subjective determinations and are based on Philippine regulations which may result in a variation of how these policies are applied and may be less stringent than those in other countries***

BSP regulations require that Philippine banks classify NPLs based on different categories corresponding to levels of credit risk: Loans Especially Mentioned, Substandard, Doubtful and Loss. Generally, classification depends on a combination of a number of qualitative as well as quantitative factors such as the number of months payment is in arrears, the type of loan, the terms of the loan and the level of collateral coverage. These requirements have in the past, and may in the future, be subject to change by the BSP. Periodic examination by the BSP of these classifications may also result in changes being made by the Bank to such classifications and to the factors relevant thereto. 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.

Furthermore, the level of loan loss provisions which the Bank recognises may increase significantly in the future due to the introduction of new accounting standards. The level of provisions currently recognised by the Bank in respect of its loan portfolio depends largely on the estimated value of the collateral coverage for the portfolio. The level of the Bank's provisions may not be adequate to cover increases in the amount of its NPLs, 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.

Certain accounting standards have been adopted in the Philippines, based on International Financial Reporting 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. These accounting standards may result in the Bank recognising significantly higher provisions for loan loss in the future. The Bank may be unable to recover the assessed value of its collateral when its borrowers default on their obligations, which may expose the Bank to significant losses.

On 3 August 2020, BSP Memorandum No. M-2020-061 was signed. This memorandum enjoined banks to adhere to the guidelines on credit risk management, besides being guided in the treatment of relief measures for the purposes of determining expected credit loss (**ECL**), and treatment of relief measures granted by the BSP. The BSP said banks should have the same prudence in assessing the financial capacity of borrowers and in making credit decisions, under the credit risk management rules. Banks should be able to distinguish borrowers who are only facing temporary cash flow pressures from those with serious issues on capacity to repay the loan. BSFIs are also expected to review the assumptions in their ECL models in view of the impact of the pandemic. BSFIs should use reasonable and supportable information about past events, current conditions, and the forecast of future conditions and/or outlook, without undue cost or effort. BSFIs should exercise prudent judgment in determining the qualitative and quantitative factors that should be considered in measuring ECL as well as in applying overlays or adjustments to the model.

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 level of provisions in the future. If the Bank fails to properly appraise or review its collateral or its appraised value declines, the Bank's provisions may be inadequate and the Bank may be required to make further provisions, which could have a material adverse effect on its business, financial condition and results of operations.

***The Bank may be unable to recover the assessed value of its collateral when its borrowers default on their obligations, which may expose the Bank to significant losses***

As of 31 December 2021, 2022, 2023 and the nine months ended 30 September 2024, respectively, the Bank's secured loans represented 43.08 per cent., 43.35 per cent., 41.08 per cent. and 40.46 per cent. of the Bank's total loans. As of those dates, 25.90 per cent., 31.15 per cent., 29.73 per cent. and 28.89 per cent, respectively, of the total loans consisted of real estate properties as collateral.

The Bank may not be able to recover the value of any collateral or enforce any guarantee due, in part, to the difficulties and delays involved in enforcing such obligations in the Philippine legal system. In order to foreclose on collateral or enforce a guarantee, banks in the Philippines are required to follow certain procedures specified by Philippine law. These procedures are subject to administrative and bankruptcy law requirements more burdensome than in certain other jurisdictions. The resulting delays can last several years and lead to 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 have exposed, and may continue to expose, the Bank to legal liability while in possession of the collateral. These difficulties may significantly reduce the Bank's ability to realise the value of its collateral and therefore the effectiveness of taking security for the loans it makes. The Bank carries the value of the foreclosed properties at the lower of the bid price and the loan balance plus accrued interest at the time of such foreclosures. While the Bank, at each statement of condition date, provides impairment on its foreclosed properties in accordance with applicable accounting standards and BSP regulations, it may incur further expenses to maintain such properties. In realising cash value for such properties, the Bank may incur further expenses such as legal fees and taxes associated with such realisation.

***The value of the Bank's collateral may be overstated and may decline in the future***

The value of the Bank's collateral may be overstated and may not accurately reflect the net recovery it is likely to receive from the sale of such collateral. Certain of the Bank's collateral valuations may be outdated and may not accurately reflect the current market value of its collateral. In certain instances, no purchasers may exist for a particular type of collateral, thereby rendering it effectively worthless. Any decline in the value of the collateral securing the Bank's loans, including with respect to any future collateral taken by the Bank, could mean that the Bank's loan loss provisions for the relevant loans are inadequate and could require an increase in such provisions. Any increase in the Bank's provisions would adversely affect its results of operations and financial condition as well as the Bank's capital adequacy ratio (**CAR**), which could result in a need for the Bank to raise additional capital.

***The Bank's focus on customers with lower incomes and the micro-financing business exposes the Bank to a high degree of credit risk and may have a detrimental effect on both the Bank's loan and deposit base as well as its NPLs***

The Bank is engaged in the micro-financing business and is focusing on lending to customers with lower incomes in order to grow its business and increase its net interest margin. Lending to customers in this sector and conducting a micro-finance business both have specific requirements for risk management procedures, guidelines, systems, credit appraisal monitoring and loan recovery. Given the limited availability of independent financial information on Philippine borrowers, the Bank is exposed to higher credit risk in the consumer and micro-finance sectors as compared to banks in developed markets. Aggressive loan pricing by competitors and interest rate ceilings imposed by the Government may result in a lower net interest margin. In addition, slower economic growth and high inflation may cause significant deterioration in the purchasing power of consumers, thus resulting in a reduced loan demand and higher NPLs. The Bank's inability to manage these risks associated with this customer segment could have a material adverse effect on its business, financial condition and results of operations.

***The Bank may not be successful in implementing new business strategies or penetrating new markets***

The Bank's business strategy includes expanding the range of its products and services in order to diversify its revenue sources. For example, the Bank has targeted overseas remittances and loans to small and medium sized enterprises (**SME**) as key areas of growth. The Bank believes its strategy is necessary to enable the Bank to increase loans in a sustained and prudent manner, to grow a stable deposit base and to maintain its net interest margin and profitability. In addition, the Bank is expanding its consumer loan operations. Expansion of the Bank's business activities to increase the number of financial products and services that it offers exposes it to a number of risks and challenges including, among others:

- new and expanded business activities may require greater marketing and compliance costs than the Bank's traditional services;
- new and expanded business activities may have less growth or profit potential than the Bank anticipates, and there can be no assurance that new business activities will become profitable at the level the Bank desires or at all;
- the Bank may fail to identify and offer attractive new services in a timely fashion, putting it at a disadvantage with competitors;
- 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 need to enhance the capability of its IT systems to support a broader range of activities; and

- economic conditions, such as rising interest rates or inflation, could hinder the Bank's expansion, particularly in the consumer loan industry.

The Bank's inability to implement its business strategy could have a material adverse effect on its business, financial condition and results of operations.

***Increased exposure to consumer debt could result in increased delinquencies in the Bank's loan and credit card portfolios***

The Bank has been expanding and will continue to expand its consumer loan operations, which constituted 38.62 per cent. of the Bank's total loan portfolio as of 30 September 2024, a 40.07 per cent. increase from the previous year. In addition, the Bank plans to continue expanding its credit card operations. These developments increase the Bank's exposure to consumer debt and changes in general economic conditions affecting Philippine consumers. Accordingly, economic difficulties in the Philippines that have a significant adverse effect on Philippine consumers could result in reduced growth and deterioration in the credit quality of the Bank's personal loan and credit card portfolios. For example, a rise in unemployment or 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. There can be no assurances that the Bank will be successful in its consumer debt operations or that it will not continue to incur losses. Continued losses from consumer debt operations will negatively affect the Bank's results of operations.

***The Bank's 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, 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, which may be significant.

***The Bank has a high exposure to the Philippine property market through real and other properties acquired (ROPA) and its lending to customers in the real estate industry***

The Bank has significant exposure to the Philippine property market due to the level of its holdings in ROPA and its loans to customers in the real estate industry. The Bank acquires ROPA when it forecloses on the mortgage over 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 based on the level of its NPLs. As of 30 September 2024, the Bank's gross ROPA amounted to approximately ₱993 million (U.S.$17.73 million), which represented 11.15 per cent. of the Bank's total tangible assets. The Bank's outstanding loans to customers in the real estate industry amounted to ₱89,891 million, ₱80,276 million, ₱100,918 million and ₱93,594 million (U.S.$1,670.81 million) as of 31 December 2021, 2022, 2023 and 30 September 2024 respectively, representing 18 per cent., 15 per cent., 16 per cent. and 18 per cent., respectively, of its total loans as of those dates.

The Bank periodically disposes of its ROPA in and through public auctions, sealed bidding and negotiated sales at prevailing market prices. The Philippine property market is highly cyclical, and property prices in general have been volatile. Property prices are affected by a number of factors, including, among other things, the supply of, and demand for, comparable properties, the rate of economic growth in the Philippines and recent political and economic developments. Property prices in recent years have been a function of interest rates and financing costs, with interest rates being at near-record lows and increasing the demand for real estate, resulting in increased property prices. Further, housing backlog in the Philippines has supported demand for residential properties.

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, in an extended downturn in the property market, and 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. Finally, the Bank is required to recognise annual provisions against ROPA based on the difference between the market value, net of estimated selling costs, and book value.

As a result of these provisioning requirements, 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, the Bank may have to set aside additional provisions for impairment losses. Accordingly, an extended downturn in the Philippine property sector could increase the level of the Bank's provisions set against its ROPA or its loans extended to customers in the real estate industry, reduce the Bank's net income and consequently adversely affect the Bank's business, financial condition and results of operations.

***The Bank may have to comply with stricter regulations and guidelines issued by regulatory authorities in the Philippines, including the BSP and the Bureau of Internal Revenue and international bodies, including the Financial Action Task Force (the FATF)***

The Bank is regulated principally by, and has reporting obligations to, the BSP. It is also subsidiarily regulated, and has reporting and disclosure obligations to, the SEC, the PSE, the National Privacy Commission (**NPC**) and the Anti-Money Laundering Council (**AMLC**). The Bank is subject to the banking, corporate, taxation and other laws in effect in the Philippines. The Bank is also subject to recommendations and pronouncements of international bodies such as the FATF which have been adopted, incorporated, or referred to by the BSP in its regulatory issuances.

The regulatory and legal framework governing the Bank differs in certain material respects from that in effect in other countries and may continue to change as the Philippine economy and commercial and financial markets evolve. In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented which are intended to provide tighter control and more 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 and reserve requirements of banks in the Philippines. In particular, institutions that are subject to the Anti–Money Laundering Act of 2001 (**AMLA**) are required to establish and record the identities of their clients based on official documents. In addition, under the AMLA regulations, all records of customer identification and transaction documents are required to be maintained and stored for a minimum of five years from the date of a transaction. Records of closed accounts must also be kept for at least five years after their closure. The AMLA regulations also require covered institutions to report covered and suspicious transactions as defined under the relevant law. See *"Banking Regulation and Supervision"*. The Bank may incur substantial additional costs to ensure compliance with new rules and regulations.

The Bank's failure to comply with current or future regulations and guidelines issued by regulatory authorities in the Philippines could have a material adverse effect on the Bank's business, financial condition and results of operations. As part of the administrative sanctions, the AMLC may impose sanctions, monetary penalties, warnings or reprimands and fines upon any covered person, its directors, its officers and employees for violation of the AMLA, its implementing rules and regulations or for failure to comply with AMLC orders, resolutions or issuances. The penalties to be imposed are provided under the AMLA, which may range from ₱100,000.00 to ₱3,000,000.00 depending on the violation. The administrative proceedings before the AMLC, including the imposition of administrative sanctions, are without prejudice to the filing of criminal charges against persons responsible for violations.

***The Bank may face potential pressure on its capital due to Basel III***

On 17 December 2009, the Basel Committee on Banking Supervision (the **BCBS**) proposed a number of fundamental reforms to the regulatory capital framework. On 16 December 2010, BCBS released two documents entitled "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" and "Basel III: International Framework for Liquidity Risk Management, Standards and Monitoring" and on 13 January 2011 issued a press release entitled "Basel Committee issues final elements of the reforms to raise the quality of regulatory capital" (collectively **Basel III**). The proposed reforms will require instruments to comply with the new eligibility criteria in order to obtain regulatory capital treatment and will introduce a deduction approach to regulatory adjustments and treatment of equity investments in non-financial and non-allied undertakings.

The revised guidelines would essentially require banks to hold more capital of higher quality. The minimum CAR remained at 10.0 per cent. However, the BSP adopted a minimum Common Equity Tier 1 (**CET1**) ratio of 6.0 per cent., a minimum Tier 1 ratio of 7.5 per cent., and a capital conservation buffer of 2.5 per cent. The new guidelines also introduced a capital conservation buffer (**CCB**) of 2.5 per cent., which shall be made up of CET1 capital. This buffer was intended to promote the conservation of capital and build-up of an adequate cushion that can be drawn down by banks to absorb losses during periods of financial and economic stress. Under BSP Circular No. 1027 dated 28 December 2018, net due from head office, branches and subsidiaries outside the Philippines of foreign banks branches, excluding accumulated net earnings, is required to be deducted from CET1 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 under Basel III". Under the circular, the BSP adopts policy measures for Domestic Systemically Important Banks (**D-SIBs**), which are essentially aligned with documents issued by the BCBS on G-SIBs and D-SIBs. The policy aims to reduce the probability of failure of D-SIBs by increasing their going-concern loss absorbency and to reduce the extent or impact of failure of D-SIBs on the domestic or real economy. The submission of data requirements for the identification of D-SIBs took effect starting with 2014 data while compliance with the additional higher loss absorbency requirement was phased in from 1 January 2017 with full implementation on 1 January 2019.

Under BSP Circular No. 856, the systemic importance of a bank is assessed in relation to the impact of its failure on the domestic economy based on certain bank-specific factors (on a consolidated basis): size, interconnectedness, substitutability/financial institution infrastructure, and complexity. Banks that have a score that exceeds the cut-off under the indicator-based measurement approach shall be classified as D-SIBs. In assessing D-SIBs, supervisory judgment may also be utilised based on the principles set forth in the circular. Using cluster analysis, D-SIBs will initially be allocated into two buckets with an empty bucket to provide banks with an incentive to avoid becoming more systemically important. The assessment will be run annually, and D-SIBs reallocated as a result. If the empty bucket becomes populated in the future, a new empty bucket shall be added with a required higher additional loss absorbency level, which shall increase in increments of 1.0 per cent. of risk-weighted assets.

Banks identified as D-SIBs will be required to have higher loss absorbency (**HLA**). This higher requirement is aimed at ensuring that D-SIBs have a higher share of their balance sheets funded by instruments which increase their resilience as a going concern, considering that the failure of a D-SIB is expected to have a greater impact on the domestic financial system and the economy as a whole. To ensure a maximum degree of consistency in terms of effective loss absorbing capacity, the HLA requirement will be addressed through CET1 capital.

On 13 December 2018, the Monetary Board approved the adoption of the Countercyclical Capital Buffer (**CCyB**) intended for universal and commercial banks as well as their subsidiary banks and quasi-banks. The CCyB will be complied with by the banks using their CET1 capital. During periods of stress, the

Monetary Board can lower the CCyB requirement, effectively providing the affected banks with more risk capital to deploy. During periods of continuing expansion the CCyB may be raised, which has the effect of setting aside capital which can be used if difficult times ensue. The CCyB is set initially at a buffer of zero per cent., which is in line with global practice. The buffer, however, will be continuously reviewed by the BSP. Banks will be given a lead time of 12 months in the event that the CCyB buffer is raised. However, when the buffer is reduced, it takes effect immediately.

In January 2019, the BSP adopted the Basel III countercyclical buffer that required universal banks and commercial banks to maintain a countercyclical capital buffer (**CCyB**) of zero per cent. subject to upward adjustment to a rate determined by the Monetary Board when systemic conditions warrant, with respect to CET 1 requirement.

On 27 September 2019, the BSP issued Circular No. 1051, entitled Amendments to the Framework for Dealing with Domestic Systematically Important Banks (**BSP 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 per cent. of risk-weighted assets at all times. For the higher populated bucket, the HLA requirement shall range from above 1.5 per cent. to 2 per cent. of risk-weighted assets. An empty top bucket with HLA requirement of 2.5 per cent. 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 per cent. |
| 2 | A-B | >1.5 per cent. to 2.0 per cent. |
| 1 | Cut-off point – A | 1.5 per cent. |

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 per cent:

| 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 per cent | 2.5 per cent | 0 per cent | 2.5 per cent | 5 per cent | 11.0 per cent |
| 2* | 6.0 per cent | 2.5 per cent | 0 per cent | 2 per cent | 4.5 per cent | 10.5 per cent |
| 1 | 6.0 per cent | 2.5 per cent | 0 per cent | 1.5 per cent | 4.0 per cent | 10.0 per cent |

*Assuming an HLA requirement of 2 per cent.

B. CCyB rate is at 2.5 per cent:

| 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 per cent | 2.5 per cent | 2.5 per cent | 2.5 per cent | 7.5 per cent | 10.0 per cent |
| 2* | 6.0 per cent | 2.5 per cent | 2.5 per cent | 2.0 per cent | 7.0 per cent | 9.0 per cent |

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | 6.0 per cent | 2.5 per cent | 2.5 per cent | 1.5 per cent | 6.5 per cent | 8.0 per cent |

*Assuming an HLA requirement of 2 per cent.

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 starting 1 January 2017, with full compliance on 1 January 2019. Under BSP Circular No. 857, further lists of D-SIBs will be issued until 31 December 2021. 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 per cent.

| 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 per cent. of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with) | <=9.25 per cent. | <=9.50 per cent. |
| 50 per cent. of earnings may be distributed (if the minimum CET1, the combined requirement for CCB and CCyB, and more than 50 per cent. of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with) | >9.25 per cent. – 10.0 per cent. | >9.50 per cent. – 10.5 per cent. |

*Assuming an HLA requirement of 2 per cent.

B. CCyB rate is at 2.5 per cent.

| 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 per cent. of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with) | <=11.75 per cent. | <=12.00 per cent. |
| 50 per cent. of earnings may be distributed (if the minimum CET1, the combined requirement for CCB and CCyB, and more than 50 per cent. of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with) | >11.75 per cent. – 12.50 per cent. | >12.00 per cent. – 13.00 per cent. |

*Assuming an HLA requirement of 2 per cent.

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 total required CET1 and D-SIBS HLA requirement (under the circular) before distribution; and

(c) compliance with minimum capital ratios after distribution.

D-SIBs will also be subjected to greater supervisory requirements such as additional disclosures and reports in its Internal Capital Adequacy Assessment Process (**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.

On 9 June 2015, the BSP issued Circular No. 881, entitled Implementing Guidelines on the Basel III Leverage Ratio Framework (**Circular No. 881**). In accordance with Circular No. 881, the leverage ratio of universal and commercial banks as well as their subsidiary banks and quasi-banks, computed as the level of a bank's Tier 1 capital against its total on-book and off book exposures, must not be less than 5 per cent. During the monitoring period up to 31 December 2016, sanctions were not imposed on covered institutions falling below the 5 per cent. minimum; however, all covered institutions were required to submit periodic reports. On both a solo and consolidated basis, this ratio should not be less than 5 per cent. for universal and commercial banks, as well as their subsidiary banks/quasi-banks. On 22 January 2018, however, the BSP issued Circular No. 990, extending the monitoring period up to 30 June 2018. By 1 July 2018, the leverage ratio became a Pillar 1 requirement.

Banks also face new liquidity requirements under Basel III's framework on liquidity standards, which were adopted by the BSP through Circular No. 905, entitled Implementation of Basel III Framework on Liquidity Standards — Liquidity Coverage Ratio and Disclosure Standards (**Circular No. 905**). Circular No. 905 adopted the Basel III for Liquidity Coverage Ratio (**LCR**) Framework and Minimum Liquidity Ratio Framework, and the Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (**NSFR**).

The LCR requires banks to hold sufficient levels of high-quality liquid assets to enable them to withstand a 30-day liquidity stress scenario. Beginning 1 January 2018, the LCR threshold that banks would have to meet is 90 per cent., which was increased to 100 per cent. beginning 1 January 2019. During the observation period prior to 1 January 2018, banks were required to submit quarterly LCR reports for monitoring purposes. On 15 March 2019, the BSP issued Circular No. 1035, entitled Amendments to the Basel III Liquidity Coverage Ratio Framework and Minimum Liquidity Ratio Framework (**BSP Circular No. 1035**), which introduced certain amendments to the Basel III LCR Framework and Minimum Liquidity Ratio Framework. BSP Circular No. 1035, as follows: (i) extended the observation period of the minimum Basel III LCR requirement to 31 December 2021 for subsidiary banks and quasi-banks of universal and commercial banks, (ii) adopted the 100 per cent. LCR floor for subsidiary banks and quasi-banks during the observation period, and (iii) amended the formula for minimum liquidity ratio.

Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. On 6 June 2018, the BSP issued Circular No. 1007, entitled Implementing Guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio. It provided that the implementation of the minimum NSFR would be phased in to help ensure that the covered banks and quasi-banks could meet the standard through reasonable measures without disrupting credit extension and financial market activities. Covered banks and quasi-banks went through an observation period from 1 July 2018 to 31 December 2018 before the actual implementation of the minimum 100 per cent. NSFR, which would begin on 1 January 2019 and continue thereafter. On 15 March 2019, the BSP issued Circular No. 1034, further extending the observation period for subsidiary banks and quasi-banks of universal and commercial banks from 1 July 2018 to 31 December 2019 before the implementation of the minimum 100 per cent. NSFR beginning 1 January 2020.

Both the LCR threshold and the NSFR threshold are now at 100 per cent., following the full implementation of the provisions of Circulars 1035 and 1034, respectively. On 13 February 2020, the BSP issued Memorandum No. M-2020-003, entitled Guidelines on the Electronic Submission of the BASEL III Net Stable Funding Ration (NSFR) Report and Liquidity Coverage Ratio Report. It states that all subsidiary banks and quasi-banks must observe the guidelines for purposes of the NSFR and LCR reports beginning with the reporting period ended 31 January 2020, in line with BSP Circular Nos. 1035 and 1034.

On 13 December 2018, the Monetary Board approved the Philippine adoption of the CCyB intended for universal and commercial banks as well as their subsidiary banks and quasi-banks. The CCyB will be complied with by the banks using their CET1 capital. During periods of stress, the Monetary Board can lower the CCyB requirement, effectively providing the affected banks with more risk capital to deploy. During periods of continuing expansion, the CCyB may be raised which has the effect of setting aside capital which can be used if difficult times ensue. The CCyB is set initially at a buffer of zero per cent., which is line with global practice. The buffer, however, will be continuously reviewed by the BSP. Banks will be given a lead time of 12 months in the event that the CCyB buffer is raised. However, when the buffer is reduced, it takes effect immediately.

On 16 April 2021, the BSP Circular No. 1113 amended the guidelines on the recovery plan of banks designated as D-SIBs. In order to reduce the negative impact of D-SIBs on the economy, the BSP provided for a framework consisting of three parts: assessment methodology; HLA and interaction with other elements of the Basel III framework; and the intensive supervisory approach. Under the intensive supervisory approach, a D-SIB must prepare a concrete and reasonable recovery plan which must be implemented in the event that the HLA capital requirement is breached. This includes specific initiatives such as restructuring and disposing of assets, capital raising activities and streamlining businesses. Apart from a recovery plan, the D-SIB must also submit an ICAAP.

There can be no assurance that the Bank will not face increased pressure on its capital in the future to comply with Basel III standards which may have an adverse effect on the Bank's business, financial condition, results of operations and prospects.

***The Bank is effectively controlled by one shareholder group, with which it has extensive financial and business connections and the interests of the majority shareholder may not coincide with the interests of the Holders***

The Bank is effectively controlled by a group of companies held by the Yuchengco family. As of 30 September 2024, the Pan Malayan Management and Investment Corporation (**PMMIC**) owned approximately 33.92 per cent. of the Bank's issued and outstanding shares whilst other members of the Yuchengco Group of Companies (**YGC**) owned an additional 9.31 per cent. of the Bank's issued and outstanding shares. There can be no assurance that the interests of YGC will necessarily coincide with the interests of the Holders. See "*Related Party Transactions*".

YGC has been the Bank's controlling shareholder for over 60 years and is closely associated with the Bank. If there is any public perception in the Philippines that the Bank is reliant on the financial condition of YGC, there could be a loss of confidence in the Bank's solvency among its depositors or creditors in the event of deterioration in the financial condition of YGC. In particular, this could result in withdrawals of deposits or a decrease in new deposits beyond levels anticipated by the Bank and have a material adverse effect on the Bank's financial condition and results of operation. Furthermore, the Bank relies on its relationship with YGC for certain business synergies, including access to YGC clients and prospective clients and joint product development. As a result, a deterioration in the financial condition of YGC or negative publicity regarding YGC or any other entities owned or controlled by YGC could have a material adverse effect on the Bank's financial condition and results of operations.

***Losses in the Bank's subsidiaries' operations may affect the financial standing of the Bank***

As a universal bank, the Bank is authorised, subject to certain limits, to invest in allied and non-allied undertakings and joint ventures such as RCBC Capital Corporation (**RCBC Capital**) and Honda Cars Philippines, Inc.

A portion of the Bank's earnings may be derived from the dividends from these operating companies or may be otherwise affected by the financial performance of its subsidiaries. For the nine months ended 30 September 2024, the Bank had derived equity income of ₱336.60 million (U.S.$6.01 million), respectively, from these operating companies. Losses in these undertakings may affect the financial standing of the Bank and could have a material adverse effect on the Bank's financial condition.

Furthermore, certain financial institutions owned or controlled by the Bank are also subject to BSP audit, the results of which may affect the banking licence of these subsidiaries, and consequently affect the cash flow to the Bank in terms of dividends.

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

As a financial institution, the Bank is exposed to foreign exchange rate risk. Movements in foreign exchange rates could affect the Bank's business and results of operations. 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 banks in the Philippines are subject to stringent BSP regulation. Under BSP Circular No. 1086, the Bank is required to provide a 100 per cent. foreign asset cover for all its foreign currency liabilities in its foreign currency deposit unit (**FCDU**) books, except for U.S. dollar-denominated repurchase agreements with the BSP. The Bank may also issue Notes through its regular banking unit (**RBU**). See "*Taxation – Philippine Taxation – Interest on the Notes*". As of 30 September 2024, on a non-consolidated basis, the Bank had ₱1,277.70 billion (U.S.$22.81 billion) of resources and ₱1,119.61 billion (U.S.$19.98 billion) of liabilities (of which ₱360.20 million (U.S.$6.43 million) of resources and ₱349.10 million (U.S.$6.23 million) of liabilities were in its FCDU books and denominated in foreign currencies, primarily in U.S. dollars). These represent 28.19 per cent. and 31.18 per cent. of total assets and total liabilities respectively, as of 30 September 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 may not be able to successfully upgrade its information and reporting systems in a cost effective and timely manner to respond to technological advances and changing banking industry standards***

Effective information and reporting systems are critical to the Bank's operations. Among other things, the Bank relies on timely access to reliable information in order to provide services to its customers and prudently manage its assets and liabilities, liquidity and overall financial condition. In addition, the Bank's ability to manage credit risk, market risk, interest rate risk and operational risk also depends on access to such information.

There can be no assurance that the Bank will be able to respond to technological advances and changing banking industry standards and practices on a cost-effective and timely basis. If the Bank's systems quickly become outdated or the Bank's employees are not adequately trained in how to operate and comply with system upgrades, the Bank's financial condition, liquidity and results of operations could be materially and adversely affected.

***Significant security breaches in the Bank's computer systems and network infrastructure, fraud, systems failures and calamities could adversely impact its business***

The Bank's computer systems, software and networks may be vulnerable to unauthorised access, computer viruses or other malicious code and other events that could have a security impact. The Bank's hardware and software are also subject to damage or incapacitation by human error, natural disasters, power loss, sabotage, computer viruses and similar events or the loss of support services from third parties such as internet backbone providers. A significant failure in security measures could have an adverse effect on the Bank's business and its reputation could be adversely affected by significant fraud committed by employees, agents, customers or third parties.

The Bank seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by its increased use of networking. The Bank employs security systems, firewalls and password encryption, designed to minimise the risk of security breaches. The Bank may be required to expend significant additional resources to modify its protective measures or to investigate and remediate vulnerabilities or other exposures, and the Bank may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by the Bank.

To mitigate these risks, the Bank continues to implement security technologies and establish operational procedures. However, these may not be sufficient to prevent fraud, break-ins, damage and failures. Given the increasing share of retail products and services and transaction banking services in the Bank's business, the importance of systems technology to its business has increased significantly. The Bank's principal delivery channels include its branches and ATMs and its electronic banking systems.

Any failure in the Bank's systems, particularly those utilised for its retail products and services and transaction banking, or the occurrence of natural disasters that affect areas in which it has a significant presence, could adversely affect its operations.

***The Bank's business, reputation and prospects may be adversely affected if it is not able to detect and prevent fraud, procedural lapses or other misconduct on a timely basis***

The Bank is exposed to the risk that fraud, procedural lapses and other misconduct committed by employees or outsiders could occur. Such incidences may adversely affect banks and financial institutions more significantly than companies in other industries due to the large amounts of cash that flow through their systems. Any occurrence of such fraudulent events or procedural lapses may damage the reputation of the Bank and may adversely affect its business, financial condition, results of operations and prospects.

The Bank has put in place various processes and structures to detect and prevent fraud, procedural lapses and other misconduct committed by the Bank's employees or outsiders on a timely basis. However, there can be no assurance that these processes and structures will detect and prevent fraud, procedural lapses and other misconduct in a timely manner or at all.

Failure on the part of the Bank to prevent such procedural lapses or any fraudulent actions may result in administrative or other regulatory sanctions by the BSP or other Government agencies, which may be in the form of suspension or other limitations placed on the Bank's banking and other business activities.

***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. However, there can be no assurance that (i) losses relating to litigation will not be incurred beyond the limits, or outside the coverage, of the Bank's 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 operation, or (ii) provisions made for litigation related losses will be sufficient to cover the Bank's ultimate loss or expenditure. Please refer to *"Description of the Bank - Legal Proceedings"* for further details.

### 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. The banking industry in the Philippines is a mature market that has, in recent years, been subject to consolidation and liberalisation, including liberalisation of regulations relating to foreign ownership and foreign entrants. For instance, the introduction of the ASEAN Banking Integration Framework, which took effect on 1 January 2020, will allow qualified ASEAN banks to operate in the Philippines and vice versa. As of 4 November 2024, there were a total of 44 domestic and foreign universal and commercial banks operating in the Philippines. Of the commercial banks, two are private domestic banks, two are foreign bank subsidiaries, and 18 are branches of foreign banks. Of the universal banks, 13 are private domestic banks, three are government banks, and six are branches of foreign banks. The Philippines also has six digital banks, as of 4 November 2024.

In the future, the Bank may face increased competition from financial institutions offering a wider range of commercial banking services and products, larger lending limits, greater financial resources and stronger balance sheets than the Bank. Increased competition may arise from:

- other Philippine banks and financial institutions with significant presence in Metro Manila and large countrywide branch networks;

- foreign banks, due to, among other things, relaxed standards which permitted large foreign banks to open branch offices;

- domestic banks entering into strategic alliances with foreign banks with significant financial and management resources;

- continued consolidation in the banking sector; and

- more digital banks and non-bank financial technology companies entering the market.

There can be no assurance that the Bank will be able to compete effectively in the face of such increased competition. In addition, the Bank faces intense competition in areas it has identified for growth such as consumer loans and remittances. Increased competition may make it difficult for the Bank 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 margins, results of operations and financial condition and inhibit the Bank's ability to implement its growth strategy.

***Philippine banks are generally exposed to higher credit risks and greater market volatility than banks in 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 (**OFW**) remittances;

- the large foreign debt of the Government, relative to the GDP of the Philippines; and
- the greater 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 published by the BSP, the average NPL ratios exclusive of interbank loans in the Philippine banking industry were 3.87 per cent., 3.25 per cent. and 3.32 per cent. as at 31 December 2021, 2022 and 2023, respectively, and 3.4 per cent. and 3.47 per cent. as at 30 September 2023 and 2024, respectively.

***Philippine banks may experience limited liquidity due principally to a material asset-liability maturity mismatch***

As with other Philippine banks, most of the Bank's funding requirements are met through short-term and medium-term funding sources, primarily in the form of time deposits, savings accounts and current accounts. Most of the Bank's time deposits are for periods of three months or less. As with other Philippine banks, many of the Bank's assets, however, have long-term maturities, creating the potential for funding mismatches. Although, historically, the Bank has been able to roll over most of its deposits on maturity, there can be no assurance that the Bank will continue to be able to do so in the future.

Although the Bank has not experienced liquidity problems in the past, there can be no assurance that the Bank will be able to maintain sufficient liquidity to cover customer withdrawals in the future, especially in the event of a future economic crisis. If a substantial number of the Bank's depositors do not roll over deposited funds upon maturity, or decide to withdraw their current account deposits, the Bank's liquidity position would be adversely affected. In particular, the Bank may have to rely on other sources of financing which may not be available at commercially attractive terms or at all. Any failure to obtain adequate funding, or a significant increase in funding costs, would have a material adverse effect on the Bank's liquidity, financial condition and results of operations.

***The Bank's ability to assess, monitor and manage risks inherent in its business differs from the standards of its counterparts in more developed countries***

The Bank is exposed to a variety of risks, including credit risk, market risk, portfolio risk, foreign exchange risk and operational risk. The effectiveness of the Bank's 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 the Bank may be incomplete or obsolete.

The Bank also developed credit screening standards in response to such inadequacies in the 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 may 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, skill set and systems required 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.

***Philippine banks are vulnerable to volatility in interest rates***

Like most financial institutions, Philippine banks realise income from the margin, or "spread", between interest-earning assets, such as investments and loans, and interest paid on interest-bearing liabilities, such as deposits and borrowings. The business of Philippine banks, including the Bank, is subject to fluctuations in market interest rates as a result of mismatches in the repricing of assets and liabilities.

These interest rate fluctuations are neither predictable nor controllable and may have a material adverse impact on the operations and financial condition of Philippine banks such as the Bank.

***There is limited independent information on borrowers' credit history in the Philippines***

Although the Philippines has a central credit agency, namely the Credit Information Corporation, which keeps information on Philippine borrowers' credit history, including information such as timeliness of loan repayments, the coverage and level of detail of information on Philippine borrowers is still fairly limited when compared to the availability of information in more developed countries. The absence of detailed information makes it difficult for Philippine banks to assess the creditworthiness of loan or credit card applicants, which may result in an increase in NPLs, credit card receivables or provisions for losses.

***Enforcement difficulties may prevent lenders from recovering the assessed value of collateral when the Bank's borrowers default on their obligations in the Philippines***

Philippine banks may not be able to fully recover collateral or enforce any guarantees due, in part, to legal uncertainties in enforcing such rights. Although the law provides for expedited procedures for the enforcement of certain types of collateral, in practice, lenders generally end up submitting a petition to a Philippine court or face challenges by borrowers which could result in delays that can last several years and lead to 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. In the past, these factors have exposed, and continue to expose, lenders in the Philippines to legal liability while in possession of collateral. The current difficulty of bringing enforcement actions under the Philippine legal system significantly reduces the ability of lenders to realise the value of collateral located in the Philippines and therefore the effectiveness of taking a secured position on loans to Philippine borrowers. In addition, there can be no assurance that lenders will be able to realise the full value, or any value, of any collateral located in the Philippines in a bankruptcy or foreclosure proceeding or otherwise, especially as the value of secured assets such as real property and inventory has been, and may continue to be, negatively affected by the current political, economic and social conditions in the Philippines.

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

In support of government efforts to strengthen rural development, Philippine banks, under Republic Act No. 10000 or the Agri-Agra Reform Credit Act of 2009, as amended by Republic Act No. 11901, or the Agricultural, Fisheries and Rural Development Financing Enhancement Act of 2022 (Agri-Agra Law), are required to allocate 25 per cent. of their total loanable funds to agriculture and fisheries credit in general. 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 per cent.) and agricultural beneficiaries (15 per cent.). Under the Agri-Agra Law, banks may also comply through the various alternative forms of compliance.

As of 30 September 2024, the requirement applicable to the Group was ₱1.997 billion (U.S.$35.63 million) for agriculture, fisheries, and rural development (**AFRD**). Because the Group is unable to generate sufficient exposure to agrarian reform and the agricultural sector due to its prudent credit and risk management policies, the Group has paid penalties in the past and may continue to do so in the future. While regulatory changes, such as increased penalties for non-compliance, cannot be ruled out, there is currently no indication of any significant increase in penalties. Should the Bank be required to adjust its lending practices to meet future regulatory requirements that conflict with its credit and risk management policies, this could adversely affect its business, financial condition, and results of operations.

***Any future changes in 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.

On 1 January 2027, PFRS 18, *Presentation and Disclosure in Financial Statements* becomes effective. This new standard impacts the classification of profit or loss items (i.e., operating, investing and financing categories) and the presentation of subtotals in the statement of profit or loss (i.e., operating profit and profit before financing and income taxes). The new standard also changes the aggregation and disaggregation of information presented in the primary financial statements and in the notes and introduces required disclosures about management-defined performance measures. The amendments, however, do not affect how the Bank will recognise and measure its financial condition, financial performance and cash flows.

The International Sustainability Standards Board (**ISSB**) also issued IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information,* and IFRS S2, *Climate-Related Disclosures*, requiring an entity to disclose information about all sustainability- and climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. It also prescribes how an entity prepares and reports its sustainability- and climate-related financial disclosures and sets out general requirements for the content and presentation of those disclosures so that the information disclosed is useful to users in making decisions relating to providing resources to the entity. The SEC is yet to adopt IFRS S1 and S2 in the Philippines but has announced plans to release updated sustainability reporting guidelines and Sustainability Reporting (**SuRe**) Form to reflect the latest developments in global sustainability frameworks. As of 30 September 2024, this has not yet been issued.

Any future changes in PFRS may affect the financial reporting of the Bank's business.

***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.

On 1 January 2018, Republic Act No. 10963, otherwise known as the Tax Reform for Acceleration and Inclusion (**TRAIN Law**) took effect. The TRAIN Law is the first package of the Government's Comprehensive Tax Reform Program (**CTRP**). It amended various provisions of the Philippine National Internal Revenue Code (Republic Act No. 8424, as amended by Republic Act No 10963, 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. The TRAIN Law also, amongst other things, doubled the tax on interest income in FCDUs to 15 per cent. from 7.5 per cent., and increased the documentary stamp tax on debt instruments to ₱1.50 on each ₱200.00, or fractional part thereof, of the issue price of the debt instruments, such as bonds and notes.

On 11 April 2021, Republic Act No. 11534, or the Corporate Recovery and Tax Incentives for Enterprises (**CREATE Law**) took effect. The CREATE Law is the second package of the CTRP. It lowered the corporate income taxes from 30 per cent. to 25 per cent., and further reduced the rate to 20 per cent. if the corporation's net income does not exceed ₱5 million and its total assets do not exceed ₱100 million, excluding the land where the business is located. It also provided other incentives such as (i) an income tax holiday for export enterprises and domestic market enterprises for a period of four to seven years, followed by the (a) Special Corporate Income Tax Rate of 5 per cent. on gross income earned, in lieu of all national and local taxes, or (b) enhanced deductions for five or ten years; and (ii) tax-free exchanges for reorganisations, without the need to obtain a confirmatory ruling from the Bureau of Internal Revenue.

The third package of the CTRP is the Real Property Valuation Reform which aims to promote the development of a just, equitable, and efficient real property valuation system. It will broaden the tax base used for property and property-related taxes of the national and local governments, improving tax collections without increasing the existing tax rates or imposing new taxes.

On 13 June 2024, Republic Act No. 12001 or the Real Property Valuation and Assessment Reform Act (**RPVARA**) was signed into law, was published on 20 June 2024, and took effect on 5 July 2024. The RPVARA seeks the establishment of standards based Philippine Valuation Standards (**PVS**) to govern the valuation of real property in the Philippines, the adoption of Schedule of Market Values (**SMVs**), the separation of the function of valuation of real properties from the functions of tax policy formulation and administration of the taxes due thereon, and the provision of a comprehensive and up-to-date electronic database of all real property transactions, among others. The SMV shall be the single real property valuation base for the assessment of real property-related taxes in the country and for the valuation of real property for various transactions by all government agencies.

The fourth package of the CTRP or House Bill No. 304 (**HB No. 304**), also known as the Passive Income and Financial Intermediary Taxation Act, intends to introduce reforms to the taxation of passive income, financial intermediaries and financial transactions. One of the reforms to be introduced is the unification of the tax rates for passive income through the imposition of a uniform rate of 15 per cent. (which would be a reduction from the prevailing 20 per cent.) on interest income, dividends and capital gains on the sale of shares of stock. On 9 September 2019, the House of Representatives passed HB No. 304, or Package 4 of the TRAIN bill, on its third reading. Before HB No. 304 can become effective, it needs to be considered and approved by the Senate, which may impose further revisions on the bill. To date, HB No. 304 has yet to be enacted into law. In the event of any changes to existing laws, the Bank's business, financial condition and results of operations could be materially affected.

The Marcos administration urged Congress to support the following priority legislation on essential tax measures under the Medium-Term Fiscal Framework: (1) excise tax on single-use plastics; (2) VAT on digital services; (3) rationalisation of the mining fiscal regime; (4) motor vehicle user's charge/road users' tax; (5) military and uniformed personnel pension; and (6) the fourth package of the CTRP.

On 5 January 2024, Republic Act No. 11976, known as the Ease of Paying Taxes (**EOPT**) Act, was signed into law and took effect on 22 January 2024. The EOPT Act aims to simplify tax filings, particularly for those classified as Micro and Small Taxpayers, by introducing the file-and-pay anywhere system and allowing most of the tax processes to be done online. It also included the shift to an invoice system to improve the registration process as well as to accelerate the processing of VAT refunds.

On 11 November 2024, RA No. 12066 or the Corporate Recovery and Tax Incentives for Enterprises to Maximize Opportunities for Reinvigorating the Economy (**CREATE MORE**) was signed into law, amending the CREATE Act. The CREATE MORE establishes a simplified value-added tax (**VAT**) refund system to reduce delays in tax processes. Moreover, the CREATE MORE streamlines processes for projects that are eligible for incentives, by raising the investment capital threshold for approval by investment promotion agencies from ₱1 billion to ₱15 billion. Finally, the CREATE MORE also extends the maximum duration of the availment of tax incentives from 17 years to 27 years.

While the tax reform programme ensures fiscal sustainability, the dampening impact of higher taxes on consumer demand and affected industries (in terms of added costs), could slow down the country's growth pace and affect the Bank's business. Further, the new regulations (such as the fourth package of the CTRP) may directly affect the business and results of operations of the Bank. 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.

***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 of 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 the 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 United States, 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. Additionally, in March 2023, Credit Suisse, the second-largest bank in Switzerland and one of the leading financial institutions globally, collapsed following numerous scandals in 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. A potential tightening of liquidity conditions in the future as a result of, for example, further deterioration of public finances of certain countries may lead to new funding uncertainty, resulting in increased volatility and widening credit spreads. 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

***Substantially all of the Bank's operations and assets are based in the Philippines and therefore any downturn in general economic conditions in the Philippines could have a material adverse impact on the Bank***

Substantially all of the Bank's business operations and assets are based in the Philippines. As a result, the Bank's income, results of operations and the quality and growth of its assets depend, to a large extent, on the performance of the Philippine economy. Demand for banking services, residential real estate, automotives, electricity and insurance are all 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 OFWs and overseas Filipinos.

In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine currency and the imposition of exchange controls. The country's GDP growth also stagnated in 2020 as a result of the COVID-19 pandemic. According to data published by the Philippine Statistics Authority, the Philippines' GDP in 2020 contracted by 9.5 per cent. In 2021, the Philippine economy recovered and expanded by 5.7 per cent. year-on-year as the lifting of pandemic-related restrictions stimulated business activity. The growth, which put the economy on track to return to its pre-pandemic level, was driven by increased household consumption, government expenditure and public construction. The growth continued in 2022 when the country's GDP expanded to 7.6 per cent., surpassing the government's projection of 6.5 per cent. to 7.5 per cent. The expansion is among the strongest in Southeast Asia and was driven by the services and industry sectors, with production in most subsectors reverting to its pre-pandemic levels. The Philippines' 2023 GDP growth was at 5.6 per cent. This was driven by the strength in domestic demand given higher household consumption and investments, particularly public infrastructure. The government projects faster GDP growth of 6.5 per cent. to 7.5 per cent. in 2024 despite domestic and external headwinds.

For the year ended 31 December 2023, the fiscal deficit of the Philippines was ₱1.512 trillion, equal to 8.6 per cent. of the GDP for that period, according to the Philippine Bureau of Treasury. This was slightly lower than the programmed fiscal deficit of ₱1.6 trillion for 2022, equal to 7.3 per cent. of the GDP of the Philippines, due to higher revenue collections and lower public expenditures compared to the full year programme. For the year ended 31 December 2021, the fiscal deficit was higher at ₱1.47 trillion or 8.6 per cent. of GDP. There can be no assurance that the budget deficit will not increase, that measures will be taken to reduce the current deficit or that, if taken, such measures will be successful.

These foregoing developments and a slowdown or recession in the U.S. and or other large economies may adversely affect the Philippine economy.

Other factors that may adversely affect the Philippine economy include:

- reduced business, industrial, manufacturing or financial activity in the Philippines or elsewhere in Southeast Asia;
- scarcity of credit or other financing available to the Government, corporations or individuals in the Philippines;
- fluctuations in currency exchange rates and interest rates or prolonged periods of inflation or deflation;
- rising inflation or increases in interest rates;
- levels of employment, consumer confidence and income;
- a downgrade in the long-term foreign and local currency sovereign credit ratings of the Philippines or the related outlook for such ratings; significant changes to the Government's economic, social or tax policies;

- the occurrence of health and health-related outbreaks such as COVID-19, monkey pox, the Middle East respiratory syndrome or the outbreak of swine or avian flu (such as the African Swine Fever) or any other epidemic, in Southeast Asia or other parts of the world;

- the rising price of fuel despite announcements from large economies that they will tap their crude reserves as the Russia-Ukraine conflict continues;

- natural disasters, including tsunamis, typhoons, earthquakes, fires, floods and similar events;

- political instability, terrorism or military conflict in the Philippines, other countries in the region such as tensions in the West Philippine Sea or globally; and

- other regulatory, political or economic developments in or affecting the Philippines.

There can be no assurance that the Philippines will maintain strong economic fundamentals in the future. Any deterioration in economic conditions in the Philippines as a result of these or other factors, including a significant depreciation of the Peso or increase in interest rates, could materially adversely affect the Bank's borrowers and contractual counterparties. This, in turn, could materially and adversely affect the Bank's financial condition 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.

***The Bank faces risks related to public health epidemics in the Philippines and globally and the impact on the Bank's business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted***

The worsening of an outbreak or a new outbreak of an infectious disease including the outbreak of diseases such as COVID-19, African Swine Fever, dengue, polio, monkey pox, severe acute respiratory syndrome, Middle East respiratory syndrome and avian influenza or bird flu, in the Philippines, Asia or elsewhere, together with any resulting restriction on travel, imposition of quarantines and/or business shutdowns, could have a negative impact on the economy and business activities in the Philippines or Asia generally and could therefore materially and adversely affect the Bank's business, financial condition and results of operations, including its liquidity, asset quality and growth.

There can also be no assurance that the policies and controls for outbreak prevention and disease recurrence will be successful in preventing disease outbreaks or recurrences or that any actual or suspected outbreak of bird flu, COVID-19 or any other contagious disease affecting the Philippines or elsewhere will not occur. There can also be no assurance that any current or future outbreak of contagious diseases will not have a material adverse effect on the Bank's business, financial condition, and results of operations.

The extent to which the health and health-related pandemic impacts may affect the Bank's business, results of operations and financial condition will depend on future developments, including the timeliness and effectiveness of actions taken or not taken to contain and mitigate the effects of such incidents both in the Philippines and internationally by governments, central banks, healthcare providers, health system participants, other businesses and individuals, which are highly uncertain and cannot be predicted.

***Credit ratings of the Philippines and Philippine companies could materially and adversely affect the Bank and the market or price of the Securities***

In 2014, international credit rating agency Moody's Investors Service (**Moody's**) upgraded its credit rating for the Philippines to "Baa2", and in April 2019, international credit rating agency Standard & Poor's (**S&P**) upgraded its credit rating for the Philippines to "BBB+". Moody's affirmed its rating in 2018. In December 2017, Fitch Ratings upgraded its credit rating for the Philippines to BBB and affirmed the rating in February 2020. In December 2021, Moody's lowered the deposit and senior unsecured ratings of the Bank from "Baa2" to "Baa3" driven by the Bank's weak asset quality and deterioration in capital.

All ratings are above investment grade and the highest that the Philippines has received so far from any credit ratings agency.

In June 2024, Fitch retained the sovereign rating of “BBB” with a “Stable” outlook, citing the Philippines’ strong medium-term growth, which supports a gradual reduction in government debt/GDP over the medium term and the large size of the economy relative to “BBB” peers. In August 2024, Moody’s affirmed the country’s long-term local and foreign currency issuer and senior unsecured ratings at “Baa2” with a “stable” outlook, citing as key factors the country’s reforms to liberalise the economy, fiscal consolidation efforts, and robust macroeconomic fundamentals. On 26 November 2024, S&P affirmed the Philippine’s investment-grade long-term credit rating of “BBB+” short-term rating of “A-2” with a “stable” outlook. The agency mentioned that its improved institutional assessment supports a positive outlook for the Philippines, driven by strengthening institutional settings, robust economic recovery, and reforms enhancing business and investment conditions. The country's ratings reflect strong economic growth potential and a solid external position. While pandemic-related fiscal deterioration thinned prior buffers, fiscal consolidation is underway. However, low GDP per capita relative to peers remains a constraint.

The government is continuing its fiscal consolidation, with a lower deficit and stabilising debt burden. The country's external position remains a rating strength, although current account deficits in recent years have decreased net external assets.

With investment grade status from three credit rating agencies, the Philippines is now eligible to be part of investment grade indices. These ratings reflect an assessment of the Government’s overall financial capacity to pay its obligations and its ability or willingness to meet its financial commitments as they become due. The ratings of the Government directly affect companies resident in the Philippines, as international credit rating agencies issue credit ratings by reference to that of the sovereign.

No assurance can be given that international credit rating organisations will not downgrade the credit ratings of the Philippines or Philippine companies. Any such downgrade could have an adverse impact on liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including the Bank, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available and could have a material adverse effect on the Bank.

***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 business***

During the last decade, the Philippine economy has from time to time experienced significant depreciation of the Peso and limited availability of foreign exchange. In July 1997, the BSP announced that it would allow market forces to determine the value of the Peso. From 30 June 1997 to 31 December 2003, the Peso experienced periods of significant depreciation and declined from ₱29.0 = U.S.$1.0 (average) in July 1997 to ₱56.3 = U.S.$1.0 as of 31 December 2004. Although the Peso has fluctuated against the U.S. dollar, the Peso in the past couple of years has strengthened against the U.S. dollar due to positive investor sentiment and increases in dollar flows both from foreign investors and OFWs. As at 31 December 2023, according to BSP data, the Peso appreciated by 0.98 per cent. to ₱55.57 per U.S.$1 from ₱56.12 per U.S.$1 at the end of 2022. As at 30 September 2024, the Peso stood at ₱55.89 against the U.S. dollar, per BSP data.

Nevertheless, like all emerging markets, the Philippines is not immune to volatilities in the global financial and capital markets and changing investor risk appetites that could trigger capital outflows and put pressure on the Peso. Given this, a decline in the value of the Peso as regards foreign currencies may affect the ability of the Bank’s customers to service debt obligations denominated in foreign currencies and increase NPLs. There can be no assurance that the Peso will not depreciate further against other currencies and that such depreciation will not have an adverse effect on the Bank.

Under BSP guidelines, the Bank is required to match FCDU liabilities with foreign currency assets in its FCDU books. As of 30 September 2024, on a non-consolidated basis, the Bank had ₱1,277.70 billion (U.S.$22.81 billion) of resources and ₱1,119.61 billion (U.S.$19.98 billion) of liabilities (of which

₱360.20 million (U.S.$6.43 million) of resources and ₱349.10 million (U.S.$6.23 million) of liabilities were in its FCDU books). The Bank has entered into foreign exchange forward contracts as a means of hedging against foreign currency fluctuations. More importantly, it is the Bank's policy to extend foreign exchange loans only to entities with natural or regulatory hedge (exporters or those with foreign exchange adjustment mechanisms like utilities). However, there can be no assurance that the Bank will be able to successfully hedge its exposure to foreign currency risks.

In early 2007, the BSP liberalised its foreign exchange policies pertaining to current account and capital account transactions as well as to prudential regulations. The policies were further liberalised on 7 June 2021, through BSP Circular No. 1120, which provides that the consolidated net open foreign exchange position on either overbought or oversold positions of banks shall not exceed 25 per cent. of its qualifying capital or U.S.$150 million. However, the BSP's liberalisation of its foreign exchange policies has its downside. While it encourages freer dollar inflows, it also opens up the country to a greater magnitude of capital flight at the first sign of market volatility.

***Ongoing volatility experienced in the international capital markets has led to reduced liquidity and increased credit risk premiums for certain market participants***

The ongoing volatility experienced in the international capital markets has led to reduced liquidity and increased credit risk premiums for certain market participants and has resulted in a reduction of available financing. Companies located in countries in the emerging markets may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty.

In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the price or availability of funding for entities within any of these markets.

***Political 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 public and military protests.

On 27 March 2014, the Government and the Moro Islamic Liberation Front (**MILF**) signed a peace agreement, the Comprehensive Agreement on Bangsamoro. On 10 September 2014, a draft of the Bangsamoro Basic Law (**BBL**) was submitted by then President Aquino to Congress. The BBL is intended to establish the Bangsamoro political entity in the Philippines and provide for its basic structure of government, which is designed to replace the existing Autonomous Region in Muslim Mindanao. Following the Mamasapano incident where high-profile terrorists clashed with armed members of the Bangsamoro Islamic Freedom Fighters and MILF leading to the deaths of members of the Special Action Force of the Philippine National Police, MILF, the Bangsamoro Islamic Freedom Fighters, and several civilians, the Congress stalled deliberations on the BBL. The Board of Inquiry on the Mamasapano incident and the Senate released their reports on the Mamasapano incident. On 27 March 2015, former President Aquino named a Peace Council consisting of five original members to study the draft BBL. 17 co-convenors were later named as part of the Peace Council. The Peace Council examined the draft law and its constitutionality and social impact. The Peace Council Members testified before the House of Representatives and the Senate, and submitted their report, which endorses the draft BBL but with some proposed amendments. On 13 and 14 May 2015, the Senate conducted public hearings on the BBL in Zamboanga and Jolo, Sulu, with the Zamboanga City government and sultanate of Sulu opposing their inclusion in the proposed Bangsamoro entity. On 6 June 2017, the Bangsamoro Transition Commission approved the final draft of the BBL. The final draft was submitted to President Rodrigo Duterte in the presence of Congress on 17 July 2017. On 20 September 2017, President

Duterte gave verbal commitments to certify as urgent the BBL in order to facilitate the immediate passage of the bill. On 1 February 2018, President Duterte gave further verbal commitments to have the BBL passed before any charter change to the Constitution, and the administration remains to expect the passage of the bill by March 2018. In July 2018, the Philippine Congress passed and President Duterte signed the BBL, which will create the Bangsamoro Autonomous Region of Muslim Mindanao (**BARMM**) in the Philippines' southern island of Mindanao. The BBL is the result of decades-long peace negotiations between Muslim rebel groups (primarily the MILF) and the Government and grants, among other concessions, greater fiscal autonomy and incentives to Muslim Mindanao. On 25 January 2019 and 6 February 2019, plebiscites were held where voters ratified the BBL and affirmed the creation of the BARMM. Transition plans are in effect, and the BARMM is in the process of drafting its own local government code. It is expected that the signing of the BBL and the creation of the BARMM will end rebellion in Mindanao as part of the deal for its signing was the decommissioning of MILF troops and the creation, in its stead, of a political party which will be involved in the governance of the BARMM.

On 9 May 2022, national and local elections were held throughout the Philippines, including the election of the president and vice president of the Republic, and elections for 12 senators and all members of the House of Representatives. President Ferdinand "Bongbong" R. Marcos, Jr. of the Partido Federal ng Pilipinas and Vice President Sara Z. Duterte of Lakas-CMD were elected and took office on 1 July 2022, marking the end of former President Rodrigo R. Duterte's six-year term. The next national and local elections in the Philippines are scheduled for May 2025.

In his third State of the Nation Address on 22 July 2024, President Marcos delivered a comprehensive discourse on the significant accomplishments and future directives of his administration. The address covered critical sectors such as agriculture, water supply, climate change, infrastructure and health.

Starting with agriculture, President Marcos noted that local production remained a priority as well as providing support to farmers and preventing smuggled agri-fisheries products. On the topic of water supply, President Marcos noted that the government had enhanced irrigation systems, including solar-powered irrigation projects, and expects the Jalaur River Multi-Purpose Project to benefit agricultural land in the area. Addressing climate change, President Marcos emphasised various mitigation and related measures and cited the Philippines' seat on the Board of the Loss and Damage Fund.

In terms of infrastructure development, President Marcos reported on developments in IT and power infrastructure, including completing Phase 1 of the National Fiber Backbone project. Transport infrastructure developments included completion and/or upgrades of key roads and bridges. The administration also cited enhancements at the Ninoy Aquino International Airport to accommodate more flights and passengers. In August 2019, San Miguel Holdings Corp., the infrastructure subsidiary of San Miguel Corp (**SMC**) won the bidding for the ₱735 million New Manila Airport, an international gateway project situated in Bulacan province. The 2,500-hectare NMIA project will feature at least four parallel runways, a world-class terminal and a modern and interlinked infrastructure network that includes expressways and railways. SMC is set to begin development works by 2025.

In February 2024, the SMC SAP & Co. Consortium led by SMC won the bidding for the ₱170.60 billion Ninoy Aquino International Airport (**NAIA**) rehabilitation project. This project includes the rehabilitation of passenger terminals and airside facilities such as runway, aircraft parking area and airfield lighting, and the provision of facilities that will enable intermodal transfers at the terminal. The SMC SAP & Co. Consortium will have a 15-year concession period to implement the project, which can be extended by ten years, if needed.

There can be no assurance that actions taken by the current administration or other political actors will not lead to an increase in political or social uncertainty and instability. Any potential instability could have an adverse effect on the Philippine economy, which may impact the Bank's businesses, prospects, financial condition and results of operations.

***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 since 2000. In recent years, the Philippine army has also 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. An increase in the frequency, severity or geographic reach of terrorist acts could destabilise the Philippines, and adversely affect the country's economy.

Moreover, there were isolated bombings in the Philippines in recent years, mainly in regions in the southern part of the Philippines, such as the province of Maguindanao. Although no one has claimed responsibility for these attacks, it is believed that the attacks are the work of various separatist groups, possibly including the Abu Sayyaf organisation. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilise the Philippines and adversely affect the country's economy.

The Government and the Armed Forces of the Philippines have also clashed with members of several separatist groups seeking greater autonomy, including the MILF, the Moro National Liberation Front and the New People's Army.

On 23 May 2017, a terrorist group led by the Maute group, which pledged allegiance to the Islamic State of Iraq and the Levant, captured parts of Marawi City in Lanao del Sur to allegedly establish an Islamic State caliphate in Mindanao. In response, President Duterte issued Proclamation No. 216, declaring martial law, suspending the privilege of writ of habeas corpus in Mindanao, and allowing warrantless arrests for those connected with the crisis. The Congress also granted the request of President Duterte to extend martial law in Mindanao until 31 December 2017. On 17 October 2017, President Duterte declared the liberation of Marawi City from terrorists and the beginning of the rehabilitation of Marawi City. Despite the declaration of the liberation of Marawi City, martial law continued to be extended over Mindanao until 31 December 2019. The clashes resulted in the loss of lives of civilians, soldiers, and ISIS-inspired extremists, as well as damage to the property and livelihood of Marawi residents. Reconstruction of the city is ongoing, with the help of various aid groups.

On 29 January 2019, a terrorist bombing that killed 20 and injured 100 took place in a Catholic church in Jolo in Mindanao. In September 2021, the Philippines was on heightened alert following a warning from Japan's Foreign Ministry of increased risks of terror attacks in the country. 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.

In November 2023, President Marcos issued presidential proclamations granting amnesty to former members of the Communist Party of the Philippines - New People's Army - National Democratic Front (**CPP-NPA-NDF**) and their front organisations, among other rebel groups. The amnesty is granted to former rebels who apply for and qualify under the respective proclamation.

In November 2023, President Marcos issued presidential proclamations granting amnesty to members of the Moro Islamic Liberation Front (**MILF**) and the Moro National Liberation Front (**MNLF**), and former members of the CPP-NPA-NDF, among other rebel groups. The amnesty, however, excludes individuals who had committed certain egregious crimes and violations as defined in the Revised Penal Code, the Human Security Act of 2007, the Anti-Terrorism Act of 2020, the Comprehensive Dangerous Drugs Act of 2002, and the Geneva Convention of 1949. Congressional approval is required for this amnesty to become effective, and in March 2024, the Senate and House of Representatives concurred with the separate presidential proclamations.

An increase in the frequency, severity, or geographic reach of terrorist acts could adversely affect the country's economy. No assurance can be given that the future political or social environment in the Philippines will be stable or that current and future governments will adopt economic policies conducive for sustaining economic growth. An unstable political or social environment, whether due to the imposition of emergency executive rule, martial law or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on the Bank's business, financial condition and results of operations.

***The push for charter change has been causing political unrest which could adversely affect the Bank's financial condition, results of operations and cash flows***

Despite constitutional reform being a divisive issue in the Philippines, the Duterte administration has considered it a legislative priority to amend the Philippine Constitution (**Charter Change**) primarily to change the form of Government from a unitary one to a federal one. The shift to a federal form of government was among President Duterte's key promises during his election campaign in 2016. President Duterte believes that the shift would promote peace, especially in conflict-torn Mindanao, curb poverty nationwide and empower local government units in the Philippines.

The House of Representatives took various steps toward the establishment of a Philippine federal structure of government. On 16 January 2018, the House of Representatives passed Joint Resolution No. 9, proposing that both the Senate and the House of Representatives transform into a Constitutional Assembly with the authority to amend the Constitution. On 17 January 2018, the subcommittee on constitutional amendments of the House of Representatives presented its proposed amendments to political provisions of the current Constitution, including the establishment of a Federal Republic divided into five states: Luzon, Metro Manila, Visayas, Bangsamoro and Mindanao. Each state, under the said proposal, would have a unicameral state assembly with legislative powers and a premiere with executive powers. The subcommittee likewise proposed to establish a parliament with a 300-member Federal Assembly as the national legislative department and a Senate as the regional legislative body. Meanwhile, the President would remain as head of state under the proposal, and would have a term of five years with one re-election, whereas a Prime Minister would be constituted as the head of the Government and would be elected by members of the Philippine parliament.

With respect to proposed amendments to economic provisions of the current Constitution, the House of Representatives subcommittee also proposed to delete certain provisions in the current Constitution providing foreign nationality restrictions, particularly in the following areas: exploitation, development and utilisation of natural resources, ownership of alienable lands, franchise on public utilities, practice of profession, ownership of educational institutions, mass media and advertising. Business groups in the Philippines believe that such amendments will enable the Government to achieve its goal of sustainable and inclusive economic growth, and that an increase in foreign investments would create more job opportunities for Filipinos.

The Speaker of the House of Representatives has posited that the House of Representatives alone may proceed to amend the Constitution even without the concurrence of the Senate, but senators insisted that the lower house of Congress must wait for Senate concurrence to formally begin proposing amendments to the Constitution. The impasse between the two chambers resulted in a crisis of government administration, causing conflicts among different political groups. In addition, while President Duterte stated that he wishes to step down from office at the end of his six-year term in 2022, critics believed that Charter Change would have paved the way for Duterte to perpetuate his political power and begin an authoritarian regime over the archipelago.

President Duterte created a Consultative Committee (**Con-Com**) to draft the proposed federal charter, and on 9 July 2018, the Con-Com formally submitted its draft federal charter to President Duterte. Under the draft federal charter, the Philippines would be divided into 18 autonomous federal regions which are given more power for self-governance than under the present Philippine Constitution. The federal regions were to be granted greater powers over socioeconomic planning, land use, financial administration and management under the proposed federal charter. The central government, on the other hand, would retain powers over national security and defence, international relations and diplomacy, customs and tariff, federal crimes and implementation of the criminal justice system. In addition, the draft federal charter would have increased the number of senators from 24 to 36 and congressmen from 297 to 400. Concerns were raised, however, regarding the financial viability of the proposed shift to federalism. The Philippines' Finance Secretary, Carlos Dominguez, stated that he would vote against the draft federal charter as it could result in a "financial nightmare". Similarly, Socioeconomic Planning Secretary Ernesto Pernia said that the shift could "wreak havoc" on the Philippine economy. These criticisms came as Filipino economists raised issues about the monetary cost of the proposed shift to federalism and the possibility of hyperinflation resulting from expected overspending in the federal regions. In June 2019, President Duterte changed his tune on federalism and has expressed that he will no longer be pushing for a shift from a unilateral to a federal form of government. He, however, has continued to promote other changes to the Philippine Constitution.

In December 2019, the Committee on Constitutional Amendments of the House of Representatives approved four proposals to amend the 1987 Constitution for the consideration of the full House. These four proposals included the following amendments: (1) empowering Congress to relax the limits to foreign investments in the country by enacting a law; (2) tandem voting for the President and the Vice President of the Philippines; (3) five-year terms for senators, congressmen, and local executives with a maximum of three consecutive terms; and (4) the election of senators by region with three senators per region and the Philippines divided into nine regions. On 21 January 2020, however, it was announced that the approval by the Committee on Constitutional Amendments would be recalled, after the Department of Interior and Local Government – Inter-Agency Task Force on Constitutional Reform submitted further proposed amendments to the 1987 Constitution. The Committee on Constitutional Amendments announced that it would consider these new proposals and integrate them into any future committee report alongside the four proposed amendments, if any of them were found viable.

On 9 January 2022, the 150-day election period for national and local elections started. To be elected for national positions are the president, vice president, and 12 senators. For the House of Representatives, 249 seats are available for district members while 62 seats are available for party-list representatives; while local positions are governors, vice-governors, provincial board members, city mayors, city vice mayors, city councillors, municipal mayors, municipal vice mayors, and municipal councillors. Any push for charter change will depend on the results of the elections on 9 May 2022 and the agenda of the next administration.

In March 2023, the Resolution of Both Houses (**RBH**) No. 6 was approved which calls for a constitutional convention to amend the 1987 Philippine Constitution. In the same month, the House of Representatives passed House Bill (**HB**) No. 7352 backing the election of delegates in a Constitutional Convention. Under the said bill, members of the Constitutional Convention will comprise appointees from Congress and delegates from each district selected by the voting public through an election held simultaneously with the Barangay and Sangguniang Kabataan elections in 2023. As of the date of this Offering Circular, both the RBH No. 6 and HB No. 7352 are currently pending with the Senate of the Philippines.

Due to the Bank's businesses being subject to extensive regulation from the Government and also dependent upon economic stability, the potential for instability and unrest may have a material adverse effect on the Bank and its financial condition, results of operations and prospects.

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

While a principal objective of the Philippine securities laws and the listing rules of the Philippine Stock Exchange (**PSE**) 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 Bank, than is regularly made available by public companies in the U.S. and other countries. Furthermore, although the Bank complies with the requirements of the PSE with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. For example, the Manual of Regulation for Banks requires the Bank to have at least two independent directors or such number of independent directors as is equal to one-third of the board of directors of the Bank (the **Board of Directors**), and any fractional result from applying the minimum one-third portion must be rounded up to the nearest whole number. BSP Circular 1129, Series of 2021 amended BSP Circular No. 969, adding a maximum cumulative term for independent directors set to nine years. Once the maximum cumulative term has been reached, the independent director shall be perpetually barred from serving as an independent director in the same bank, but may serve as a regular director. This maximum cumulative term rule shall be reckoned from 2012. The Bank usually has two independent directors. Many other jurisdictions require significantly more independent directors.

Corporate governance standards for public companies in the Philippines may differ from those in developed countries. Rules against self-dealing and protecting public shareholders' interests may be less defined and enforced, potentially disadvantaging public shareholders. As a result, directors of Philippine companies may have more conflicts of interest, leading to actions that may not align with the best interests of public shareholders.

Financial statements of Philippine banks are prepared in accordance with PFRS for Banks which requires the use of certain critical accounting estimates. Management of institutions are to use their own judgment to come up with estimates on certain statement of condition and income statement accounts such as, but not limited to, impairment losses on loans and receivables; fair value of derivatives; impairment of available-for-sale and held-to-maturity securities; and realisation of deferred income tax assets among others.

***The occurrence of natural catastrophes could adversely affect the Bank's business, financial condition or results of operations***

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, droughts, volcanic eruptions and earthquakes. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt the Group's operations. These factors, which are not within the Group's control, could potentially have significant effects on the Group's branches and operations.

On 16 December 2021, typhoon Odette struck central and southern parts of the Philippines and caused ₱13.3 billion in agriculture damage and ₱17.71 billion in infrastructure damage, among others. Typhoon Odette has triggered a partial payout for the government worth ₱2.7 billion (about U.S.$52.5 million) from catastrophe-linked bonds issued by the World Bank.

On 10 April 2022, typhoon Agaton struck central Visayas, particularly Leyte. As of 21 April 2022, the cost of typhoon Agaton's damage was estimated at ₱2.8 billion.

On 5 June 2023, the alert status of Mayon Volcano was raised to Alert Level 2, and three days later, it was further raised to Alert Level 3, following a sharp increase in rockfall incidents from its summit lava dome. Alert Level 3 remains in effect, indicating that the volcano is at a relatively high level of unrest, with risks of a hazardous eruption still present.

The Philippines, ranked as one of the world's most vulnerable countries to the impacts of a warming planet, faces an average of 20 storms and typhoons each year. These storms typically devastate harvests, homes, and infrastructure in already impoverished areas. In November 2020, two typhoons, Super Typhoon Rolly/Goni and Typhoon Ulysses/Vamco, and in December 2021 and September 2022, Super Typhoon Odette/Rai and Super Typhoon Karding/Noru, respectively, brought heavy winds and rain. In July 2023, Super Typhoon Egay/Doksuri also caused significant destruction. In July and October 2024, respectively, Typhoon Carina and Kristine brought relentless rain, leading to widespread disruptions, including flight cancellations, suspended classes, flooding, landslides, and traffic jams in Metro Manila and parts of Luzon.

While the Group carries insurance for certain catastrophic events, of types, in amounts and with deductibles that the Group believes are in line with general industry practices in the Philippines, there are losses for which the Group cannot obtain insurance at a reasonable cost or at all. In addition, the Group carries business interruption insurance. However, should an uninsured loss or a loss in excess of insured limits occur, the Group 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 Group's business, financial position 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. The Philippines made several efforts during the course of 2011 and 2012 to establish a framework for resolving these disputes, calling for multilateral talks to delineate territorial rights and establish a framework for resolving disputes.

Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a group of small islands and reefs known as the Scarborough Shoal. In January 2013, the Philippines sent notice to the Chinese embassy in Manila that it intended to seek international arbitration to resolve the dispute under the United Nations Convention on the Law of the Sea. China rejected and returned the notice sent by the Philippines to initial arbitral proceedings.

On 12 July 2016, the five-member Arbitral Tribunal at the Permanent Court of Arbitration in The Hague, Netherlands, unanimously ruled in favour of the Philippines on the maritime dispute over the West Philippine Sea. The Tribunal's landmark decision contained several rulings, foremost of which invalidated China's "nine-dash line", or China's alleged historical boundary covering about 85 per cent. of the South China Sea, including 80 per cent. of the Philippines' exclusive economic zone in the West Philippine Sea. China rejected the ruling, stating that it did not participate in the proceedings on the grounds that the court had no jurisdiction over the case.

Without a formal enforcement mechanism, the territorial dispute remains unresolved and has resulted in tensions between Filipino and Chinese nationals at sea. On 9 June 2019, a fishing boat manned by Filipino fishermen was rammed by a Chinese vessel at Recto Bank, an underwater feature claimed by both the Philippines and China. The Filipino fishermen were abandoned at open sea and were eventually rescued by a Vietnamese vessel. This incident increased tensions between China and the Philippines. The owners of the Chinese vessel have since apologised to the Filipino fishermen and promised to arrange remuneration for the fishermen.

In April 2020, China announced that it was setting up two new administrative districts in the Spratlys, part of the West Philippine Sea. On 23 April 2020, the Philippines announced that it had filed diplomatic protests against China's creation of the two new districts, as well as China's alleged pointing of a radar gun at a Philippine Navy ship in Philippine waters. Nevertheless, on 21 March 2022, it was reported that China has fully militarised at least three of the several islands it has built in the South China Sea.

In recent months, there has been an increased frequency and heightened intensity of confrontations between the Chinese Coast Guard and Philippine personnel in the West Philippine Sea. These incidents have led to public accusations and diplomatic protests from both countries. In August 2023, China Coast Guard vessels used water cannons 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 has 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 has removed and cut the floating barrier. In October 2023, the Philippines has lodged a diplomatic protest with China in response to a manoeuvre 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). On 30 April 2024, while Philippine government vessels were distributing fuel and food to the fisherfolk in the Scarborough Shoal, China coast guard vessels attacked them using high-pressure water cannons, causing damage to the vessels. This led the Philippine government to file another diplomatic protest against China. As of 30 April 2024, the Philippines has filed a total of 153 diplomatic protests against China during President Marcos' tenure, with 20 of these protests filed exclusively in 2024.

In February 2023, the Philippine and United States governments announced the designation of four new sites under the Enhanced Defense Cooperation Agreement. This expansion is seen as strengthening and making the alliance between the Philippines and the United States more resilient. South Asian nations and claimants involved in the West Philippine Sea dispute also continue to assert their sovereign rights against China and other South Asian nations.

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 the suspension of visa-free access and/or overseas Filipinos permits. Any impact from such disputes could materially and adversely affect the Bank's business, financial condition and results of operations.

**Risks relating to the Notes**

***There has been no prior public market for the Notes***

There is no existing market for the Notes. The Arranger has made no commitment and has no obligation to make a market in the Notes. Any such market-making if commenced may be discontinued at any time at the sole discretion of the Arranger. Approval-in-principle has been granted by the SGX-ST in relation to the Programme and application will be made for permission to deal in and quotation for any Notes that may 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. However, no assurance can be given that the listing will be obtained, or if it is, that the listing will continue in the future. No assurance can be given that an active trading market for the Notes will develop or be sustained and therefore, the liquidity of the Notes may be considerably less than for comparable emerging market securities.

If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rates, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

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

Each potential investor in the Notes must determine the suitability of that investment 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 Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

- understand thoroughly the Terms and Conditions 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.

Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments 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.

***Rating of the Notes is not a recommendation to buy, sell or hold securities***

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

***Noteholders may face difficulties enforcing judgments against the Bank***

The Bank is organised under the laws of the Philippines. A substantial portion of the Bank's assets is 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 judgments 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 judgments 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 judgments but is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. 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. However, such foreign judgment 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 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 judgment was based upon a clear mistake of law or fact.

***The priority of debt evidenced by a public instrument***

Under Philippine law, in the event of liquidation of a company, its unsecured debt (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 by a public instrument. 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 Terms and Conditions of the Notes 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(a)) 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.

***Exchange rate risks and exchange controls***

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 (i) the Investor’s Currency-equivalent yield on the Notes; (ii) the Investor’s Currency equivalent value of the principal payable on the Notes; and (iii) 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 regarding 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.

***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, global trade tensions and increasing protectionism have adversely impacted the world’s economy, 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.

***Investors shall pay attention to any modification, waivers and substitution***

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider and vote upon matters affecting their interests generally, or to pass resolutions in writing or through the use of electronic consents. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting or, as the case may be, did not sign the written resolution or give their consent electronically, and including those Noteholders who voted in a manner contrary to the majority.

## Risks relating to the structure of a particular issue of Notes

### *Notes subject to optional redemption*

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.

### *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.

### *Inverse Floating Rate Notes*

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

### *Fixed/Floating Rate Notes*

Fixed/Floating Rate Notes 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. Such a feature to convert the interest basis, and any conversion of the interest basis, may affect the secondary market and the market value of such Notes as the change of interest basis may result in a lower interest return for Noteholders. Where the Notes convert from a fixed rate to a floating rate, 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. Where the Notes convert from a fixed rate to a floating rate, the fixed rate may be lower than the then prevailing rates on those Notes and could affect the market value of an investment in the relevant Note.

### *The regulation and reform of “benchmarks” may adversely affect the value of Notes linked to or referencing such “benchmarks”*

Interest rates and indices which are deemed to be "benchmarks" (including the euro interbank offered rate (**EURIBOR**)) are the subject of national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear 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.

Regulation (EU) 2016/1011 (the **EU Benchmarks Regulation**) applies, subject to certain transitional provisions, to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. Among other things, it (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed). Regulation (EU) 2016/1011 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the **UK Benchmarks Regulation**) among other things, applies to the provision of benchmarks and the use of a benchmark in the United Kingdom. Similarly, it prohibits the use in the United Kingdom by the United Kingdom supervised entities of benchmarks of administrators that are not authorised by the FCA or registered on the FCA register (or, if non-United Kingdom based, not deemed equivalent or recognised or endorsed).

The EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable, could have a material impact on any Notes linked to or referencing a benchmark in particular, if the methodology or other terms of the benchmark are changed in order to comply with the requirements of the EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant 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, amongst 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 eurorisk-free rate working group published its recommendations on EURIBOR fallback trigger events and fallback rates. On 4 December 2023, the working 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 benchmark.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable, or any of the international or national reforms and the possible application of the benchmark replacement provisions of Notes in making any investment decision with respect to any Notes 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 the SOFR Benchmark (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.

### *Notes issued at a substantial discount or premium*

The market values of securities issued at a substantial discount or premium from 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 conventional interest-bearing securities with comparable maturities.

### *Index Linked Notes and Dual Currency Notes*

The Bank may issue Notes with principal or interest payable in respect of the Notes being determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, it 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:

(i) the market price of such Notes may be volatile;

(ii) they may receive no interest;

(iii) the payment of principal or interest may occur at a different time or in a different currency than expected;

(iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) the effect of any multiplier or leverage factor that is applied to the Relevant Factor is that the impact of any changes in the Relevant Factor on the amounts of principal or interest payable will likely be magnified; and

(vii) 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.

### *Partly Paid Notes*

The Bank may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

### *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 Final Terms. 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 Projects in each case as described in the Issuer's Sustainable Finance Framework.

No assurance is given by the Issuer, the Arranger, the Dealers, the Trustee, the Agents or any other person that the use of such proceeds for any Eligible Projects 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 Projects. None of the Arranger, 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 Final Terms for the purpose of any investment in such Notes together with any other investigation such investor deems necessary.

On 14 February 2024, the Issuer obtained a second-party opinion from Sustainalytics (the **Second Party Opinion**), confirming that the Sustainable Finance Framework is aligned with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2023, Green Loan Principles 2023, Social Loan Principles 2023, ASEAN Sustainability Bond Standards 2018, ASEAN Green Bond Standards 2018 and ASEAN Social Bond Standards 2018. No assurance or representation is given by the Issuer, the Arranger, 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 Projects 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 Arranger, 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, Sustainalytics, 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 Arranger, 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 Arranger, the Dealers, the Trustee, and the Agents, have not undertaken, nor are responsible for, any assessment of the eligibility of projects as Eligible Projects or the monitoring of the use of proceeds from the offering of the Notes.

The Sustainable Finance 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) are available on the Bank's website at https://www.rcbc.com/sustainability, but for the avoidance of doubt, will not be incorporated in and/or form part of this Offering Circular. The Issuer's Sustainable Finance Framework may be amended at any time without the consent of Noteholders and none of the Issuer, the Arranger, the Dealers, the Trustee, or the Agents assumes any obligation or responsibility to release any update or revision to the Sustainable Finance Framework and/or information to reflect events or circumstances after the date of publication of the Sustainable Finance 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 Projects in the manner specified in this Offering Circular or the applicable Final Terms, there can be no assurance that the relevant project(s) or use(s) the subject of, or related to, any Eligible Projects 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 Projects. Nor can there be any assurance that such Eligible

Projects 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 Projects 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 Projects 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 Arranger, 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 Projects. 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 Arranger, 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 Projects 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 Arranger, 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 Projects. 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", or "social" assets. No assurance can be provided to investors that the Notes and the use of proceeds by the Issuer or any Eligible Projects 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 Final Terms for the purpose of any investment in such Notes together with any other investigation such investor deems necessary.

**Risks relating to the Notes generally**

***Change of law***

The Terms and 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.

***Notes where denominations involve integral multiples: definitive Notes***

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination 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 bearer form in respect of such holding (should such 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.

***Reliance on Euroclear and Clearstream procedures***

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 (each as defined under "Form of the Notes"). 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.

While the Notes are represented by Global Notes, the Bank will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note.

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.

### Risks relating to the market generally

***The secondary market generally***

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it; (ii) Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

### Risks Relating To This Offering Circular

***Risks relating to unaudited, reviewed interim financial statements deemed incorporated by reference***

Any published unaudited, reviewed interim financial statements of the Bank (whether prepared on a consolidated or a non-consolidated basis) which are, from time to time, deemed to be incorporated by reference in this Offering Circular will not have been audited by the auditors of the Bank. Accordingly, there can be no assurance that, had an audit been conducted in respect of such financial statements, the information presented therein would not have been materially different, and investors should not place undue reliance on them.

***The Bank cannot assure you of the accuracy or comparability of facts, forecasts and statistics contained in this Offering Circular with respect to the Philippines, its economy or the Philippines and global banking industries***

Facts, forecasts and statistics in this Offering Circular relating to the Philippines, the Philippine economy and the Philippines and global banking industries, including the Bank’s market share information, are derived from various governmental sources which are generally believed to be reliable. However, the Bank cannot guarantee the quality and reliability of such material. In addition, these facts, forecasts and statistics have not been independently verified by the Bank and may not be consistent with information available from other sources, and may not be complete or up-to-date. The Bank has taken reasonable care in reproducing or extracting the information from such sources. However, because of potentially flawed methodologies, discrepancies in market practice and other problems, these facts, forecasts and other statistics may be inaccurate or may not be comparable from period to period or to facts, forecasts or statistics of other economies.

***Risks relating to forward-looking statements***

The Bank has included certain statements in this Offering Circular which constitute “forward-looking statements” (the meaning of which is discussed above under “*Cautionary Statement Regarding Forward-Looking Statements*”). Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with the Bank’s expectations with respect to, but not limited to, its ability to successfully implement its strategy, its ability to integrate recent or future mergers or acquisitions into its operations, future levels of non-performing assets and restructured assets, its growth and expansion, the adequacy of its provision 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 pay dividends, its ability to roll over its short-term funding sources, its exposure to operational, market, credit, interest rate and currency risks and the market acceptance of and demand for Internet banking services. Accordingly, undue reliance must not be placed on such forward-looking statements.

## CAPITALISATION AND INDEBTEDNESS OF THE BANK

*The following table sets out the audited consolidated capitalisation and indebtedness of the Bank as of 30 September 2024. This table should be read in conjunction with the Bank's consolidated financial statements included elsewhere herein. The translation of Peso amounts into U.S. dollars at the specified rates herein is provided solely for convenience.*

| | As of 30 September 2024 (audited) | |
|---|---|---|
| | **(₱ million)** | **(U.S.$ million)[1]** |
| | (actual) | |
| **Indebtedness** | | |
| **Short-term liabilities** | | |
| Deposit liabilities | 765,019 | 13,654 |
| Interbank loans, bills payable and other liabilities | 47,858 | 854 |
| **Total short-term liabilities** | 812,877 | 14,508 |
| **Long-term liabilities** | | |
| Deposit liabilities | 225,421 | 4,023 |
| Interbank loans, bills payable and other liabilities | 61,997 | 1,106 |
| Bonds Payable | 26,578 | 474 |
| Total long-term liabilities | 313,996 | 5,604 |
| **Capital funds** | | |
| Issued share capital[2] | 24,198 | 432 |
| Hybrid perpetual securities | 14,463 | 258 |
| Capital paid in excess of par value | 58,228 | 1,039 |
| Retained earnings | | |
| Appropriated | 2,148 | 38 |
| Unappropriated | 59,056 | 1,054 |
| Other equity adjustments | - | - |
| Minority interest | 6 | 0 |
| Total capital funds | **158,099** | **2,822** |
| **Total capitalisation and indebtedness[3][4]** | **1,284,972** | **22,934** |

Notes:

(1) The exchange rate was ₱56.03 = U.S.$1 as of 30 September 2024.

(2) As of 30 September 2024, 2,419,536,359 shares of common stock were issued and outstanding at ₱10 par value and 266,194 shares of preferred stock were issued and outstanding at ₱10 par value.

(3) As of 30 September 2024, the Bank had total outstanding contingent liabilities of ₱751,781 million (U.S.$13,417 million), which includes derivatives, outstanding guarantees, foreign exchange bought, foreign exchange sold, inward bills for collection and others.

(4) Save as disclosed in this Offering Circular, there has been no material change in the capitalisation, indebtedness or contingent liabilities (including guarantees) of the Bank since 30 September 2024.

## CAPITAL ADEQUACY RATIOS

Banks in the Philippines are required by current BSP guidelines to maintain a minimum total CAR of at least 10.0 per cent. To implement Basel III standards, the BSP adopted new categorisations of capital, effective 1 January 2014. Tier 1 Capital comprises CET1 Capital and Additional Going Concern Capital and the subcategories of Tier 2 Capital have been eliminated. The BSP has adopted a minimum CET1 ratio of 6.0 per cent., a minimum Tier 1 ratio of 7.5 per cent. and a capital conservation buffer of 2.5 per cent. See "*Banking Regulation and Supervision*".

The following table sets forth details of capital resources and CAR of the Bank, as of the dates indicated, as reported to the BSP, computed using Basel III standards:

| | As of 31 December | | | For the nine months ended 30 September | |
|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2023 | 2024 |
| | (₱ millions) | | | | |
| **Tier 1 (Common Equity Tier 1 (CET1) plus Additional Tier 1 (AT1)) Capital** | | | | | |
| Paid up common stock .................. | 22,509 | 22,509 | 24,195 | 24,195 | 24,195 |
| Additional paid in capital .................. | 42,505 | 42,493 | 58,228 | 58,228 | 58,228 |
| Retained earnings .......................... | 35,641 | 40,415 | 44,614 | 44,675 | 52,754 |
| Undivided profits............................ | 7,095 | 11,619 | 12,218 | 9,054 | 6,196 |
| Net unrealised gains or losses on AFS securities .................................. | 76 | (3,488) | (3,195) | (5,721) | (32) |
| Cumulative foreign currency translation.................................. | 54 | 54 | 54 | 54 | 60 |
| Minority interest in subsidiary financial allied undertaking which are less than wholly owned...................... | 18 | 9 | 7 | 7 | 7 |
| Others .......................................... | (2,410) | (1,592) | (2,906) | (2,799) | (2,925) |
| **CET1 Capital** .................................... | 105,488 | 112,019 | 133,215 | 127,693 | 138,483 |
| **Less: Regulatory Adjustments to CET1 Capital** | | | | | |
| Common Stock Treasury Shares ....... | 9,287 | 9,287 | - | - | - |
| Unbooked valuation reserves and other capital adjustments based on the latest report of examination as approved by the Monetary Board ........................ | 3,617 | 3,824 | - | - | - |
| Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (**DOSRI**) ...................... | 1 | 0 | - | - | - |
| Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates........... | 559 | 633 | 257 | 661 | 869 |
| Total outstanding loans, other credit accommodations and guarantees granted to related parties that are not at arm's-length terms as determined by the appropriate supervising department of the Bangko Sentral...... | - | - | - | - | 660 |
| Deferred tax assets.......................... | 3,265 | 3,420 | 5,999 | 5,943 | 6,210 |
| Goodwill........................................ | 269 | 269 | 269 | 269 | 269 |
| Other Intangible Assets ................... | 2,337 | 2,362 | 2,237 | 2,335 | 2,254 |
| Defined benefit pension fund assets (liabilities) ................................ | - | 0 | 2,665 | 2,716 | 2,403 |

| | As of 31 December | | | For the nine months ended 30 September | |
|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2023 | 2024 |
| Minority investments in subsidiary banks, quasi-banks and other financial allied undertakings | - | 0 | 0 | - | - |
| Other equity investments in non-financial allied undertakings and non-allied undertakings | - | 6,572 | 6,728 | 5,849 | 6,850 |
| Reciprocal investments in common stock of other banks/quasi-banks and financial allied undertakings including securities dealers/ brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases) | 15 | 15 | 15 | 15 | 15 |
| **Total Regulatory Adjustments to CET1 Capital** | **26,079** | **26,382** | **18,169** | **17,788** | **19,530** |
| **Total CET1 Capital** | **79,409** | **85,637** | **115,046** | **109,905** | **118,953** |
| **AT1 Capital** | | | | | |
| Instruments issued by the bank that are eligible as AT1 Capital | 14,466 | 14,466 | 14,466 | 14,465 | 14,465 |
| **Less: Regulatory Adjustments to AT1 Capital** | - | - | - | - | - |
| **Total AT1 Capital** | 14,466 | 14,466 | 14,466 | 14,465 | 14,465 |
| **Total Tier 1 (CET1 plus AT1) Capital** | **93,875** | **100,103** | **129,512** | **124,370** | **133,418** |
| **Tier 2 Capital** | | | | | |
| Instruments issued by the bank that are eligible as Tier 2 Capital | - | - | - | - | - |
| General loan loss provision | 5,591 | 6,081 | 6,586 | 6,375 | 7,614 |
| **Total Tier 2 Capital** | **5,591** | **6,081** | **6,586** | **6,375** | **7,614** |
| **Less: Regulatory Adjustments to Tier 2 Capital** | - | - | - | - | - |
| **Total Tier 2 Capital** | **5,591** | **6,081** | **6,586** | **6,375** | **7,614** |
| **Total Qualifying Capital** | **99,466** | **106,184** | **136,098** | **130,745** | **141,033** |

The following table sets forth the Bank's consolidated capital base by category of capital as of the dates indicated based on Basel III standards:

| | As of 31 December | | | For the nine months ended 30 September | |
|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2023 | 2024 |
| | | (per cent.) | | | |
| Core capital ratio (Tier 1)(1) | 14.37 | 14.42 | 16.53 | 16.27 | 15.43 |
| Risk-weighted capital ratio | 15.23 | 15.29 | 17.37 | 17.10 | 16.31 |

Note:

(1) Total qualifying capital less Tier 2 capital divided by total risk weighted assets.

The following table sets forth the Bank's consolidated assets according to risk weight as of the dates indicated:

| | As of 31 December | | | For the nine months ended 30 September | |
|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2023 | 2024 |
| | | (₱ millions) | | | |
| **Risk-weighted on-balance sheet assets** | | | | | |
| 20 per cent. | 2,844 | 4,075 | 4,538 | 3,966 | 1,286 |

| | As of 31 December | | | For the nine months ended 30 September | |
|---|---|---|---|---|---|
| | **2021** | **2022** | **2023** | **2023** | **2024** |
| 50 per cent. | 56,574 | 72,687 | 69,577 | 67,941 | 72,616 |
| 75 per cent. | - | 0 | 0 | - | 6,278 |
| 100 per cent. | 483,519 | 511,222 | 577,335 | 567,667 | 625,597 |
| 150 per cent. | 35,750 | 25,552 | 20,509 | 19,655 | 28,148 |
| **Total risk-weighted on-balance sheet assets** | **578,687** | **613,535** | **671,959** | **659,229** | **733,926** |
| **Risk-weighted off-balance sheet exposures** | 9,377 | 10,446 | 20,358 | 15,189 | 21,620 |
| **Total risk-weighted interest rate and exchange rate related contingencies/Others** | 2,100 | 6,589 | 8,012 | 2,600 | 11,234 |
| **Market and operational risk-weighted assets** | 58,094 | 63,852 | 82,971 | 75,693 | 98,105 |
| **Total risk-weighted assets** | **648,258** | **694,421** | **783,300** | **752,711** | **864,885** |

## DESCRIPTION OF THE BANK

### Overview

The Bank is a prominent universal bank in the Philippines which provides a wide range of banking and financial products and services, including commercial and retail banking, credit cards, asset management, and treasury and investment banking products and services. As of 30 September 2024, the Bank was the fifth largest private domestic commercial bank in the Philippines in terms of total assets, based on the published statements of financial position. In terms of branches, the Bank ranked seventh in the Philippines, with a country-wide total of 463 branches as of 30 September 2024, including four extension offices.

As of 30 September 2024, the Bank's consolidated total resources and equity amounted to ₱1,284.97 billion (U.S.$22.94 billion) and ₱158.10 billion (U.S.$2.82 billion), respectively. The Bank's consolidated profit before tax and net profit for the nine months ended 30 September 2024 amounted to ₱8.87 billion (U.S.$0.16 billion) and ₱6.22 billion (U.S.$0.11 billion), respectively.

As of 30 September 2024, the Bank had a market capitalisation on the PSE of ₱64.84 billion (U.S.$1.16 billion). The Bank's Tier 1 capital adequacy ratio and total capital adequacy ratio were 15.43 per cent. and 16.31 per cent., respectively, as of 30 September 2024.

The Bank offers commercial, corporate and consumer banking products and services throughout the Philippines, as well as treasury, cash management and remittance services. The Bank's medium-term strategy is to grow its loan portfolio, specifically its consumer and SMEs loan portfolios.

The Bank's Retail Banking Group (**RBG**) provides a range of banking products and services mainly sold through the Bank's branch network. These include deposit products, cash management solutions, investments, including trust products, and bancassurance. Aside from managing the Bank's branches, RBG also manages the Bank's nationwide ATM network.

The Bank's Corporate Banking Group (**CBG**) focuses on leading Philippine and multinational corporations, Filipino-Chinese businesses, and international corporate clients in special economic zones (**SEZs**). Through its current affiliation with the Yuchengco Group of Companies (the **YGC**) and Sumitomo Mitsui Banking Corporation (**SMBC**), it has established long-standing relationships with Japanese companies in various SEZs in the country.

The Bank also provides a full range of consumer banking products and services in the Philippines. The Bank's international operations consist of its wholly-owned subsidiaries RCBC International Finance Limited (**RCBC IFL**) and RCBC Investment Ltd., both in Hong Kong. The Bank's relationship with other banks, exchanges and other international money transfer agencies has strengthened its remittance business used primarily by OFWs. The Bank estimates it had an approximate 5 per cent. share of the remittance business in the Philippines as of 30 September 2024, based on remittance volumes published by the BSP.

In 2018, the BSP recognised the Bank as an Outstanding Respondent for the Coordinated Portfolio Investment Survey. In the same year, the Bank received six awards from the Fund Managers Association of the Philippines and the Best Credit Card award at the 2018 International Finance Banking Awards. In the areas of communication and branding, the Bank received six awards at the 2018 International Association of Business Communication Gold Quill Awards and a Gold Anvil award at the 2018 Anvil Awards. In the same year, the Bank ranked first in the most improved level of customer advocacy category of YouGov.com.

The Bank continued to receive key awards from regulators, as well as respectable local and international bodies in 2019, which is a testament of its commitment to service excellence. In the area of corporate banking, the Bank was recognised in 2019 by various international bodies for its leading role in financing some of the major infrastructure in the Philippines. These include the Asset Triple A and Benchmark Awards, and the Asian Banking and Finance Corporate and Investment Banking Awards under the Asset's Asia Infrastructure 2019 'Best Deals by Country' category (which consists of "Transport Deal of the Year", "Renewable Energy Deal of the Year" and "PPP Deal of the Year". The Bank also received recognition from The Asset Asian Awards as the "Best Issuer for Sustainable Finance" and "Best Sustainability Bond" in the Philippines. In the area of communications and branding, RCBC received several awards, which include five Quill Awards from the 2019 International Association of Business Communicator Gold Quill Awards, two awards from the Bank Marketing Association of the Philippines, a Gold Anvil for the brand refresh campaign and a Silver Anvil for the Bank and RCBC Savings Bank's Merger Communication at the 2019 Anvil Awards. In addition, RCBC Bankard Services Corporation (**RCBC Bankard**) received the Best Card Offering – Philippines recognition during the 5th International Finance Magazine Awards and a Silver Anvil for the RCBC Bankard Platinum Launch.

In 2020, RCBC was awarded by The Global Economics as the Philippines' Most Innovative Internet Banking Service Provider. In addition, the Bank was also given the Platinum for Creative Effectiveness and Gold in Digital Marketing by the Association of Marketing and Communications Professionals. In the same year, the Bank won three Anvil awards, namely the Visa Platinum card launch, Merger of RCBC and RCBC Savings Bank and Change Management Communication Playbook. In addition, RCBC won two awards from Global Retail Banking Innovation Summit & Awards, namely Loan Offering of the Year for the Bayanihan Balance Conversion Program and Best CSR Initiative for the COVID-19 Relief Efforts Rewards Donation Program.

RCBC won four awards as Best Bank for Digital in the Philippines in 2021, including that of Asia Money and Alpha South East Asia which RCBC has won for two consecutive years. The Bank was also awarded by Global Banking & Finance as Best Corporate and Best Cash Management Bank in the Philippines, while it was awarded as Best SME Banking Brand by Global Brand and Mid-sized Domestic Retail Bank of the Year – Philippines by Asian Banking and Finance. In addition, the Bank was awarded by CFA Society Philippines as Best Managed Fund – Equity (Peso).

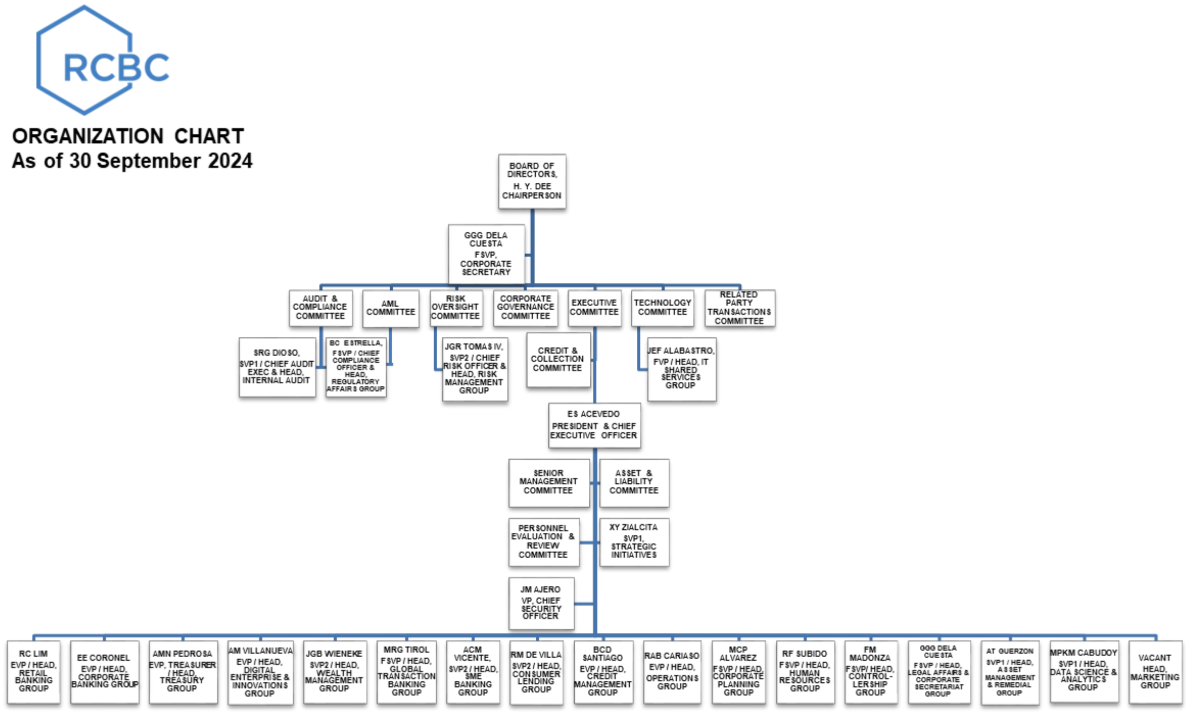
In 2021, RCBC also won Sustainability awards such as Best Sustainability Bond Asset from Publishing and Research Ltd, ESG Gold Award from The Asset and Renewable Energy Deal of the Year – WIND under Vietnam, Best Deals – ASEAN (RCAP & CBG) from The Asset Infrastructure Awards.

In 2022, RCBC's Corporate Banking Group was recognised by the Global Banking and Finance Awards for being the Best Corporate Bank – Philippines for the second year in a row. RCBC also won the Philippines' Best Bank for Digital by Asiamoney and the Global Retail Banking Innovation Awards by The Digital Banker.

In 2023, RCBC clinched 50 awards, including, *inter alia*, four awards as Best Digital Bank in the Philippines by Global Business Review Magazine Award, Global Business Magazine, World Economic Magazine and International Business Magazine Awards. The Bank also won three awards for the Best Bank for Financial Inclusion, including by World Economic Magazine. The Bank also received awards for innovation, including the Most Innovative Internet Banking Service Philippines by the Global Business Magazine.

In 2024, RCBC was cited as the Philippines' Best Bank for SMEs and Best Bank for Digital by Euromoney. It also received several awards from Asian Banking and Finance, including, among others, SME Bank of the Year, Consumer Finance Product of the Year, Remittance Company of the Year and Automobile Lending Initiative of the Year. RCBC also won awards for sustainability and corporate social responsibility (**CSR**) such as Best Bank for Sustainable Development Philippines 2024 from Global Banking and Finance and Best CSR Initiative – Financial Inclusion by Retail Banker Asia Trailblazer Awards 2024.

The following chart shows the organisation structure of the Group as of 30 September 2024:




**Recent Developments**

Effective 1 January 2025, the SME Banking Group and Corporate Banking Group will be merged under the Institutional Banking Group.

On 9 December 2024, the Board of Directors approved the following changes in personnel, which will take effect on 1 January 2025 subject to BSP and other regulatory approvals required.

Executive Vice President Reginaldo Anthony B. Cariaso will be appointed Deputy Chief Executive Officer.

Second Senior Vice President Juan Gabriel R. Tomas IV will be appointed Group Head of Operations.

Executive Vice President Bennett D. Santiago will be appointed Chief Risk Officer and Head of Risk Management Group.

Executive Vice President Elizabeth E. Coronel will be appointed Group Head of Institutional Banking, replacing Second Senior Vice President Anna Christina M. Vicente who will be resigning as the current head of SME Banking Group.

First Senior Vice President Simplicio B. Dela Cruz, Jr. will be seconded to Rizal Microbank, Inc. (a thrift bank of RCBC) and appointed President and CEO. Mr. Ismael S. Reyes, currently the President and CEO of Rizal Microbank, will be recalled and will report to the Office of the RCBC President and CEO to be responsible for coordinating the bank's Retail and Microbank transformation efforts.

First Senior Vice President Sheila Ricca G. Dioso will be appointed Chief Compliance Officer and Head of Regulatory Affairs Group. First Senior Vice President Brent C. Estrella, currently the Chief Compliance Officer and Head of Regulatory Affairs Group, will report to the Office of the President & CEO to handle Control and Governance transformation initiatives.

### Capital Markets Transactions

On 16 July 2018, the Bank's stock rights offering of 535,710,378 shares were listed on the PSE. As of 30 September 2024, the total issued and outstanding capital stock of the Bank is comprised of 2,419,536,359 shares.

On 27 August 2020, the Bank issued additional tier 1 capital of U.S.$300 million.

On 31 March 2021, the Bank issued ₱4,129,730,000 4.18 per cent. ASEAN sustainability bonds due in 2026, under its ₱100 billion bond and commercial paper programme.

On 17 January 2024, the Bank issued U.S.$400 million 5.50 per cent. unsecured sustainability bonds due in 2029 under its U.S.$3,000,000,000 Medium Term Note Programme.

### History

The Bank, incorporated under the name Rizal Development Bank, began operations as a private development bank in the province of Rizal in 1960. In 1962, the Bank received approval from the BSP to operate as a commercial bank and, on 2 January 1963, the Bank began operations under its present name. In 1973, the Bank formed alliances with two foreign banks, Continental Illinois National Bank & Trust Co. (**CONNILL**) and United Financial of Japan (**UFJ**) (then known as Sanwa Bank and later, following its merger in 2004 with Mitsubishi Tokyo Financial Group, known as The Bank of Tokyo-Mitsubishi UFJ Limited). The relationship with CONNILL ended in 1985 after CONNILL sold its shareholding in the Bank to UFJ. In December 2006, UFJ disposed of its entire shareholdings in the Bank to the Spinnaker Group.

The Bank obtained its commercial banking licence in 1963 and its universal banking licence in 1989 and has been listed on the PSE since 1986.

The Bank acquired Merchants Bank in mid-2008 to expand the Bank's branch network. The acquisition also allowed the Bank to take over Merchants Bank's thrift banking licence which enabled the Bank to commence microfinance deposit-taking operations in Mindanao. On 13 February 2009, to further bolster its entry into the microfinance business in the Philippines, the Bank acquired the JP Laurel Rural Bank in Batangas.

In 2009, the Spinnaker Group disposed of its entire stake in the Bank. The shares disposed of by the Spinnaker Group were primarily bought back by the Bank to allow the Bank to issue shares to potential strategic investors with a business strategy in line with the Bank's business direction. As of 30 September 2024, the Yuchengco family, primarily through PMMIC, owned approximately 33.92 per cent. of the Bank's issued and outstanding shares while other members of the YGC owned an additional 9.31 per cent. of the Bank's issued and outstanding shares.

On 9 March 2011, the Bank and the International Finance Corporation (**IFC**) reached an agreement under which IFC acquired an approximately 7.2 per cent. stake in the Bank's common shares, as measured on a post-funding basis, for a total consideration of over ₱2.1 billion. The additional capital raised supported growth in the Bank's loan book, which, in addition to large corporates, targets growth in SMEs, microfinance and consumer finance segments. The incremental capital raised was used to support the acquisition of small and/or medium-sized banks in the Philippines.

On 12 May 2011, the Board of Directors approved the proposed acquisition by CVC Capital Partners (**CVC**) of approximately 15 per cent. stake in the Bank's share capital through a subscription of new shares and the purchase of existing shares from certain shareholders for a total consideration of approximately ₱5.0 billion. The transaction was approved by the stakeholders of the Bank on 27 July 2011 and finalised on 23 September 2011. The investment by CVC was undertaken by Hexagon Investment B.V. (**Hexagon**), a special purpose vehicle ultimately controlled by CVC. The terms of the investment entitled Hexagon to two seats out of 15 on the Board of Directors.

On 28 March 2012, the Bank completed the purchase of 448,528,296 common shares or approximately 97.8 per cent. of the outstanding capital stock in First Malayan Leasing and Finance Corporation (now known as RCBC Leasing and Finance Corporation (**RCBC LFC**)) from PMMIC, House of Investments, Inc. and certain other sellers for ₱1.53 per share or a total consideration of ₱686.2 million. Approval from the BSP was granted on 16 March 2012. The transaction included an equity infusion of ₱163.2 million into RCBC LFC to bolster its capital base. The Bank believes that the acquisition allowed it to be more aggressive in providing finance leases and operating leases to its clients.

On 20 April 2015, Cathay Life Insurance Co., Ltd. (**Cathay Life**) completed its acquisition of a 20 per cent. shareholding in the Bank. Cathay subscribed to 124,242,272 primary common shares and acquired 118,935,590 secondary shares from Hexagon and 36,724,138 secondary shares from IFC, in each case, at the price of ₱64.0 per share. The Bank has a shareholders agreement with PMMIC and Cathay Life.

On 24 September 2018, the Board of Directors approved the merger of RCBC Savings Bank, Inc. (**RSB**) into the Bank. The merger became effective on 22 July 2019.

On 28 June 2021, the Bank sold 101,850,000 shares to SMBC at ₱44.00 per share. This came from treasury shares resulting from the merger of the Bank and RSB.

On 2 November 2022, the Bank's Board of Directors approved the increase in shareholding of SMBC, an existing shareholder of the Bank, to 20 per cent. through the combined sale of subscription of an aggregate of 382 common stock to SMBC, partly coming from the reissuance of treasury shares and issuance of new common stock, at the price of ₱71 per share.

On 31 July 2023, the Bank completed the sale of 213,437,248 common shares held as treasury shares in the Bank (the **Treasury Shares**) and the issuance of 168,619,976 authorised and unissued common shares of the Bank (the **Subscription Shares**, and, together with the Treasury Shares, the **Sale Shares**) to SMBC at a price per Sale Share of ₱71. After the purchase of the Treasury Shares and the issuance of the Subscription Shares from the Bank, SMBC owns, in aggregate, 20.0 per cent. of the total outstanding common stock of the Bank. An application to list the Subscription Shares on the Philippine Stock Exchange was filed on 27 September 2023.

The strategic investment by SMBC, which raises ₱27 billion of new Core Equity Tier 1 capital for the Bank, is part of the Bank's capital raising plan to support long-term asset growth and digital investments. The proceeds from the investment allow the Bank to finance the different requirements of key customers in the Corporate, SME and consumer segments and expand the reach of its Sustainable Finance Framework.

With the endorsement of the Bank's Trust Committee, on 28 November 2022, the Bank's Board of Directors approved the spin-off of the trust operations from the Bank into a separate corporate entity by establishing a standalone trust corporation in accordance with the Manual of Regulations for Non-Bank Financing Institutions. The Bank's Board of Directors approved its capital infusion equivalent to 40 per cent. of the required capital under the capital build-up plan.

On 27 March 2023, the Bank's Board of Directors approved the incorporation of RTC. RTC was officially incorporated on 29 June 2023, while its application of Trust License from BSP – Stage 3 was approved on 10 October 2023. RTC started operations on 2 January 2024.

On 29 April 2024, RCBC Telemoney Europe S.P.A (**RCBC Telemoney Europe**) received the final regulatory approval for its liquidation. Following such approval, RCBC Telemoney Europe's balances were deconsolidated from the Group.

**Competitive Strengths**

The Bank considers the following to be its principal competitive strengths:

*Sustainable size with an established operating history*

The Bank is a prominent universal bank in the Philippines with extensive experience in the financial services sector extending over 60 years. The Bank offers a diversified range of banking and financial products and services, including commercial and retail banking, credit cards, asset management and treasury and investment banking products and services. This range of products and services provides the Bank with an extensive asset base.

*Leading positions in key segments*

Based on the Bank's in-house market survey as of 30 September 2024, the Bank is a market leader in key business segments, including investment banking, treasury operations and foreign exchange, and trade finance and international banking. The spin-off of RCBC Trust and Investments Group (**RCBC TIG**) to a standalone trust corporation, RTC, allows for RTC to increase its assets under management (**AUM**) by offering more investment options, which other trust entities may not be able to do due to regulatory restrictions. In addition, the Bank is an established and well-recognised provider of banking services to Filipino-Chinese businesses, foreign investors in the export processing zone areas, as well as Japanese multinationals. The Bank has implemented a number of initiatives in the SME and consumer segment and has been actively expanding its presence in the microfinance sector.

*Strong group synergies and support*

As part of the YGC, the Bank is able to leverage a group-wide sales force to assist it in offering a wide range of products and services provided by other members of YGC, making it a "one-stop" financial centre for its customers. At the Bank's branches, customers may be referred to other YGC companies where insurance products and other services are being offered.

*Proven and experienced management team*

The Bank has an experienced management team with a proven track record for successfully executing business plans and achieving results. On 24 June 2019, the Bank appointed Mr. Eugene Acevedo as President and Chief Executive Officer, effective 1 July 2019. Prior to being appointed as President and Chief Executive Officer, Mr. Acevedo served as Deputy Chief Executive Officer of the Bank. He also held senior leadership positions in several financial institutions, with the latest being the chairman of CitySavings Bank, Inc., the thrift lending arm of Union Bank of the Philippines, Inc. He also held senior leadership positions in Citibank. He was also the president and Chief Executive Officer of the Philippine National Bank from 2010 to 2011.

*Extensive and strategically located banking infrastructure and network*

The Bank has an extensive and strategically located branch network throughout the Philippines. As of 30 September 2024, the Bank, inclusive of Rizal Microbank (**RMB**), had the seventh largest branch network in the Philippines (excluding Government-owned and foreign banks), with a nationwide network of 463 branches, including four extension offices nationwide, supplemented by 8,495 ATMs (including ATM Go terminals). In addition, through the Bank's various remittance services, the Bank had an approximate 5 per cent. market share in OFW remittances as of 30 September 2024. These remittance services include, *inter alia*, RCBC TeleCredit, which allows OFWs to have their remittances credited directly to accounts with the Bank and other local banks, and RCBC TeleDoor2Door, which allows cash to be delivered via courier directly to the beneficiary's given address. In addition, the Bank has tie-ups in the Asia Pacific region in countries such as Hong Kong, Japan, Malaysia, Brunei, Singapore and Australia as well as in the European region, specifically in Greece.

*Use of technology as a differentiator*

The Bank uses investments in technology to continually improve service to its clients. In 2009, the Bank acquired the Finacle Core Banking Solution from Infosys to transform its IT landscape from the traditional mainframe legacy system to a more agile and open platform. The new core banking system covers, among others, deposits, loans, customer relationship management, trade finance, payments and fund transfers, and cheque processing. The new platform went live in May 2012. The Bank has also developed technologically innovative products such as the MyWallet Card electronic stored value card in 2017 (which gives customers a convenient and safe way to shop, check their accounts and perform many other transactions domestically and internationally in a single ATM-sized card). The Bank expanded the channels of distribution of the MyWallet Card through tie-ups with Mercury Drug, LBC Express Inc., Super 8 Grocery Warehouse and 7-Eleven. In addition, the Bank implemented digital channels, including online banking (retail and corporate) and a banking chatbot, to increase its reach to customers and promote cross-selling opportunities. In 2023, RCBC launched the new RCBC Pulz app, designed to power up users' growing demand through its unique features, speed and efficiency. In November 2023, RCBC also launched RCBC Boz, which is an all-in app for small business owners, allowing them to prepare e-invoices, manage payroll, organise transactions, set budgets and financial goals, and conduct fund management.

***The Bank has implemented digital capabilities backed up by data science into its business.***

RCBC's Digital Enterprise and Innovations Group continues to build on the digitalisation groundwork laid by its predecessor, streamlining programs and making them more collaborative, encouraging cooperative competition among its members and other industry players, while aligning the Bank's goals with that of the BSP. All of these efforts are directed to deliver the Group's goal of customer-centric, personalised and inclusive digital finance products and services. Since its inception, the Bank's Digital Enterprise and Innovations Group has been continuing to accelerate the Bank's digital transformation.

In July 2020, as part of its commitment to further promote financial education and digital literacy, the Bank launched DiskarTech, its Taglish and Cebuano digital bank and financial inclusion app. This pioneering initiative is the Philippines' first Taglish inclusion mobile app. DiskarTech is a secure and hassle-free digital bank account for every Filipino, with all the basic financial services Filipinos need, such as savings, transfers, withdrawals and deposits, bills payment, insurance and telemedicine at competitive prices. Aside from these financial features, DiskarTech also introduced microloans among other innovative services. As of 30 September 2024, DiskarTech has approximately 3.9 million users with more than 70,000 new users in 2024.

In December 2021, RCBC expanded the features of its online banking platform to allow clients to manage their investment management account online. This makes RCBC the first bank in the Philippines to offer a complete end-to-end digital Unit Investment Trust Funds (**UITF**) experience from enrolment to redemption within its main online platform.

RCBC Digital, the Bank's premier mobile banking app for the mass affluent, allows the Bank's credit card holders to convert any recent transaction into instalment terms of 3 to 36 months, and also to use their credit card to pay bills on-demand, while offering other services such as person-to-merchant payments using the Philippines' National QR code standard, in-app UITF placement, mobile check deposits and the Philippines' first digital concierge, among others.

Both DiskarTech and RCBC Digital allow customers who pay bills to enrol in auto-charge.

Additionally, ATM Go is the first and only mobile Automated Teller Machines (**ATMs**) enabled by a POS terminal. The Bank designed ATM Go to be the accessible neighbourhood ATM which allows the Bank to service customer needs in far flung areas where a full branch cannot be present. ATM Go provides customers with the functionalities of an ATM (account inquiry, bill payments, fund transfers, cash in and cash out) and enables customers to do their banking transactions outside the regular business centres and ATMs, conveniently through the Bank's partner merchants right within their very own communities. As of 30 September 2024, the Bank has a total of 8,046 ATM Go terminals.

In August 2023, the Bank launched the newest mobile banking app for retail clients, RCBC Pulz. The app's digital features are supported by an artificial intelligence-based cross-selling and upselling process that prioritises customer lifecycle value. One of its features is its strong focus on security, utilising advanced technology and multiple security checks for safe financial transactions. RCBC Pulz also allows customers to open an account anytime and anywhere, without a minimum balance requirement. Customers can perform various banking tasks, such as depositing or withdrawing money using QR codes, depositing local checks just by taking a photo, and directly transferring funds locally or abroad, with a digital concierge service.

The Bank is in the process of migrating to its digital platforms and digitising its core products to make them more accessible to customers, supporting the BSP's twin goals of financial inclusion and digital acceleration.

The Bank also has a dedicated data science team, enabling the Bank to leverage customer data for cross-selling opportunities.

**Strategies**

The Bank aims to continue to grow its core business lines through the execution abilities of its experienced and revitalised management team, deepening relationships in the current markets that it services and expanding to selected new market segments through new and innovative products and an expanded distribution platform that will service the customers' wide range of needs.

The key elements of the Bank's strategy are as follows:

***Increase earnings by growing its fee-based income, increasing profitability from existing customers and increasing volumes of low-cost current accounts and savings accounts with a focus on consumer, SMEs, the middle market and the microfinance sector***

The Bank will remain focused on growing its corporate lending, consumer lending, middle market business and microfinance business throughout the Philippines. The Bank aims to increase its fee-based income from corporate, consumer and investment banking businesses, trust banking and bancassurance products, and by growing its credit card business. The Bank plans to increase deposit volume by growing the customer base through various initiatives across different segments. Specifically, the Bank aims to target 700,000 (RCBC Online Banking for Retail enrolment and digitally onboarded new accounts) customers transacting through electronic channels and aggressively target retail depositors by offering ATM-based products. The Bank aims to continue to build up its loan portfolio by actively pursuing opportunities in growth industries and refinancing activities as well as loan syndications in the corporate market. It also intends to capitalise on the various alliances forged with several Japanese and Chinese banks by offering products and services to multinational corporate clients while expanding capabilities with the transfer of technologies and best practices. In addition, strong focus will be given to building a strong consumer franchise inclusive of a large consumer credit portfolio. The Bank intends to increase its relationships in the growing middle market and microfinance market and further improve credit and portfolio quality through improved risk management capabilities. The SME market is a focus for the Bank with its attractive margins and potential for cross-sell income such as from cash management and transactional fees. In the microfinance market, the Bank acquired JP Laurel Rural Bank in Batangas and Merchants Bank in Mindanao to pursue micro-lending operations. The Bank intends to continue to seek opportunities to acquire other existing financial institutions with the view to expanding its lending base to cover the lower end of consumer lending in the Philippines.

***Further expand the Bank's existing branch network while enhancing the effectiveness of the distribution network through the introduction of more electronic channels and marketing campaigns***

The Bank will continue to consider acquisition opportunities, particularly focusing on well-managed mid-sized banks and thrift banks which may enable the Bank to increase its resource base and expand its branch network and reach in a cost-efficient manner. In addition, the Bank is emphasising the segregation of functions within branches to allow for greater focus on particular products. In order to coordinate this and to increase its efficiency, the Bank intends to continue developing technologies that will centralise the coordination and selling efforts of its branch network. To improve its distribution network, the Bank has focused on a strategic expansion of ATM Go and other multifunction ATMs with moderate growth in areas where needed. As of 30 September 2024, the Bank has a total of 8,046 ATM Go terminals, with a target to expand this to 10,000 ATM Go terminals by the end of 2025. This will be supplemented by the development of electronic channels that will serve key needs of clients without going to a branch. In addition, the Bank will focus on improving its delivery channels via internet and mobile banking. The Bank believes that the utilisation of more electronic channels will contribute to a reduction of operating costs per customer even as the Bank serves a much larger customer base.

The Bank plans to expand the network of its Mini-POS and Cash Express terminals that will enable its customers to conduct simple banking transactions at partner merchants. The Bank believes that this will provide its customers with flexibility and accessibility, especially those who reside in far-flung areas. The Bank revamped its brand and launched its tagline "Partners Through Generations," as a serious commitment to keeping its relationship with its clients and their families strong and enduring. The Bank believes that, to cater to and anticipate the needs of different generations, it has to continuously innovate and future-proof itself. Hence, it made innovation a key performance metric in many of its business groups.

***Increase cross-selling to existing customers and further generate fee-based income***

The Bank plans to expand its business with existing customers through active cross-selling of an increasingly broader suite of products and services through the Bank's extensive distribution platform. While the Bank's branch network mainly provides traditional banking services, the Bank continues to train and develop its employees to enable them to focus on maximising revenue through the sale of supplementary financial products provided by both the Bank and YGC.

The Bank intends to implement the following strategies to increase its fee-based income from the following products and services:

- Retail banking – Grow its client base, including prepaid customers (MyWallet), and increase the number of transactions such as bill payment and purchases;
- ATM – Increase its ATM (including ATM, ATM Go and mini ATM (MPOS, cash express) terminals) to branch ratio;
- SME – Develop relationships with SME clients to increase its cross-selling activities in relation to cash management, consumer loans and insurance products, among others;
- Asset management/investment – Grow its wealth management business; and
- Investment banking – Build a steady pipeline of debt and equity deals for underwriting and financial advisory.

***Focus on product development***

In order to stay ahead of competitors and attract customers within the age group which is most populous in the Philippines, the Bank intends to focus on product development, including enhancing its electronic business solutions, to support the customers' requirements by adding more features to the Bank's internet banking platform and ATMs and advancing the Bank's mobile banking to further generate fees. In addition, the Bank intends to strengthen its focus on providing a wider range of services to non-resident Filipinos with the introduction of products particularly tailored and branded to satisfy their requirements. These products and services include consumer loans, deposits, investment services, credit and cash cards, bills payment services, online and phone remittance, and money transfer services. The Bank will continue to expand its presence where there is a high concentration of non-resident Filipinos.

***Manage cost and increase operation efficiency***

In addition to increasing revenue and cost management, the Bank also intends to seek ways to reduce its operational costs. One key component of the Bank's cost reduction is to continue implementing steps to accelerate the recovery of its NPAs. The Bank intends to continue the active disposal of NPAs in several ways, including (a) intensified measures for collection, foreclosure, restructuring and debt for asset swaps, (b) enhancement of the Bank's property information database, (c) improvement of systematic enforcement of ownership control of assets, (d) introduction of measures to ensure the cost-effective administration of properties, and (e) clearly defined financial exit strategies for certain groups of assets. As the Bank invests in new technology systems, operations and procedures are expected to be streamlined. The Bank expects such systems to provide support that will increase the capacity of the Bank to process more transactions in less time and with less cost per transaction given the higher volumes.

***Attract and retain skilled and experienced personnel and prioritise organisational development to optimise the Bank's human capital***

The Bank seeks to strengthen its ability to attract and retain skilled and experienced personnel in order to serve clients better. Given the fast-changing environment that the Bank operates in, the Bank is making a conscious effort to continuously focus on management and skills training by conducting and facilitating internal and external training programmes and developing technology-based tools to help increase employee efficiency.

### Business

The Bank is a universal bank that offers a wide range of commercial, retail and corporate banking products and services. The principal products and services of the Bank and its subsidiaries and associates include traditional loan and deposit products, treasury, investment banking, cash management and credit card services. These businesses are categorised into six operating groups: Retail Banking, Corporate Banking, SME Banking, Treasury Group, Consumer Banking and Global Transaction Banking.

For financial reporting purposes, the Treasury Group includes Trust and Investments up until 31 December 2023, and the "Others" business segment includes the Global Transaction Banking and Consumer Banking.

The following table sets out the income (before tax and minority interest income) of the Bank's divisions and as a percentage of the total net profit (before tax and non-controlling interest) for the years indicated.

| | For the year ended 31 December | | | | | | For the nine months ended 30 September | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2023 | | 2024 | |
| (in ₱ millions, except percentages) | Amount | Per cent. | Amount | Per cent. | Amount | Per cent. | Amount | Per cent. |
| Retail Banking .......................... | 1,683 | 21.54 | 7,865 | 57.63 | 11,124 | 82.31 | 11,347 | 127.98 |
| Corporate Banking .......................... | 9,052 | 115.87 | 14,863 | 108.90 | 21,398 | 158.34 | 14,947 | 168.59 |
| SME | 3,689 | 47.22 | 2,745 | 20.11 | 3,130 | 23.16 | 3,341 | 37.68 |

| | For the year ended 31 December | | | | | | For the nine months ended 30 September | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2023 | | 2024 | |
| Treasury Group[1] .......................... | 4,102 | 52.51 | 4,519 | 33.11 | 3,850 | 28.49 | 790 | 8.91 |
| Others .......................... | -10,714 | -137.15 | (16,344) | (119.75) | (25,988) | (192.30) | (21,559) | (243.16) |
| Total profit before tax and non-controlling interest .......................... | 7,811 | 100.00 | 13,648 | 100.00 | 13,515 | 100.00 | 8,866 | 100.00 |
| Tax Expense (Income) | (728) | -9.32 | (1,568) | (11.49) | (1,298) | (9.60) | 2,651 | (29.90) |
| Non-controlling interest in net profit .......................... | (1) | -0.01 | 0 | - | 1 | 0.01 | - | - |
| **Net Profit** ....... | **7,083** | **90.67** | **12,080** | **88.51** | **12,217** | **90.40** | **6,215** | **70.10** |

(1) After the spin-off of RTC in January 2024, Trust and Investments are not included.

### Retail Banking

The RBG consists of branches offering a wide range of products and services to the Bank's various customers. For the years ended 31 December 2021, 2022, 2023 and the nine months ended 30 September 2024, the RBG accounted for 21.54 per cent., 57.63 per cent., 82.31 per cent. and 127.98 per cent. of the Bank's consolidated income before tax, respectively. As of 30 September 2024, the RBG operated through 438 branches and two extension offices.

The Bank continues to broaden its reach in the retail, SME, and corporate markets, as it capitalises on its strategically located business centres, 8,495 ATMs (including ATM Go terminals) nationwide as of 30 September 2024 and efficient electronic channels.

The RBG is at the forefront of this effort. While providing high-quality service, its business centres intensified customer penetration with a diverse set of product offerings, including traditional deposits, consumer loans, SME business loans, trust and treasury investment products, credit cards under the *Bankard* brand, and bancassurance protection products, such as life and non-life insurance products of Sunlife-Grepa and Malayan Insurance Co., Inc. (**Malayan**), respectively.

Through collective and collaborative efforts among various units of the Bank, the RBG continues to enhance and innovate both product offerings and service delivery. The Bank's Super Value Checking Account bundles the accessibility of a checking account, the convenience of a savings account and the benefits of a tiered interest-bearing account. The eWoman Checking Account provides all of these advantages as well as other features focusing on the needs of female clients.

The Bank also recognises technology as a tool and channel to meet the needs of its customers. The Bank is present on social media such as Twitter and Facebook and continues to improve electronic banking channels through, among others, online banking (retail and corporate) and investment into technology such as RCBC Digital, RCBC Pulz, ATM Go and DiskarTech.

In 2023, CASA deposits grew by ₱36 billion or 14 per cent. year-on-year attributable to, *inter alia*, the launch of Hexagon Club Priority, which offers personalised service, expert and tailored advice, exclusive perks and privileges reserved for high-value customers with at least ₱1 million in average minimum daily balance in CASA deposits, Access Payroll Program which offers seamless employee payroll solutions, and Businesseries, which is a knowledge and networking platform for existing and potential business owners and SME clients to gain valuable insights on financial management and industry trends.

***Bancassurance***

Previous BSP regulations on cross-selling required that banks shall only cross-sell financial products of a regulated entity belonging to the same financial conglomerate. A bank is required to make an investment of at least 5 per cent. in an insurance company to allow it to enter into a bancassurance business and widen its product offering to include life and non-life insurance products. On 1 August 2014, the Monetary Board approved BSP Circular No. 844 outlining the guidelines for the cross-selling of collective investment schemes (**CIS**) and amendments to certain provisions of the Manual of Regulations for Banks (**BSP MORB**) as provided under BSP Circular No. 801. Under BSP Circular No. 844, simple insurance products such as traditional life, non-life and other similar protection-type insurance products, except variable insurance contracts, governed by the Insurance Code of the Philippines (the **Insurance Code**) may be cross-sold inside bank premises regardless of whether the financial product provider belongs to the same financial conglomerate or not. However, the cross-selling of CIS of financial product providers must belong to the same financial conglomerate. These include financial providers such as mutual funds registered by the Philippine SEC, UITFs authorised by the BSP, and variable unit-linked life insurance policies as governed by the Insurance Code or under the relevant rules and regulations as may be issued by the Insurance Commission of the Philippines. On 28 November 2022, the BSP issued Circular No. 1160 which serves as the Regulations on Financial Consumer Protection to Implement Republic Act No. 11765, known as the “Financial Products and Services Consumer Protection Act”. The Circular provides that the mandatory cooling-off period prescribed by the Insurance Commission on the insurance products being sold shall apply to bancassurance businesses.

*Share swap with MICO Equities, Inc.*

On 1 March 2010, the Bank purchased a 5.6 per cent. equity interest in MICO Equities, Inc. (**MICO**), YGC’s holding company for its non-life insurance business, through a swap of 41,993,389 common shares of the Bank in exchange for 169,059 shares in MICO. This share swap allowed the Bank to enter into a bancassurance partnership with MICO’s subsidiary, Malayan. Under this partnership arrangement, Malayan’s insurance products may be sold through the Bank’s branch network throughout the Philippines.

*Bancassurance partnership with Grepalife*

In October 2009, the Bank sold one million shares in Great Life Financial Assurance Corporation (**Great Life**), representing 20 per cent. of the total outstanding shares of Great Life, to Great Pacific Life Assurance Corporation (**Grepalife**). This sale facilitated the merger of Great Life and Grepalife, thereby allowing Grepalife to enjoy the benefits of a stronger company with economies of scale, a wider customer base and market reach. The Bank has a 5 per cent. interest in Grepalife and, through such ownership, retained its bancassurance partnership with Grepalife. The merger of Great Life into Grepalife allowed the Bank to continue to grow its bancassurance partnership with a more effective and bigger Grepalife.

*Bancassurance relationship with Sun Life Financial*

In February 2011, Sun Life Financial announced that it had entered into an agreement with GPL Holdings, Inc., a member of YGC, to acquire a 49 per cent. equity interest in Grepalife Financial, Inc., which resulted in the creation of a restructured entity, Sun Life Grepa Financial, Inc. The new joint venture entity allowed Sun Life Financial Philippines to form a bancassurance relationship with the Bank and provide protection products to the Bank’s clients nationwide. Pursuant to the agreement, Sun Life Grepa Financial, Inc. entered into an exclusive distribution agreement with the Bank, which gave rise to a line of insurance products that have been made available to the Bank’s customer base through its branch network. The transaction received regulatory approval in February 2012.

**Corporate Banking**

As at 30 September 2024, the CBG accounted for ₱284.9 billion (U.S.$5.1 billion) or approximately 50 per cent. of the Bank's loan portfolio. For the years ended 31 December 2021, 2022, 2023 and the nine months ended 30 September 2024, the CBG accounted for 115.87 per cent., 108.90 per cent., 158.34 per cent. and 168.59 per cent. of the Bank's consolidated income before tax, respectively. The CBG provides its corporate customers with a wide range of banking products and services, including deposit products, cash management services, revolving credit lines, medium- and long-term loans, project finance loans, foreign currency loans, trade-related financing, payment remittances and foreign exchange transactions. The CBG caters to three customer segments: (i) large corporations which play a major role in both the local and global economy; (ii) Japanese multinationals with a strong presence in the Philippines; and (iii) Filipino-Chinese businesses. The Bank also has an established track record of servicing clients in SEZs.

The Bank believes the corporate market will remain a growth area. To further enhance relationships with large corporate clients, assistance in the form of loans has also been offered to key suppliers, distributors, and other business partners of these clients under the Bank's supply chain financing programme. Many of the CBG's corporate clients are included in the list of the "Philippines' Top 1000 Corporations" published annually by BusinessWorld.

The Bank provides corporate lending and cash management services to Japanese entities operating in the Philippines, of which many have maintained a long relationship with RCBC. A number of these relationships were established through its previous affiliation with UFJ. The Bank believes that it has established a strong reputation among Japanese entities and that it will continue to be competitive in this sector following SMBC's acquisition of a 20 per cent. stake in the Bank. CBG continues to defend its Japanese market presence while takings actions to build up market share for Korean and other foreign entities in the ecozone areas. Steps taken to achieve these include engaging in a business cooperation agreement with Resona Bank, The Shoko Chukin Bank and Kookmin Bank and entering into a capital alliance with SMBC.

The CBG also specialises in providing banking services to clients located in SEZs, particularly Japanese clients. SEZs, or "ecozones", are independent communities within the Philippines that administer their own economic, financial, industrial and tourism development. Companies that operate within SEZs receive certain tax benefits and must meet certain standards of operations. As of 30 September 2024, there were 78 active operating manufacturing SEZs in the Philippines according to the Philippine Economic Zone Authority, and the Bank has established 48 branches within the area of certain SEZs to better serve its customers.

CBG is also a leading provider of corporate banking services to Filipino-Chinese clients focusing on trade finance to finance import requirements. The Bank believes that its membership in YGC, which includes a number of Filipino-Chinese companies, is an asset in attracting and maintaining Filipino-Chinese customers. This is therefore an area in which the Bank will continue to maintain a strong presence.

The short-term credit facilities that CBG provides are principally for working capital. Trade-related credit facilities include foreign and domestic letters of credit and trust receipt lines as well as export advance lines and the discounting of commercial bills. Long-term loans (i.e. those with maturities in excess of one year) are generally in the form of project financing loans. These include loans to finance the construction or acquisition of plant, factories or buildings, the acquisition of equipment and other capital expenditures.

The CBG offers both Peso-denominated and foreign currency-denominated (primarily U.S. dollar) loans. The Bank's policy is to extend foreign currency loans only to exporter customers who have foreign currency revenues or are otherwise hedged. Most of CBG's corporate loans are made on a floating rate basis. The CBG's corporate lending is made on both syndicated and non-syndicated bases.

The Bank also offers products from the Treasury Group to support its corporate clients' increasingly sophisticated needs through funding and hedging products. The CBG has successfully assisted clients in accessing long-term capital via public market offerings and other debt and quasi-equity funding structures.

**SME Banking Group**

After consolidating its SME lending from RBG to CBG, the Bank initiated a five-year business plan in 2008 aimed at strengthening its presence in the SME market. This involved changing the Bank's loan origination and administration processes, strengthening organisation, and using technology to bring the Bank closer to SMEs. The Bank implemented a new screening system for loans, introduced credit scoring, simplified handling of existing accounts and opened additional SME offices around the country, increasing the number of lending centres from four to nine situated in strategic locations throughout the country.

Early notable technology-based product and service innovations, like the self-assessment portals Get-A-Loan website, the Phone-A-Loan program, where SMEs conduct a loan self-assessment prompted by an interactive voice response system, and the Women's Enterprise Loan product, allow it to touch base with more SMEs. These innovations earned the Bank the Best SME Bank for the Philippines awards for two consecutive years (2012 and 2013) and Domestic Technology & Operations Bank for the Philippines (2012), all from Asian & Banking Finance.

Now, at the forefront of the Bank's vision is the implementation of various and enhanced SME credit programmes. These are designed to create an environment in which SMEs can expand their businesses by augmenting working capital requirements, helping them establish a credit track record, and providing advisory assistance on scale optimisation, including for those SMEs looking to develop into large corporations, eventually paving the way for a wider array of suitable off-the-rack business solutions to more SMEs.

One of these programmes is the Small Enterprise Program (**SEP**), which was designed for SMEs with the flexibility of providing for both their short-term and long-term financial needs. Applicable to loan requirements of up to ₱50 million, this programme employs a credit scoring evaluation system that simplifies the onboarding of new customers and accelerates the renewal of existing accounts.

In 2019, the team emerged stronger with the merger of SME teams from RCBC Savings and Universal Bank – SMEBG was formed separate from CBG. 2022 may also be considered a banner year for the group having reached the ₱100 million loan portfolio mark for SMEs. It was also the year the SMEs contributed 20 per cent. of the Bank's portfolio mix.

One of the key strategies of SMEBG is customer acquisition through focused leads, where the group has close ties with clearly defined target markets such as cooperatives and savings associations. This focused marketing resulted in a 23 per cent. increase in new accounts which, as of September 2024, amounted to 537 as compared to the number of new accounts as of December 2023 at 437.

The Bank also launched a new app, "RCBC Boz" during the fourth quarter of 2023. The RCBC Boz app was designed with entrepreneurs, freelancers, and similar clients in mind, helping them to easily keep track and manage their business performance and help them achieve their goals.

The Bank continues to expand its reach in the SME market. As of 30 September 2024, the Bank's total SME market loan portfolio amounted to ₱128.6 billion (U.S.$2.30 billion) or 19 per cent. of the Bank's consolidated total loan portfolio, compared to ₱125.3 billion as of 31 December 2023.

Through these initiatives for the SMEs, the Bank earned both local and international awards for the Bank: the Best SME Banking Brand (2021, by the Global Brands Magazine); Honourable Mention for the Best SME Financier of the Year category (2021, SME Finance Forum); the Best SME Bank Philippines (2022, Global Banking Finance); the Best SME Bank Philippines (2023, Global Banking & Finance, The Digital Banker and Asian Banking and Finance); and the Best SME Bank in the Philippines

(2024, Euromoney, Global Banking and Finance and Asian Banking and Finance Retail Banking Awards).

Today, the SMEBG is composed of seven regional divisions, further broken down into 17 lending centres strategically located across the nation. It has another division dedicated to onboarding of smaller ticket accounts through a simple set of underwriting parameters; and two support divisions focused on business development and business administration. SMEBG employs a holistic approach in helping clients grow their businesses focusing not only on the clients' lending requirements but going beyond by offering bundle products and services in synergy with other groups within RCBC or affiliate companies within the YGC.

**Treasury Group**

The Bank's Treasury Group accounted for 52.51 per cent., 33.11 per cent., 28.49 per cent. and 8.91 per cent. of the Bank's consolidated income before tax for the years ended 31 December 2021, 2022, 2023 and the nine months ended 30 September 2024 respectively.

The Bank's Treasury business posted a 36 per cent. year-on-year increase from 2022 to 2023 in interest income from trading and investment securities. With the launch of the RCBC Pulz app, customers were able to enjoy its powerful features, including buying and selling up to six foreign currencies (U.S. Dollars, Hong Kong Dollars, Euro, British Pounds, Japanese Yen, and Singapore Dollars) in real time. This feature helped boost the Bank's online foreign exchange sales by 24 per cent. year-on-year from 2022 to 2023.

The Treasury Group is comprised of the following.

- The Asset and Liability Management Group is comprised of the Asset Portfolio Management Segment and the Reserves and Liquidity Management Segment. The Asset Portfolio Management Segment handles investment activities and operations geared towards achieving investment revenue targets related to various treasury instruments. The Reserves and Liquidity Management Segment is responsible for ensuring that the Bank has adequate liquidity at all times and provides active support to the Bank's core business strategies in the areas of lending, investments and deposits to maximise the Bank's net interest income.

- The Trading division is tasked to generate trading income in the areas of fixed income, foreign exchange and derivatives.

- The Treasury Sales and Digital Service Delivery Segment is the Treasury Group's marketing arm and works closely with the other divisions and the Bank's business managers to market treasury products and services to clients.

- The Financial Derivatives Solutions Segment develops various derivative products and provides support to the Bank through derivative solutions.

- The Financial Institutions and Support division is responsible for the correspondent banking business, including expanding liability sources and exploring new trade product structures from its relationships with other financial institutions. It also provides non-sales support to the Treasury Group in the areas of regulatory compliance, information systems, records management, business continuity planning and budgeting.

- The Subsidiaries Treasury Risk Positions provides advisory services to the Bank's subsidiaries on, among others, improving its liquidity position and addressing funding gap issues. It is in charge of developing products that will best suit the needs of the Bank's subsidiaries.

### *Total Investment Portfolio*

The following tables set forth, as of the dates indicated, information relating to the Group's total investment portfolio.

| | As of 31 December | | | | | | | | | | | | As of 30 September | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | | | | 2022 | | | | 2023 | | | | 2024 | | | |
| (in ₱ millions) | Book Value | Market Value | Unrealised Gain | Unrealised Loss | Book Value | Market Value | Unrealised Gain | Unrealised Loss | Book Value | Market Value | Unrealised Gain | Unrealised Loss | Book Value | Market Value | Unrealised Gain | Unrealised Loss |
| Governmental securities | 165,981 | 167,920 | - | 1,312 | 275,538 | 255,339 | - | 4,370 | 287,060 | 266,188 | - | 2,883 | 345,633 | 331,296 | - | 455 |
| Other debt securities | 48,089 | 46,816 | 864 | - | 92,079 | 79,702 | - | 2,204 | 37,675 | 35,728 | - | 1,586 | 45,020 | 41,831 | - | 981 |
| **Total debt securities ...............** | **214,070** | **214,736** | **864** | **1,312** | **367,617** | **335,041** | **-** | **6,574** | **324,735** | **301,916** | **-** | **4,469** | **390,653** | **373,127** | **-** | **1,436** |
| Non-debt securities | 5,165 | 5,165 | 809 | - | 6,748 | 6,748 | 1,026 | - | 6,007 | 6,007 | 1,277 | - | 7,447 | 7,447 | 1,387 | - |
| **Total ...........** | **219,235** | **219,901** | **1,673** | **1,312** | **374,365** | **341,789** | **1,026** | **6,574** | **330,742** | **307,923** | **1,277** | **4,469** | **398,100** | **380,574** | **1,387** | **1,436** |

### *Fair Value Through Other Comprehensive Income*

The following table sets forth, as of the dates indicated, information related to the Group's financial assets at fair value through other comprehensive income in accordance with PFRS 9.

| | As of 31 December | | | | | | | | | | | | As of 30 September | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | | | | 2022 | | | | 2023 | | | | 2024 | | | |
| (in ₱ millions) | Book Value | Market Value | Unrealised Gain | Unrealised Loss | Book Value | Market Value | Unrealised Gain | Unrealised Loss | Book Value | Market Value | Unrealised Gain | Unrealised Loss | Book Value | Market Value | Unrealised Gain | Unrealised Loss |
| Governmental securities | 28,682 | 28,682 | - | 1,312 | 53,492 | 53,492 | | 4,370 | 65,962 | 65,962 | | 2,883 | 108,761 | 108,761 | | 455 |
| Other debt securities | 17,412 | 17,412 | 864 | - | 57,822 | 57,822 | | 2,204 | 12,571 | 12,571 | | 1,586 | 14,191 | 14,191 | | 981 |
| **Total debt securities ...............** | **46,094** | **46,094** | **864** | **1,312** | **111,314** | **111,314** | **-** | **6,574** | **78,533** | **78,533** | **-** | **4,469** | **122,952** | **122,952** | **-** | **1,436** |
| Non-debt securities | 3,667 | 3,667 | 809 | - | 3,632 | 3,632 | 3,632 | 1,026 | 3,904 | 3,904 | 1,277 | | 4,011 | 4,011 | 1,387 | |
| **Total............** | **49,761** | **49,761** | **1,673** | **1,312** | **114,946** | **114,946** | **1,026** | **6,574** | **82,437** | **82,437** | **1,277** | **4,469** | **126,963** | **126,963** | **1,387** | **1,436** |

### *Financial Assets at Fair Value Through Profit or Loss*

The following table sets forth, as of the dates indicated, information related to the Group's financial assets at fair value through profit or loss.

| | As of 31 December | | | | | | | | | | | | As of 30 September | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | | | | 2022 | | | | 2023 | | | | 2024 | | | |
| (in ₱ millions) | Book Value | Market Value | Unrealised Gain | Unrealised Loss | Book Value | Market Value | Unrealised Gain | Unrealised Loss | Book Value | Market Value | Unrealised Gain | Unrealised Loss | Book Value | Market Value | Unrealised Gain | Unrealised Loss |
| Governmental securities .................. | 4,330 | 4,330 | - | - | 3,883 | 3,883 | - | - | 9,647 | 9,647 | - | - | 10,428 | 10,428 | - | - |
| Other debt securities .................. | 35 | 35 | - | - | 38 | 38 | - | - | 28 | 28 | - | - | 19 | 19 | - | - |
| **Total debt securities ..................** | **4,365** | **4,365** | **-** | **-** | **3,921** | **3,921** | **-** | **-** | **9,675** | **9,675** | **-** | **-** | **10,447** | **10,447** | **-** | **-** |
| Non-debt securities .................. | 1,498 | 1,498 | - | - | 3,116 | 3,116 | - | - | 2,103 | 2,103 | - | - | 3,436 | 3,436 | - | - |

| | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total** .................. | **5,863** | **5,863** | **-** | **-** | **7,037** | **7,037** | **-** | **-** | **11,778** | **11,778** | **-** | **-** | **13,883** | **13,883** | **-** | **-** |

### *Amortised Cost*

The following table sets forth, as of the dates indicated, information related to the Group's financial assets at amortised cost in accordance with PFRS 9.

| | **As of 31 December** | | | | | | | | | | | | **As of 30 September** | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2021** | | | | **2022** | | | | **2023** | | | | **2024** | | | |
| (in ₱ millions) | **Book Value** | **Market Value** | **Unrealised Gain** | **Unrealised Loss** | **Book Value** | **Market Value** | **Unrealised Gain** | **Unrealised Loss** | **Book Value** | **Market Value** | **Unrealised Gain** | **Unrealised Loss** | **Book Value** | **Market Value** | **Unrealised Gain** | **Unrealised Loss** |
| Governmental securities .................. | 132,969 | 134,908 | - | - | 218,163 | 197,964 | - | - | 211,451 | 190,579 | - | - | 226,444 | 212,107 | - | - |
| Other debt securities .................. | 30,642 | 29,369 | - | - | 34,382 | 21,842 | - | - | 25,237 | 23,129 | - | - | 30,941 | 27,621 | - | - |
| **Total debt securities** .................. | **163,611** | **164,277** | **-** | **-** | **252,382** | **219,806** | **-** | **-** | **236,527** | **213,708** | **-** | **-** | **257,385** | **239,728** | **-** | **-** |
| Non-debt securities .................. | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total** .................. | **163,611** | **164,277** | **-** | **-** | **252,382** | **219,806** | **-** | **-** | **236,527** | **213,708** | **-** | **-** | **257,385** | **239,728** | **-** | **-** |

## Consumer Banking

The Bank's Consumer Banking Group provides mortgage loans and auto loans and issues credit cards. The Bank's branches provide promotional materials on consumer loans, credit cards and insurance products.

On 24 September 2018, the Bank's Board of Directors approved the merger of RSB into the Bank, so as to more efficiently deploy capital and comply with the Basel III liquidity ratios, and to ensure medium-term improvement in the funding economics and operational cost efficiencies. The merger also increases the generation of CASA. The merger, with the Bank as the surviving entity, became effective on 22 July 2019 following receipt of stockholders' and regulatory approvals.

### *Residential Mortgage Loans*

The Bank's residential mortgage loans have a term of one to 30 years with loan amounts averaging ₱3,500,000. Residential mortgage loans are secured by a first mortgage on the property being purchased. Such loans are insured with the Home Guaranty Corporation (the **HGC**) and may be called upon if the borrower misses payments for six months or more. Residential mortgage loans are typically payable in monthly amortising payments based on market-linked interest rates with terms of one to five years. The Bank may lend up to 80 per cent. of the internally appraised value of the house and lot. The Bank requires borrowers to obtain both fire insurance and mortgage redemption insurance and will generally refer these customers to the Bank's insurance brokerage.

### *Auto Loans*

The Bank provides auto financing to individuals for the acquisition of new and second-hand vehicles as well as general purpose loans secured by customer's vehicles. As of 30 September 2024, the Bank had ₱57 billion (U.S.$1.02 billion) in auto loans. The Bank's auto loans are typically in the amount of ₱1,100,000 and for terms of between 48 and 60 months on average. The minimum and maximum terms are 12 and 60 months, respectively. The applicable interest rate is generally fixed with an amortising repayment schedule over the term of the loan. The Bank also typically lends up to 80 per cent. of the value of a new car. For second-hand vehicles, the Bank lends up to 80 per cent. of the appraised value or selling price (whichever is lower).

The Bank's auto loans are generated from car dealerships and independent sales agents, and sourced internally through branch referrals, walk-in clients and refinancing. The Bank also provides economic incentives to car dealerships and independent sales agents based on each approved auto loan amount.

All of the Bank's auto loans are secured by a first legal charge over the cars being purchased. In addition, the Bank generally requires car buyers to make a minimum down payment of 20 per cent. of the purchase price. The interest rates of the Bank's auto loans are competitive and range from 8.0 per cent. to 10.0 per cent.

The Bank's policy towards foreclosure proceedings on auto loans is more conservative than that typically followed in the Philippine banking industry. The Bank commences foreclosure proceedings when an instalment payment falls past due for 90 days, as opposed to 121 days for most banks. It generally takes between five to eight months from the past due date to foreclose on the car, which is then sold through a public auction.

### *Personal and Salary Loans*

The Bank offers personal loans and salary loans. Personal loans are offered to prospective customers who apply on an individual basis, while salary loans are offered by the Bank through the respective companies at which customers are employed.

The Bank offers unsecured personal loans in amounts from ₱20,000 to ₱10 million. As of 30 September 2024, the average amount of unsecured personal loan is at ₱1 million. Payment is through issuance of post-dated cheques or automatic debit arrangement. Salary loans, which are only offered through accredited companies and by way of salary deduction, range from ₱10,000 to ₱2 million with an average of ₱100,000 as of 30 September 2024.

As part of the Bank's commitment to innovation and digitalisation, personal and salary loans are now also available through digital means. The Bank now carries four digital loan products, namely Payday NOW, Salary Loan NOW, Digital Personal Loan and Pasado, which aim to meet customers' funding needs in a fast, simple, and reliable manner. Payday NOW and Salary Loan NOW are available to prequalified payroll clients of the bank while Digital Personal Loans are available to prequalified depositors and housing loan clients of the bank. These loan solutions are offered via RCBC's Pulz app. Pasado is a digital loan that aims to onboard new-to-bank customers and is offered through Diskartech.

### *Deposit Products*

The Bank provides its customers with a variety of deposit accounts, including non-interest-bearing demand deposits, interest-bearing combinations of cheque book and savings accounts (including savings accounts, checking accounts, time deposits and premium time deposits), and fixed and floating rate savings accounts. In addition to offering conventional deposit products, the Bank offers a variety of special value-added products and services, thereby increasing product offerings and providing greater convenience for customers, including products tailored for OFWs and their beneficiaries who remain in the Philippines and U.S. dollar time deposits.

With total deposits of ₱990 billion (U.S.$17.7 billion), the Bank ranked fifth in terms of total deposits as of 30 September 2024, based on published statements of financial position.

### *Microfinance thru Rizal Microbank, Inc. – A Thrift Bank of RCBC*

Rizal Microbank (**RMB**) is the thrift banking arm of RCBC that is focused on providing financial products and services to the "bottom of the pyramid", specifically the entrepreneurial segment of the microenterprise sector. Over 90 per cent. of households still remain unbanked and underserved, thus providing Rizal MicroBank with a huge potential market for its financial products and services which it aims to tailor to its target market. Since its activation in 2010 by way of offering microfinance products and services, Rizal Microbank has expanded upward to serve also the sub-small enterprise segment or the so-called "missing middle" – comprised of small entrepreneurs whose loan requirements put them above microfinance and whose financing requirements are below the lending floor of small and medium enterprise loans. In addition to its focus on the micro and sub-small enterprise segments, and to further advance financial inclusion, in 2015, Rizal Microbank introduced in 2015 agricultural loans using the value chain finance framework/approach. The agricultural loan products seek to provide financing to agricultural value chain participants such as traders, consolidators, aggregators, and processors who create something out of farmers' produce and bring them into the market in the Philippines and abroad. This foray into agricultural lending through the value chain financing framework/approach aims to provide the Bank deeper insights into the agriculture sector and allow it to design and offer financial products and services specifically customisable to farmers engaged in various production activities. RCBC and Rizal Microbank are pursuing this initiative since most unbanked and underserved Filipinos are found in rural and farming areas of the country.

As of 30 September 2024, the outstanding core loans portfolio of RMB (comprising micro and small business loans) stood at ₱1,176.13 million (U.S.$21 million), with 2,854 active borrowers. As of 30 September 2024, RMB had outstanding deposits of ₱892.53 million (U.S.$15.93 million), with a total of 22,749 accounts.

The acquisition by the Bank of JP Laurel Rural Bank and Merchants Bank enabled it to utilise JP Laurel Rural Bank's branch network in Batangas (in the Luzon region) and Merchants Bank's branch network in Mindanao to expand its micro-lending operations. In 2012, the Bank integrated its microfinance operations in Luzon and in Mindanao under Merchants Bank and rebranded it as RMB. In 2013, the Bank opened its first micro-banking office in Lipa City, Batangas. In 2016, the Bank relocated two of its RMB branches from Luzon to Cebu to start its foray in the Visayas region.

RMB became profitable in 2018 and sustained profitability in 2019 but suffered losses in the next two years (2020 and 2021) as the COVID-19 pandemic severely impacted its micro and small enterprise clients, considered vulnerable segments of society. RMB registered a net loss of almost ₱90 million (U.S.$1.76 million) in 2020 due to higher loan loss provisioning and reduction in loan volume. In 2021, RMB still registered a net loss, but it was reduced to almost ₱10 million (U.S.$0.18 million) with better portfolio and fund management as well as cost-cutting measures.

RMB aims to be the financial partner of choice for micro and small entrepreneurs. As of 30 September 2024, RMB operates nationwide with a total of 16 branches and 7 branch lite-units. RMB's goal is to offer customer-centric, innovative products that make financial services more accessible and convenient for Filipinos. To achieve this key objective, RMB leverages three business units or channels that will drive RMB's continuous growth: (i) the existing branch network, (ii) branch-lite units, and (iii) value chain financing program. While these lending groups handle loan marketing, origination, and processing, they receive support from the Credit Management Department to maintain robust credit policies, as well as from the Corporate Planning and Strategic Partnerships group to establish linkages and partnerships that enhance financial access for organisations and their members in rural areas.

Complementing the traditional distribution network of RMB is its agency banking program called Bangko ng Bayan. RMB further expanded the program following successful migration in October 2019 to a new core banking system that is cloud-based, adopting a software as a service model and the grant in 2020 of an Electronic Payment and Financial Services licence by the BSP. RMB's agency banking program continues to harness existing and new partnerships with barangay-based merchants to facilitate on-boarding of the unbanked and underserved population to provide them a transaction account via the bank's Pangarap Savings (basic deposit account product). In addition, merchant-partners also facilitate the conduct of financial services such as deposits and withdrawals of basic deposit and ordinary savings account holders, bill payments, and referral for loans and micro-insurance. The initiative has been pursued to improve the distribution network of RMB without incurring large capital and operating expenditures while at the same time, working towards achieving the government's goals under the national strategy for financial inclusion.

***Credit Card Operations***

Since acquiring substantially all of the assets of Bankard, Inc. (**Bankard**) in December 2006, the Bank has been conducting credit card operations at the parent company level. Under the terms of the acquisition, the Bank acquired, among other things, ₱7.2 billion of credit card receivables and certain building units. The consideration for the sale included the assumption of certain liabilities and the set-off of certain debts owed by Bankard. Following the sale, RCBC wrote off ₱2.6 billion of credit card receivables acquired from Bankard against allowances for impairments.

Bankard and the Bank have entered into a services agreement pursuant to which the Bank outsourced the servicing of its credit card business to Bankard. These services include marketing, distribution, technical, collection, selling assistance and processing services. On 18 October 2013, the Board of Directors approved the sale of its 89.98 per cent. collective stake in Bankard, Inc. to RYM Business Management Corp. together with other investors. In view of the change in ownership and management, the credit card operations of the Bank were transferred from Bankard to RCBC Bankard, a wholly-owned subsidiary of RCBC Capital Corporation (**RCBC Capital**), effective 16 December 2013.

The Bank is engaged in two principal credit card activities: card issuing and merchant acquiring. The Bank derives income from annual fees charged to cardholders, transaction commissions from merchants, fees on cash advances and interest income on outstanding card receivables, currently at the rate of 3.0 per cent. per month and, on penalties for past due accounts, ₱850.00 per month or the amount due, whichever is lower. Annual cardholder fees range from ₱360 to ₱6,000. The interest rates on deferred and instalment payments range from 7.08 per cent. to 12.0 per cent. per annum. The total amount of cash advance is limited to 30.0 per cent. to 50.0 per cent. of the credit limit with a cap of ₱100,000 to ₱250,000, respectively. Interchange fees range from 0.25 per cent. to 2.0 per cent. Funding for the Bank's credit card operations is provided by a combination of internally generated funds and retained earnings.

*Credit Card Issuance*

The Bank has been licenced by each of Visa International, Mastercard International Inc., Japan Credit Bureau and UnionPay International to issue credit cards under each respective brand. Based on the Credit Card Association of the Philippines' industry report, RCBC Bankard was the fifth largest credit card brand in the Philippines in terms of issuing billings and receivables and sixth in terms of active card base as of 30 September 2024. The Bank's strategy is to continue to grow the credit card portfolio and drive profitable growth for the credit card business enabled by digitalisation and better customer experience.

As a necessary support to credit card issuance, the Bank offers its customers an "Interactive Voice Response System", a customer hotline service through a call centre operated 24 hours a day seven days a week, online statement of account viewing and statement fax-on-demand, all free of charge. In addition, the Bank also launched the Electronic RCBC Credit Cards Interactive Customer Assistant (also known as RCBC Virtual Assistant). This tool enhances the social media messaging platform for customer service by assisting customers with various tasks, including account inquiries, card activation and communication of card promotions.

In 2023, the RCBC Pulz app was launched, which enables customers to maintain control over their personal finances and manage their cards in a smarter, safer, easier and more secure way. Its growing popularity among customers helped boost the Bank's credit card transactions and reduced the cost-to-serve of the growing credit card customer base.

As of 30 September 2024, total outstanding credit card balances amounted to ₱98.4 billion (U.S.$1.8 billion). The delinquency rate on balances overdue for more than 30 days was 5.05 per cent. as of 30

September 2024. In August 2003, the BSP issued Circular No. 398 under which credit card companies were required to move from measuring delinquencies by bucketed aging, which classifies outstanding balances depending on when the balance becomes due, to accelerated aging whereby all the receivables from a single cardholder are aged-based on the longest dated overdue charge, even if there are other charges for such account which may not be overdue.

The following table sets out certain information on RCBC Bankard's credit card operations as of and for the periods indicated.

| | As of and for the year ended 31 December | | | For the month ended 30 September |
|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 |
| | (in ₱ millions, except credit cards outstanding and delinquency ratio)[5] | | | |
| Cardholder fees and commission income | 1,974 | 2,485 | 3,217 | 3,011 |
| Merchant acquirer commissions | 54 | 57 | 88 | 74 |
| Net interest income (loss)[1] | 3,964 | 4,772 | 7,313 | 7,470 |
| Operating income | 3,524 | 4,296 | 6,627 | 6,725 |
| Provisions for loan losses | 3,002 | 2,988 | 3,735 | 3,590 |
| Credit card balances[2] | 34,309 | 49,310 | 73,508 | 96,791 |
| Credit card charge volume[3] | 60,259 | 96,306 | 139,381 | 138,822 |
| Credit card outstanding (in thousands) | 911 | 951 | 1,042 | 1,207 |
| Delinquency rate[4] | 5.9 | 3.2 | 3.5 | 3.5 |

Notes:

(1) Includes financing income net of funding cost.

(2) Includes credit card loans from current to 179 days past due.

(3) Charge volume is equivalent to gross billings of cardholders.

(4) Delinquent balances are those that are overdue for 30 to 179 days. Delinquency rate equals the total delinquent balance divided by total credit card receivables current to 179 days past due.

(5) All amounts are based on the credit card business in the Bank's books (based on simple summation of the amounts).

RCBC Bankard credit cards application are available in all the Bank's branch network, other YGC companies and co-brand partners' outlet stores. RCBC Bankard is also present online via its official website, co-brand's websites, and leading social media platforms. Other acquisition channels include direct sales, telesales, electronic direct mails, sponsorships, events and building blitzes.

*Merchant Acquiring*

As of 30 September 2024, the Bank had relationships with approximately 7,359 head office merchant relationships and 20,354 merchant outlets. For the nine months ended 30 September 2024, the Bank's top 200 merchant relationships or point of sale swiped transactions provided more than 64 per cent. of the Bank's total credit card billings. For the same period, the Bank's acquiring volume and gross merchant discount amounted to ₱28.07 billion (U.S.$500.91 million) and ₱350.24 million (U.S.$6.25 million), respectively.

**Branch Banking**

As of 30 September 2024, the Bank had a total of 463 branches, including four extension offices, of which 439 branches belonged to the Bank and 23 to RMB. As of the same date, the Bank had a total of 8,495 ATMs (including ATM Go terminals). The Bank's branches are connected and networked to the Bank's IT systems and infrastructure located in the Bank's head office. The Bank has consolidated and closed 77 of its branches between July 2020 and December 2024 and plans to selectively expand its branch network through the opening of new branches and the opportunistic acquisition of small- to medium-sized banks with networks that will complement the Bank's existing network. The Bank has endeavoured to transform its branches into effective sales and service channels that will focus on low-cost deposits generation, acquisition of retail customers, and referral of bank and other YGC products. The Bank plans to develop alternative channels aimed at migrating customer transactions from the counter, thereby freeing up branch personnel to concentrate on selling and more value-adding activities. In the medium-term, the Bank seeks to boost other income by offering more fee-based services. Following the BOB Incident (See "*Description of the Bank – Legal Proceedings – Others – Alleged Unauthorised Transfer of Funds – Bangladesh Bank*"), the BSP required the Bank to reform the staffing at its branches by separating sales staff from operations staff with their own separate reporting lines. While such separation has resulted in increased costs arising from the employment of additional branch staff, this has also resulted in opportunities for the Bank as it now has a dedicated team focused on sales efforts.

The following table sets out details of the Bank's branches in the Philippines in operation as of the specified dates (not including extension offices).

| | **As of 31 December** | | | **As of 30 September** |
|---|---|---|---|---|
| | **2021** | **2022** | **2023** | **2024** |
| Metro Manila (incl. Cainta and Taytay) | 170 | 189 | 184 | 184 |
| Luzon | 141 | 151 | 154 | 156 |
| Visayas | 59 | 62 | 60 | 60 |
| Mindanao | 58 | 60 | 60 | 63 |
| **Total** | 428 | 462 | 458 | 463 |
| ATMs | 1,245 | 1,352 | 1,460 | 1,482 |
| Extension offices | 6 | 5 | 4 | 4 |

The Bank provides 24-hour banking services through its ATM facilities, which are located in various branches and at off-site locations, such as client sites to render payroll service, and shopping malls. Customers are given access to the ATM facilities through ATM cards, which are issued to checking and savings account holders. The Bank is a member of the Bancnet ATM consortium, which allows its customers to use the ATMs of other banks in the Philippines and similarly allows other banks' customers to use the Bank's ATM network.

Customer service is further improved through tight management and close monitoring of each branch. The RBG manages the branch network of the Bank. The Bank's management information system monitors each branch's profitability, and each branch accounts for its own expenses and revenues. Branch managers, through their respective area and region heads, regularly communicate with the head of the RBG to discuss branch performance. In addition, each branch is subject to AMLA and a periodic compliance testing is conducted by the Bank's AML department. Branches are also subject to a comprehensive audit conducted by the Bank's Internal Audit Group every 12 to 24 months.

Each of the Bank's branches has electronic security systems and armed guards provided by independent contractors. The Bank also ensures that the amount of cash held in the vaults of its branches is maintained within authorised limits.

## Alternative Delivery Channels

### *Internet and Mobile Banking*

The Bank's internet banking platform was launched in 2006 under the *RCBC AccessOne* brand and subsequently rebranded under the *RCBC Online Banking for Retail* (the **RCBC ROR**) brand in 2016. As of 30 September 2024, more than 1,158,474 clients were enrolled, of which 76 per cent. are active users. The RCBC ROR allows clients to conveniently access and perform various account-related services, including account information queries, fund transfers and bill payments. In 2017, the Bank implemented certain enhancements to RCBC ROR, including the introduction of electronic PINs, a security feature that enables users to lock and unlock their ATM and pre-paid cards or to reload electronic wallets using their bank account with the Bank. The RCBC ROR is also available on mobile devices, allowing the Bank's customers to access their accounts using their iPhone, iPad, iPod touch and/or Android device once they are registered with RCBC ROR. The RCBC ROR application may be downloaded from the Apple App Store and Google Play Store for free.

### *Card Payment Solutions: Debit Cards*

The Bank's digital strategy includes the growth and development of card solutions. In 2017, the Bank's Digital Banking Group launched the MyDebit card powered by MasterCard, which allows clients to access millions of ATMs and merchants locally and worldwide. The Bank's debit product serves a diverse and growing customer base. As of 30 September 2024, the Bank had a total of 2,372,434 debit cardholders with a 26 per cent. incremental increase from 31 December 2023. The same uptrend contribution for transaction volume and value with 27 per cent. and 17 per cent., respectively.

### *Call Centre*

In October 2003, the Bank established a 24-hour call centre, which handles all inbound inquiries for current and savings accounts, as well as ATM, remittance and stock transfer services offered by the Bank. The RCBC Contact Centre does not handle credit card products and services, which are handled by the Bankard call centre.

## Global Transaction Banking

The Global Transaction Banking Group has two main businesses under its responsibility: Corporate Cash Management (**CCM**) and Global Filipino Banking. With a broad range of customers, the Global Transaction Banking Group, through the use of technology, local and international tie ups, the Bank's branch network, and through continuous innovations and improvements to its core services, is tasked to deliver the appropriate solutions to its various target markets.

### *Corporate Cash Management*

CCM is tasked to create a whole suite of cash management solutions designed for a broad range of customers from SMEs to large conglomerates. CCM's services can be broadly classified under two main types: collections and disbursements. The Bank's collection services allow SMEs and corporate clients to efficiently collect payments, sales and other amounts due to them using the Bank's different collection facilities and channels. Collection services include bill collection, automatic debit arrangement, post-dated cheque warehousing and deposit pickup. The Bank's disbursement services allow its clients to conveniently and efficiently process their payables using the Bank's automated processing and reconciliation of a client's various payment transactions. Disbursement services include outsourced corporate cheque and manager's cheque printing, payroll services, fund transfers, and government payments. The main channel of delivery and information of its services is the Bank's corporate internet banking system.

As of 30 September 2024, CCM achieved a deposit growth of ₱12.6 billion (U.S.$224.88 million). This translated to volume growth from 31 December 2023 of 21 per cent. for payments and 15 per cent. for receivables with a total of ₱1.51 trillion of funds that flowed in through various cash management solutions.

In 2017, CCM launched a corporate internet banking platform, the RCBC Online Corporate, an online facility for cash management services to support growth targets for payments and for receivables.

***Global Filipino Banking***

Global Filipino Banking, better known as RCBC TeleMoney, is the Bank's core remittance business. Through this segment, the Bank provides remittance services to the wide network of OFWs, both land-based and sea-based, and their beneficiaries in the Philippines.

These remittance services include the following:

- RCBC TeleCredit – RCBC TeleCredit allows OFWs to have their remittances credited directly to an RCBC savings account or any account with other local banks. This is the safest and fastest way to remit funds as proceeds are immediately credited to the OFW or beneficiary's account.

- RCBC TeleRemit – This allows the beneficiary the option of picking up cash from any branch of RCBC or branch of domestic tie-up partners. These domestic tie-up partners make it possible for the beneficiary to claim their remittance even after banking hours or during weekends and holidays.

- RCBC TelePay – TelePay is RCBC's international bills payment service that allows overseas Filipinos to course their payments intended to around 600 TelePay-accredited companies in the Philippines. Remitters may pay for their SSS contributions, home amortisations and insurance premiums, among others, with the use of this service.

- RCBC TeleDoor2Door – This allows cash to be delivered via courier directly to the beneficiary's given address, providing ease and convenience to the beneficiary.

- Maritime Allotment Payment System (**MAPS**) – MAPS is a complete payroll solution system designed specifically for shipping and manning companies that deploy employees abroad. A 201 HR file, it can generate reports such as Philhealth, Pag-ibig and SSS as well as print payslips for both seafarers and beneficiaries.

The Bank has targeted remittance operations as one of its key drivers of growth. RCBC Telemoney has focused on meeting the evolving needs of the OFW customers in the digital world. OFWs can now open a Telemoney account online via Pulz anywhere in the world. They can also send money online to their loved ones in the Philippines through the Bank's remittance tie-up partners. Moreover, the Bank continuously strives to deliver the best customer experience to remittance tie-up and payout partners and remitters and beneficiaries, thus investments in the enhancements on the remittance systems are being done. A refreshed branding effort is also planned to reflect a modern image that resonates with younger demographics.

**Marketing**

The Bank operates a product development and marketing division responsible for the overall marketing strategies, product conceptualisation and management of deposit-related products and services.

The Bank is focused on the promotion of cash management, deposit generation, fee-based products and services, SME and consumer lending. The Corporate Communications office handles the branding strategy and publicity campaigns of the Bank and makes use of an internal YGC advertising agency.

### Operations

The Operations Group manages the Bank's back-office processing functions. The Operations Group is composed of three segments and one division:

Head Office Operations Segment provides back-office support for branches and other business units, composed of four Divisions:

- Regional Support Division provides (1) bank-wide cash servicing support to branches, including deposit pick up and ATM servicing; (2) operations support for check clearing (inward and outward); and (3) backroom support for regional branches.
- Remittance and Payments Services Division provides inward and outward remittance processing and operational support for all types of payments and fund transfer products and services.
- ATM Service Division provides operational support for ATMs, covering various products and services from implementation, card production, monitoring, reconciliation, investigation and centrally managing customer queries and complaints across all customer touch points.
- Capital Markets Services Division covers lending and trade finance processing and treasury operations from documentation review, and transaction implementation, to accounting and reportorial requirements.

Branch Services Support Segment handles operations of the entire 463 branch network.

Branch Operations and Control Segment is composed of two Divisions (Branch Control Division and Middle Office Support Division) and two Departments (Digital Branch Support Department and Quality Assurance Department) directly reporting to the Segment Head.

Management Services Division provides support to specific functional areas and identified stakeholders in the Bank in analysing, designing, documenting and/or improving business processes, systems, and/or organisational structures. It is composed of three departments.

The Bank continues to implement changes in its processes and enhancements to its information technology system, including the introduction of Lean 6 Sigma (a collaborative method aimed at improving performance by systematically removing waste and reducing variation) with the goal of delivering operational savings and improving the turnaround time of its services to its customers.

### Information Technology Shared Services Group

The Bank's Information Technology Shared Services Group (**ITSSG**) is responsible for delivering IT services to the Bank and its subsidiaries such as RCBC Bankard and RCBC's international operations. ITSSG was established in 2008 to provide IT systems and infrastructure support at a lower operational cost than previously incurred by the individual member companies, while applying consistent policies, procedures and standards to strengthen IT governance across the Group. As of 30 September 2024, ITSSG had 274 employees.

The core objective of the Bank's IT programme is to use technology to transform the Bank's present business and operating models to be more adaptive, agile and customer-centric, and to improve the Bank's service to its clients by offering internet banking and electronic payment services, and using technology to analyse customer information and train the Bank's employees. To this end, the Bank has implemented a number of initiatives, some of which are described below.

In 2010, the Bank transitioned to the Guava Treasury System. The Guava Treasury System is a single integrated system covering the full functional requirements from front office dealing, to risk management and controls in the middle office, to processing and accounting in the back office. New features were launched in retail internet banking and corporate internet banking systems to address the requirements of the Bank's growing customer base. New workflow systems were implemented in the Bank's backroom lending operations to improve the operating efficiencies and allow the processing of higher volumes of transactions. ITSSG tapped opportunities on emerging technologies, such as the launch of a customer campaign through cloud computing, to support the Bank's customer referral and cross-selling programmes.

In 2011, Oracle Financials was implemented by the Bank, and new channels, such as eTrust and foreign exchange portals, Phone-A-Loan, and mobile banking systems for iOS phones and tablets, were enabled to reach more customers. The iCard system servicing MyWallet customers was upgraded. A new contact centre ticketing system was implemented to service the queries of the Bank's growing customer base.

In May 2012, the ITSSG successfully launched the Finacle Core Banking System simultaneously in all branches and head office units of the Bank with no disruption in services to its clients. This system enabled the Bank to create value-added services that it believes will increase customer adoption of its existing products and position itself as the preferred bank of the future. The Bank believes it is among the first installation in the world of an enterprise-class open system (Finacle) running on a mainframe platform using Linux in System z and DB2 in z/OS for its database. The innovative use of technology and excellence in project execution has earned international recognition for the Bank.

Improvements on existing systems were completed in 2013, such as the enhancement of the Telemoney Remittance System to enable real time interface and straight through processing, and revisions on customer analytics to improve cross-selling. The Credit Risk System, Corporate Risk Rating Model and various automated reconciliation and monitoring systems were also launched.

A new generation ATM switch solution was implemented by the Bank in October 2014. This system has enhanced the Bank's transaction processing capability and allowed the Bank to introduce card products that are tailor-fit for each customer segment.

In 2014, the Bank partnered with Infosys for a Finacle Wealth Management solution that offered a front-to-back office modular solution, providing comprehensive coverage, scalability and seamless integration. The 360-degree view of the clients' assets and behavioural profiles allowed the Wealth Management Group to craft relevant, competitive and highly personalised advice for its customers.

The Bank launched Touch Q as part of the Bank's "Branch of the Future" initiative in 2015. Touch Q is a digitised queuing system to reduce the waiting time of customers and shorten the processing of transactions and opening of accounts within the Bank's branches, thus promoting efficient service. TouchQ enables the Bank's customers to perform the following transactions: cash deposit, cheque deposit, cash withdrawal, cheque encashment, bills payment, fund transfer, account opening as well as other financial and non-financial transactions. Customers can also prepare their branch transactions in advance through the Touch Q Online Check-in (web portal or mobile app). Transactions prepared through the Touch Q Online Check-in are given priority queuing upon interfacing with the Touch Q machine at the Bank's branches.

Other notable investments from the Bank's "Branch of the Future" initiative in 2015 include the acquisition of the Ambit Focus Asset and Liability Management and Fund Transfer Pricing modules to further strengthen risk management practices, and the implementation of the Bank's operational risk system and "myHRIS". The Bank's operational risk system was designed to capture, monitor and analyse risks arising from internal operations, processes, employees and systems, while "myHRIS" provided the Bank with a new web-based human capital management system. In addition, the Bank launched the Teammate Audit software to increase the efficiency and productivity of the Bank's internal audit scheduling, planning, execution, review, report generation, trend analysis, audit committee reporting and storage.

The partnership with G-Cash, which commenced in June 2015, provided additional services to the Bank's clients through its fund transfer, mobile access to funds and prepaid mobile phone reloading facilities. G-Cash allows the Bank's clients who are also Globe G-Cash subscribers to transfer funds from an RCBC account to his/her Globe G-Cash account via RCBC Online Banking. The innovative use of technology and excellence in project execution earned international recognition for the Bank as "Best Implementation of a Technology Solution" at the WealthBriefingAsia Singapore Awards in 2015.

In 2016, the Bank partnered with one of the world's leading ATM service providers, Fidelity National Information Services, Inc., to leverage the latter's expertise in providing consistent and reliable ATM service to the Bank's clients and to enable the Bank to enrich its offering of card products and services. The Bank also launched RCBC Online-Corporate, a comprehensive cash management system that provided new products and services to the Bank's corporate clients. In addition, RCBC implemented Europay, MasterCard and Visa, a card system designed to improve payment security, making it more difficult for fraudsters to successfully counterfeit cards. The Bank also implemented a suite of security products to significantly raise the level of protection for its users, systems, end-points and data.

In 2017, the Bank further enhanced the resiliency of its technology infrastructure through the virtualisation of its data centre infrastructure. The rationale for the virtualisation includes, among others, to reduce physical servers in data centres through the conversion of more than 250 physical servers to virtual servers and to increase resiliency against hardware failures. The RCBC Online Corporate mobile app was made available in 2017, enabling clients to approve banking transactions securely on an android or iOS device.

In addition, the Bank continued to enhance and strengthen its cyber-security and regulatory-related compliance with the launch of its dedicated Security Operation Centre in 2017, a facility that operates 24 hours per day and seven days per week. The Bank's Security Operations Centre monitors, manages, and remediates cyber-security attacks against the Bank. To comply with the industry-wide initiative from the BSP and Philippine Clearing House Corporation, the Bank implemented the Check Image Clearing System in 2017, an image-based cheque clearing system where cheque images and Magnetic Ink Character Recognition data are electronically captured by the Bank. This facility eliminates the need to move physical cheques across branches and the clearing house, and enables banks to immediately process cheque returns and provide early availability of funds to customers.

To assist in growing the Consumer and SME Lending businesses, retail lending processes were also automated to include e-mail alerts, SMS, and other reports. In addition, the Enterprise Fraud Management System was implemented in April 2017, which provides the Bank with real-time transaction fraud detection software. All source systems provide their transaction data to the Enterprise Fraud Management System on a real-time basis, and the Enterprise Fraud Management System allows the Bank to customise its own set of rules to alert and flag suspicious transactions.

Notable initiatives in recent years include the launch of the first online FX execution platform in the country in 2018, allowing eligible clients to buy and sell currencies online, and "Branch of Today" in 2019 which are bank branches that are paperless and digital.

The IT Shared Services Group continues to enable the digital transformation of the Bank. In 2021, the Bank was able to implement a significant number of key projects to support the Bank's strategy with the aim of enhancing services and providing excellent customer experience.

Some of the notable initiatives include the upgrade and migration of the core banking application. The Finacle Core Banking System was migrated to a new open system platform that allows for higher levels of performance and resiliency to support future growth.

The implementation of the Google Workspace collaboration platform has allowed the Bank's digitally progressive workforce to continuously collaborate and communicate with its customers and business partners. A new identity management and cloud security solution has enabled Bank employees to work from various locations, at home or at the office, and securely access systems that are on premise or in the cloud.

The Oracle Fusion Cloud project of the Bank has taken advantage of having an enhanced facility for booking and monitoring of general accounting services and transactions for financial reporting. With this cloud solution, the Bank has gained the benefits of lower cost of application management and maintenance, flexibility of an integrated solution to support evolving business requirements and the long term benefit of using the latest version of the application at all times.

The Bank enhanced its data analytics capability and platform using cloud services. It enabled the Bank to simplify data management and increase the use of advanced analytics capability to monetise data through revenue opportunities. Together with the use of cloud-based business intelligence tools, it empowered business users to be able to perform better customer segmentation, visualisation and predictive analysis for enhanced customer experience.

### Intellectual Property

The Bank has not registered any of its intellectual property rights in the Intellectual Property Office at the Department of Trade and Industry of the Philippines. However, the Bank believes that this is a common practice in the banking industry in the Philippines generally. The Bank has not been the subject of any disputes relating to its intellectual property rights.

### Legal Proceedings

In the opinion of the Bank, the suits and claims arising from the normal course of its operations that remain unsettled, if decided adversely, will not involve sums that would have a material effect on the Bank's financial position or operating results.

#### *RCBC Securities*

In September 2014, Carlos S. Palanca IV (**Palanca**) and Cognatio Holdings, Inc. (**Cognatio**) likewise filed a complaint against RCBC Securities with the CMIC, even as Cognatio's earlier complaint dated 30 December 2013 against RCBC Securities, its former Vice President for Operations/Chief Finance Officer, its former Compliance Officer and Valbuena, is pending with the Enforcement and Investor Protection Department of the Securities and Exchange Commission (**EIPD-SEC**) (the **SEC Cognatio Case**). In its letter-decision dated 4 December 2014, the CMIC dismissed the complaint on the ground of prescription and res judicata. Consequently, Palanca/Cognatio respectively appealed the case to the SEC En Banc, which granted the appeals of Palanca/Cognatio and reversed the CMIC's decision. In turn, RCBC Securities appealed the SEC En Banc's reversal of the CMIC decision to the Court of Appeals. In a Resolution dated 5 September 2018, the Court of Appeals denied Palanca/Cognatio's Motion for Reconsideration. The matter eventually reached the Supreme Court, which reinstated the ruling of the SEC en banc, directing the CMIC to grant the request for assistance sought by Palanca/Cognatio, in its Decision dated 11 March 2020. RCBC Securities is in the process of complying with the request of Palanca/Cognatio.

Plaintiffs filed letters-complaint before the Capital Markets Integrity Corporation against the corporation seeking for assistance for the production of documents relating to their trading accounts. This case reached the Supreme Court which decided in favour of the plaintiffs. The decision of the Supreme Court attained finality on 7 December 2020. To date, plaintiffs have not filed any motion to execute the judgment of the Supreme Court to produce the documents.

On 22 February 2013, Stephen Y. Ku (**Ku**) filed a complaint against RCBC Securities with the Regional Trial Court of Makati, praying, among others, for the return of his shares of stock and cash payments which he claims to have turned over to Valbuena. On 20 May 2013, RCBC Securities sought the dismissal of the complaint on the ground of non-payment of the correct filing fees and failure to state a case of action, which was, however, denied by the Makati Trial Court. Aggrieved, RCBC Securities filed a Petition for Certiorari with the Court of Appeals on 22 November 2013, which was given due course. In the decision dated 9 October 2014, the Court of Appeals sustained RCBC Securities' position and ordered the dismissal of the complaint pending before the Makati City Regional Trial Court on the ground of lack of jurisdiction. In a Petition for Review dated 15 September 2015, Ku sought the reversal of the ruling of the Court of Appeals, and, as an alternative, prayed to be allowed to re-file his Complaint sans docket fees. In a Decision dated 17 October 2018, the Supreme Court of the Philippines granted Ku's Petition for Review and ordered the reinstatement of his case before the Makati City Regional Trial Court. RCBC Securities filed its Motion for Reconsideration on 28 November 2018. However, in a Resolution dated 23 January 2019, the Supreme Court of the Philippines denied RCBC Securities' Motion for Reconsideration and ordered the Regional Trial Court of Makati to proceed with the hearing of the case until its termination. The proceedings before the Regional Trial Court of Makati were suspended to give way to mediation. The parties failed to amicably settle and the judicial dispute resolution conference was terminated on 29 October 2019. The case has since resumed at the Makati Trial Court Branch, and Ku and his counsel failed to appear/submit the required Judicial Affidavits of his witnesses on the original date of the pre-trial conference on 13 December 2019.

The pre-trial conference was subsequently re-scheduled to 13 February 2020 and was terminated on 27 February 2020, after the completion of the pre-marking of documentary exhibits on 20 February 2020. The Makati Trial Court then set the presentation of Ku's evidence on 12, 19, 23 and 24 March 2020, but cancelled the first setting to give way to the scheduled inventory of court records.

The Makati Trial Court terminated the pre-trial conference of the case on 27 February 2020, and set the presentation of Ku's evidence in March 2020. However, due to the COVID-19 pandemic, Ku's presentation of evidence only commenced on 14 July 2020, and continued on 25 January 2021, 24 February 2021 and 28 May 2021. Ku terminated his presentation of evidence on 16 July 2021, and has since then filed his Formal Offer of Evidence. RCBC Securities presented its evidence on 8 November 2021 and 2 December 2021, and filed its formal offer of evidence on 6 December 2021.

In its Decision dated 10 January 2022, the Makati Trial Court dismissed Ku's Complaint against RCBC Securities. The Makati Trial Court likewise denied Ku's Motion for Reconsideration in its Order dated 1 March 2022. Ku then filed an appeal which remains pending with the Court of Appeals. On 19 June 2024, the Court of Appeals granted the substitution of parties for Stephen Ku's heirs, namely: Parul Quitola Sha and Jesse Ethan Ku. In view of the termination of the mediation proceedings, the appeal is now submitted for resolution.

***The BOB Incident***

*Alleged Unauthorised Transfer of Funds – Bangladesh Bank*

In February 2016, there were four cases of alleged unauthorised transfer of funds from the Bangladesh Bank to four accounts in the Bank, which were eventually transferred to various accounts outside of the Bank (the **BOB Incident**). In August 2016, the Monetary Board approved the imposition of supervisory action on the Bank to pay the amount of ₱1.0 billion in relation to the completed special examination. The Bank has fully recognised the ₱1.0 billion fine as part of miscellaneous expenses in its 2016 consolidated statements of profit or loss and has paid in full this penalty ahead of the August 2017 deadline set by the BSP. The Bank's payment of the penalty did not affect its ability to perform its existing obligations or unduly hamper its operations. Nonetheless, there may still be other regulatory cases arising from these events.

*U.S. Litigation relating to the BOB Incident*

On 31 January 2019, the Bangladesh Bank filed a complaint with the United States District Court Southern District of New York principally against the Bank, its current and former officers who had significant involvement in the BOB Incident, a money service business and its principals, junket operators and the casinos where the funds were passed through, claiming that they allegedly conspired with North Korean hackers to steal funds from its Federal Reserve Bank of New York (**FRBNY**) bank account and laundered the same. In particular, the Bangladesh Bank asserted nine causes of action, including conversion, fraud and conspiracy, and is seeking to recover the full amount of the allegedly stolen funds, plus interest, attorney's fees, and other damages, including treble damages under the RICO Act.

The Bank had not been properly served with summons in connection with the lawsuit brought by the Bangladesh Bank, and sought the dismissal of the case on both procedural and substantive grounds, including but not limited to: (a) the ineffectual service of summons upon it; (b) the Bank's contact with New York is not sufficient to confer personal jurisdiction over the Bank in New York; and (c) failure of the complaint to plead a legitimate basis for federal court jurisdiction, as the Bangladesh Bank's claim under the RICO Act fails as a matter of law.

Various motions and responses were filed in relation to the aforementioned prayer for dismissal in the course of 2019. A separate order was obtained by the Bank's former National Sales Director on 9 August 2019 from another United States District Court Southern District of New York to, *inter alia*, compel the Bank of New York Mellon to produce non-privileged communication documents/testimonial evidence on the payment order on 4 February 2016. The Bangladesh Bank filed a Motion to vacate/quash the Order on 9 August 2019, which was subsequently denied by the United States District Court Southern District of New York on 20 November 2019.

In an opinion and order dated 20 March 2020, the Federal Court of New York granted the Bank's motion to dismiss. The case filed by the Bangladesh Bank was dismissed for failure to state a claim under the Racketeer Influenced and Corrupt Organizations Act (the **RICO Act**). The Federal Court of New York also declined to exercise jurisdiction over all other state law claims of the Bangladesh Bank. After initially appealing to the United States Court of Appeals and requesting that it be allowed to submit its opening brief, Bangladesh Bank withdrew its appeal.

On 27 May 2020, Bangladesh Bank initiated another complaint against the Bank and the same defendants before the Supreme Court of the State of New York. The complaint is for conversion, theft, misappropriation, aiding and abetting the same; conspiracy to commit the same; fraud (against the Bank); aiding and abetting and conspiracy to commit fraud; conspiracy to commit trespass against chattels; unjust enrichment; and return of money received. Bangladesh Bank was given until 7 April 2021 to serve summons and the new Complaint on the Bank and the defendants in accordance with the Hague Convention. On 11 January 2021, the Bank received a notice from the Regional Trial Court of Makati City together with the copies of the Summons and Complaint filed by Bangladesh Bank before the New York State Court. The Bank has since filed a Motion to Dismiss, submitting its Memorandum of Law on 8 February 2021.

Bangladesh Bank filed its Opposition to the Bank's Motion to Dismiss on 5 March 2021, and the Bank has since filed its Reply on 29 March 2021. The Bank has since received Bangladesh Bank's Memorandum in support of its Opposition to the Bank's Motion to Dismiss dated 5 March 2021.

After being given until 7 July 2021 within which to serve summons via email, Facebook, or LinkedIn on the unserved defendant officers of the Bank, Bangladesh Bank filed on the same date, its Memorandum of Law in support of its ex parte motion for additional time for process service/service by alternative means: (a) claiming that it needs additional time to submit its proof of service coming from the Philippine Central Authority, citing the ongoing lockdowns in the country; and (b) praying anew that it be allowed to serve the Summons/Complaint upon the unserved defendant officers of the Bank vis-à-vis the other defendants through their counsels of record in the related Philippine/US proceedings, or local publication and/or via email, Twitter, Facebook, LinkedIn and/or any similar social media communication platform. On 9 September 2021, the New York State Court granted the motion and gave Bangladesh Bank until 7 October 2021 to accomplish the same. No summons has been received since that date.

Meanwhile, on 26 July 2021, the Summons/Complaint intended for the unserved defendant Bank officers were served on the Bank itself, following Bangladesh Bank's service attempt on the former National Sales Director (**NSD**) via his LinkedIn account. On 13 August 2021, the former NSD filed his

Memorandum of Law in support of his Motion to Dismiss, followed on 1 September 2021 by the filing of the Memorandum of Law of the other unserved defendant Bank officers in support of their own Motion to Dismiss, which similarly pointed out that (a) Bangladesh Bank failed to properly plead a conspiracy claim against them vis-à-vis the North Korean hackers; (b) the allegations against them (save in the case of the former Customer Service Head (**CSH**)) essentially suggest oversight; (c) nonetheless, the Complaint failed to allege any awareness of the link of the funds/their alleged actions/inactions to New York, or any benefit to them; (d) the special fact doctrine does not apply, as the Complaint also failed to state they were involved in the supposedly misleading message about the funds; and (e) the availability of an alternative forum.

On 17 and 30 September 2021, respectively, Bangladesh Bank filed its Memorandum of Law in support of its Opposition to the former NSD's Motion to Dismiss and a separate Memorandum of Law in Opposition to the Motion to Dismiss filed by the other defendant officers of the Bank. The Bangladesh Bank alleged matters that the defendants allege are not found in the complaint and made several claims that the defendants allege are factually unsupported, such as: (a) the former NSD's supposed role in Philrem's forex transactions; (b) the supposed decommissioning of the Bank's SWIFT printer to prevent the Bank's receipt of Bangladesh Bank's messages; and (c) the former CSH's supposed role in the transfer of funds in February 2016, which he had been acquitted of by the Makati Trial Court.

The New York State Court scheduled the hearing on the Bank's Motion to Dismiss on 14 October 2021. That hearing on the issue of lack of jurisdiction over the Bank and the individual Bank defendants due to among others the lack of any link between New York and the Bank or the individual Bank defendants and improper service of summons, proceeded on 14 October 2021. The Presiding Judge did not make any preliminary ruling and intimated that, given the complicated issues relating to jurisdiction, a quick Decision will not be forthcoming.

In a Decision and Order released on 14 January 2023, the New York State Court denied the Motions to Dismiss filed by the Bank and its current and previous employee defendants, ruling, among others, that: (a) it has jurisdiction over the case, as the Bank's mere act of maintaining correspondent accounts in New York is purportedly tantamount to conducting business in the said jurisdiction; (b) it is irrelevant that the Bank was not the entity which initiated the transfer of funds; (c) the New York State Court will properly focus on the theft which occurred in New York and not the laundering of the funds stolen; and (d) the location of the witnesses/documents favour New York.

Subsequently, the Bank, on 19 January 2023, filed its Notice of Appeal from the denial of its Motion to Dismiss. In the meantime, the Bank and the Banks' officers filed their respective answer within the extension period granted by the New York State Court. The Bank participated in the court-mandated mediation in May 2023, but the same failed and was terminated.

In a Decision and Order dated 29 February 2024, the Appellate Division, First Judicial Department of the Supreme Court of the State of New York (the Appeal Court) dismissed three causes of action (conversion, aiding and abetting conversion, and conspiracy to commit conversion) against the Bank and all RCBC defendants. The Appeal Court also dismissed the case against four RCBC defendants (Reyes, Capina, Agarrado and Pineda) for lack of personal jurisdiction. The Court ruled however, that the case can proceed against RCBC and the remaining defendants on the other causes of action.

The Bank, together with Lorenzo Tan and Raul Tan, filed on 12 April 2024, New York time, a request for leave to appeal to the New York Court of Appeals questioning the Court's recent decision that denied the dismissal of the case on forum non conveniens grounds which conflicts with Court of Appeals precedent.

The Bank received after the close of business on 13 June 2024 notice from counsel that the New York Appellate Division issued an order on 13 June 2024 denying the Bank's motion for leave to appeal on the issue of forum non conveniens. The case continued to proceed on the merits in the trial court.

The U.S. Court has likewise ordered Michael and Salud Baustista, Maia Deguito, and Angela Torres (collectively, the **Defaulting Defendants**) to answer the complaints filed against them. Failure to respond would result in a default judgment against them. Any adverse ruling against the Defaulting Defendants should not affect the Bank as a default judgment only establishes liability against the defaulting parties. Non-defaulting parties, such as the Bank, are entitled to litigate their defences and will not be bound by any finding made in the default judgment.

*Philippine Litigation relating to the BOB Incident*

On 6 March 2019, the Bank and Ismael R. Reyes filed a complaint for injunction and damages against the Bangladesh Bank with the Makati City Regional Trial Court for: (a) the latter's repeated acts of defaming, harassing and threatening the Bank and Mr. Reyes, which is geared to damage their good name, reputation and image, and (b) making it appear that the Bank and Mr. Reyes were involved in the theft of the U.S.$81 million from its FRBNY bank account, and thus, had the legal obligation to pay/return the same. The main thrust of the complaint is that: (a) Bangladesh Bank lost the U.S.$81 million once the funds were transferred out of its FRBNY's bank account, and neither the Bank nor Mr. Reyes participated therein; and (b) despite this fact, the Bangladesh Bank has been making public claims that the Bank (and its officers, including Mr. Reyes) may have conspired with North Korean hackers to steal and launder the concerned funds to create negative publicity for the Bank.

In his Officer's Return dated 14 March 2019, the Court Sheriff of the Makati Trial Court reported that, on 12 March 2019, he personally served the summons and a copy of the complaint upon Mr. Abu Hena Mohammad Razeen Hasan, Deputy Governor of the Bangladesh Bank and Head of its Financial Intelligence Unit, who refused the same. The Court Sheriff thus left the summons and complaint in Mr. Hasan's presence on top of the table. The Bangladesh Bank filed a Return of Summons and Manifestation by Special Appearance contesting the propriety of the service of Summons, among others. Mediation conferences took place on 26 April, 15 May and 19 July 2019, after which the parties were referred back to the trial court.

At the status hearing on 14 February 2020, the Makati Trial Court directed the Bank to address the manifestations of the Bangladesh Bank via an appropriate pleading, and scheduled another status hearing on 20 March 2020. The Bank filed its Consolidated Counter-Manifestation on 24 February 2020, in compliance with the directive of the Makati Trial Court. Due to the COVID-19 pandemic, all the scheduled hearings beginning 19 March 2020 have been cancelled in compliance with the Supreme Court Administrative Circular No. 31-2020 dated 16 March 2020.

The Makati Trial Court has since reset the hearing several times, principally due to the continuing absence of the counsel for Bangladesh Bank. After being required to give a short briefing on their respective positions during the 24 November 2020 status hearing, the counsel for Bangladesh Bank filed a Manifestation (re: Authority of Counsel) dated 11 December 2020, alleging that: (a) his client is supposedly different from the named defendant in the case, and (b) he has no authority to act any further therein. The Bank has since filed a Motion to Declare Defendant in Default dated 22 December 2020.

In an abrupt turn-around, the counsel for Bangladesh Bank belatedly filed a Motion to Dismiss dated 27 January 2021, but cited the same stale grounds struck-down by the Makati Trial Court. In its Consolidated Comment/Opposition, the Bank pointed this out and emphasised, among others, that: (a) the civil (not criminal) nature of the case negates any territorial consideration; (b) defamatory utterances do not fall automatically within the ambit of protected speech; and (c) the U.S. case cited relative to the forum-shopping charge has been dismissed. At the 30 July 2021 hearing conducted via video conferencing, the parties reiterated their previous arguments, with the Bank stressing that most of the arguments raised in Bangladesh Bank's Motion to Dismiss have already been ruled upon by the court in the Order dated 19 July 2019, which it has not been set aside and is therefore controlling. The Acting Presiding Judge stressed that Bangladesh Bank could have questioned the aforecited Order, even if it had not conceded to the jurisdiction of the court.

In its Order dated 18 October 2021, the Makati Trial Court denied Bangladesh Bank's Motion to Admit Attached Motion to Dismiss, ruling that: (a) the 19 July 2019 Order was never challenged via a motion for reconsideration, and therefore became final; (b) the court records reveal "a spectacular display of underhanded legal manoeuvring" on the part of Bangladesh Bank's counsel; and (c) nonetheless, before Bangladesh Bank can be declared in default, the Bank should provide proof of service of the Motion to declare the aforementioned defendant in default. The Bank has since filed its Compliance with Manifestation dated 8 November 2021, attaching the Certification of the Philippine Postal Corporation dated 29 October 2021, indicating that a copy of the Motion to declare Bangladesh Bank in default was received by its counsel on 4 January 2021.

In its Order dated 30 June 2022, the Makati Trial Court further dismissed the case, holding that it did not properly acquire jurisdiction over Bangladesh Bank, as: (a) there is no provision in the 1997 Rules of Civil Procedure/2019 Amendments to the 1997 Rules of Civil Procedure covering the service of summons upon a foreign public corporation not doing business in the Philippines; and (b) the case does not fall under the rules where service can be done extra-territorially.

While the Makati Trial Court affirmed the ineffectual service of summons on Bangladesh Bank in its Resolution dated 31 May 2023, it nonetheless reinstated the case and, citing Sec. 13, Rule 14 of the 2019 Amendments to the 1997 Rules of Civil Procedure, directed the counsel of Bangladesh Bank to serve summons upon its client.

Bangladesh Bank filed a Motion for Clarification and a Motion for Reconsideration, both citing the earlier ruling of the Makati Trial Court in its Order dated 30 June 2022, and denying its counsel's ability to be deputised to serve summons. The Bank and the former NSD opposed both Motions, pointing out that: (a) dismissals on the ground of lack/improper service of summons are now prohibited, and Bangladesh Bank's counsel has been properly deputised to serve summons upon its client; (b) Rule 14 provides sufficient guidance on the modes of service that Bangladesh Bank's counsel can resort to; and (c) service of summons may be effected via electronic mail using Bangladesh Bank's publicly available email addresses.

At the 27 July 2023 hearing, the Makati Trial Court: (a) held that it will deal with the issue of immunity after ruling on Bangladesh Bank's Motion for Reconsideration; and (b) directed the parties to file their respective Memoranda on the issue of the service of summons. Both parties have since filed their Memoranda.

In the Resolution dated 11 October 2023, the Makati Trial Court denied Bangladesh Bank's Motion for Reconsideration. The Makati Trial Court held that, while there is no specific provision under the Rules of Court on how the deputised counsel may serve summons to his or her client, the fact that the deputised counsel has direct communication with his client means he may serve the summons in any manner provided under the rules that he may deem convenient.

Instead of appealing the resolution of the trial court, Bangladesh Bank filed a Memorandum of Authorities dated 7 December 2023 with the Court, a copy of which was received by the Bank on 19 February 2024. In an Order dated 27 February 2024, the Makati Trial Court held that the matter regarding Bangladesh Bank's state immunity is deemed submitted for resolution. As of the date of this Offering Circular, the Makati Trial Court has not issued a ruling on the pending matters.

***Litigation involving the Bank's officers***

*Section 4(f) of AMLA*

On 18 November 2016, the Anti-Money Laundering Council of the Philippines filed a criminal complaint against current and former officers of the Bank, including Ismael S. Reyes, Bridgette R. Capiña and Romualdo S. Agarrado, for violation of Section 4(f) of AMLA, in connection with the BOB Incident. In a Resolution dated 5 February 2018, the Philippine Department of Justice found probable cause against Reyes, Capiña, Agarrado and the other former officers of the Bank and filed the corresponding

Information with the Makati Trial Court. After arraignment, pre-trial/trial ensued with the Prosecution concluding its prosecutorial action and making a tender of excluded evidence after a number thereof were held to be inadmissible. Subsequently, all the accused requested leave and filed their demurrer to evidence.

In a Resolution dated 26 December 2019, the Makati Trial Court granted the Demurrer to Evidence of three of the current/former employees and dismissed the case against them. The Makati Trial Court, however, declined to dismiss the case against the former Senior Customer Relationship Office (**SCRO**) and the former Customer Relationship Head (**CSH**) of the Makati Jupiter Business Center and directed the former SCRO/former CSH to present their evidence on 23 January 2020.

The Prosecution and former SCRO filed their respective Motion for Reconsideration on the Resolution dated 26 December 2019, which the Makati Trial Court denied. The aforesaid current/former employees have filed a Motion to Lift Hold Departure Orders, which the Makati Trial Court has yet to rule upon as of the date of this Offering Circular.

During the 23 January 2020 hearing, the Makati Trial Court granted the former CSH's oral motion to: (a) present his witness, and (b) have a trial separate from the former SCRO (whose Motion for Reconsideration was then still pending). The Prosecution assailed the separate trial ruling in its Motion for Reconsideration, arguing that this is contrary to the prior finding of unity of acts between the former CSH/the former SCRO.

On 11 March 2020, the Makati Trial Court denied the Prosecution's Motion for Reconsideration on the acquittal of the three current/former bank officers. The Prosecution appealed the Order of Denial of its Motion for Reconsideration via a Petition for Review with the Court of Appeals, where the same remains pending to date.

On 8 March 2021, the Makati Trial Court promulgated the Judgment: (a) acquitting the former CSH of the Makati Jupiter BC, for failure of the Prosecution to prove his guilt beyond reasonable doubt; and (b) finding the former SCRO guilty beyond reasonable doubt of the offense charged, and sentencing her to suffer imprisonment of four to five years, and directing her to pay a fine of ₱1.5 million. The former SCRO was granted provisional liberty pending appeal.

Acting on the criminal complaints filed by the Bank and the Centurytex Trading account owner in connection with the unauthorised acts/transactions relating to the money-laundering of U.S.$81 million, the Office of the City Prosecutor of Makati City found probable cause to charge former Branch Manager Maia Deguito (**BM Deguito**) and the former SCRO with several counts of falsification of commercial document and perjury, respectively, before the Metropolitan Trial Court of Makati City (**Makati MTC**).

On account of the death of the Centurytex Trading account owner, the Prosecution in the falsification of commercial document cases sought to present the bank teller who processed the questioned transactions in February 2016, which former BM Deguito opposed. In a Resolution dated 28 February 2020, the Makati MTC denied the Prosecution's aforesaid motion and directed the Heirs of the Centurytex Trading account owner to present their evidence. The Prosecution sought the reconsideration of this Resolution, which former BM Deguito belatedly opposed in her Comment dated 11 March 2021. At 4 May 2021 hearing held via video conferencing, the Makati MTC: (a) noted the filing of the Prosecution's Motion to expunge former BM Deguito's Comment, and deemed the matter submitted for resolution; (b) clarified the date of filing of the Prosecution's Formal Offer of Evidence; and (c) set the case for hearing via video conferencing on 5 and 19 October 2021, and 9 November 2021, still for the Prosecution's presentation of evidence.

The trial before the Makati MTC hearing the perjury case against the former SCRO, which grounded to a halt due to the COVID-19 pandemic, resumed on 18 February 2021 with the presentation of the Internal Auditor who conducted the investigation/audit of the Makati Jupiter Business Center. The Prosecution then rested its case and filed its Formal Offer of Evidence on 5 March 2021. The 17 June 2021 hearing for the former SCRO's initial presentation of evidence which had been continued to 12 and 26 August 2021 did not push through on account of the suspension of work in the courts because of the surge in COVID-19 Delta variant cases. The Makati MTC has since admitted the Prosecution's Formal Offer of Evidence, and set the former SCRO's initial presentation of evidence on 19 April 2022.

The Bank has several petitions for review currently pending in relation to actions that it has initiated against former Bank employees in relation to the BOB Incident. There are no known trends, demands, and commitments, events, or uncertainties that will have a material impact on the Bank's operational performance and ability to service obligations.

The Prosecution, through the Office of the Solicitor General (**OSG**), appealed the acquittal Order and the Denial of its Motion for Reconsideration to the Court of Appeals via a Petition for Certiorari. In its Decision dated 14 July 2023, the Court of Appeals denied the aforecited Petition, holding that: (a) the grant of a demurrer to evidence amounts to an acquittal and double jeopardy has already set in, in the case of the three current/former bank officers; and (b) the Makati Trial Court did not commit any grave abuse discretion, as it correctly held that (1) the three current/former bank officers only found out about Bangladesh Bank's stop payment order and the purported nature of the U.S.$81 million after the bulk of the funds had already been moved out of the four RCBC accounts; (2) the conduct of Enhanced Due Diligence (**EDD**) after the fact would have been futile; and (3) assuming EDD was conducted, the Bank has no authority to freeze the accounts absent a Freeze Order which only the AMLC could petition for.

The OSG has since elevated the matter to the Supreme Court via a Petition for Review, claiming that the Court of Appeals gravely erred in denying the Prosecution's Petition for Certiorari.

*Falsification of commercial document and perjury*

Acting on the criminal complaints filed by the Bank and the Centurytex Trading account owner in connection with a series of unauthorised acts/transactions relating to the money-laundering of U.S.$81 million, the Office of the City Prosecutor of Makati City found probable cause to charge former branch manager Maia Deguito and the former SCRO with several counts of falsification of commercial document and perjury, respectively, before the Metropolitan Trial Court of Makati City (**Makati MTC**). Due to the death of the Centurytex Trading account owner, on 15 October 2019, the Prosecution, in the falsification of commercial document cases, signified its intention to present the bank teller who processed the questioned transactions on 5 February 2016 which former branch manager Maia Deguito opposed. The Makati MTC issued a Resolution denying such request following which the Prosecution filed its Motion for Reconsideration dated 16 March 2020. In a Resolution dated 28 February 2020, the Makati MTC denied the Prosecution's aforesaid motion and directed the Heirs of the Centurytex Trading account owner to present their evidence. However, acting favourably on the Prosecution's Motion for Reconsideration in its Order dated 5 October 2021, the Makati MTC heard the testimony of the bank teller on 3 March 2022. The Makati MTC likewise granted the Motion of the Heirs of the Centurytex Trading account owner to separately present the bank teller as their witness, over the objection of the Defense counsel.

The Makati MTC hearing the perjury case against the former SCRO rejected the attempt of the latter to recall/cross-examine a Prosecution witness. On 13 March 2020, the Prosecution filed the Judicial Affidavit of Mr. Jose G. Villapando, the custodian of the official records of the Senate of the Philippines, in connection with the introduction into evidence of the Transcript of Stenographic Notes dated 15, 17 and 29 March 2016 of the Committee on Accountability of Public Officers and Investigation (Blue Ribbon Committee), where the now deceased Centurytex Trading account owner, among others, testified under oath that he had no participation in any of the transactions that transpired thereat – contrary to what is stated in the sworn statement of the former SCRO.

The Bank and the Heirs of William Go filed criminal complaints for Falsification of Commercial Documents against Deguito. The Bank and Heirs of William Go, through their respective counsels, have filed their Formal Offer of Evidence, the resolution of which is still pending. On the other hand, Deguito has asked the trial court to give her additional time to secure the services of a new counsel since her previous counsel, Custodio Acorda Sicam Castro & Panganiban Law Offices, has filed a Withdrawal of

Appearance on 19 February 2024. The trial court granted her request but held that if Deguito still fails to secure a counsel for the next scheduled hearing, the same would amount to a waiver of her right to present evidence. In the Entry of Appearance (With Urgent Motion to Reset Hearing) dated 12 September 2024, F.F. Tacardon Law Offices formally entered their appearance as counsel for Deguito.

Except for the above-mentioned proceedings, the Bank is not aware of any suits and claims by or against it or its subsidiaries, which, if decided adversely, would have a material effect on its financial position or operating results.

***Fraud Complaint against the Former and Present Directors of the Bank***

A fraud complaint (the **Complaint**) was filed by Inang Nag-aaruga sa Anak Foundation and other complainants (the **Complainants**) for unsafe and unsound banking practice, in violation of Section 56 of R.A. No. 8971, the General Banking Law of 2000, in relation to Section 37 of R.A. No. 7653, The New Central Bank Act, as amended, against the former and present directors of the Bank in connection with the alleged fraudulent scheme carried out by the Bank's branch manager Liza P. Arzaga (**Arzaga**) who vanished along with customers' investment in 2018.

In a Resolution dated 20 August 2021, duly approved by the BSP Governor, the BSP's Office of the General Counsel and Legal Services (the **OGCLS**) dismissed the Complaint against the former/current directors of the Bank, ruling that: (a) its jurisdiction is limited to determining the administrative liability of the Bank's directors and officers, so the Resolution will not tackle the possible administrative and/or civil liability of the Bank; (b) the complainants failed to allege/prove by competent evidence any specific act/omission which is tantamount to conducting the business of banking in an unsafe and unsound manner, or that the Bank operated with inadequate internal controls and subscribed to policies/practices detrimental thereto and jeopardised the safety of its deposit; (c) the Bank immediately acted on the request of the complainants to restitute their valid investments with the Bank; and (d) the products in question are not legitimate products of the Bank and the monies that funded these did not enter the Bank's system, so that the denial of the Complainants' demand for payment had basis, which has not been refuted. However, it was endorsing for investigation the possible administrative liability of the Bank for failing to detect the activities of respondent Arzaga for seven years, to the Financial Supervision Sector of the BSP. The case was likewise dismissed against the now deceased director of the Bank, but archived insofar as respondent Arzaga is concerned for lack of jurisdiction over her person.

The Complainants filed their Motion for Partial Reconsideration dated 22 September 2021 with the Monetary Board, which the former/current directors opposed, essentially pointing out that: (a) the arguments in the Motion for Reconsideration are rehashed and should be summarily denied; (b) the Complainants' claim that they should not be burdened with the task of proving the alleged violation is an implied admission that they do not have any cause of action against the former/current directors; (c) all the transactions in issue, which showed several and clear badges of fraud that should have warned the Complainants about their irregularity, were all entered into with respondent Arzaga, and no other employee/director of the Bank; and (d) the manner by which the complainants transacted with respondent Arzaga shows that these were intended to bypass the Bank's normal controls, which appear to be part and parcel of the scheme to circumvent banking laws/regulations.

In a Resolution dated 22 October 2021, duly approved by the BSP Governor, the BSP's OGCLS denied the Complainants' Motion for Partial Reconsideration for lack of merit.

On 2 December 2021, the Bank received the Complainant's Petition for Review filed before the Court of Appeals, claiming that the BSP's OGCLS committed grave and serious error in dismissing their Complaint and denying their Motion for Partial Reconsideration. In a Resolution dated 23 February 2022, the Court of Appeals, among others, directed the former/current respondent Bank Directors to file their Comment within ten days from notice. The former/current respondent Bank Directors timely filed their request for extension of time to file the required pleading.

In a Decision dated 28 February 2023, the Court of Appeals affirmed the ruling of the BSP-OGCLS-IPG, holding that: (a) the said agency can only rule on the respondents' individual administrative liability and has no authority to direct the return of Petitioners' investments/award them civil damages; (b) the Petitioners failed to cite both the specific actions/omissions allegedly committed by the respondents and the bank policies supposedly not in place/improperly implemented; (c) the Bank's refusal to pay the claim based on the falsified Malayan Leasing Promissory Notes (PNs) was justified as no money flowed in the Bank's system in relation to these; and (d) it is the payment of the falsified Malayan Leasing PNs which would cause the substantial dissipation of the assets/earnings of the Bank, seriously weaken its condition, or otherwise prejudice the interest of its depositors, investors or clients.

In response to the Petitioners' Motion for Partial Reconsideration, the respondent current/former Bank Directors, in their Comment dated 15 June 2023, reiterated that there is no basis to hold them administratively liable, as: (a) Petitioners failed to identify with particularity the RCBC policies that were allegedly not in place/improperly implemented; (b) Petitioners failed to prove the existence of unlawful acts, negligence or bad faith on their part; (c) Petitioners ignored basic banking practices, which would have prevented the fraud allegedly committed against them, such as only handing their money to an RCBC teller for counting; (d) Petitioners allowed their alleged placements to be booked in dummy accounts of fictitious persons, which is indicative of money laundering; (e) the Bank was justified in refusing to pay Petitioners' claim arising from the fake/falsified Malayan Leasing PNs; and (f) it is the payment to Petitioners of the amount of ₱285 Million, based on dubious documents, which will result in unsafe and unsound banking practice.

In the Resolution dated 20 November 2023, the Court of Appeals denied Petitioners' Motion for Partial Reconsideration. In July 2024, the Bank received a copy of the Petition for Review filed by the Complainants before the Supreme Court.

***Regulatory Actions Involving the Bank***

In August 2016, a special examination by the BSP, as a result of the BOB Incident, concluded that the Bank had conducted business in an unsafe or unsound manner by operating with a grossly inadequate money laundering and terrorist financing prevention risk management and control framework. The Monetary Board approved the imposition of supervisory action on the Bank to pay a monetary penalty in the amount of ₱1.0 billion in relation to the completed special examination. Additionally, the Monetary Board imposed a number of restrictions on the Bank's activities and permanent requirements designed to strengthen the Bank's corporate governance and improve the Bank's prompt corrective action framework. Temporary restrictions imposed on the Bank by the BSP included a stay on the approval of any new branch licence requests, a prohibition against the expansion of the Bank's money service businesses through new relationships and a prohibition against any new wire transfer or remittance-related products and services until further notice by the BSP.

The BSP concluded its oversight examination of the Bank in May 2018. Based on this examination, the BSP removed the Bank's prompt corrective action status and, consequently, lifted a majority of the temporary restrictions that were imposed in 2016.

The Bank was directed by the Monetary Board to execute and submit its letter of commitment to document its action plan covering the following areas:

(a) measures to ensure compliance with restrictions on establishing new additional money service business relationships and the opening of accounts outside branch premises;

(b) enhancement of bank-wide money service business risk management system;

(c) improvements to the online gaming business risk management system;

(d) effective implementation of internal control policies such as job rotation and separation of sales and service functions, and conduct of additional due diligence procedures on unusual wire transfer transactions; and

(e) strengthening of controls on transactions performed outside Bank premises which are also aimed at preventing or mitigating fraudulent schemes which heighten exposure to money laundering and terrorist financing risk.

In October 2018, the Bank submitted its letter of commitment to the Monetary Board. The Bank believes that the specific action plans submitted will not only address the supervisory issues raised by the BSP in a satisfactory manner but will also enhance the Bank's thrust to sustain its safe and reliable banking operations.

**Capital Expenditure**

The Bank's planned capital expenditures in 2025 is ₱3 billion, primarily aimed at upgrading and expanding the Bank's existing technology, software and hardware and strengthening its digital banking capabilities and information technology security.

The Bank's capital expenditures for the years ended 2021, 2022, 2023 and the nine months ended 30 September 2024 were ₱1.83 billion, ₱1.96 billion, ₱4.10 billion and ₱1.66 billion, respectively. The Bank's primary capital expenditures during 2021, 2022, and 2023 were mainly invested in computer equipment and software, core bank system upgrades and branch-related upgrades.

**Subsidiaries and Associates**

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, investment houses, financing companies, credit card companies and financial institutions catering to SMEs.

A publicly listed universal or commercial bank in the Philippines may own 100 per cent. of the voting stock of only one other commercial bank. Such universal or commercial bank may only have ownership in additional commercial banks as a minority shareholder. A universal bank may also own up to 100 per cent. of the voting stock of thrift banks and rural banks, and generally up to 100 per cent. of other financial and non-financial allied undertakings. Prior Monetary Board approval is required for investments in allied and non-allied undertakings.

The total investments in equities of allied and non-allied enterprises shall not exceed 50 per cent. of the net worth of the bank, subject to the further requirement that the equity investment in one enterprise shall not exceed 25 per cent. of the net worth of the bank.

The Bank's subsidiaries are as follows:

***RCBC Capital Corporation***

RCBC Capital, a 99.96 per cent. owned subsidiary of the Bank, was established in 1974. RCBC Capital is the investment banking subsidiary of the Bank. It offers a complete range of investment banking and financial consultancy services which include: (i) the underwriting of equity, quasi-equity and debt securities on a firm or best efforts basis for private placement or public distribution; (ii) the syndication of foreign currency or Peso loans; and (iii) financial advisory services. For the nine months ended 30 September 2024, RCBC Capital's net income amounted to ₱276.03 million (U.S.$4.93 million) compared to ₱91.29 million (U.S.$1.61 million) for the nine months ended 30 September 2023.

***RCBC Securities, Inc.***

RCBC Securities, a wholly-owned subsidiary of RCBC Capital, is engaged in the electronic and traditional trading of listed securities and in providing corporate and market research. For the nine months ended 30 September 2024, RCBC Securities' net income amounted to ₱19.09 million (U.S.$0.34 million) compared to ₱13.10 million (U.S.$0.23 million) net income for the nine months ended 30 September 2023.

***RCBC Bankard Services Corporation***

RCBC Bankard, a wholly-owned subsidiary of RCBC Capital, is engaged in providing services to the credit card and personal loans business of the Bank. Until December 2006, the Bank conducted its credit card operations through Bankard. Beginning in 2007, Bankard has serviced the credit card business and operations of the Bank. The Board of Directors, in its special meeting held on 18 October 2013, approved the sale to Philippine Business Bank Trust and Investment Centre on behalf of various clients of the Bank's and RCBC Capital's 90 per cent. stake in Bankard, Inc. As part of the condition for the sale, all existing credit card operations of Bankard, Inc. were assigned and absorbed indirectly by the Bank, though RCBC Capital.

For the nine months ended 30 September 2024, RCBC Bankard's net income amounted to ₱41.99 million (U.S.$0.75 million) compared to ₱36.44 million (U.S.$0.64 million) for the nine months ended 30 September 2023.

***RCBC Forex Brokers Corporation***

RCBC Forex Brokers Corporation (**RCBC Forex**), a wholly-owned subsidiary of the Bank, was incorporated in 1998. RCBC Forex is engaged in dealing and brokering currencies in foreign exchange contracts with local and international clients. For the nine months ended 30 September 2024, RCBC Forex's net income amounted to ₱4.88 million (U.S.$0.09 million) compared to ₱3.33 million (U.S.$0.06 million) for the nine months ended 30 September 2023.

***RCBC Microbank, Inc.***

RCBC Microbank, Inc. (**RMB**), a wholly-owned subsidiary of the Bank, is a thrift bank and was acquired by the Bank on 15 May 2008 to engage in micro-financing and development of small businesses. As of 30 September 2024, RMB had 18 microfinance lending branches with operations in Southern Luzon and Mindanao. Its head office and head office branch were moved from Makati City to Davao City in April 2011. For the nine months ended 30 September 2024, RMB's net income amounted to ₱15.06 million (U.S.$0.27 million) compared to ₱18.49 million (U.S.$0.33 million) for the nine months ended 30 September 2023. While the interest rates remained high in 2023, RMB managed a 35.24 per cent. year-on-year growth in interest income from the nine months ended 30 September 2023.

***RCBC International Finance Limited***

RCBC International Finance Limited (**RCBC IFL**), a wholly-owned subsidiary of the Bank, was established in 1979 and is the Bank's overseas subsidiary in Hong Kong. RCBC IFL is primarily engaged in the remittance business. For the nine months ended 30 September 2024, RCBC IFL's net loss amounted to ₱7.92 million (U.S.$0.14 million) compared to ₱3.66 million (U.S.$0.06 million) loss for the nine months ended 30 September 2023. RCBC Investments Limited, wholly-owned subsidiary of RCBC IFL, is a Hong Kong company established in 1990 primarily engaged in the remittance business.

***RCBC-JPL Holding Company, Inc.***

RCBC JPL Holding Company, Inc. (**RCBC-JPL**), a subsidiary of the Bank formed in 2012, is primarily engaged in the disposition of the assets of its predecessor, Pres. Jose P. Laurel Rural Bank, Inc. which the Bank acquired in February 1999. On 8 April 2024, the Bank and its Retirement Fund executed a Deed of Donation and Acceptance where the Bank donated and transferred ownership of 36,612,373

Preferred C shares representing 19.41 per cent. of the outstanding capital of RCBC-JPL. Subsequent to the donation, RCBC's ownership over RCBC-JPL was at 80.00 per cent. as of 30 September 2024. For the nine months ended 30 September 2024, RCBC-JPL's net loss amounted to ₱0.77 million (U.S.$0.01 million) compared to ₱1.10 million (U.S.$0.02 million) net loss for the nine months ended 30 September 2023.

***Niyog Property Holdings, Inc. and Cajel Realty Corporation***

Niyog Property Holdings, Inc. (**NPHI**) and Cajel Realty Corporation (**CRC**) are wholly-owned subsidiaries of the Bank, incorporated on 13 September 2005 and 29 February 2008, respectively, to purchase, subscribe for or otherwise dispose of real and personal property of every kind and description but not as an investment company. In March 2023, the Board of Directors approved the proposed sale and transfer to Filinvest Land, Inc. (**FLI**) of its shares in CRC and NPHI, subject to completion of FLI's due diligence and compliance with conditions to be agreed by the parties. On 14 July 2023, the Bank and FLI executed a Deed of Absolute Sale for the sale and transfer of the Bank's 100 per cent. ownership in NPHI and CRC to FLI. Total consideration for the shares amounted to ₱544.4 million for NPHI and ₱88.8 million for CRC.

***RCBC Leasing and Finance Corporation***

RCBC Leasing and Finance Corporation (**RCBC LFC**), a 99.67 per cent. owned subsidiary of the Bank, was acquired by the Bank on 28 March 2012. RCBC LFC is a non-bank financial institution with a quasi-banking licence granted by the BSP, serving corporate and commercial clients and consumers in the financing industry. Its wholly-owned subsidiary, RCBC Rental Corporation, is in the business of renting and leasing equipment and machinery. RCBC LFC is a non-bank financial institution with a quasi-banking licence granted by the BSP, serving corporate and commercial clients and consumers in the financing industry and its wholly-owned subsidiary, Malayan Rental Corporation (now known as RCBC Rental Corporation), is in the business of renting and leasing equipment and machinery. For the nine months ended 30 September 2024, RCBC LFC's net loss amounted to ₱41.55 million (U.S.$0.74 million) compared to ₱238.65 million (U.S.$4.22 million) net loss for the nine months ended 30 September 2023.

Additionally, as a universal bank, the Bank has equity investments in various industries which are vital to the country's economic growth and which also serve the purpose of diversifying the Bank's sources of income. Among these are Honda Cars Philippines, Inc., Isuzu Philippines Corporation, and Pilipinas Shell Petroleum Corporation.

***RCBC Trust Corporation***

RTC is a 40 per cent. owned subsidiary of the Bank. RTC was officially incorporated on 29 June 2023 and started its operations on 2 January 2024. This was a spin-off from the trust operations from the Bank into a separate corporate entity by establishing a standalone trust corporation in accordance with the Manual of Regulations for Non-Bank Financing Institutions.

Before the spin-off, RCBC TIG had an established track record in trust and asset management. As of 31 December 2023, the Bank's trust assets amounted to ₱155.71 billion (U.S.$2.81 billion) and ranked seventh among local and foreign trust entities doing business in the Philippines, based on published statements of financial position. Trust, investment management and other fiduciary accounts continued to account for the bulk of the Bank's trust arrangements. These consisted of retirement funds, institutional trust funds, pre-need accounts, personal trusts and investment management arrangements, which accounted for 40.0 per cent. of total trust assets as of 31 December 2023. The balance consists of the volume of pooled funds. The Bank offers its trust products to corporate and institutional investors as well as to high-net-worth individuals and retail investors requiring low minimum thresholds.

The Board of Directors approved the spin-off of RCBC TIG to a standalone trust corporation RTC, incorporated on 29 June 2023. This was an opportunity for RTC to increase its AUM by offering more investment options which other trust entities may not be able to do due to regulatory restrictions.

RTC started operations on 2 January 2024. On the same day, RTC received net assets from the Bank amounting to ₱128 million and assumed assets under management valued at ₱155,703 million from the Bank. These trust department accounts are maintained in separate books and records in accordance with the Financial Reporting Package for Trust Institutions (**FRPTI**) prescribed by the BSP.

***Frame Properties Inc.***

On 25 July 2022, the Board of Directors approved the transfer/contribution of 119 of the Bank's real estate properties to a subsidiary to be incorporated by the Bank (later incorporated as Frame Properties, Inc., **Frame**). In March 2023, the Bank received the digital Certificate of Incorporation of Frame from the Securities and Exchange Commission. Subsequently, the Bank contributed/transferred its shares in Frame to the RCBC Employees' Retirement Fund, through its trustee, RCBC TIG.

The transfer of the 119 real estate properties resulted in a gain for the Bank. The contribution of the shares of Frame settled the past service liability, increased and diversified the assets of the RCBC Retirement Fund and contributed in advance the annual normal contributions to the fund.

## RISK MANAGEMENT AND COMPLIANCE

The Bank is exposed to risks in relation to its operating, investing, and financing activities, and the business environment in which it operates. The Bank's objectives in risk management are to ensure that it identifies, measures, monitors and controls the various risks that arise from its business activities, and that it adheres strictly to the policies, procedures and control systems that are established to address these risks.

A committee system is a fundamental part of the Bank's process of managing risk. The five committees of the Board of Directors relevant in this context are:

- the Executive Committee, which meets weekly, has the power to act and pass upon such matters as the Board of Directors may entrust to it for action in between Board of Directors meetings. It may also consider and approve loans and other credit related matters, investments, purchase of stocks, bonds, securities and other commercial papers for the Bank's portfolio. The Executive Committee also has the power to review an asset or loan to ensure timely resolution and recognition losses of impaired assets;
- the Risk Oversight Committee (**ROC**), which meets monthly, carries out the Board of Directors' oversight responsibility for the capital adequacy and risk management strategy of the Bank and its subsidiaries and actions covering credit, market and operational risks under Pillar I of the Basel framework as well as the management of other material risks determined under Pillar II and the Internal Capital Adequacy Assessment Process. Risk limits are reviewed and approved by the ROC;
- the Audit and Compliance Committee (**ACC**), which meets monthly, reviews the results of the internal audit examinations and recommends remedial actions to the Board of Directors as appropriate. The ACC also performs oversight functions over the Regulatory Affairs Group on matters such as compliance risk assessment, annual testing work plan, compliance breaches, and other regulatory issues;
- the Related Party Transactions (**RPT**) Committee, which meets monthly and as necessary, reviews proposed material RPTs to ensure that they are conducted in the regular course of business and not undertaken on more favourable economic terms (e.g. price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. On favourable review, the RPT Committee endorses material RPTs to the Board of Directors for approval; and
- the Anti-Money Laundering (**AML**) Committee, which meets monthly, oversees the implementation of the Bank's AML and terrorist financing prevention programme, and ensures that Money Laundering/Terrorist Financing risks are effectively managed. It also ensures that infractions are immediately corrected, issues are addressed, and AML training for officers and staff are conducted.

Four senior management committees (together, the **Senior Management Committees**) also provide a regular forum to take up risk issues:

- the Credit and Collection Committee, chaired by the Chief Executive Officer and composed of the heads of credit risk-taking business units and the head of credit risk management, meets weekly to review and approve credit exposures within its authority. It also reviews plans and progress on the resolution of problem loan accounts;

- the Asset and Liability Committee (**ALCO**), chaired by the Treasurer of the Bank with the participation of the Chief Executive Officer and key business and support unit heads, meets weekly to appraise market trends and economic and political developments. It provides direction in the management of interest rate risk, liquidity risk, foreign currency risk and trading and investment portfolio decisions. It sets prices and rates for various asset and liability and trading products, in light of funding costs, competition and other market conditions. It also receives confirmation that market risk limits (as described below) are not breached, or if breached, provides guidance on the handling of relevant risk exposure between ROC meetings;

- the Related Party Transactions Management Committee comprises the group heads of the business units as specified in the charter or their respective delegates. It meets monthly to review and approve proposed non-material RPTs or those that do not require the approval of the Board of Directors to ensure that the said RPTs are conducted in the regular course of business and not undertaken on more favourable economic terms (e.g. price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances. On favourable review, it endorses the transaction for the Board of Directors' confirmation; and

- the Anti-Money Laundering Management Committee, which meets weekly, evaluates the unusual/suspicious transaction reported by the different bank units, RCBC business centres, alerts that are generated by the Bank's screening system (Accuity), transaction monitoring system (Predator) and other referrals from relevant regulators to determine the filing of Suspicious Transaction Reports to the Anti-Money Laundering Council. The committee comprises the Chief Compliance Officer as the chairperson and presiding officer and the heads of Operations Group, Retail Banking Group, Controllership Group, Legal Affairs Group, Risk Management Group or their duly appointed designates, as members, and investigators from the Compliance Operations Division as the rapporteur. The AML Monitoring and Reporting Division (**AMRD**), through the Chief Compliance Officer, reports its monthly activities (including the AML Management Committee meetings) to the Board of Directors' AML Committee.

The Risk Management Group (**RMG**) and the Credit Management Group (**CMG**) support the ROC. The risk management groups are responsible for overseeing the risk-taking activities across the Group, as well as evaluating whether these remain consistent with the Bank's risk appetite and strategic direction. The risk management groups are responsible for identifying, measuring, assessment, mitigation, monitoring, and reporting risk on an enterprise-wide basis.

RMG is independent of all risk-taking business segments and reports directly to the ROC. It participates in ALCO meetings. CMG, on the other hand, assists the risk-taking business segments, by providing the necessary credit support. CMG participates in all Credit and Collection Committee meetings.

**Liquidity Risk Management**

Liquidity risk is the potential insufficiency of funds available to adequately meet the demands of the Bank's customers to repay maturing liabilities. The Bank manages liquidity risk by limiting the maturity mismatch between assets and liabilities and by holding sufficient liquid assets of appropriate quality and marketability.

The Bank's liquidity policy is to manage its operations to ensure that funds available are more than adequate to meet demands of its customers and to enable deposits to be repaid on maturity. The main sources of the Bank's funding are capital, core deposits from retail and commercial clients and wholesale deposits. The Bank also maintains a portfolio of readily marketable securities to further strengthen its liquidity position. The Bank's liquidity policies and procedures are set out in its Funding and Liquidity Plan.

As of 31 December 2023 and 30 September 2024, the Bank's total portfolio represented by loans with remaining maturities of one year or less were 11.01 per cent. and 10.49 per cent., respectively. Of the Bank's ₱330.74 billion (U.S.$5.90 billion) total portfolio of investment securities as of 31 December

2023, ₱13.81 billion (U.S.$246.45 million), or 4.17 per cent. of which, was invested in investment securities with remaining maturities of one year or less. As of 30 September 2024, the Bank's gross trading and investment securities portfolio amounted to ₱398.10 billion (U.S.$7.11 billion) and ₱39.21 billion (U.S.$699.8 million) or 9.85 per cent. of such trading and investment securities had remaining maturities of one year or less. The Bank's trading and investment securities account includes securities issued by sovereign issuers, primarily Government treasury bills, fixed rate treasury notes and floating rate treasury notes, and foreign currency denominated bonds issued by the Government.

Other resources include amounts due from the BSP, amounts due from other banks and loans arising from repurchase agreements which accounted for 12.26 per cent., 1.20 per cent. and 2.89 per cent., respectively, of the Bank's total resources as of 31 December 2023 and 7.70 per cent., 0.66 per cent. and 2.37 per cent., respectively, of the Bank's total resources as of 30 September 2024. Deposits with banks are made on a short-term basis with almost all being available on demand or within one month.

The primary responsibility of managing liquidity risk lies with the ALCO, which disseminates its liquidity strategy across all business units within the Bank that conduct activities that impact liquidity. ALCO's primary responsibilities include:

- ensuring that the Bank and its legal vehicles maintain adequate liquidity, sufficient capital and the appropriate funding to meet all business requirements and comply with all regulatory requirements;
- building a stable funding structure by managing the long-term profiles of the Bank's asset and liability maturities (the structural gap);
- managing the balance sheet and ensuring that the strategies are in accordance with adequate liquidity, capital and diversified funding;
- determining asset/liability pricing consistent with the strategies for the balance sheet; diversifying the funding of each legal vehicle of the Bank by source, maturity, instrument and currency;
- implementing policies of the Board of Directors on all issues that affect capital, funding or liquidity; and
- informing the Board of Directors regularly of the liquidity situation of the Bank and informing the Board of Directors immediately if there are any material changes in the Bank's current or prospective liquidity position.

ALCO measures liquidity risk by assessing all of its cash inflows against its outflows to identify the potential for any net shortfalls going forward, including funding requirements for off-balance-sheet commitments. The Bank's core measure of liquidity, the maximum cumulative outflow is defined as the amount of prospective funding that the Bank will require at pre-specified future dates in normal operating requirements and measures the liquidity gap between maturing liabilities and assets. The maximum cumulative outflow limit is proposed by the Treasurer and RMG, reviewed by the Risk Oversight Committee and approved by the Board of Directors.

To ensure that the Bank has sufficient liquidity at all times, the Bank's Treasurer and RMG formulate a contingency plan using extreme scenarios of adverse liquidity and evaluates the Bank's ability to withstand these prolonged scenarios. The contingency plan focuses on the Bank's strategy for coordinating managerial action during a crisis and includes procedures for making up cash flow shortfalls in adverse situations. The plan details the amounts of funds (such as unused credit facilities) the Bank has available to it and the scenarios under which it could use them.

The following table sets forth the asset/liability gap position for the Bank's operations on a consolidated basis as of 31 December 2023:

| (in ₱ millions) | One to three months | Three months to one year | One to five years | More than five years | Non-Maturity | Total |
|---|---|---|---|---|---|---|
| **Resources** | | | | | | |
| Cash and cash equivalents | 190,847 | 1,502 | 1,727 | 1 | 56,031 | 250,108 |
| Investments — net | 9,989 | 3,818 | 112,095 | 201,914 | 2,926 | 330,742 |
| Loans and receivables — net | 38,995 | 29,486 | 153,155 | 151,395 | 249,118 | 622,149 |
| Other resources— net | 7,716 | 6,507 | 1,100 | 1,354 | 18,656 | 35,333 |
| **Total Resources** | **247,547** | **41,313** | **268,077** | **354,664** | **326,731** | **1,238,332** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Deposit liabilities | 184,137 | 15,725 | 22,859 | 7 | 733,984 | 956,712 |
| Bills payable | 42,698 | 2,293 | 4,349 | 396 | 1,122 | 50,858 |
| Bonds payable | - | 30,809 | 4,130 | - | - | 34,939 |
| Other liabilities | 12,833 | 16,507 | 297 | 411 | 13,500 | 43,548 |
| Total liabilities | 239,668 | 65,334 | 31,635 | 814 | 748,606 | 1,086,057 |
| **Equity** | - | - | - | - | **152,275** | **152,275** |
| Total liabilities and equity | 239,668 | 65,334 | 31,635 | 814 | 900,881 | 1,238,332 |
| **On-book gap** | **7,879** | **(24,021)** | **236,442** | **353,850** | **(574,150)** | **-** |
| **Cumulative on-book gap** | **7,879** | **(16,142)** | **220,300** | **574,150** | - | - |
| Contingent resources | 76,611 | 29,133 | 80 | 42,460 | - | 148,284 |
| Contingent liabilities | 101,928 | 30,155 | 81 | 44,371 | - | 176,535 |
| **Off-book gap** | **(18,478)** | **(49)** | - | - | - | **(18,527)** |
| **Cumulative off-book gap** | **(18,478)** | **(18,527)** | **(18,527)** | **(18,527)** | **(18,527)** | - |
| **Periodic gap** | **(10,599)** | **(24,070)** | **236,442** | **353,850** | **(574,150)** | **18,527** |
| **Cumulative total gap** | **(10,599)** | **(34,669)** | **201,773** | **555,623** | **(18,527)** | - |

The following table sets forth the asset/liability gap position for the Bank's operations on a consolidated basis as of 30 September 2024:

| (in ₱ millions) | One to three months | Three months to one year | One to five years | More than five years | Non-Maturity | Total |
|---|---|---|---|---|---|---|
| **Resources** | | | | | | |
| Cash and cash equivalents | 99,583 | 565 | 1,685 | 19,547 | 47,607 | 168,987 |
| Investments — net | 11,730 | 16,904 | 135,600 | 223,290 | 10,576 | 398,100 |
| Loans and receivables — net | 36,246 | 34,866 | 166,546 | 169,630 | 273,934 | 681,222 |
| Other resources— net | 119 | 7,540 | 170 | - | 28,834 | 36,663 |
| **Total Resources** | **147,678** | **59,875** | **304,001** | **412,467** | **360,951** | **1,284,972** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Deposit liabilities | 202,283 | 23,138 | 28,844 | 304,705 | 431,470 | 990,440 |
| Bills payable | 23,732 | 16,559 | 18,275 | 587 | - | 59,153 |
| Bonds payable | - | - | 26,578 | - | - | 26,578 |
| Accrued interest and other expenses | 4,642 | 198 | 253 | - | 5,156 | 10,249 |
| Other liabilities | 12,830 | 18,976 | 252 | - | 8,395 | 40,453 |
| Total liabilities | 243,487 | 58,871 | 74,202 | 305,292 | 445,021 | 1,126,873 |
| **Equity** | - | - | - | - | 158,099 | 158,099 |
| Total liabilities and equity | 243,487 | 58,871 | 74,202 | 305,292 | 603,120 | 1,284,972 |
| **On-book gap** | (95,809) | 1,004 | 229,799 | 107,175 | (242,169) | - |
| **Cumulative on-book gap** | (95,809) | (94,805) | 134,994 | 242,169 | - | - |
| Contingent resources | 76,611 | 29,133 | 80 | 42,460 | - | 148,284 |
| Contingent liabilities | 101,928 | 30,155 | 81 | 44,371 | - | 176,535 |
| **Off-book gap** | (25,317) | (1,022) | (1) | (1,911) | - | (28,251) |
| **Cumulative off-book gap** | (25,317) | (26,339) | (26,340) | (28,251) | (28,251) | - |
| **Periodic gap** | (121,126) | (18) | 229,798 | 105,264 | (242,169) | (28,251) |
| **Cumulative total gap** | (121,126) | (121,144) | 108,654 | 213,918 | (28,251) | - |

### Interest Rate Risk Management

The Bank follows a policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates is kept within acceptable limits. The Bank's risk measurement system incorporates different risk factors for different categories of instruments (e.g. fixed income or money market) within each currency where the Bank holds interest rate sensitive positions.

ALCO meets at least weekly to set rates for various asset and liability and trading products. In pricing interest rates, foreign exchange and fee-based products, ALCO considers funding costs, market conditions, transaction volume, competitor's rates, among others, when pricing interest rates, foreign exchange and fee-based products.

A majority of the Bank's total loan portfolio is on a floating rate based on an internal cost of funds. The spread varies for various types of loans and credit quality. Loan rates and the bulk of the deposit liabilities which are in special savings accounts are reset every 30 to 90 days. Hence, exposure to interest rate fluctuations is significantly reduced. No interest is paid on certain current accounts, while regular savings accounts earn a fixed rate between 0.15 per cent. to 0.45 per cent. per annum, applied to Dragon Savings depending on the amount of deposit.

The Bank employs a "gap analysis" to measure the interest rate sensitivity of its assets and liabilities. The asset/liability gap analysis measures, for any given period, any mismatch between the amounts of interest earning assets and interest-bearing liabilities which would re-price, during that period. If there is a positive gap, there is asset sensitivity, which generally means that an increase in the interest rates would have a positive effect on the Bank's net interest income. If there is a negative gap, this generally means that an increase in the interest rates would have a negative effect on the Bank's net interest income.

**Credit Risk Management**

Credit risk is the risk that the borrower, issuer or counterparty in a transaction may default and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the Bank. The Bank manages credit risk through a system of policies and authorities that govern the processes and practices of all credit-originating and borrowing relationship management units.

The Enterprise Risk division of RMG assists senior management: (a) to establish risk concentration limits accepted at the level of the single borrower, related borrower group, industry segments, and sovereign jurisdiction; and (b) to continuously monitor the actual credit risk portfolio from the perspective of those limits and other risk management objectives. The CMG, on the other hand, is responsible for: (i) the development of credit policies relating to account management; (ii) the financial evaluation and credit risk rating of borrowers; and (iii) asset quality review.

At the individual borrower level, exposure to credit risk is managed via adherence to a set of policies, the most notable features of which, in this context, are: (a) credit approving authority, except as noted below, is not exercised by a single individual but rather, through a hierarchy of limits is effectively exercised collectively; (b) business centre managers have limited approval authority only for credit exposure related to deposit-taking operations in the form of bills purchase, acceptance of second endorsed checks and 1:1 loan accommodations; (c) an independent credit risk assessment by the CMG of large corporate and middle-market borrowers, summarised into a borrower risk rating, is provided as input to the credit decision-making process; and (d) borrower credit analysis is performed at origination and at least annually thereafter.

The Bank primarily uses an internal credit risk rating system (**ICRRS**) developed by Standard & Poor's to determine creditworthiness. The rating system classifies performing accounts from a scale of AAA indicating an extremely strong capacity of the counterparty to meet financial commitments down to ratings below CCC demonstrating a high probability of counterparty's payment default on financial commitments. Default probabilities likewise map to Standard & Poor's "PD" scale. Non-current accounts that are rated below CCC are classified based on the characteristics of classified loans per BSP Manual of Regulations for Banks, i.e., Especially Mentioned, Substandard, Doubtful or Loss.

Impairment provisions are recognised for losses that have been incurred at the end of the reporting period following IAS39 standards. The Bank subjects all loans and receivables with a principal balance of at least ₱15 million and exposures under stage 3 to individual testing.

Significant changes in the economy or in particular industry segments that represent a concentration in the Bank's portfolio could result in losses that are different from those provided for at the end of each reporting period. Management, therefore, carefully monitors the changes and adjusts its exposure to such credit risk, as necessary.

Loans and receivables, regardless if the accounts have been fully paid, extended or renewed in subsequent year or period, are subjected to evaluation for possible losses. The Parent Bank uses its ICRRS to determine any evidence of impairment. The rating system classifies performing accounts from a scale of AAA indicating an extremely strong capacity of the counterparty to meet financial commitments down to ratings below CCC demonstrating a high probability of counterparty's payment default on financial commitments.

***Credit Risk Assessment***

In the process of applying the Bank's ICRRS, the Bank analyses the credit quality of the borrowers and counterparties through a set of criteria and rating scale classified into the following:

| **Risk Rating** | **Rating Description/Criteria** |
|---|---|
| AAA...................... | Extremely strong capacity to meet financial commitments |
| AA* ....................... | Very strong capacity to meet financial commitments |
| A* ......................... | Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances |
| BBB*..................... | Adequate capacity to meet financial commitments, but more subject to adverse economic conditions |
| BB* ...................... | Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions |
| B* ......................... | More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments |
| CCC and below* ... | Not at risk of loss at the moment and the borrower has the financial capacity to meet its obligations but its exposure to adverse business, financial or economic conditions has weakened it and, unless present trends are reversed, could eventually lead to losses |
| Especially Mentioned | Has potential weaknesses that deserve management's close attention and if left uncorrected, these weaknesses may affect the repayment of the loan |
| Substandard ......... | Have well-defined weakness(es), that may jeopardise repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower |
| Doubtful................ | Loans and credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable |
| Loss ..................... | Loans considered absolutely uncollectible or worthless |

Note: *Ratings from AA to CCC are modified by a plus (+) or minus (-) sign to show relative standing within the rating categories.

The foregoing ICRRS was established by the Bank during the first quarter of 2013 in congruence and with reference to the credit risk rating methodology used by S&P in measuring the creditworthiness of an individual debt issue which is still performing or current in status.

The risk ratings determined by the Bank for its portfolio of loans and receivables at a given review date is updated to consider the possible shift in the economy or business environment or circumstances affecting the industry and the entity/borrower, in particular. Accordingly, a periodic assessment of credit quality may improve the borrower's rating or it could lead to one or more rating downgrades over time.

**Credit Approval Process**

The Bank has three Credit Committees for loans, two under CBG (one for each of Corporate Accounts and SMEs) and one under the Treasury Group. The Credit Committees screen and evaluate credit proposals originating from lending units before these are presented to the approving bodies and are in turn served by support units which monitor and review the Bank's credit exposures. The lending units evaluate the borrower and the purpose of the loan and negotiate the terms of the loan with the borrower. At the post-approval stage, lending officers conduct regular client calls in order to monitor the account's performance. Borrowers are required to submit on a regular basis their interim and audited financial statements to monitor the borrowers' financial viability. Credit reviews on borrowers are also conducted regularly to assess the creditworthiness of accounts and their compliance with the Bank's policies and procedures. Movements in the total loan portfolio and exposures to various industries are also regularly monitored.

***Credit Approval Authority***

The authority to extend credit or commit the Bank to extend credit rests on the Board of Directors, which has delegated its authority, subject to certain approval limits, to certain designated credit authorities. All substantial transactions are subject to review and approval by the Executive Committee. In addition, a clear separation of duties exists between the officers recommending credit-related transactions and those who authorise them.

For transactions involving the Bank's DOSRI, approval by the Board of Directors is required for credit/other accommodations regardless of the amounts involved. For non-DOSRI, the Bank has a hierarchy of delegated approving authority based on the amount of the credit facility involved, security arrangement or collateral position, internal credit risk rating, and/or account status. The aggregate amount of the credit/other accommodations (i.e., net of facilities secured by cash collateral) will determine the appropriate credit committee or authority.

*OFW Remittances*

Different approval authority levels and limits apply to the establishment of lines for releasing remittance funds to TeleMoney couriers, depending on the type of collateral offered.

*Consumer Loans*

The approval authority levels and limits differ among the different consumer loan products under RCBC Credit. Approval authority of Credit Analysts and all other lower officers pertain only to the specific loan products assigned. Approval limits for personal loans range between ₱0.01 million to ₱5.0 million, with approving authorities ranging from the Credit Evaluation Officer up to the RCBC Credit President, a Bank officer seconded to RCBC Credit. For amounts exceeding ₱5.0 million but not exceeding ₱20.0 million, approval is requested from both the RCBC Credit President and the Bank's Chief Credit Officer. Amounts beyond ₱20.0 million can only be approved by the Bank President. Approvals provided by employees of RCBC Credit should conform to the credit policies set forth for the respective product line, while approvals with exceptions to the policies can only be approved by Bank officers within their respective delegated authorities.

***Credit Monitoring and Review Process***

It is the Bank's policy that credit performance be systematically monitored by staff other than the officer who initially reviewed the transaction. The credit review process also involves conducting periodic internal evaluations of credit risk processes to determine that credit activities are in compliance with the

Bank's credit policies and procedures, credits are authorised within the guidelines established by the Bank's Board of Directors and the quality and value of individual credits are being accurately reported to senior management.

The Bank performs an account profitability analysis on borrowers when loans are originated and renewed or more frequently for important relationships. The methods of profitability analysis used in the account profitability analyses include return on funds employed, which intends to measure returns on risk assets taking into consideration the capital charge of the risk asset.

As part of its loan portfolio management, the Bank closely monitors past due accounts and their developments. On a weekly basis, Credit Management – Asset Quality consolidates all non-accruing and past due accounts in a report that is sent to the lending groups. The lending groups respond by providing updates on the status of these accounts. These are then reviewed for any unfavourable information and developments which may become reasons/considerations for flagging. Once an account is flagged, this is then reported to the Risk Oversight Committee and to the Credit and Collection committee on a periodic basis.

The Bank policies provide for stress testing to determine the potential for extreme conditions to affect both individual credits and the sectors of the credit portfolios. The three areas of focus for stress testing are: (a) economic or industry down-turns; (b) market-risk events; and (c) liquidity conditions. Stress-test analysis also includes contingency plans regarding the actions that management may take given certain scenarios, such as hedging against outcome or reducing the size of the portfolio. Credit risk officers and risk managers document and report to the Board of Directors the output of the tests.

**Market Risk Management**

The Bank considers market risk as risk resulting from adverse movements in the level or volatility of market rates or prices which will affect the Bank's financial condition. The primary determinant of market risk is the volatility of the relevant market for a business line. The market risks of the bank are: (a) foreign exchange rates; (b) interest rates; and (c) equity prices.

To manage market risk inherent in the Bank's portfolio, the Bank employs a process of identifying, analysing, measuring and controlling relevant market risk factors, and establishing appropriate limits for the various exposures. The market risk metrics in use, each of which has a corresponding limit, include the following:

- ***Nominal Position*** — an open risk position that is held as of any point in time expressed in terms of the nominal amount of the exposure.

- ***Dollar Value of 01*** — an estimate of the price impact due to a one-basis point change in the yield of fixed income securities. It effectively captures both the nominal size of the portfolio as well as its duration. A given DV01 limit accommodates various combinations of portfolio nominal size and duration, thus providing a degree of flexibility to the trading/risk taking function, but at the same time represents a ceiling to the rate sensitivity of the exposure according to the Bank's risk appetite.

- ***Value at Risk*** (**VaR**) — an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movement of the relevant market risk factors; and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Bank uses a 99 per cent. confidence level for this measurement. VaR is used as a risk measure for trading positions, which are marked-to-market (as opposed to exposures resulting from banking, or accrual, book assets and liabilities). Foreign Exchange position VaR uses a one-day holding period, while Fixed Income VaR uses a defeasance period assessed periodically as appropriate to allow an orderly unwinding of the position. VaR models are back-tested to ensure results remain consistent with the expectations based on the chosen statistical confidence level. The Bank employs appropriate back-testing methodology to perform a "reality check" on the models used. More specifically, the current back-test procedure employs the "hypothetical P&L" method where the daily position from which the VaR was computed is marked-to-market using the closing price of that day and the closing price of the next trading day. Any change in value in excess of the day's VaR is treated as an exception.

While the Bank use VaR as an important tool for measuring market risk, it is cognisant of its limitations, notably the following:

- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

- VaR is based on historical volatility. Future volatility may be different due to either random, one-time events or structural changes (including changes in correlation). VaR may be unable to capture volatility due to either of these.

- The holding period assumption may not be valid in all cases, such as during periods of extremely stressed market liquidity.

- VaR is, by definition, an estimate at a specified level of confidence. Losses may occur beyond VaR. A 99 per cent. VaR implies that losses can exceed VaR 1 per cent. of the time.

- In cases where a parametric distribution is assumed to calculate VaR, the assumed distribution may not fit the actual distribution well.

- VaR assumes a static position over the holding period. In reality, trading positions change, even during the trading day.

- ***Net Interest Income-at-Risk*** — Measures the sensitivity of earnings to market interest rates movements over a short- and medium-term horizon. Interest rate volatility is based on the maximum volatility of the one-month, three-month, six-month and one-year tenors over a 260-day look back.

- ***Capital-at-Risk*** — BSP Circular No. 544 refers to the estimation of the effect of interest rate changes as not only with respect to earnings, but also on the Bank's economic value. The estimate therefore must consider the fair valuation effect of rate changes on non-trading positions. These include both those positions with fair value changes against profit or loss, as well as those with fair value changes booked directly against capital funds (e.g., available-for-sale securities); but exclude those whose fair value changes recognised directly in equity. Adding this to the EaR determined using the procedure described above provides a measure of capital subject to interest rate risk. The Bank sets its capital-at-risk limit as a percentage of the equity in the statement of financial position.

In addition to the limits corresponding to the above measurements, the following are also in place:

- ***Loss Limit*** — represents a ceiling on accumulated month-to-date and year-to-date losses. For trading positions, a management action trigger (**MAT**) is also usually defined to be at 50 per cent. of the Loss Limit. When management action trigger is breached, the risk-taking unit must consult with ALCO for approval of a course of action moving forward.

- ***Product Limit*** — the nominal position exposure for certain specific financial instruments is established.

Stress testing, which uses more severe rate/price volatility and/or holding period assumptions, (relative to those used for VaR) is applied to marked-to-market positions to arrive at "worst case" loss estimates. This supplements the VaR measure, in recognition of its limitations.

The Bank's stress testing techniques include:

- ***Simple Sensitivity Tests*** — determine the impact on income of movements of one or more market risk factors using set percentage changes;
- ***Scenario Analysis*** — describes scenarios (based on historical or hypothetical scenarios) that the Bank's risk managers deem may happen in the foreseeable future and the consequences thereof; and
- ***Maximum Loss Approach*** — uses a combination of events that risk managers believe would be most damaging to the Bank's portfolio.

**Foreign Currency Risk Management**

The BSP has numerous regulations related to foreign currency management. The Bank complies with all of these, including limits on foreign currency exposures, liquidity reserves and types of currencies allowed for trading.

The Bank's risk measurement system incorporates risk factors for each different foreign currency in which the Bank's positions are determined. Foreign exchange positions are generally classified as trading positions and are marked-to-market at least daily. Foreign exchange forwards are classified at inception as either "trading" (outright open positions without an offsetting foreign exchange contract) or "hedging" (positions with an offsetting foreign exchange contract, generally part of a foreign exchange swap transaction). Each classification has a separate profit and loss accounting methodology assigned: net present value marked-to-market for trading positions and straight-line allocation for hedging positions.

In addition, the Bank regularly calculates the foreign currency VaR. As of 31 December 2023 and 30 September 2024, the Bank's total foreign currency VaR were U.S.$804,000 and U.S.$1.88 million respectively, while its total forwards/swaps VaR were U.S.$894,000 and U.S.$2.09 million respectively. A system of loss limits and MAT is utilised to control losses. Foreign exchange related products are also discussed and pricing policies set by the ALCO.

The Bank's Treasurer has the ultimate responsibility over the Bank's foreign exchange risk and can rebalance the allocation of foreign exchange risks among specific currencies and strategies according to the overall nature of foreign exchange exposures approved by management.

**Operational Risk Management**

Operational risk is the risk arising from the potential that inadequate information systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls, fraud or unforeseen catastrophes will result in unexpected loss. Operational risk includes the risk of loss arising from various types of human or technical error, settlement or payment failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The Bank maintains departmental operations manuals that are periodically updated. A central tenet of these manuals is that transactions and items of value are subject to a system of dual control whereby the work of one person is verified by a second person to ensure that the transactions are properly authorised, recorded and settled.

In addition, the Bank places emphasis on the security of its computer systems and has a comprehensive IT security policy. External vulnerability and penetration testing is performed at least annually as required by relevant BSP regulations. The Bank has also designated a security administrator independent of the front office who is responsible for maintaining strict control over user access privileges to the Bank's information systems.

The Bank has also developed a business continuity plan based on several crisis severity levels which is tested at least annually and updated for any major changes in systems and procedures. Central to the Bank's business continuity plan is a disaster recovery plan to address the continued functioning of systems, recovery of critical data and contingency processing requirements in the event of a disaster.

***Operational Controls and Procedures in Branches***

The Bank employs several operational control measures and procedures to mitigate risks in its branches. These include the segregation of duties such that no individual has complete authority and responsibility for handling all phases of any transaction. Branches are now positioned as servicing channels with greater focus on process control, compliance, and customer service. Control layers have been set in place to ensure that proper due diligence is performed for client onboarding, client records updating, and transactions processing. An Approval Authorities Manual has been issued to identify approving authorities and approval limits of officers in the bank. The necessary review and scrutiny of a transaction must be performed by an authorised associate of a branch or operating unit before proceeding with the processing of transactions. In addition, the use of Bank's operations system is limited to authorised employees. Reconciliation and balancing procedures are done regularly to establish the accuracy of branch records and establish employee accountability.

The Bank also has security policies and procedures which are currently being implemented for the purpose of attaining safety and security of both the Bank and its personnel. These include: (a) personnel security, with the objective of ensuring that employees of the bank are capable, reliable, trustworthy and loyal, in consonance with the Bank's hiring policies, and to provide guidelines with the screening and training of agency personnel to become more effective in their duties; (b) documents and information security, with the objective of determining the security to be applied to the hardware/software of the Bank depending on its classification such as critical, confidential, internal use and unclassified; (c) information and system availability to ensure that a system or process is in place for identifying those assets that would severely affect the operation of the Bank if they become unavailable; and (d) physical security, which includes structural barriers such as fences, lights, doors, windows, vault walls and doors.

Branch operations are governed by policy guidelines and procedures that are formulated to guide the officers and staff in the process of initiating day-to-day banking transactions with the objective of providing more value-added services and better banking experience to the Bank's clients in the most efficient way possible. Compliance reviews and regular audit examinations are also being done to ensure that the Bank's policies and procedures are properly implemented.

***RCBC Online-Corporate***

RCBC Online-Corporate (**ROC**) is the Bank's corporate banking channel that lets corporate clients manage their RCBC corporate accounts online. Through ROC, clients can manage their corporate accounts more efficiently and conveniently by allowing clients to do online balance inquiry, view transaction history, initiate funds transfers and payments and send requests and instructions to the Bank. Enrolment in ROC requires the establishment of an active account compliant with the Bank's KYC standards. ROC's added security feature is the one-time password, a secondary password transmitted either through email or SMS for the user to encode in addition to its login credentials.

***Operational Controls and Procedures in Treasury***

The Bank has implemented pre-trade control policies and procedures, which include ensuring that: (a) dealers are aware of established dealing conventions; (b) operating systems have been tested and approved for production; (c) the necessary authorities have approved dealing limits; and (d) counterparties are identified and validated and required documentation is in place.

The Bank's front office treasury policies and controls include ensuring that delegated authority is issued to each dealer, reconciling dealers' positions against the Bank's accounting records, monitoring credit exposure and market risk limits, entering trades and transactions into the system in a timely and accurate manner and checking dealing system information on a spot basis. The Treasury Operations Department reviews trade information in the treasury system and deal tickets to ensure that deals are recorded and input properly. The Treasury Operations Department also has the responsibility of investigating and resolving inconsistencies in the confirmation process.

Treasury positions for each issue, issuer, industry, rating category and country of issuer are reported to ALCO on a trade date basis. These positions are compared to the approved limits. The age of securities positions is monitored on a first in/first out basis from the trade's inception. Due to differing valuation standards, the Bank places controls on internal transfers of securities from their accounts as inception to other classifications.

Non-standard transactions not booked routinely in the back-office system, are subject to special procedures. A business unit head of the unit entering the transaction must verify that all back-office necessary systems required to book, value and measure exposure of the transaction are in place or can be developed in a timely manner.

The Treasury Operations Department undertakes the settlement of funds and securities and follows procedures and controls designed to minimise operational risk, including procedures concerning confirmation matching of payments from counterparties, dealing with confirmation exceptions and reporting settlement exposures and payment failures. The Treasury Operations Department reports all projected settlement exposures as well as any payment failures to the credit officers in charge of the counterparty or customer relationship.

In addition, the Bank has implemented operational control policies for accounting and financial control to ensure that transactions are properly recorded in the balance sheet and income statement. These include reconciliation of treasury accounts with the general ledger of the Bank's financial management system. There is an independent regular mark-to-market process that values portfolio positions at current prices/levels that are provided through the live price feed of Reuters or Bloomberg and from other independent third party sources. These generate the estimated mark-to-market of the investment portfolios or positions independent of the front and back office.

### *Internal Audit*

The Bank's internal audit function is performed by its Internal Audit Group (**IAG**), overseen by the Audit and Compliance Committee and conducted pursuant to an audit plan. The IAG undertakes a comprehensive audit of all business groups and other functions. The IAG performs a financial audit every quarter and undertakes a risk-based audit of all businesses and operating units on a twelve- to thirty-six months cycle depending on the unit's risk score. Various components of IT from applications to databases, networks and operating systems are covered under the annual audit plan. The Bank's audit plan is approved by the Audit and Compliance Committee and the Board of Directors. Pursuant to BSP regulations, banks in the Philippines are required to constitute an audit committee comprised of at least two independent directors. The Bank's Audit and Compliance Committee provides guidance and oversees the responsibilities of the internal and external audits of the Bank. It also provides an independent line of reporting for the internal audit function.

### *Anti-Money Laundering Controls*

The AMLA was passed in September 2001. It was subsequently amended by Republic Act Nos. 9194, 10167 and 10365 in March 2003, June 2012 and February 2013, respectively. The Terrorism Financing Prevention and Suppression Act (Republic Act No. 10168) was passed in June 2012.

Under the AMLA, as amended, the Group is required to submit covered transaction reports. Covered transaction reports involve single transactions in cash or other equivalent monetary instruments in excess of ₱500,000.00 within one banking day. The Group is also required to submit suspicious transaction reports to the AMLC. Suspicious transaction reports are reports involving transactions with covered institutions, such as banks, regardless of the amount involved, where any of the following circumstances exists:

(a) there is no underlying legal or trade obligation, purpose or economic justification;
(b) the customer or client is not properly identified;
(c) the amount involved is not commensurate with the business or financial capacity of the client;
(d) the transaction is structured to avoid being the subject of reporting requirements under the AMLA;
(e) there is a deviation from the client's profile or past transaction;
(f) the transaction is related to an unlawful activity or offence under AMLA; or
(g) similar or analogous transactions to the above.

The AMLA requires the Group to safe keep, as long as the account exists, all the know your customer documents involving its clients, including documents that establish and record their true and full identity. In addition, transactional documents are required to be maintained and stored for five years from the date of the transaction. In cases involving closed accounts, the know your customer documents must be retained for five years after their closure. Meanwhile, all records of accounts with court cases must be preserved until resolved with finality. 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 a 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.

On 27 January 2011, BSP Circular No. 706 was implemented, superseding prior rules and regulations on AMLA. The circular requires the Group to adopt a comprehensive and risk-based money laundering and terrorist financing prevention program designed according to the covered institution's corporate structure and risk profile. In compliance with the risk-based approach mandated by the circular, the Group profiles its clients based on their level of risk, specifically, Low, Normal, or High. These risk levels have their corresponding level of due diligence, specifically, Reduced, Average or Enhanced.

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.

In July 2017, Republic Act No. 10927 was also signed into law further expanding 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 ₱5.0 million or its equivalent in any other currency. 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 often years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

In compliance with the law, banks, their officers and employees are prohibited from communicating directly or indirectly to any person or entity, the fact that a report was made to the AMLC and any information relating to such report. A violation of the said rule is deemed a criminal act.

On 18 July 2020, Republic Act No. 11479 or 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. In this regard, 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 refers to the money laundering/terrorist/proliferation financing risk assessment system (**MRAS**) applicable to BSP-supervised financial institutions.

On 30 March 2023, BSP Circular No. 1170, s. 2023 was issued which amended the provisions of the Manual of Regulation for Banks on Customer Due Diligence (**CDD**). The circular provides that "where a covered person is unable to comply with the relevant CDD measures, considering risk-based approach, it shall (a) not open the account, commence business relations, or perform the transaction; or (b) terminate the business relationship; but in both cases, it shall consider filing a suspicious transaction report (**STR**) in relation to the customer." The Circular also includes the guidelines for the use of the Electronic Know Your Customer (**KYC**) system as a method of electronically verifying the credentials of a customer.

The Group's money laundering and terrorist financing prevention program contains policies on: (i) risk assessment; (ii) preventive measures including customer/beneficial owner identification and verification, and ongoing monitoring of customers, accounts and transactions; (iii) record keeping and retention; (iv) training programs; (v) freeze orders, bank inquiries and asset forfeitures and (vi) violations of the provisions of the money laundering and terrorist financing prevention program, among others. The Group performs an institutional risk assessment at least once every two years focusing on evaluating the Group's inherent money laundering, terrorist financing and proliferation financing risks presented by the Group's business activities and the controls in place to mitigate such inherent risks and to determine overall residual risk. The Group's money laundering and terrorist financing prevention program is revised annually to ensure that its KYC policies and guidelines are updated. Under the guidelines, each business unit is required to validate the true identity of a customer based on official or other reliable identifying documents or records prior to account opening. Decisions to enter into a business relationship with a high risk customer requires senior management approval, and in some cases such as a politically exposed person or a private individual holding a prominent position, a Group head's approval is necessary.

The Group's Chief Compliance Officer, through the Anti-Money Laundering Division, monitors AML and counter-financing terrorism (**CFT**) compliance by conducting regular compliance testing of the head office and business units. Results of its AML and CTF activities and compliance monitoring are regularly reported to the AML Committee, Senior Management Committees and the Board of Directors to ensure that all AML and CFT matters are appropriately escalated.

In 2016, the Group instituted reforms aimed to reinforce its AML and CTF controls. The Group significantly lowered the thresholds for remittances, required more posting reviews during the day, and strengthened the process for escalation, fraud and unusual transactions. In addition, the Group has embarked on a re-engineering of its settlements and business centre operations, and the consolidation and strengthening of its fraud management framework.

### Legal Risk and Regulatory Risk Management

Changes in laws and regulations and fiscal policies could adversely affect the Bank. In addition, the Bank faces legal risks in enforcing its rights under its loan agreements, such as foreclosing of collateral. Legal risk is higher in new areas of business where the law remains untested by the courts. The Bank uses a legal review process as the primary control mechanism for legal risk. Such a legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions. In addition, the Bank seeks to minimise its legal risk by using stringent legal documentation, imposing certain requirements designed to ensure that transactions are properly authorised and consulting internal and external legal advisers.

Regulatory risk refers to the potential for the Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of the country. The Bank's compliance programme, the design and implementation of which is overseen and coordinated by the Compliance Officer, is the primary control process for regulatory risk issues. The Compliance Office is committed to safeguard the integrity of the Bank by maintaining a high level of regulatory compliance. It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing periodic compliance testing on branches and head office units, and reporting compliance findings to the Audit and Compliance Committee and the Board of Directors.

### Capital Adequacy

The Philippines adopted capital adequacy requirements based on the Basel Capital Accord in July 2001. In 2013, the Basel III implementing guidelines on minimum capital requirements were issued. As of 31 December 2023 and 30 September 2024, the Bank's core capital ratio (the ratio of Tier 1 Capital to risk-weighted assets) was 16.53 per cent. and 15.36 per cent., respectively, while its risk-weighted capital ratio (the ratio of total capital to risk-weighted assets) was 17.37 per cent. and 16.31 per cent., respectively. Under Basel III standards, the BSP's minimum risk-weighted capital ratio is currently 10.0 per cent. See "*Capital Adequacy Ratios*".

## DESCRIPTION OF THE BANK'S ASSETS AND LIABILITIES

The tables below and accompanying discussions provide selected financial highlights regarding the Bank's assets and liabilities. The following information should be read together with the Bank's financial statements included in this Offering Circular as well as "Risk Management and Compliance" and "Description of the Bank".

### Funding

The Bank's main sources of funding are time, savings and demand deposits. As of 30 September 2024, deposits represented 77.08 per cent. of the Bank's total assets. As of 30 September 2024, time, savings and demand deposits represented 49.34 per cent., 28.90 per cent. and 21.76 per cent., respectively, of total consolidated deposits of ₱990.44 billion (U.S.$17.68 billion). In recent years, the Bank has made directed efforts to increase its deposit base. The Bank also sources its funding requirements from the interbank market and general financings.

### Sources of Funding

The following table sets forth an analysis of the Bank's principal funding sources and the average cost of each funding source as of the dates indicated:

| | As of 31 December | | | | | | As of 30 September | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2023 | | 2024 | |
| | Amount in ₱ millions | Ave Cost (per cent.) | Amount in ₱ millions | Ave Cost (per cent.) | Amount in ₱ millions | Ave Cost (per cent.) | Amount in ₱ millions | Ave Cost (per cent.) |
| **Deposits by type** | | | | | | | | |
| Demand............ | 144,810 | 0.43 | 174,563 | 0.57 | 214,395 | 1.10 | 215,490 | 0.83 |
| Savings ............ | 228,470 | 0.28 | 246,242 | 0.39 | 287,738 | 1.28 | 286,253 | 1.30 |
| Time ................. | 293,097 | 1.11 | 430,357 | 2.35 | 450,999 | 5.26 | 488,697 | 3.83 |
| Long-term Negotiable Certificate of Deposits (LTNCD) | 6,082 | 5.5 | 6,082 | 5.5 | 3,580 | 5.5 | - | - |
| **Total** .................... | **672,459** | **0.68** | **857,244** | **1.36** | **956,712** | **3.19** | **990,440** | **2.44** |
| **Deposits by currency** | | | | | | | | |
| Peso ................. | 551,858 | 0.77 | 686,631 | 1.44 | 767,255 | 3.32 | 725,575 | 2.59 |
| Foreign currency ........... | 120,601 | 0.31 | 170,613 | 1.05 | 189,457 | 2.64 | 264,865 | 1.94 |
| **Total** .................... | **672,459** | **0.68** | **857,244** | **1.36** | **956,712** | **3.19** | **990,440** | **2.44** |
| **Borrowing** | | | | | | | | |
| Peso ................. | 58,472 | 4.25 | 40,864 | 4.73 | 25,787 | 9.23 | 10,176 | 21.58 |
| Foreign currency ........... | 84,647 | 3.00 | 100,207 | 2.60 | 60,010 | 1.35 | 75,555 | 0.04 |
| **Total** .................... | **143,119** | **3.68** | **141,071** | **3.62** | **85,797** | **4.50** | **85,731** | **3.95** |

### *Deposits*

The Bank's principal sources of deposits are corporations and institutions. As of 30 September 2024, the Bank's largest depositor made up 1.98 per cent. of its total deposits, and the Bank's largest five depositors made up 7.11 per cent. of its total deposits. As of 30 September 2024, corporate and institutional deposits accounted for approximately 56.34 per cent. of the Bank's consolidated total Peso-denominated deposit liabilities. The remainder of the deposits comprises principally deposits by individuals. The Bank's foreign currency denominated deposits and funding are primarily handled through its FCDU operation, which is permitted to accept deposits and extend credit in foreign currencies. As of 30 September 2024, the Bank's foreign currency deposits made up 26.74 per cent. of its total deposits.

The Bank has expanded its sources of funding in order to diversify the scheduled maturities of deposits and maintain a funding portfolio that will enable it to achieve funding stability and liquidity, and reduce the discrepancies between its loan and deposit maturities. The Bank has also introduced and plans to continue to introduce, internal and external programmes to encourage increases in deposits, particularly traditional demand and savings deposits, such as the Deposit and Drive Raffle Promo, the introduction of the Hexagon Club and ongoing offer of special rates for certain deposit accounts. Although the majority of the Bank's customer deposits are short term, the Bank's depositors typically roll over their deposits at maturity, effectively providing the Bank with a source of long-term funds.

As of 30 September 2024, 50.66 per cent. of the Bank's outstanding deposits were demand and savings deposits which can be withdrawn on demand without any prior notice from the Bank's customers, as compared to 52.49 per cent. as of 30 September 2024. The following table sets out, as of the dates indicated, an analysis of the maturities of the deposit base of the Bank:

| | As of 31 December | | | As of 30 September |
|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 |
| | (₱ millions) | | | |
| **Deposits by type** | | | | |
| Demand | 144,810 | 174,563 | 214,395 | 215,490 |
| Savings | 228,470 | 246,242 | 287,738 | 286,253 |
| **Time** | | | | |
| Up to 1 year | 281,928 | 408,034 | 421,709 | 455,360 |
| Over 1 year to 5 years | 1,784 | 17,856 | 23,008 | 16,571 |
| Over 5 years | 15,467 | 10,549 | 9,862 | 16,766 |
| Total time deposits | 299,179 | 436,439 | 454,579 | 488,697 |
| **Total** | **672,459** | **857,244** | **956,712** | **990,440** |

The Bank also maintains credit lines with domestic commercial banks and financial institutions in the interbank market primarily for treasury management purposes. Interbank borrowings are typically for short-term duration of between one day and a few weeks. Interbank deposits do not usually form a significant part of the Bank's funding base but, together with the Government bond market, are important in the management of the Bank's liquidity. The BSP is a lender of last resort to the Philippine banking industry. The Bank has not had to resort to this facility but has managed its liquidity through its participation in the interbank market in the Philippines.

The Bank is a member of the Philippine Deposit Insurance Corporation (the **PDIC**) which insures all deposits up to a maximum of ₱500,000 per depositor. The PDIC is funded by semi-annual assessment fees at a prescribed percentage of the Bank's deposit liabilities less certain exclusions.

### *Bills Payable and Other Borrowings*

The Bank also sources funds through bills payable. As of 30 September 2024, bills payable, which represent borrowings from local and foreign banks, amounted to approximately ₱59.15 billion (U.S.$1.06 billion). As of 30 September 2024, approximately 89.84 per cent. of bills payable were denominated in foreign currencies. The following table sets forth, as of the dates indicated, information related to the Bank's short-term borrowings, which are comprised primarily of money-market borrowings. Short-term borrowings exclude deposits and securities sold under repurchase agreements.

| | As of 31 December | | | As of 30 September |
|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 |
| | (Amount in ₱ millions, except for percentages) | | | |
| **Total bills payable** | | | | |
| Period-end balance................. | 55,904 | 66,660 | 50,858 | 59,153 |
| Average balance during the period.................................... | 19,121 | 27,958 | 43,980 | 45,047 |
| Maximum outstanding............. | 55,904 | 66,660 | 66,074 | 64,106 |
| Average interest rate during the period (per cent.) .................... | 2.20 | 2.95 | 5.57 | 4.63 |

***Capital Market Issuance***

The Bank may also issue senior, subordinated or hybrid debt from time to time in order to raise funds or strengthen its capital base.

*Long-term Negotiable Certificates of Deposit (**LTNCDs**)*

The Bank had no LTNCDs outstanding as of 30 September 2024.

*Debt Issuance*

On 31 March 2021, the Bank issued ₱4,129,730,000 4.18 per cent. ASEAN sustainability bonds due in 2026, under its ₱100 billion bond and commercial paper programme. On 17 January 2024, the Bank issued U.S.$400 million 5.50 per cent. unsecured sustainability bonds due in 2029 under its U.S.$3,000,000,000 Medium Term Note Programme.

**Liquidity**

The Bank must manage its liquidity to meet financial liabilities arising from the withdrawal of deposits, repayments of deposits at maturity and working capital needs. Funds are required to create assets in the form of loans and extensions of other forms of credit, investments in securities, trade financing, and capital investments. The Bank seeks to ensure sufficient liquidity through a combination of active management of liabilities, a highly liquid asset portfolio, the securing of an ample money market line, and the maintenance of repurchase facilities to protect against any unexpected liquidity shortages.

Under BSP Circular Nos. 1041, 1054, and 1056 (2019), universal and commercial banks (including the Bank) are required to maintain regular reserves of: (a) 14.0 per cent. against demand deposits, negotiable order of withdrawal accounts, savings deposits, time deposits, negotiable certificates of time deposits, long-term negotiable tax exempt certificates of time deposits, 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) 4.0 per cent. against LTNCDs under BSP Circular No. 304; (c) zero per cent. against deposit substitutes evidenced by repossession agreements and interbank call loan under Section 343 of the BSP MORB; and (d) 3.0 per cent. against bonds.

On 15 October 2019, the Monetary Board approved the reduction in the reserve requirement ratio for bonds issued by banks and quasi-banks from 6.0 per cent. to 3.0 per cent. The reduced reserve requirement ratio was implemented in furtherance of the BSP’s commitment to contribute to the development of the local debt market. It also intends to incentivise both banks and quasi-banks to tap the domestic bond market as part of their liquidity management. The new reserve requirement ratio took effect on 1 November 2019 and, accordingly, all domestic issuances of bonds by banks and quasi-banks as of 1 November 2019 will be covered by the reduced reserve requirement rate.

On 24 October 2019, the Monetary Board announced its plan to reduce the reserve requirement ratio by 100 basis points (or one percentage point) for universal/commercial and thrift banks. Local banks will only be required to reserve 14.0 per cent. of their deposits and deposit substitute liabilities. The reserve requirement reduction is in line with the BSP's broad financial sector reform agenda to promote a more efficient financial system by lowering financial intermediation costs. The adjustment in reserve requirement ratios is also aimed at ensuring sufficient domestic liquidity in support of economic activity. The reduction took effect in December 2019.

On 23 March 2020, the Monetary Board authorised the BSP to reduce the reserve requirement ratios of BSP-supervised financial institutions. Pursuant to this authority, the BSP reduced by 200 bps the reserve requirement ratio of reservable liabilities of universal and commercial banks effective 3 April 2020 from 14.0 per cent. to 12.0 per cent. The reduction intended to calm the markets and to encourage banks to continue lending to both retail and corporate sectors, thereby ensuring sufficient domestic liquidity in support of economic activity amidst the global pandemic due to COVID-19.

Pursuant to Circular No. 1086, the BSP also requires banks to maintain cover of 100.0 per cent. for foreign currency liabilities of their FCDUs (except for U.S. Dollar-denominated repurchase agreements with the BSP) following a two-week rolling compliance period with the ability to offset any deficiency in asset cover occurring in one or more days of the week by the excess cover that it may hold on the same week and in the immediately succeeding week. The Bank has complied with the legal and liquidity reserve requirements for both Peso and FCDU deposits.

Effective 30 June 2023, the rates of required reserves against deposit and deposit substitute liabilities in local currency of banks are 9.5 per cent. for universal banks (**UBs**)/commercial banks (**KBs**), 6 per cent. for digital banks, 2 per cent. for standalone thrift banks (**TBs**), and 1 per cent. for rural banks (**RBs**)/cooperative banks (**Coop Banks**) pursuant to Circular No. 1175. Effective 25 October 2024, the rates of required reserves against deposit and deposit substitute liabilities in local currency of banks stand at 7 per cent. for UBs/KBs, 4 per cent. for Digital Banks, 1 per cent. for TBs, and 0 per cent. for RBs/Coop Banks.

The Bank currently complies with all of the requirements described above.

As of 30 September 2024, the Bank's liquid assets amounted to ₱309.83 billion (U.S.$5.53 billion), representing 24.11 per cent. of the Bank's total resources. Liquid assets include cash and other cash items, amounts due from BSP, amounts due from other banks, interbank loan receivables and trading and investment securities (excluding investment securities at amortised cost).

The following table sets forth information with respect to the Bank's liquidity position as of the dates indicated:

| | As of 31 December | | | As of 30 September |
|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 |
| | (Amount in ₱ millions, except for percentages) | | | |
| Liquid assets[(1)] | 254,901 | 330,306 | 344,323 | 309,833 |
| **Financial ratios** (per cent.) | | | | |
| Liquid assets-to-total assets ...... | 26.58% | 28.62% | 27.81% | 24.11% |
| Liquid assets-to-total deposits ... | 37.91% | 38.53% | 35.99% | 31.28% |
| Net loans-to-total deposits......... | 82.53% | 66.62% | 67.91% | 70.10% |

Note:

(1) Liquid assets includes cash and cash items, deposits with the BSP and deposits with other banks, loan and receivables arising from revise repurchase agreement, interbank loan receivables, fair value through profit or loss and fair value through other comprehensive income.

***Loan Portfolio***

As of 30 September 2024, the Bank's total consolidated loan portfolio amounted to ₱697.7 billion (U.S.$12.5 billion), representing approximately 52.7 per cent. of its total resources as of that date. The Bank's total consolidated loan portfolio increased by 9.0 per cent. from 31 December 2023 primarily due to the 28.6 per cent. growth in consumer loans.

As of 30 September 2024, loans to the corporate market were ₱284.9 billion (U.S.$5.1 billion) as compared to ₱291.5 billion (U.S.$5.2 billion) as of 31 December 2023. Corporate lending accounted for 42 per cent. of the total gross loan portfolio of the Bank as of 30 September 2024. Lending to SMEs totalled ₱130.7 billion (U.S.$2.3 billion) as of 30 September 2024, accounting for 19.2 per cent. of the Bank's total gross loan portfolio. Lending to consumers totalled ₱261.8 billion (U.S.$4.6 billion) as of 30 September 2024, accounting for 38.6 per cent. of the Bank's total gross loan portfolio.

***Industry Concentration***

As of 30 September 2024, the consumer industry represented the largest sector of the Bank's consolidated loan portfolio at 38 per cent. The majority of real estate lending comprises mortgage loans to consumers and working capital loans to private real estate developers. The second largest industry concentration of the Bank is the real estate, renting and other related activities followed by the electricity, gas and water sector. The Bank has set industry limits reviewed on a periodic basis to manage risk concentrations.

The following table sets forth an analysis of the Bank's consolidated loan portfolio by economic activity, as defined and categorised by the BSP:

| | **As of 31 December** | | | | | | **As of 30 September** | |
|---|---|---|---|---|---|---|---|---|
| | **2021** | | **2022** | | **2023** | | **2024** | |
| | **Amount in ₱ millions** | **(per cent.)** | **Amount in ₱ millions** | **(per cent.)** | **Amount in ₱ millions** | **(per cent.)** | **Amount in ₱ millions** | **(per cent.)** |
| Consumer........... | 145,560 | 28 | 158,481 | 29 | 201,949 | 32 | 258,409 | 38 |
| Real estate, renting and other related activities............. | 89,891 | 18 | 80,276 | 15 | 100,918 | 16 | 93,594 | 14 |
| Electricity, gas and water .................. | 69,258 | 14 | 73,970 | 14 | 70,407 | 11 | 65,601 | 10 |
| Wholesale and retail trade................... | 57,829 | 11 | 69,080 | 13 | 63,963 | 10 | 68,963 | 10 |
| Manufacturing (various industries)........... | 55,618 | 11 | 50,441 | 9 | 58,061 | 9 | 45,637 | 7 |
| Transportation and communication.... | 41,080 | 8 | 49,605 | 9 | 53,146 | 9 | 47,190 | 7 |
| Financial intermediaries...... | 33,794 | 7 | 39,878 | 7 | 49,479 | 8 | 74,345 | 11 |
| Agriculture, fishing and forestry......... | 4,414 | 1 | 5,285 | 1 | 5,076 | 1 | 4,320 | 1 |
| Hotels and restaurants.......... | 4,207 | 1 | 4,616 | 1 | 4,079 | 1 | 3,687 | 1 |
| Other community, social and personal activities............. | 2,439 | - | 2,817 | 1 | 2,847 | 1 | 3,092 | - |
| Mining and quarrying ............ | 1,022 | - | 1,193 | - | 2,243 | - | 3,711 | 1 |
| Others ................ | 7,619 | 1 | 7,704 | 1 | 9,754 | 2 | 9,230 | 1 |
| **Total** .................. | **512,731** | **100** | **543,346** | **100** | **621,922** | **100** | **677,779** | **100** |

The Bank intends to continue to focus its lending activities on lower risk areas such as Government-guaranteed loans, top tier corporate loans, trade finance loans, and mortgage loans.

The Bank subscribes to internal policies toward exposure to the Philippine economy, while striking a balance with prescribed regulatory exposure limits. Internal industry limits are reviewed regularly taking into consideration the demands of the economy and the strategy set by the Bank. The Bank also 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 SMEs. Mandatory credit allocation laws require all Philippine banks to allocate 6 per cent. of their loan portfolios to small-sized enterprises and 2 per cent. to medium-sized enterprises. The Bank is in compliance with these requirements.

Republic Act No. 11901, or the Agricultural, Fisheries and Rural Development Financing Enhancement Act of 2022 (**Agri-Agra Law**), repealed Republic Act No. 10000 or The Agri-Agra Reform Credit Act of 2009, and was enacted on 28 July 2022. The new Agri-Agra Law mandates all banking institutions, whether private or government, to set aside at least 25 per cent. of their total loanable funds for agriculture and fisheries credit in general. 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 per cent.) and agricultural beneficiaries (15 per cent.) under the Agri-Agra Law. Under the law, banks may also comply through the various alternative forms of compliance.

Banks that fail to comply or only partially comply with the minimum requirements under the Agri-Agra Law shall be penalised by the BSP with an annual monetary penalty and/or administrative sanctions. The Agri-Agra Law also provides that banks which are unable to directly lend to rural community beneficiaries may invest in debt and equity securities. As of 30 September 2024, the Bank satisfied these requirements as it provided ₱1.997 billion (U.S.$35.63 million) for agriculture, fisheries, and rural development.

***Maturity***

Loans repayable on demand principally comprise inter-bank loans, while short-term loans principally comprise loans to corporates for working capital and loans to consumers and SMEs. Medium- and long-term loans are typically granted to corporations and businesses to finance capital expenditures and mortgages advanced for property purchases. The percentage of the Bank's loans with longer maturities has increased recently due primarily to increases in mortgage loans.

The following table sets out an analysis of the Bank's consolidated loans by maturity as of the dates indicated:

| | As of 31 December | | | | | | As of 30 September | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2023 | | 2024 | |
| | Amount in ₱ millions | (per cent.) | Amount in ₱ millions | (per cent.) | Amount in ₱ millions | (per cent.) | Amount in ₱ millions | (per cent.) |
| Within one year .... | 54,493 | 10.63 | 54,815 | 10.09 | 68,481 | 11.01 | 71,112 | 10.49 |
| More than one year | 458,238 | 89.37 | 488,531 | 89.91 | 553,441 | 88.99 | 606,667 | 89.51 |
| **Total** .................... | **512,731** | **100.00** | **543,346** | **100.00** | **621,922** | **100.00** | **677,779** | **100.00** |

***Foreign Currencies***

The Bank maintains its practice of extending foreign currency loans primarily to exporters who have an identifiable source of foreign currency earnings from which to repay the loans or otherwise hedged, and to importers who have authorisation from the BSP to purchase foreign currency to service their foreign currency obligations.

As of 30 September 2024, 90.14 per cent. of the Bank's loan portfolio was denominated in Pesos while 9.86 per cent. was denominated in foreign currencies, the majority of which comprised U.S. dollars. The following table shows an analysis of the Bank's net loans and receivables by currency as of the dates indicated:

| | As of 31 December | | | | | | As of 30 September | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2023 | | 2024 | |
| | Amount in ₱ millions | (per cent.) | Amount in ₱ millions | (per cent.) | Amount in ₱ millions | (per cent.) | Amount in ₱ millions | (per cent.) |
| Pesos ...................... | 428,587 | 83.59% | 476,456 | 87.69 | 564,023 | 90.69 | 610,930 | 90.14 |
| Foreign currency ..... | 84,144 | 16.41% | 66,890 | 12.31 | 57,899 | 9.31 | 66,849 | 9.86 |
| **Total** ....................... | **512,731** | **100.00** | **543,346** | **100.00** | **621,922** | **100.00** | **677,779** | **100.00** |

### *Interest Rates*

An important component of the Bank's asset and liability policy is its management of interest rate risk, which is the relationship between market interest rates and the Bank's interest rates on its interest-earning assets and interest-bearing liabilities. See "*Risk Management and Compliance – Interest Rate Risk Management*". The Bank's Asset and Liability Committee (**ALCO**) decides on loan pricing and polices that are consistent with the strategies for the balance sheet. The Bank's loan pricing is set by the Bank's ALCO on a weekly basis and is driven by market factors, the Bank's funding position and the credit risk associated with the relevant borrower. The lending market in the Philippines is principally based on floating rate lending. The Bank's floating rate loans are re-priced periodically by reference to the Bloomberg Valuation and to the Bank's internal cost of funds plus a spread. As a result, the Bank's exposure to interest rate fluctuations is significantly reduced. See "*Risk Management and Compliance – Interest Rate Risk Management*". The Bank's pricing policy with respect to its interest-bearing liabilities is also set by ALCO at its weekly meetings. Certain current account deposits pay interest on a monthly basis and certain savings account deposits pay interest on a quarterly basis. Both current and savings account deposits typically pay no interest for deposits falling below the balance required to earn interest. As of 30 September 2024, the basic rate for Peso savings account deposits that are above the minimum threshold is currently between 0.15 per cent. to 0.45 per cent. per annum, applied to Dragon Savings depending on amount of deposit. The Bank has offered the CASA special rate to select new and existing clients of up to 3.90 per cent. per annum for minimum ₱10 million fresh funds subject to account movements. The Bank also offers special interest rates for deposits under its time deposits account. These larger deposits are placed on pre-agreed terms and pay interest rates that generally track Philippine Treasury Bill rates.

### *Size and Concentration of Loans*

The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group of connected persons in excess of 25.0 per cent. of its net worth subject to increase under certain circumstances. On 13 December 2023, the BSP issued Circular No. 1185, which approved the grant of an additional single borrower limit (**SBL**) of 15 per cent. of the net worth on loans, credit accommodation and guarantees for the purpose of financing eligible green or sustainable projects, including transitional activities related to decarbonisation.

As of 30 September 2024, the Bank's SBL, set by the BSP, was ₱37.315 billion (U.S.$666.0 million). In determining whether the Bank meets the SBL, the Bank includes exposure to related accounts (including accounts of subsidiaries and parent companies of the borrower). This limit does not apply to loans which are secured with non-risk assets, including cash deposits and Government securities. The Bank has complied with the SBL on all of its loans.

As of 30 September 2024, the Bank's single largest corporate borrower accounted for 2.6 per cent. of the Bank's outstanding loan portfolio. As of 30 September 2024, the Bank's ten largest performing borrowers (including groups of individuals and companies) accounted for ₱96.71 billion (U.S.$1.73 billion), or 14.4 per cent. of the Bank's outstanding loan portfolio.

The following table presents a breakdown of total loans by principal amount as a percentage of total loans as of the dates indicated:

| (Amount in ₱ millions) | As of 31 December 2021 | 2022 | 2023 | As of 30 September 2024 |
|---|---|---|---|---|
| ₱5,000,000 or less.................... | 22.2 | 20.4 | 20.7 | 23.2 |
| ₱5,000,001 to ₱10,000,000....... | 4.3 | 4.6 | 4.8 | 5.4 |
| ₱10,000,001 to ₱15,000,000..... | 2.2 | 2.4 | 2.3 | 2.3 |
| More than ₱15,000,000 ............ | 71.3 | 72.6 | 72.1 | 69.0 |
| **Total**........................................ | **100.0** | **100.0** | **100.0** | **100.0** |

### *Secured and Unsecured Loans*

The Bank principally focuses on cash flows and cash generating capabilities in assessing the creditworthiness of borrowers. However, the Bank will secondarily seek to minimise credit risk with respect to a loan by securing loans with collateral or guarantees. Acceptable collaterals include real estate mortgages (with loan values ranging from 50.0 per cent. to 60.0 per cent. of appraised value), unconditional guarantees from fully owned Government institutions, chattels (with loan values ranging from 90.000 per cent. to 100.0 per cent. of appraised value), tradeable Government debt instruments (with loan values ranging from 60.0 per cent. to 100.0 per cent. of appraised value), shares of stocks and corporate bonds (with loan values ranging from 30.0 per cent. to 70.0 per cent. of market value) and club shares (with loan values of 40.0 per cent to 50.0 per cent. of market value after transfer costs). As of 30 September 2024, approximately 40.46 per cent. of the Bank's total loans were extended on a secured basis, with approximately 28.88 per cent. of secured loans backed by real estate mortgages.

The following table sets forth the Bank's secured and unsecured loans, classified (in the case of secured loans) according to type of security as of the periods indicated:

| | As of 31 December | | | | | | As of 30 September | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2023 | | 2024 | |
| | Amount in ₱ millions | (per cent.) | Amount in ₱ millions | (per cent.) | Amount in ₱ millions | (per cent.) | Amount in ₱ millions | (per cent.) |
| **Secured** | | | | | | | | |
| Real estate mortgages ............ | 132,782 | 25.90 | 169,253 | 31.15 | 184,910 | 29.73 | 195,747 | 28.88 |
| Chattel mortgage . | 66,351 | 12.94 | 44,003 | 8.10 | 51,280 | 8.25 | 59,046 | 8.71 |
| Hold-out deposits . | 7,464 | 1.46 | 11,001 | 2.02 | 8,153 | 1.31 | 7,701 | 1.14 |
| Other securities .... | 14,280 | 2.78 | 11,286 | 2.08 | 11,119 | 1.79 | 11,749 | 1.73 |
| **Total secured......** | **220,877** | **43.08** | **235,543** | **43.35** | **255,462** | **41.08** | **274,243** | **40.46** |
| **Unsecured .............** | **291,854** | **56.92** | **307,803** | **56.65** | **366,460** | **58.92** | **403,536** | **59.54** |
| **Total** ........................ | **512,731** | **100.0** | **543,346** | **100.0** | **621,922** | **100.0** | **677,779** | **100.0** |

In the Philippine banking industry as a whole and in the Bank's loan portfolio, secured loans are predominantly secured by real estate. Other forms of collateral include collateral over machinery and inventory and cash collateral. Personal guarantees are accepted from time to time as an additional source of collateral enhancement.

## Loan Administration and Loan Loss Provisioning

### *Loan Classifications*

The Bank classifies loans as non-performing in accordance with BSP guidelines. The guidelines require banks to classify their loan portfolios based on perceived levels of risk to encourage timely and adequate management action to maintain the quality of their loan portfolios. All of the Bank's risk assets, in particular the Bank's loan portfolio, are either classified or unclassified. Those loans which do not have a greater than normal risk, and for which no loss on ultimate collection is anticipated, are unclassified. All other loan accounts, comprising those loan accounts which have a greater than normal risk, are classified as follows:

*Loans especially mentioned*

These are loans that the Bank believes have potential weaknesses that deserve management's close attention, and which deficiencies, if left uncorrected, could affect repayment. Weaknesses generally include repayment capability which may be endangered by economic/market conditions as reflected in the borrower's deteriorating financial performance, the existence of technical defects in the supporting documentation or collateral, insufficient credit information about the borrower, continuous renewal or extension without reduction in principal (unless re-established by the repayment capacity), and intermittent delays or inadequate repayment of principal, interest or periodic amortisations of loans.

*Sub-standard loans*

This classification includes loans that the Bank believes represent a substantial and unreasonable degree of risk to the Bank. Those loans classified as sub-standard have a weakness that is well-defined that jeopardises their liquidation. Such weaknesses may include adverse trends of a financial, managerial, economic or political nature, or a significant weakness in collateral.

*Doubtful loans*

These are sub-standard loans for which the Bank believes collection in full, either according to their terms or through liquidation, is highly improbable, and substantial loss is probable.

*Loss loans*

Loans which fall under this category are considered uncollectible or of insufficient value to warrant classification as bankable assets. The appropriate classification is generally made once payments on a loan are in arrears for more than 90 days, but may be made earlier when the loan is not yet past due if there are, among other things, indications of the deterioration of the creditworthiness of the borrower. Once interest on a loan is past due for 90 days, the Bank will classify the entire principal outstanding under such loan as past due, and it may initiate calling on all loans outstanding to that borrower as due and demandable.

***Provisions***

Under existing BSP regulations, a general provision for loan losses shall be established as follows: (i) 5 per cent. of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured loans which are considered non-risk under existing laws and regulations; and (ii) 1 per cent. of the retained earnings.

In accordance with BSP guidelines, the Bank makes the appropriate specific loan loss allowance as follows:

| As of September 2024 | | | |
|---|---|---|---|
| **CORPORATE & MIDDLE MARKET LENDING** | | | |
| **RATING** | **TOTAL EAD (PHP'M)** | **TOTAL ECL WITHOUT FLOOR (PHP'M)** | **PROVISION %** |
| A+ | 596.4 | 0.0 | 0.0% |
| A | 355.8 | 0.0 | 0.0% |
| BBB+ | 1.1 | 0.0 | 0.0% |
| BBB | 2,913.2 | 0.4 | 0.0% |
| BBB- | 6,688.1 | 2.1 | 0.0% |
| BB+ | 1,858.6 | 0.3 | 0.0% |
| BB | 35,377.4 | 10.8 | 0.0% |
| BB- | 37,806.2 | 15.0 | 0.0% |
| B+ | 60,508.1 | 68.9 | 0.1% |
| B | 77,162.5 | 177.9 | 0.2% |
| B- | 149,845.8 | 425.6 | 0.3% |
| CCC+ | 19,495.4 | 102.3 | 0.5% |
| CCC | 5,401.3 | 175.2 | 3.2% |
| ESPECIALLY MENTIONED | 14,093.2 | 2,988.6 | 21.2% |
| SUBSTANDARD | 7,929.9 | 5,210.4 | 65.7% |
| LOSS | 374.4 | 374.4 | 100.0% |
| **TOTAL** | **420,407.5** | **9,551.8** | **2.3%** |

| CONSUMER LENDING | | | |
|---|---|---|---|
| **RATING** | **TOTAL EAD (PHP'M)** | **TOTAL ECL WITHOUT FLOOR (PHP'M)** | **PROVISION %** |
| PASS | 146,912.1 | 1,575.0 | 1.1% |
| SUBSTANDARD | 6,583.1 | 404.7 | 6.1% |
| DOUBTFUL | 4,184.3 | 394.5 | 9.4% |
| LOSS | 718.9 | 597.6 | 83.1% |
| **Grand Total** | **158,398.4** | **2,971.8** | **1.9%** |

Following PFRS 9, the Bank has shifted to using the Expected Credit Loss (**ECL**) model in providing allowance for credit losses. The ECL framework is approached on a Group-wide basis, with peculiarities depending on the portfolio and asset classes being assessed.

The ECL is computed in line with the standard Basel formulation of ECL = Probability of Default (**PD**) X Loss Given Default (**LGD**) x Exposure at Default (**EAD**). Both the PD and LGD parameters are based on the Group's credit experience, while EAD is the outstanding loan balance, including contingent accounts at any given cut-off.

The PDs are default probabilities arising from its use of the S&P Scorecards for business lending and risk buckets for consumer lending, whose performance is reviewed periodically. LGD on the other hand is based on an analysis of five years' worth of recovery experience, taking into account both the facility and collateral position at the time of default, and the recovery method employed.

In addition to the standard ECL formulation, an Overlay methodology is likewise employed for a forward-looking view of credit that may be based on macroeconomic studies or other bottom-up approaches that serve to modify any or all of the variables used in an ECL calculation.

With the COVID-19 pandemic and the Bank's expectation of economic impacts, the key assumptions utilised in the calculation of ECL was revisited. The Bank has revised the existing ECL Framework for implementation in CY 2022. The new framework has integrated the impact of the COVID-19 pandemic into the portfolio provisioning.

The BSP conducts an annual audit of the Bank's individual loans to determine the classifications the Bank must apply to its loans when reporting classified loans to the BSP. Please refer to note 4.4 of the

Bank's audited financial statements as of and for the year ended 31 December 2023 for further details on the risk classification of the aggregate loan portfolio and allowances for impairment of the Bank as reported to the BSP on a non-consolidated basis as of 31 December 2023.

A minimum provision of at least 1 per cent. shall be applied on all outstanding on-balance sheet loans except for:

a) exposures considered as non-risk under existing laws and regulations;

b) off-balance sheet credit exposures; and

c) debt securities classified as FVOCI and HTC Investments.

Provisions for exposures classified under Stage 1 shall be treated as General Provisions and shall form part of Tier 2 Capital.

Stage 2 and 3 provisions shall be treated as Specific Provisions for regulatory purposes.

***Allocation of Provisions***

The following table sets out the Bank's reconciliation of its balance of reserves for loan losses on a consolidated basis as of the dates indicated:

| | As of 31 December | | | As of 30 September |
|---|---|---|---|---|
| **(Amount in ₱ millions)** | **2021** | **2022** | **2023** | **2024** |
| Balance at beginning of year............. | 19,193 | 18,264 | 16,030 | 17,395 |
| Impairment losses during the year........................... | 4,994 | 5,259 | 6,574 | 5,416 |
| Account written off and others.............................. | (5,923) | (7,493) | (5,209) | (3,966) |
| **Balance at the end of the period**............................. | **18,264** | **16,030** | **17,395** | **18,845** |

***Non-Performing Assets***

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 table below sets out details of the Bank's NPLs, non-accruing loans, ROPA, NPAs, restructured loans, and write-offs for loan losses for the specified periods on a consolidated basis:

| | As of 31 December | | | As of 30 September |
|---|---|---|---|---|
| | **2021** | **2022** | **2023** | **2024** |
| | **(Amount in ₱ millions, except percentages)** | | | |
| Non-performing loans – net.................... | 18,323 | 11,432 | 10,910 | 14,451 |
| Classified loans..................................... | 30,223 | 9,965 | 25,560 | 30,548 |
| Total loans – net.................................... | 485,242 | 562,367 | 649,702 | 694,282 |
| Total non-performing loans-to-total loans (per cent.) .................................... | 3.78% | 2.03% | 1.68% | 2.08% |
| Classified loans/total loans (per cent.) .... | 10.79% | 4.11% | 3.98% | 4.40% |
| Non-accruing loans................................ | 52,373 | 23,112 | 25,860 | 30,548 |
| Non-accruing loans-to-total loans (per cent.)..................................................... | 10.79% | 4.11% | 3.98% | 4.40% |
| ROPA – gross ....................................... | 3,002 | 3,485 | 905 | 1,034 |
| ROPA/total tangible assets (per cent.).... | 0.25% | 0.25% | 0.05% | 0.05% |

| | As of 31 December | | | As of 30 September |
|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 |
| | (Amount in ₱ millions, except percentages) | | | |
| ROPA/total tangible equity (excluding intangibles and deferred tax assets) (per cent.) | 2.28% | 2.52% | 0.43% | 0.45% |
| Non-performing assets (NPL – net plus ROPA, gross) | 37,551 | 27,362 | 28,315 | 32,588 |
| Non-performing assets as a percentage of tangible assets (excluding intangibles and deferred tax assets) (per cent.) | 2.69% | 1.52% | 1.33% | 1.56% |
| Allowance for impairment (total NPAs) | 22,258 | 16,520 | 17,277 | 18,455 |
| Allowance for impairment (loans) | 20,239 | 14,607 | 15,832 | 17,107 |
| Allowance for impairment (other ROPA) | 2,019 | 1,913 | 1,445 | 1,348 |
| Allowance for impairment (loans) as a percentage of total non-performing loans (per cent.) | 66.97% | 68.27% | 69.18% | 63.18% |
| Allowance for impairment (total) as a percentage of total non-performing assets (per cent.) | 58.37% | 58.94% | 60.43% | 56.03% |
| Total restructured loans | 1,605 | 3,834 | 4,776 | 4,746 |
| Classified as performing | 669 | 2,609 | 2,712 | 2,043 |
| Classified as non-performing | 936 | 1,225 | 2,064 | 2,703 |
| Restructured loans as a percentage of total loans (per cent.) | 0.33% | 0.68% | 0.74% | 0.68% |
| Allowance for impairment (total) as a percentage of non-performing assets and restructured loans classified as performing (per cent.) | 84.57% | 93.13% | 99.99% | 79.02% |
| Allowance for impairment (total) as a percentage of non-performing assets and restructured loans classified as non-performing (per cent.) | 83.72% | 91.39% | 97.14% | 86.90% |
| Loans – written off | 719 | 799 | 5,209 | 3,966 |

Loans are classified as non-accruing (or past due) if (i) any repayment of principal at maturity or any scheduled payment of principal or interest due quarterly (or longer) is not made when due; and (ii) in the case of any principal or interest due monthly, if the amount due is not paid and has remained outstanding for three months. In the case of (i), such loans are treated as non-performing if the payment is not made within a further 30 days. In the case of (ii), such loans are treated as non-performing upon the occurrence of the default in payment.

Loans which have been foreclosed or have been transferred to the Bank's ROPA account are no longer classified as NPLs. Accrued interest arising from loan accounts is classified according to the classification of the corresponding loan accounts except for those which remain uncollected after six months from the date such loans or instalments have matured or have become past due for which a 100.0 per cent. allowance is made for uncollected accrued interest receivables.

***Sectoral Analysis of NPLs***

The following table sets forth the Bank's gross NPLs by the respective borrowers' industry or economic activity and as a percentage of the Bank's gross NPLs on a non-consolidated basis as of the dates indicated:

| | As of 31 December | | | | | | As of 30 September | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2023 | | 2024 | |
| | Amount in ₱ millions | (per cent.) | Amount in ₱ millions | (per cent.) | Amount in ₱ millions | (per cent.) | Amount in ₱ millions | (per cent.) |
| Wholesale and Retail Trade; Repair Services, Personal & Household Goods................ | 2,362 | 8 | 2,611 | 13 | 5,143 | 24 | 7,332 | 29 |
| Manufacturing...................... | 5,379 | 19 | 2,756 | 14 | 2,998 | 14 | 3,229 | 13 |
| Real Estate and Development....................... | 1,114 | 4 | 1,001 | 5 | 1,353 | 6 | 1,356 | 5 |
| Construction........................ | 435 | 2 | 681 | 3 | 896 | 4 | 1,033 | 4 |
| Transport, Storage, Information Communication................... | 889 | 3 | 913 | 5 | 834 | 4 | 761 | 3 |
| Agriculture, Fishing, Forestry and Mining........................... | 85 | 0 | 409 | 2 | 422 | 2 | 420 | 2 |
| Electricity, Gas and Water.... | 262 | 1 | 225 | 1 | 198 | 1 | 193 | 1 |
| Hotels and restaurants......... | 121 | 0 | 177 | 1 | 172 | 1 | 94 | 0 |
| Community, Social, Health and Personal Services......... | 2 | 0 | - | - | - | - | 7 | 0 |
| Financial Services............... | 6 | 0 | 23 | 0 | 2 | 0 | 20 | 0 |
| Professional, Consultancy and other Business Services.............................. | 21 | 0 | 33 | 0 | 22 | 0 | 241 | 1 |
| Mining and Quarrying........... | - | - | - | - | 4 | 0 | 4 | 0 |
| Others................................ | 41 | 0 | 39 | 0 | 29 | 0 | 71 | 0 |
| Education............................ | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Public Admin and Defense... | - | - | - | - | - | - | - | - |
| **Sub-total** ............................ | **10,718** | **37** | **8,867** | **45** | **12,073** | **57** | **14,760** | **58** |
| Other Loans(1)...................... | 18,200 | 63 | 10,940 | 55 | 9,253 | 43 | 10,646 | 42 |
| **Total**................................... | **28,917** | **100** | **19,807** | **100** | **21,326** | **100** | **25,406** | **100** |

(1) Other loans – Consumer Loans (Auto and Housing Loans), Credit Card Group (Credit Card, Personal and Salary Loans), DiskarTech Loans, Employee Loans.

The Bank's gross NPLs on a consolidated basis represented approximately 3.74 per cent. of the Bank's total consolidated gross loan portfolio as of 30 September 2024. As of 30 September 2024, none of the Bank's loans to DOSRI were classified as NPLs.

### *Ten Largest NPLs*

As of 30 September 2024, the Bank's ten largest NPLs accounted for 1.05 per cent. of its total loans to customers and 26.78 per cent. of its gross NPLs to customers. As of this same date, the Bank's exposure to its ten largest NPLs ranged from ₱296.58 million (U.S.$5.29 million) to ₱2.02 billion (U.S.$36.05 million), and amounted to approximately ₱6.80 billion (U.S.$121.36 million) in aggregate.

### *Loan Restructuring*

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 of the borrower in question. The Bank has also agreed to debt-for-equity swaps, but rarely uses this as a restructuring solution. In certain instances, the Bank has also favourably considered discounted compromise loan settlement schemes, provided the corresponding net present value analysis results in better returns and risk considerations versus yields and risks posed by longer-term restructures or litigation.

In accordance with BSP guidelines, NPLs which are successfully restructured are considered to be current and are no longer treated by the Bank as non-performing, generally following continued payments of three to six amortisations. As of 30 September 2024, the Bank had a consolidated portfolio of approximately ₱4.7 billion (U.S.$83.9 million) of total restructured loans, including both performing and non-performing amounts.

The following table sets out the Bank's consolidated restructured loans for the specified periods:

| | For the year ended 31 December | | | For the nine months ended 30 September |
|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 |
| | (Amount in ₱ millions) | | | |
| Non-performing restructured loans........................................ | 936 | 1,225 | 2,064 | 2,703 |
| Performing restructured loans ... | 669 | 1,609 | 2,712 | 2,043 |
| **Balance at the end of the period**...................................... | 1,605 | 3,834 | 4,776 | 4,746 |

### *Foreclosure and Disposal of Assets*

The Bank's preferred strategy for managing its exposure to NPLs that are secured is to restructure the payment terms of such loans. The Bank will only foreclose on mortgage-securing an NPL if restructuring is not feasible or practical, or if the borrower cannot or will not repay the loan on acceptable terms. Generally, the Bank will pursue foreclosure options if it concludes that no restructuring option is available after 45 to 60 days of negotiations. Foreclosure procedures may then require 30 to 60 days to complete, particularly considering legal procedures mandated by law.

The Bank's Remedial Management Division is responsible for the remedial management, loan restructuring and asset recovery activities of all potentially problematic and defaulted credits regardless of principal size. Once the mortgage over the collateral provided by either retail or corporate borrowers is foreclosed, the Bank's ROPA is turned over to and managed by the Asset Disposition Division for disposition while the Asset Management Support Division handles the documentation, administration and preservation requirements of the properties.

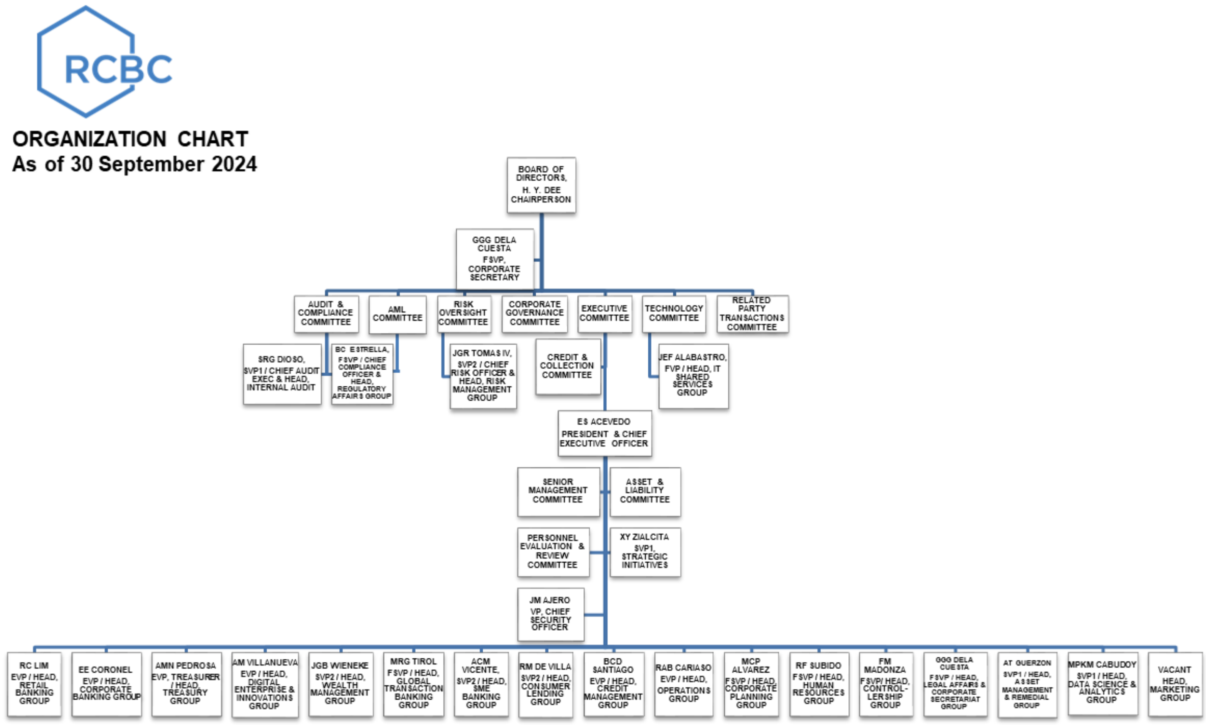
The Bank had a net ROPA of ₱2.93 billion (U.S.$52.29 million), ₱3.41 billion (U.S.$60.86 million), ₱0.84 billion (U.S.$14.99 million) and ₱0.99 billion (U.S.$17.67 million) as of 31 December 2021, 2022, 2023 and 30 September 2024 respectively. The total ROPA as of 30 September 2024 consisted of ₱3.78 billion (U.S.$67.46 million) of the Bank's holdings in shares of stocks and chattels and ₱0.43 billion (U.S.$7.67 million) represented the Bank's holdings in real property, which comprised 2,154 properties.

The Bank's valuation reserves on ROPA amounted to ₱70.54 million (U.S.$1.26 million) for the nine months ended 30 September 2024 as compared to ₱286.13 million (U.S.$5.11 million) for the nine months ended 30 September 2023.

The Bank sells its ROPA through sealed bidding, public auctions and negotiated sales. Instalment sales have a term of up to ten years and the Bank requires purchasers to make a forfeitable deposit of at least 10.0 per cent. of the sales price for negotiated sale and to show money of ₱25,000 during auction sales. The Bank generally charges fixed interest of 10 per cent. to 12 per cent. per annum for the remaining term. Title to ROPA remains with the Bank until it receives full payment of the purchase price. Under ROPA sales contracts, if any instalment payment falls into arrears, the purchaser is deemed to forfeit all of its prior payments and the Bank treats such prior payments as reductions in the book value of the ROPA.

The Bank experienced no default with respect to ROPA sold on an instalment basis covering ROPA sales from 1 January to 30 September 2024. For the nine months ended 30 September 2024, the Bank sold ₱645.41 million of ROPA.

## MANAGEMENT, EMPLOYEES AND SHAREHOLDERS




### Directors and Executive Officers

The names and positions of all the Bank's directors are as follows:

***Ms. Helen Y. Dee*** is the Bank's Chairperson. Ms. Dee is also the Chairperson of House of Investments, Inc. and Petroenergy Resources Corporation, all of which are PSE-listed companies. She is also the Chairperson of Pan Malayan Management and Investment Corporation, Malayan Insurance Co. Inc., Landev Corporation, Hi-Eisai Pharmaceutical Inc., Malayan Educational Systems, Inc. and Manila Memorial Park Cemetery. Among the top companies where she holds a directorship position are Philippine Long Distance Telephone Company and Sun Life Grepa Financial, Inc. She graduated from Assumption College with a Bachelor of Science degree in Commerce and completed her Master's in Business Administration at De La Salle University.

***Mr. Cesar E. A. Virata*** has been a Director since 1995, Corporate Vice Chairman since June 2000 and Senior Adviser from 2007. Mr. Virata's roster of companies where he is also a Director and/or Chairman includes, RCBC Realty Corp., RCBC Land, Inc., Malayan Insurance Co., Inc, Business World Publishing Corporation, RCBC Bankard Services Corporation, and AY Foundation, Inc., among others. Mr. Virata has held important/key positions in the Philippine Government, including Prime Minister, Secretary/Minister of Finance, Chairman of the Committee on Finance of the Batasang Pambansa (National Assembly) and member of the Monetary Board. He was Chairman of the Board of Investments, Undersecretary for Industry. He was also Chairman of the Land Bank of the Philippines and the Philippine National Bank. He has served as Governor for the Philippines to the World Bank, the Asian Development Bank and the International Fund for Agriculture Development. He was Chairman of the Development Committee of the World Bank and the International Monetary Fund from 1976 to 1980 and Chairman of the Board of Governors of the Asian Development Bank. Prior to his Government positions, he was a Professor and Dean of the College of Business Administration of the University of the Philippines and Principal, SyCip Gorres Velayo and Company, Management Services Division. Mr. Virata has also held membership of various international committees in the past, including: the Bretton Woods Committee, the Group of 30, the Institute of International Finance, the Rockefeller Tripartite

Commission for Asia, the Davao Forum, the World Development Committee of the World Bank and IMF, and the ADB Forum. Mr. Virata graduated from the University of the Philippines with degrees in Mechanical Engineering and Business Administration (Cum Laude). He completed his Master's in Business Administration from the Wharton Graduate School, University of Pennsylvania.

***Mr. Eugene S. Acevedo*** is the Bank's President and Chief Executive Officer. A banking veteran with over 30 years' experience in the industry, he began his career at Citibank, where he later became Managing Director and Country Treasurer for the Philippines and then Hong Kong. He later led the rapid business and financial growth of three other commercial and thrift banks, including the Philippine National Bank, where he was President and CEO. He graduated with a Bachelor of Science in Physics, magna cum laude, from the University of San Carlos, where he now serves as a member of the Board of Trustees. He received his MBA from the Asian Institute of Management, where he now serves as Vice Chairman of the Board of Trustees. He also completed the Advanced Management Program at the Harvard Business School. He also holds a Professional Certificate in Clean Power from Imperial College London, Digital Marketing from The Wharton School, and Customer Experience from The CX Academy (Ireland).

***Mr. Gil A. Buenaventura*** has been a Director of the Bank since July 2016 and has since been sitting as a member of the Bank's Executive Committee. He was also President and Chief Executive Officer of the Bank until 30 June 2019. He holds directorship and trusteeship positions in De La Salle Philippines School System, Malayan Insurance Company, Inc., House of Investments, Inc., and Manila Memorial Park Cemetery, Inc. He graduated with a Bachelor of Arts degree, majoring in Economics, from the University of San Francisco, California, and a Master's of Business Administration in Finance from the University of Wisconsin.

***Mr. Armando M. Medina*** was an Independent Director of the Bank from 2003 to 2020. He became a regular director of the Bank starting 1 January 2021. He is a member of the Bank's Executive Committee. He served as an Independent Director of RCBC Capital Corporation until 31 December 2021 and was an Independent Director of Malayan Insurance Co. Inc. until September 2023. He graduated from De La Salle University with a Bachelor of Arts degree in Economics and a Bachelor of Science degree in commerce with a major in Accounting.

***Mr. John Law*** has been a Director of the Bank since April 2015. He is also currently a Director of Far East Horizon Ltd. in Hong Kong and Khan Bank in Mongolia. He served as Senior Advisor for Greater China for Oliver Wyman from January 2013 through 31 December 2020. He holds a Bachelor of Science degree, major in Psychology, from Chung Yuan University in Taiwan; a Master's of Business Administration degree from Indiana University; and Master of Arts degree, major in Poetry, from the University of Paris, France.

***Mr. Shih-Chiao (Joe) Lin*** has been a Director of the Bank since 25 March 2019. He has been with Cathay Life Insurance for over 20 years and is currently an Executive Vice President there. He graduated with a Bachelor's degree in Business Administration from the National Chengchi University and holds an MBA from the National Taiwan University.

***Ms. Gayatri P. Bery*** has been a Director of the Bank and Risk Oversight Committee member since July 2020. She most recently served as Chief Operating Officer, Asia Pacific Global Capital Markets at Morgan Stanley (Hong Kong) where she was also a member of the Steering Committee of Morgan Stanley's HK Women's Business Alliance Team. Her past work experiences include being an investment adviser in Hong Kong and roles at Morgan Stanley & Co. Incorporated (New York), Ranieri & Company (New York), and Drexel Burnham Lambert (New York). She graduated with a Bachelor of Science degree in Applied Mathematics/Computer Science from the Carnegie Mellon University, and obtained a Master's degree in Business Administration (Beta Gamma Sigma) from the Columbia Business School (New York). In 2023, she was installed as a Qualified Risk Director® after being awarded a Certificate in Risk Governance® from the DCRO Institute.

***Mr. Hiroki Nakatsuka*** was an Advisory Board Member of the Bank from 2021 until July 2023 and, after that became a Director and a Member of the Executive Committee of the Bank. He has been with SMBC for over 30 years and is currently the Managing Director of the Asia Growing Markets Department of SMBC. He used to be the General Manager of the Manila branch and the Chief Representative of the Manila Representative Office of SMBC. During his stay in Manila he was also a director of the Bankers Association of the Philippines. He was a guest professor of Kindai University from 2010 until 2012. He graduated with a Bachelor's degree in English from Kansai Gaidai University. He finished the BIPA Programme (Indonesian Language Programme) at Universitas Indonesia.

***Mr. Katsufumi Uchida*** has been a Director of the Bank since 31 July 2023. He currently holds positions in SMBC as Managing Executive Officer and Co-Head of APAC Division. He also serves as Managing Executive Officer of SMFG. He previously served as SMBC's Deputy Head for the Europe, Middle East, and Africa (**EMEA**) Division, and Head of the International and Structured Finance Department for the EMEA Division, among other roles. He graduated from the School of Political Science and Economics, Waseda University.

***Mr. Juan B. Santos*** has been an Independent Director of the Bank since November 2016. He serves as Lead Independent Director of the Bank. He holds director, trustee and advisory positions in various companies, including St. Luke's Medical Centre, PHINMA Corporation, Sun Life Grepa Financial, Inc., and Allamanda Management Corporation, among others. Prior to joining the Bank, he was the Chairman of the Social Security Commission. He served briefly as Secretary of Trade and Industry and was CEO and Chairman of Nestle Philippines, Singapore, and Thailand. He has also served as Director of various publicly listed companies, including the Philippine Long Distance Telephone Company, Philex Mining Corporation, San Miguel Corporation, Equitable Savings Bank, Inc., and PCI Leasing and Finance, Inc. He holds a Bachelor of Science in Business Administration degree from the Ateneo de Manila University and a degree in Foreign Trade from the Thunderbird School of Management in Arizona, USA. He completed his Advanced Management Course at the International Institute for Management Development in Lausanne, Switzerland.

***Mr. Gabriel S. Claudio*** has been an Independent Director of the Bank since July 2016. He has directorships in Ginebra San Miguel, Incorporated, Risk & Opportunities Assessment Management, Conflict Resolution Group Foundation (**CORE**) and Toby's Youth Sports Foundation. He served as political adviser to former presidents Fidel V. Ramos and Gloria Macapagal-Arroyo and held various positions in the Cabinet and government, including Presidential Political and Legislative Adviser, Chief of the Presidential Legislative Liaison Office, Cabinet Officer for Regional Development for Eastern Visayas, and Acting Executive Secretary. He had previously served as Director of the Philippine Amusement and Gaming Corporation (**PAGCOR**), Chairman of the Board of Trustees of the Metropolitan Water and Sewerage System, Director of the Development Bank of the Philippines, and Director of the Philippine Charity Sweepstakes Office. He holds an AB Communication Arts degree from the Ateneo de Manila University.

***Mr. Vaughn F. Montes, Ph.D.*** has been an Independent Director of the Bank since September 2016. He is a former Trustee at the Institute of Corporate Directors (**ICD**) as well as a current Teaching Fellow on Corporate Governance courses of the ICD. He was a national consultant for Risk Management to the NEDA PPP Centre under an ADB technical assistance grant from December 2011 to October 2022. He is a Trustee and Founding Fellow of the Foundation for Economic Freedom. He is an Adjunct Faculty member at the Asian Institute of Management. He was President of the PAREF Southridge School for Boys from 2004 to 2023. He worked in Citibank over a period of 25 years in various capacities, including: Senior Economist with the Philippine Debt Restructuring Committee; Head of the International Corporate Finance Unit; and Director and Head of the Public Sector. He worked as an Associate Economist at the Wharton Econometric Forecasting Associates in Philadelphia USA. He holds an AB (Bachelor of Arts) Economics degree from the Ateneo de Manila University, an MS (Master of Science) Industrial Economics degree from the Centre for Research and Communications (now University of Asia and the Pacific), and a PhD in Business Economics from the Wharton Doctoral Programs, University of Pennsylvania, USA. He was a president of the Philippine Economics Society. He was a The Outstanding Young Man (**TOYM**) awardee for Economics in 1991.

***Mr. Laurito E. Serrano*** has been an independent director of the Bank since March 2019 and likewise an independent director of RCBC Trust Corporation since January 2024. Mr. Serrano was part of the Audit & Business Advisory Group and was a partner of SGV & Co – Corporate Finance Consulting Group. He is currently in the financial advisory practice, with clients mostly in the private sector. He also concurrently serves as an independent director of Axelum Resources Corp., Belle Corporation, Anglo Philippine Holdings Inc, Premium Leisure Corporation and a director of MRT Development Corporation. Mr. Serrano's past experiences include, among others, directorships in 2Go Group, Inc., Pacific Online Systems, Inc., Atlas Mining & Development Corporation, Metro Global Holdings Group, Fil-Estate Group, Metro Rail Transit Group, Travellers Hotels Philippines, Inc. (Resorts World), MJCI Investments, Inc., United Paragon Mining Corp., Sagittarius Mining Corporation, and Philippine Veterans Bank. Mr. Serrano holds a Bachelor of Science degree in Commerce (major in Accounting) from the Polytechnic University of the Philippines and has a Master's in Business Administration degree from the Harvard Graduate School of Business.

***Dr. Erika Fille T. Legara*** has been an independent director of the Bank since July 2022. She is a scientist, educator, and adviser specialising in data science and artificial intelligence (**AI**), as well as data and AI strategy, governance, infrastructure, and education. She currently serves as the Managing Director and Chief AI and Data Officer for the DTI Centre for AI Research, fulfilling her responsibilities through a specialised role as a Highly Technical Consultant.

At the Asian Institute of Management (**AIM**), Dr. Legara holds several key positions: Associate Professor of Data Science (on leave); Founding Director of the Master of Science in Data Science Programme; and Aboitiz Chair in Data Science. Previously, she was a scientist at A*STAR in Singapore, where she collaborated with government institutions and industry leaders on various R&D initiatives. Dr. Legara has received numerous accolades, including the TOYM and The Outstanding Women in the Nation's Service (**TOWNS**) awards, as well as the National Academy of Science and Technology Outstanding Young Scientist Award in 2020. She was named an Asia 21 Young Leader (Class of 2022) and, in 2024, received the Tatler Impact Award for Science and Innovation while also being listed in Tatler Asia's Most Influential.

Dr. Legara graduated cum laude with a Bachelor of Science degree in Physics from the University of the Philippines, Diliman, where she also earned her Master's and PhD in Physics. She furthered her education by completing the Leading Smart Policy Design programme at the J.F. Kennedy School of Government, Harvard University, Executive Education in 2021, and the Ethics for AI programme at the London School of Economics and Political Science in March 2023. In 2024, she completed the AI Governance Professional training under the International Association of Privacy Professionals.

Dr. Legara was recognised as one of the Asian Scientist 100 in 2023, and is the first Filipino to receive the Directors and Chief Risk Officers (**DCRO**) Institute Certificate in Cyber Risk Governance.

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.

Ms. Helen Y. Dee and Mr. Xavier Y. Zialcita are relatives within the third degree of consanguinity.

### Board Committees

The Bank's Board of Directors has created each of the following committees and appointed Board members thereto. Each member of the respective committees named below has been holding office as of the date of this Offering Circular and will serve until his successor shall have been elected and qualified.

#### *Executive Committee*

The Executive Committee has the power to act and pass upon such matters as the Board of Directors may entrust to it for action in between Board of Directors' meetings. It may also consider and approve loans and other credit-related matters, investments, purchase of stocks, bonds, securities and other commercial papers for the Bank's portfolio. In addition, the Executive Committee has the power to review an asset or loan to ensure timely resolution and the recognition of losses of impaired assets.

***Risk Oversight Committee***

The Risk Oversight Committee oversees the system of limits to discretionary authority that the Board of Directors delegates to Management. It ensures that the system remains effective, that limits are observed and that immediate corrective actions are taken whenever limits are breached. It likewise enables the Board of Directors to establish the Bank's risk tolerance within a risk-reward framework and ensures that a risk management strategy is in place that adheres to this framework.

***Anti-Money Laundering Committee***

The AML Committee oversees the implementation of the Bank's AML and terrorist financing prevention programme and ensures compliance thereof. It also ensures that infractions are immediately corrected, issues are addressed and AML training for officers and staff is conducted.

***Audit and Compliance Committee***

The Audit and Compliance Committee oversees the Bank's financial reporting and control, and internal and external audit functions. It is responsible for the establishment of the Bank's internal audit department and for the appointment of the Bank's internal auditor and independent external auditors. It is responsible for ensuring that a review of the effectiveness of the Bank's internal controls, including financial, operational, and compliance controls, and risk management, is conducted at least annually.

***Personnel Evaluation and Review Committee***

The Personal Evaluation and Review Committee acts as an independent body in the evaluation and review of cases involving dishonesty, fraud, and negligence, and the violation of any internal Bank policy, rule or procedure committed by an employee of the Bank. The Personal Evaluation and Review Committee recommends disciplinary measures and penalties to the Board of Directors to be meted out in the case of violations. It has the power to affirm, review, revise, or modify any resolution arrived at or action taken by management against employees with administrative cases.

***Corporate Governance and Nominations Committee***

The Corporate Governance Committee assists the Board of Directors in fulfilling its corporate governance responsibilities. The Corporate Governance Committee reviews and evaluates the qualifications of all persons nominated to the Board of Directors as well as those nominated to other positions requiring appointment by the Board of Directors. It is responsible for ensuring the Board of Directors' observance of corporate governance principles and guidelines, including those set forth in the Bank's Manual of Corporate Governance. It also sets compensation for the Board of Directors and Executive Officers and makes recommendations to the Board of Directors regarding the continuing education of directors, assignments to Board committees, and succession plans for Board members and senior officers.

***Related Party Transactions Committee***

The RPT Committee evaluates existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties are captured. Material RPTs are evaluated to ensure that such transactions are not undertaken on more favourable economic terms than similar transactions with non-related parties under similar circumstances, and that no corporate or business resources of the Bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. The RPT Committee also ensures that appropriate disclosure is made to regulating and supervising authorities, reports are made to the Board on a regular basis and transactions are subject to periodic independent review. It oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

***Technology Committee***

The Technology Committee oversees the Bank's hardware and software purchases and monitors the performance of various IT applications of the Bank and the status of various IT projects.

**Executive Officers**

The names and positions of all the Bank's executive officers are as follows:

***Mr. Eugene S. Acevedo*** is the Bank's President and Chief Executive Officer. A banking veteran with over 30 years' experience in the industry, he began his career at Citibank, where he later became Managing Director and Country Treasurer for the Philippines and then Hong Kong. He later led the rapid business and financial growth of three other commercial and thrift banks, including the Philippine National Bank, where he was President and CEO. He graduated with a Bachelor of Science degree in Physics, magna cum laude, from the University of San Carlos, where he now serves as a member of the Board of Trustees. He received his MBA from the Asian Institute of Management, where he now serves as Vice Chairman of the Board of Trustees. He also completed the Advanced Management Program at the Harvard Business School. He also holds a Professional Certificate in Clean Power from Imperial College London, Digital Marketing from The Wharton School, and Customer Experience from The CX Academy (Ireland).

***Mr. Reginaldo Anthony B. Cariaso***, Executive Vice President, is the Head of Operations Group. He has 27 years of experience gained from local and overseas firms focused on Transaction Banking, Remittance and Funds Transfer, Special Accounts Management (**NPLs**), Strategy Management and Marketing, and Systems and Project Development as well as Investment Banking, particularly on equity capital market transactions, debt capital raising and M&A transactions. Prior to joining the Bank, he was the Head of Institutional Banking Strategy, Products, and the Support Group and Senior Vice President at the Bank of the Philippine Islands. Positions held in other financial firms are as follows: President of BPI Capital Corporation (2013 to 2019); Executive Director of Nomura International, Hong Kong (2009 to 2012); Executive Director of J.P. Morgan, Hong Kong; Junior Research Management Staffer (1996 to 2008). He served the United States Navy under the Submarine Force as Lieutenant from 1990 to 1996. He is a graduate of the University of Pennsylvania, Philadelphia where he obtained a Bachelor of Science degree in Chemistry in 1990.

***Ms. Elizabeth E. Coronel***, Executive Vice President, is the Head of the Corporate Banking Group. She has 34 years of banking experience. She joined the Bank in June 2013 as Senior Banker and Head of the Conglomerate Banking Division and was assigned the role as Segment Head of Conglomerates and Global Corporate Banking, a role which she performed in August 2014 until she was appointed as Group Head in June 2018. Previously, she was the Senior Vice-President and Chief Operations Officer of Equicom Savings Bank, a position she held for more than five years. She has also held various positions in local and foreign banks, namely Mizuho Corporate Bank as Vice President and Co-Head of the Corporate Finance Department (January 2007 to February 2008), Equitable PCI Bank as Vice-President and Head of the Corporate Banking Division 4 (1996 to 2007), and Citibank as Relationship Manager of Global Consumer Bank (1993 to 1996). She started her career in the banking industry when she joined the Bank in 1989 as a Marketing Assistant for Corporate Banking. Ms. Coronel obtained her Bachelor of Arts degree in Behavioural Science from the University of Santo Tomas and earned a Master's in Business Administration units from the Ateneo Graduate School of Business. She also completed the Mizuho-ICS (**MICS**) Mini-MBA programme at Hitotsubashi University Graduate School of International Corporate Strategy.

***Mr. Richard C. Lim***, Executive Vice President, is the Head of Retail Banking Group effective 14 September 2018. He has 31 years of banking experience. Prior to this, he was seconded to RCBC Savings as Chief Operating Officer. Mr. Lim previously worked with Maybank Inc. and held the following roles: Head of Retail Banking, Head of Retail Marketing Management, Assistant Vice President for Cash

Management Services, Head of the Consumer Sales Department and Cluster Head for the Binondo Manila area. He also had stints with other banks, namely as Manager for the Binondo Branch of Philam Bank – AIG, Assistant Manager/Sales Officer at the International Exchange, Marketing Officer at Banco De Oro, Marketing Associate at Urban Bank and Officer's Assistant at the Cash Department of China Bank. He graduated from the University of Santo Tomas with a degree in Bachelor of Science, majoring in Biology.

***Mr. Alberto N. Pedrosa***, Executive Vice President, is currently the Treasurer and Head of the Treasury Group. He has 27 years of professional experience gained in financial and banking firms. Prior to his appointment to this role on 4 March 2022, he was Head of Asset and Liability Management in the Treasury Group. He handled other roles in the Bank as follows: Head of Balance Sheet Management and Investment and the Markets Trading Group from July 2017 to April 2019, Head of the Investment and Markets Trading Segment from July 2013 to June 2017 and Investment Portfolio Management Division Head from August 2009 to June 2013. He has previous employment with other financial institutions where he handled significant roles as follows: Vice-President and Head of Global Liquid Products Trading for JG Summit Capital Markets (2000 to 2008), Assistant Vice-President of Asset, Liquidity Management and Investment and Trading for PCIBank (1995 to 2000) and Senior Assistant Manager and Junior FX Trader for the Bank of the Philippine Islands (1993 to 1995). Mr. Pedrosa started his career when he joined BPI's Officer Training Programme in 1993. He completed his Bachelor of Science degree in Commerce, majoring in Philosophy, at the London School of Economics.

***Mr. Bennett Clarence D. Santiago***, Executive Vice President, is the Head of the Credit Management Group. He has over 21 years of professional experience in risk management with significant years focused on commercial credit risk management and evaluation as well as enterprise risk management. Prior to joining the Bank, he was the Business Head for Small Business Loans in the Consumer Lending Group of Banco De Oro Unibank. His experiences also include serving as Head, Commercial Banking Credit Evaluation Unit, Risk Management Group of BDO; Risk Head of Citibank N.A.; Chief Compliance Officer, Union Bank of the Philippines; and various officer positions with the International Exchange Bank, Globe Telecom Inc., and The Hongkong and Shanghai Banking Corporation (**HSBC**). He graduated from the University of the Philippines in 1991 with a Bachelor of Science degree in Business Administration. He finished his Master's in Business Administration in 2001 from Ateneo Business School.

***Mr. Angelito M. Villanueva***, Executive Vice President, is the Bank's Chief Innovation and Inclusion Officer/ Head of Digital Enterprise and Innovations Group. He has 30 years of professional experience. Prior to joining RCBC, he pioneered the financial technology business in firms such as the PLDT Group and was among the founding executives of PayMaya wallet. He was the Managing Director of FINTQnologies Corp, the financial technology (**FinTech**) arm of Voyager Innovations from June 2013 to 31 March 2019. He was also a Member of the Board of Directors in FINTQnologies (June 2017 to March 2019) and FINTQSurelite Insurance Agency (June 2017 to March 2019). His previous stints include the following roles in various institutions and organisations: Founder and Lead Convenor of KasamaKa Financial Inclusion Movement (September 2017 to 31 March 2019); Head, Customer Strategy and Market Activation, Visa (November 2011 to January 2013); Short-term Consultant on Mobile Money Transfer in Mongolia at IFC World Bank Group (August 2011 to December 2011); Monitoring and Evaluation (**M&E**) Consultant at the Department of Social Welfare and Development, the World Bank (March 2011 to February 2012); VP and Head, Mobile Financial Services – Smart Communications, Inc. (February 2007 to January 2009); Regional Manager for Marketing and Special Projects for APAC and EMEA at BCD Travel (2003 to 2006); Executive Director and VP at Luntiang Pilipinas (Green PH) Foundation, Inc. (2000 to 2003); Chief of Division, Overseas Correspondent Banking Department, Global Banking Group at Land Bank of the Philippines (1995 to 2000); and Senior Research Associate and Associate Editor at the Economist Intelligence Unit (EIU) Phils. (1993 to 1995). Mr. Villanueva graduated from the University of Santo Tomas in 1992 with a Bachelor of Arts degree in Political Science. He completed a Master's in National Security Administration at the National Defense College of the Philippines in 2000. He also finished his Master's in Public Administration as Magna Cum Laude at the University of Santo Tomas in 2000.

***Ma. Christina P. Alvarez***, First Senior Vice President, is the Head of the Corporate Planning Group. She has 32 years of professional experience gained in the financial and banking industry. Prior to assuming her current position, she was the Officer in Charge (**OIC**) of the Corporate Planning Group from October to December 2014 and the Financial Planning and Development Division Head from August 2006 to September 2014. She worked with various institutions in the following capacities: Financial Planning Officer at Banco de Oro from July 2005 to July 2006, Corporate Planning Officer at RCBC from 1999 to 2005, Risk Management and Planning Officer of Malayan Bank from 1998 to 1999, Research Officer of Unicapital, Inc. from 1995 to 1996 and Credit/Financial Analyst of Multinational Investment Corporation from 1991 to 1995. Ms. Alvarez graduated from Ateneo de Manila University in 1991 with a Bachelor of Arts degree in Management Economics. She earned her Master's in Business Management from the Asian Institute of Management in 1998.

***Atty. George Gilbert G. dela Cuesta***, First Senior Vice President, is the Group Head of the Legal Affairs Group and the Bank's Corporate Secretary. He has 31 years of legal experience. He joined RCBC in November 2016 as Deputy Head for the Legal and Regulatory Affairs Group. Previously, he was Head of Legal for Asian Terminals for more than seven years. He previously worked also as General Counsel for Hanjin Heavy Industries & Construction Co. Ltd. and for Mirant (Phils) Corporation. He had previous consultancy engagements and employment with Follosco Morallos & Herce Law Office, PNOC-EDC and at the Department of Environmental and Natural Resources. He started his career at Quisumbing and Torres. Atty. dela Cuesta graduated from the University of the Philippines in 1988 with a Bachelor of Arts degree, majoring in Political Science. He earned his Law degree from the same university in 1992.

***Mr. Brent C. Estrella***, First Senior Vice President, is the Chief Compliance Officer and Head of Regulatory Affairs Group effective 2 December 2020. He has 16 years of compliance and risk management experience which he gained from HSBC across various jurisdictions in Southeast Asia (the Philippines), the Middle East (UAE) and Sub-Saharan Africa (Mauritius). He is a Certified Anti-Money Laundering Specialist, with broad experience in supporting multiple lines of business, specifically Wealth and Personal Banking, Commercial Banking, and Global Banking and Markets. Prior to joining RCBC, he was the Senior Vice President and Country Head for Financial Crime Compliance and an Executive Committee member at HSBC – Philippines. He has handled this role since October 2018. He handled other positions prior his current post as follows: HSBC Mauritius (April 2016 to October 2018) as Chief Compliance Officer/Executive Committee Member; HSBC United Arab Emirates (December 2012 to April 2016) as Country Head of AML and UAE Money Laundering Reporting Officer, Regional Manager, Global Banking and Markets Compliance Advisory; HSBC Philippines (September 2004 to December 2012) as Vice President, Compliance & Money Laundering Control Officer, Assistant Vice President, Fraud Risk Management, Security and Fraud Risk, Supervisor, Legal and Compliance, and Compliance Staff for Legal and Compliance. He graduated with a Bachelor of Science degree in Legal Management (Academic Scholar) at the Ateneo De Manila University in 2004.

***Mr. Florentino M. Madonza***, First Senior Vice President, is the Head of the Controllership Group effective 14 October 2014. He has 30 years of professional experience. Prior to assuming his current role, he was the Deputy Group Head of Controllership from August 2014 to October 2014, General Accounting and Services Division Head from July 2004 to July 2014, General Accounting Department Head from September 2001 to July 2004, Assistant to the Department Head of General Accounting from January 1998 to September 2001, Asset Management and Sundry Section Head from September 1997 to December 1997 and Corporate Disbursement and Payroll Section Head from June 1996 to September 1997. Prior to joining the Bank, he worked for Sycip, Gorres, Velayo and Co. from July 1993 to May 1996 as Auditor. Mr. Madonza completed his Bachelor of Science in Commerce, majoring in Accounting (Cum Laude), from the Araullo University, and is a Certified Public Accountant.

***Ms. Rowena F. Subido***, First Senior Vice President, is the Group Head of Human Resources. She has more than 35 years' of Human Resource management experience in both local and multinational institutions. She was initially appointed as Deputy Group Head of Human Resources prior to assuming her current role. Prior to joining the Bank, she worked with Citibank, N.A. as Senior Vice President and Country Lead Human Resources Generalist, prior to which she was Senior Vice President and Head of

Human Resources for the Institutional Clients Group for almost two years. She has also worked with Citifinancial Corporation, the Consumer Finance Division of Citigroup as its Vice President and Human Resources Head for four years. She also has HR experience in retail, distribution and manufacturing industries, having worked for California Clothing Inc., where she was Human Resources Head, International Marketing Corporation as Division Manager for Human Resources and Operations, Tricom Systems (Philippines), Inc. as a Personnel and Administration Officer, and Seamark Enterprises, Inc. as a Personnel Officer. Ms. Subido obtained her Bachelor of Science degree, majoring in Psychology, from the University of Santo Tomas and earned units for a Master's in Psychology, majoring in Organisational/Industrial Psychology, at De La Salle University.

***Mr. Martin Roberto G. Tirol***, First Senior Vice President, is the Head of Global Transaction Banking Group. He was initially hired by the Bank in October 2022 as Deputy Group Head for Global Transaction Banking. He has 29 years of experience focused on transaction banking and corporate coverage work experience gained from the banking sector. He was able to gain vast customer relationships with multinational and large local corporate customer segments, significant experience in leadership roles, received local and regional citations in recognition of outstanding contributions to strengthening customer relationships, and completed relevant training and certifications. Before joining the Bank, he was connected with Deutsche Bank AG, Manila Branch as Head of Transaction Banking/Director. Prior to assuming this role in January 2021, he was Head of Global Subsidiary Coverage/Director from June 2018 to December 2020.

His employment stints include the following: Head of Transaction Banking Group/Head of Transformation Group in Maybank Philippines, Inc; Head of the Cash Management Department at the Philippine National Bank; Head of the Trade Finance Department in Australia and New Zealand Banking; Vice President for Global Transaction Services in Citibank, N.A. and Assistant Vice President; Assistant Vice President for Cash Management, Trade and Supply Chain Sales at Standard Chartered Bank; Management Associate for Global Consumer Banking at Citibank, N.A. and Marketing Assistant of Institutional Banking Group at Rizal Commercial Banking Corporation.

He graduated in 1994 from Ateneo de Manila University with a degree in Economics. In 1997, he was able to complete a Master of Science in Management from Arthur D. Little School of Management in Boston.

***Atty. Ramil M. De Villa***, Senior Vice President 2, is the Head of the Consumer Lending Group. He has 24 years of professional experience. Prior to this appointment, he was Head of the Consumer Collection Segment in the Credit Management Group. Before he joined the Bank, he was connected with Maybank Phils, Inc as Head/Senior Vice President of Asset Quality Management in Consumer Finance. Prior to assuming this in July 2019, he was the Head of Asset Quality Management in Group Finance with the rank of Vice President from 2017 to June 2019. He started his employment with the said bank in 2014 as Head of Asset Quality Management with the rank of Senior Assistant Vice President. He had previously worked with Premier Development Bank where he was initially hired in February 1999 as Legal Assistant/Officer. He left the bank in December 1999 to work in a law office and joined the same bank again in 2001. During this second term of employment, he was assigned to handle the following roles: Head of the Documentation Unit of the Legal Services Department from 2007 to 2012 and Litigation Lawyer of the Legal Department from 2001 to 2007. He also gained legal experience in the Demetria Escondo Maloloyon Law Offices, where he was a Senior Associate from 1999 to 2001. He graduated with a Bachelor of Laws (LLB) degree at University of Santo Tomas, 1997. He finished his undergraduate studies, a Bachelor of Arts, majoring in Philosophy, in 1993 from the same university. He passed the Philippine Bar Exams in September 1998.

***Mr. Juan Gabriel R. Tomas IV***, Senior Vice President 2, is the Chief Risk Officer/Head of the Risk Management Group. He has 29 years of professional experience. Prior to assuming his current role, he was in the Operations Group as Head of the Customer Service Support Segment. His experiences include serving as Head of Capital Markets and Custody, the Operations Group, Citibank N. A. (2012 to 2016), Head of the Treasury Services Unit, Citibank N. A. (2008 to 2011), Production Officer for the Treasury Services Unit, Citibank (2001 to 2007), Consultant for the Controllers' Department, Deutsche

Bank AG Manila (2001), and Consultant for the Process Competency Group at Accenture (formerly Andersen Consulting) (1994 to 1999). Mr. Tomas graduated from Ateneo de Manila University in 1993 with a Bachelor of Science degree in Management. He completed his Master's in Business Management, majoring in Finance, in 2001 at the Asian Institute of Management.

***Ms. Anna Christina M. Vicente***, Senior Vice President 2, is the Head of the SME Banking Group. She has more than 37 years of professional experience gained from banking and financial institutions. Prior to her current assignment, she was on secondment as President and Chief Executive Officer of RCBC Leasing and Finance Corporation. Prior to her secondment to this subsidiary in June 2021, she was a Segment Head in the Small and Medium Enterprises Banking Group and a Division Head for North Metro Manila, a position which she has held since being hired in June 2016 She gained her banking experience and acquired competencies in the various roles she handled in her employment with other banks. Her banking stints include the following: Head for Business Banking in the Retail Banking Group at Maybank Philippines; Team Head of Metro Manila, Corporate and Commercial Banking Division; Head, Credit Control Division; Department Head, Supervised Credit Division; Account Officer, Institutional Recovery Management Division; Account Officer, Corporate Banking Division at United Coconut Planters Bank; Manager of Branch Banking Group I at Bank of Commerce; Manager for Commercial Loans at UCPB Savings Bank and as Staff Assistant, Retail Banking Group – Marketing Division; Loans Assistant, Greenhills Branch; Credit Analyst Trainee, Credit and Money Market Trader, Greenhills Branch at Far East Bank and Trust Company. Ms. Vicente graduated from Ateneo de Manila University in 1986 with a Bachelor of Arts degree, majoring in Interdisciplinary Studies.

***Ms. Jacqueline Grace B. Wieneke***, Senior Vice President 2, is the Head of Wealth Management Group. She has 30 years of significant experience, with expertise in wealth management and retail banking. Her professional years were largely spent in Citibank N.A. where she acquired competencies in setting up premier teams, revenue generation, client acquisition and relationship management, cross-selling of credit, investment and insurance products, asset sales and project transformation. Prior to joining our Bank, she was connected with Maybank Philippines, Inc as Head of Wealth Management and Bancassurance (2019 to 2023). During her stint with Citibank, N.A., she handled positions as follows: Branch Manager (2004 to 2018); Senior Citigold Relationship Manager (1999 to 2004); and Senior Personal Banker (1993 to 1999). She graduated Cum Laude with a Bachelor of Science degree in Commerce, majoring in Marketing, from Assumption College in 1992.

***Ma. Pamela Katrina M. Cabudoy,*** Senior Vice President 1, is the Head of the Data Science and Analytics Group. She has 25 years of professional experience. Prior to joining the Bank, she was connected with Globe Telecom as Director for Advanced Analytics, Enterprise Data Office from September 2017 up to her departure from the company in 2022. She also served as a Director for Customer Data Analytics for the Marketing Services Hub of the same company from April 2021 to December 2021. She previously worked at SAS Institute Philippines, Inc. where she was assigned the following roles: Head of Solutions and Practices, Presales Manager from April 2014 to September 2017; Customer Intelligence Practice Lead from April 2007 to April 2014; Principal Consultant from June 2005 to April 2007; Senior Consultant/Project Manager from June 2001 to June 2005; and Associate Consultant from June 1998 to June 2001. She graduated with a Bachelor of Science degree in Statistics in 1998 from the University of the Philippines in Diliman.

***Ms. Shella Ricca G. Dioso***, Senior Vice President 1, is the Chief Audit Executive/Head of Internal Audit Group. She has 18 years' controllership and auditing experience. Prior to joining the Bank, she was connected with R. G. Manabat and Co. (KPMG in the Philippines) as Partner for Audit Services, a position she held since October 2019 up to her departure from the firm in 2022. Prior to assuming this role, she was a Director for Advisory Services from June 2017 to September 2019. She had previous employment with the following firms: Suyen Corporation, where she worked as Finance Controller from February 2014 to May 2017; Ernst & Young Singapore, where she served as a Manager for Audit Services from November 2008 to February 2014; and SGV & Co., where she was employed as a Senior for Audit Services from November 2005 to October 2008. Ms. Dioso graduated with a Bachelor of Science degree in Business Administration and Accountancy from the University of the Philippines in 2005. She passed the CPA Licensure Examination in November 2005.

***Mr. Xavier Y. Zialcita***, Senior Vice President 1, is the Head of Strategic Initiatives. He has over 24 years of professional experience with a particular focus on investment banking. Prior to joining the Bank, he was Senior Account Officer/Senior Vice President (effective July 2022) for Investment Banking at RCBC Capital Corporation. He was involved in various deals helping clients meet their financial and strategic goals. Other roles he handled include the following in RCBC Capital Corporation and other firms : Senior Account Officer/First Vice President for Investment Banking from January 2018 to June 2022; Account Officer (Manager to Vice President) from June 2008 to December 2017; Liaison Officer/Assistant Vice President at YGC Corporate Services, Inc from 2001 to 2007; Staff Associate at SGV & Co from 1999 to 2001; and Systems Analyst at Joaquin Cunanan & Co. from 1998 to 1999. He is involved in other pursuits, being a non-executive director of DBP Daiwa Corporation, a stock brokerage, as well as RCBC Realty Corporation, a property development and management corporation. He graduated from Ateneo De Manila University in 1998 with a Bachelor of Science degree, majoring in Management Information Systems. He earned a Post Graduate Diploma in Strategy and Innovation at the University of Oxford – Said Business School in 2012.

***Mr. John Edward F. Alabastro,*** First Vice President, is the Head of the Information Technology Shared Services Group effective 1 October 2024. Mr. Alabastro is a seasoned IT professional with 27 years of experience. He started as a software engineer that paved the way for his progressive career. He then spent his next years in other institutions largely in the Yuchengco Group of Companies wherein he further expanded his strong competencies in the areas of Information Security, IT Management and Software Development. He joined the Bank on 17 January 2023 as an Enterprise Architect with the rank of First Vice President for the Information Technology Shared Services Group. Effective 1 July 2024, he was appointed as Chief Technology Officer and Group Head Designate and as such he is responsible for leading and providing management oversight on all IT services provided and delivered by ITSSG. He also currently performs functions in transition to the IT Shared Services Group Head role, assisting the incumbent Group Head in directing the Bank's Information Technology functions, strategies, and resources, guiding and monitoring all departments and other areas of work and with responsibility for achieving operational efficiency, proper analysis, design, development, operations and support for all computer/automated systems of the Bank. Mr. Alabastro graduated with a BSC degree, majoring in Computer Science, from University of the Philippines in 1993. He completed his Master's of Science degree Computer Science at Syracuse University in 1997.

***Ms. Jean Valen W. Yu,*** Senior Vice President 1, is the Head of the Marketing Group effective 2 December 2024. Ms. Yu has 24 years of experience in consumer insighting, brand building, integrated brand communication and business analysis, and strategy development gained from local, regional and global markets. Ms. Yu's previous affiliations include stints with Abbott Nutrition (Philippines & Vietnam), Kimberly Clark US, Mead Johnson Nutritionals Phils., Inc., Procter and Gamble, and SGV & Co. Ms. Yu graduated with a Bachelor of Science degree, majoring in Accountancy, from De La Salle University in 1998. She passed the CPA licensure examination in the same year.

***Lt. Col. Joel M. Ajero***, Vice President, is the Bank's Chief Security Officer effective 1 February 2024. Lt. Col. Ajero has over 26 years of relevant experience largely gained from the banking sector and the military. He has gained skills in implementing effective bank security control systems, supervising the security force, intelligence gathering, and fraud investigation. He is knowledgeable in the various fields of information security such as cybercrime awareness, intelligence and fraud investigation as well as physical security and safety. Prior to joining the Bank, Lt. Col. Ajero's previous affiliations included Bastion Incorporation as Security Manager, the Armed Forces of the Philippines as Intelligence Officer S2/Deputy Director, Chinatrust Bank Corporation as Chief Security Officer, the Philippine National Bank as Security Manager, TongYang Bank as Chief Security Officer, Embarcadero Mall as Mall Security and Safety Manager, and Bank Security Management Training School as Instructor.

Lt. Col. Ajero graduated with a Bachelor of Arts degree in Communication Arts from Bicol University in 1997. He completed a Certificate in Teaching Programme at the Pamantasan ng Lungsod ng Pasay in 2008 and a Master's in Business Administration from Bicol College Graduate School in 2011. Lt. Col. Ajero was a Cadet Officer in the Philippine Army ROTC Training from 1993 to 1997. He also attended advanced training in the Philippine Army as a Reservist. In 1997, he was on probationary status as 2nd Lieutenant and was commissioned with this rank in 1998. From being a Reserve Officer, he was promoted by the Philippine Army to the rank of Lieutenant Colonel in February 2019.

***Atty. Angeluz T. Guerzon***, First Vice President is the Head of Asset Management and the Remedial Group. Prior to her current appointment, she was an Asset Management Support Division Head in the Bank, specialising in property and asset management, ROPA disposal, documentation, and legal and risk management with more than 20 years' experience in legal, compliance, remedial management, data protection, collection and foreclosure, litigation and various aspects of risk management. She was also formerly the Legal and Compliance Group Head in RCBC Bankard Services Corporation and functioned as corporate legal counsel, compliance officer and data protection officer, a Remedial Legal Officer in Unionbank, a Foreclosure lawyer in the Philippine National Bank, progressing to Supervising Lawyer for the Branch Lawyers Litigation Division in the Philippine National Bank. She holds a Bachelor of Laws from San Beda College of Law and was admitted to the Philippine Bar in May 2004. She also holds a Bachelor of Arts in Public Administration (Cun Laude) from the University of the Philippines – Diliman.

***Dr. Robert Rol Richard Raymond B. Ramos***, First Senior Vice President, is currently seconded to RTC as President effective 1 January 2024. He was previously the Trust Officer and Head of Trust and Investments Group in the Bank prior to the spin-off of the group to a subsidiary. He has 28 years of professional experience in the banking industry. Prior to joining RCBC, he was Chief Trust Officer and Chief Investment Officer/Senior Vice President for the Trust and Asset Management Group at East West Banking Corporation. His employment background also includes various roles such as Trust Officer and Chief Investment Officer as well as Business Development Head and Portfolio Manager at Union Bank of the Philippines; Senior Manager/Relationship Manager at BDO Private Bank, Inc. (formerly Banco Santander Philippines, Inc.); and Branch Manager/Branch Service Officer/Treasury Staff/Trust Staff at Bank of the Philippine Islands. He also rendered services with the United States Agency for International Development Project as Project Development Officer from January 1996 to May 1997 and with the World Health Organization Strategy Development Project as Technical Writer from March 1995 to December 1995.

Mr. Ramos completed his undergraduate degree of Bachelor of Science in Management Engineering from the Ateneo de Manila in 1995. He finished his Master's degrees at the Asian Institute of Management (Business Management) in 1999 and the University of Asia and the Pacific (Business Economics) in 2012. He completed his doctoral degree in Business and Economics from De La Salle University in 2016. He is a Chartered Financial Analyst (CFA), a Chartered Alternative Investment Analyst (CAIA), a Certificant for the Certificate in Investment Performance Measurement (CIPM), Certified Securities Representative, a Registered Financial Consultant, and a Certified Treasury Professional, and he completed a one-year balance sheet management course on Trust Operations with distinction.

***Mr. Arsenio Kenneth M. Ona*** is the President and Chief Executive Officer of RCBC Capital Corporation. He is an investment banking professional with over 25 years of experience in the industry, both locally and abroad. Prior to his current appointment, he was First Vice President for Coverage and Origination at First Metro Investment Corporation, Assistant Vice President for Corporate Finance at All Asia Capital & Trust Corporation, Investment Banking Associate at JP Morgan Chase & Co. (New York and Singapore) and an Analyst at Jardine Fleming Exchange Capital Corporation. He holds a Master's in Business Administration from The Wharton School at the University of Pennsylvania and a Bachelor of Science degree in Business Economics from the University of the Philippines.

***Mr. Arniel Vincent B. Ong***, Senior Vice President 2, is the President and Chief Executive Officer of RCBC Bankard Services Corporation. Upon joining the Bank on 2 December 2019, he was seconded to RCBC Bankard Services Corporation as Head of Cards Strategic Initiatives and functioned as such until 15 July 2020. Prior to joining RCBC, he was connected with HSBC Philippines where his last position was Head of the Contact Management Centre and Digital of the Retail Banking and Wealth Management since January 2016. He started as a Management Trainee of the said bank in 2006. He has also served the bank in various other roles, which have included the following: Vice President of Policy, Acquisition and Portfolio Management in Retail Banking and Wealth Management; Head of Consumer Credit Risk for Short Term Attachment assigned to HSBC Vietnam (stint from February 2013 to May 2013); various roles within Retail Credit Risk Management; and Manager for Payment Services.

He also worked as an Assistant Instructor at Ateneo De Manila University after graduation from college. He graduated with a Bachelor of Science degree, majoring in Management Engineering and AB Economics. He finished his undergraduate course with honours at Ateneo de Manila University, 2006.

***Mr. Jose Jayson L. Mendoza***, Senior Vice President 1, is currently seconded to RCBC Leasing and Finance Corporation as President. He has 30 years of professional experience. Prior to his current assignment, he was the Head of North Metro Manila Division in SME Banking. Prior to this, he held positions as Head of the Metro Manila Division and VisMin Lending Region. He joined the Bank in 2008 as Lending Centre Head for the Small and Medium Enterprises Division-Luzon. Previously, he had worked with Maybank Philippines as Head of Retail Loans Management (January 2005 to August 2008), the Philippine National Bank as Account Officer (January 2003 to December 2004), the Philippine Savings Bank as Account Officer (August 1996 to December 2002) and Islacom as Senior Credit Investigator (May 1994 to July 1996). He started his banking career when he joined Allied Banking Corp. as Credit Investigator in 1993. Mr. Mendoza graduated in 1993 from De La Salle University with a degree in AB Management.

***Mr. Raoul V. Santos***, Senior Vice President 1, is currently seconded to RCBC Securities, Inc. as President. He has 33 years of professional experience. Prior to this current assignment, he was the Head of the Trust Investment Segment in the Trust and Investments Group and concurrently handled the role of the Head of the Institutional Relationship Management Division. He joined RCBC in 2001 as Portfolio Management Section Head before assuming the Investment Services Department Head position in 2008. He also worked for Metropolitan Bank and Trust Company (2000 to 2001), Solidbank Corporation (1999 to 2000), Phinma, Inc. (1991 to 1999) and SGV & Co. (1990 to 1991). Mr. Santos obtained his Bachelor of Science degree in the Management of Financial Institutions and a Bachelor of Arts degree in Asian Studies from De La Salle University.

***Mr. Ismael S. Reyes***, Senior Vice President 1, is currently seconded to Rizal Microbank as President effective 16 August 2024. He has 37 years of banking experience. He joined the Bank in 2013 as the National Sales Director and has assumed various leadership roles in the Retail Banking Group, such as the Head of the Retail Banking Marketing Segment, the Regional Sales Director for Metro Central Region and Quezon City, the Head of the Marketing and Strategy Segment, and the Head of Retail Transformation, which was the last position he held prior to assuming his current role. Prior to joining the Bank, he assumed various positions in the Philippine Savings Bank as Head of the Loans Operations Group, Branch Banking Group Head, Deputy Branch Banking Group Head and Business Development Unit Head. He worked for iRemit Inc., where he handled roles such as Division Head for Market Management and Deputy Head for the Global Sales and Marketing Division. He also worked with the Bank of the Philippine Islands where he was assigned as Operations Manager/Section Head for the Funds Transfer Department. His banking career started in Far East Bank in 1987 when he was hired as Staff for the International Operations Division. By 1990 he was promoted to a supervisory rank in the same division and as an officer in 1993. He later held the position of Department Head in International Operations and became a Project Officer also for the Remittance Centre. Mr. Reyes earned his Bachelor of Science degree in Commerce, majoring in Economics, at the University of Santo Tomas.

All of the officers identified above are Filipino citizens.

**Employees**

As of 30 September 2024, the Bank (excluding its subsidiaries) had 6,432 permanent employees, of whom 69.15 per cent. were engaged in a professional managerial capacity and classified as “officers”. As of 30 September 2024, approximately 54.10 per cent. of the Bank’s employees (excluding its subsidiaries) were employed at the head office and 45.90 per cent. at its branches.

The following table presents the number of employees by category as of the dates indicated:

| | As of 31 December | | | As of 30 September |
|---|---|---|---|---|
| **Category** | **2021** | **2022** | **2023** | **2024** |

| | As of 31 December | | | As of 30 September |
|---|---|---|---|---|
| Staff | 2,068 | 1,912 | 1,928 | 1,984 |
| Officers | 3,582 | 3,805 | 4,256 | 4,448 |
| **Total** | 5,650 | 5,717 | 6,184 | 6,432 |

All of the Bank's non-managerial employees, other than those expressly excluded under the Collective Bargaining Agreement (**CBA**), are represented by an independent union, the RCBC Employees Association. In October 2024, the Bank (excluding subsidiaries) and the RCBC Employees Association agreed on the two-year economic provisions (2024 to 2026) of the five-year CBA period covering 1 October 2021 to 30 September 2026.

The Bank has not experienced any strikes in the past five years, and the management of the Bank believes that its relations with its employees and the union are good and harmonious.

The Bank continues to invest in its employees through various training programmes. In particular, the Bank established the RCBC University, with a focus on three main academies: RCBC Leadership Academy, RCBC CX Excellence Academy, and RCBC Digital Academy. This is in addition to the standard training programmes on product knowledge, risk management and technical skills.

The aggregate compensation paid to employees by the Bank for the year ended 31 December 2023 was ₱7.15 billion (U.S.$127.6 million).

**Principal Shareholders**

The Company is a member of the YGC. As of 30 September 2024, the Yuchengco family, primarily through PMMIC, owned approximately 33.92 per cent. of the Bank's issued and outstanding shares while other members of the YGC owned an additional 9.31 per cent. of the Bank's issued and outstanding shares. As a result, YGC, which is controlled by the Yuchengco family, effectively controls the Bank.

As of 30 September 2024, the Bank had 745 common shareholders of record worldwide.

The following table shows the ten principal shareholders of the Bank, as shown in the Bank's share register as of 30 September 2024:

| | Number of Shares | Per cent. of Total |
|---|---|---|
| Pan Malayan Management and Investment Corporation. | 820,634,773 | 33.92 |
| Sumitomo Mitsui Banking Corporation | 483,907,222 | 20.00 |
| Cathay Life Insurance Corporation. | 452,018,583 | 18.68 |
| IFC Capitalization (Equity) Fund L.P. | 71,151,505 | 2.94 |
| RCBC Trust Investment Group as Trustee of TA# 75077-8 FAO RCBC Retirement Plan | 16,834,220 | 0.70 |
| Sybase Equity Investments Corporation | 71,099,005 | 2.94 |

## RELATED PARTY TRANSACTIONS

The Bank is a member of the YGC. As of 30 September 2024, the Yuchengco family, primarily through PMMIC, owns approximately 33.92 per cent. of the Bank's issued and outstanding shares. The Bank, in its ordinary course of business, engages in transactions with the YGC while other members of the YGC own an additional 9.31 per cent. of the Bank's issued and outstanding shares. The Bank's policy with respect to related party transactions is to ensure that they are all entered into at arm's length standard. These transactions are made and entered into substantially on the same terms and conditions as transactions with other individuals and businesses of comparable risk.

**DOSRI Loans and Deposits**

In the ordinary course of business, the Bank has loan transactions with investees and certain DOSRI. The General Banking Law and BSP regulations require that (a) the amount of individual outstanding loans, other credit accommodations, and guarantees to DOSRI should not exceed an amount equivalent to their unencumbered deposits and the book value of their paid-in capital investment in the bank; (b) unsecured loans, other credit accommodations, and guarantees to DOSRI should not exceed 30.0 per cent. of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower; (c) the total outstanding loans, other credit accommodations and guarantees to DOSRI may not, without the prior approval of the Monetary Board, exceed 15.0 per cent. of the bank's total loan portfolio or 100.0 per cent. of the bank's net worth, whichever is lower.

The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts as of the period indicated:

| | As of 31 December | | | As of 30 September |
|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 |
| | (Amount in ₱ millions, except for percentages) | | | |
| Total outstanding DOSRI loans | 325 | 252 | 290 | 269 |
| Unsecured DOSRI | 98 | 97 | 118 | 114 |
| Past due DOSRI | 1 | - | - | - |
| Non-accruing DOSRI | 1 | - | - | - |
| Percentage of DOSRI loans to total loan portfolio | 0.06 | 0.04 | 0.04 | 0.04 |
| Percentage of unsecured DOSRI loans to total DOSRI loans | 30.15 | 38.49 | 40.73 | 42.35 |
| Percentage of past due DOSRI loans to total DOSRI loans | 0.31 | 0.00 | 0.00 | 0.00 |
| Percentage of non-accruing DOSRI loans to total DOSRI loans | 0.31 | 0.00 | 0.00 | 0.00 |

The Manual of Regulations for Banks (as amended from time to time, the **Manual**) 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 Manual, 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 per cent. of the net worth of the lending bank/quasi-bank, provided that the unsecured portion shall not exceed 5.0 per cent. of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.0 per cent. of the net worth of the lending bank/quasi-bank. Additionally, these subsidiaries and affiliates should not be a related interest of any of the directors, officers and/or stockholders of the lending institution, except where such directors, officers or stockholders sit in the board of directors or are appointed as officers of such corporations as representatives of the Bank. As of 31 December 2021, 2022, 2023 and 30 September 2024, the total outstanding loans, other credit accommodations, and guarantees to each of the Bank's subsidiaries and affiliates did not exceed 10.0 per cent. of the Bank's net worth, and the unsecured portion did not exceed 5.0 per cent. of such net worth.

On 23 June 2016, the BSP issued Circular No. 914, amending the prudential policy on loans, other credit accommodations, and guarantees granted to DOSRI, subsidiaries and affiliates. Circular No. 914 has raised the ceilings on the exposure of subsidiaries and affiliates of banks to priority programmes, particularly infrastructure projects under the Philippine Development Plan/ Public Investment Programme (**PDP/PIP**) needed to support economic growth. The Manual provides a separate individual limit (25 per cent. of the net worth of the lending bank/quasi-bank) to loans of banks/quasi-banks to their subsidiaries and affiliates for the purpose of project finance (as defined under Sec. 344 of the Manual) engaged in energy and power generation, provided that certain conditions are met such as that the initiatives are in line with the priority programmes of the government and such subsidiaries and affiliates are not related interests of any of the directors, officers, and/or stockholders of the lending bank/quasi-bank; provided further, that the unsecured portion thereof shall not exceed 12.5 per cent. of such net worth when the project is already operational; and provided, finally, that 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.

Notably, other credit accommodations, and guarantees granted by a bank to its DOSRI for the purpose of project finance are exempted from the 30 per cent. unsecured individual ceiling during the project gestation phase; provided that the lending bank ensures that standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include a pledge of the borrower's shares, the assignment of the borrower's assets, the assignment of all revenues and cash waterfall accounts, and the assignment of project documents. Further, Circular No. 914 also provides for a refined definition of "related interest" and "affiliates" to maintain the prudential requirements and pre-empt 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. As of 31 December 2021, 2022, 2023 and 30 September 2024, the total outstanding loans, other credit accommodations and guarantees to each of the Bank's subsidiaries and affiliates engaged in energy and power generation did not exceed 25.0 per cent. of the Bank's net worth, and the unsecured portion did not exceed 12.5 per cent. of such net worth.

The balances as of 30 September 2023 and 30 September 2024 in respect of subsidiaries included in the Bank's financial statements are as follows:

| | **As of 30 September 2023** | **As of 30 September 2024** |
|---|---|---|
| | **(₱ millions)** | |
| Loans and receivables................................. | 151 | 92 |
| Deposit liabilities.......................................... | 1,852 | 823 |

The income and expenses for the nine months ended 30 September 2023 and 30 September 2024 in respect of subsidiaries included in the Bank's financial statements are as follows:

| | **For the nine months ended 30 September 2023** | **For the nine months ended 30 September 2024** |
|---|---|---|
| | **(₱ millions)** | |
| Interest income........................................... | - | - |
| Interest expense (on deposits)..................... | 16 | 27 |

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. Other significant related party transactions of the Bank are discussed in the notes to the financial statements included in this Offering Circular.

# PHILIPPINE BANKING INDUSTRY

*The following is a general discussion of the Philippine banking industry. It is based on the laws, regulations and administrative rulings in force as of the date of this Offering Circular and is subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. It does not purport to be a comprehensive description of all the aspects of the industry that may be relevant to a decision to purchase, own or dispose of the Securities. Prospective purchasers should consult their advisers as to the consequences of acquiring, holding and disposing of the Securities.*

The banking industry in the Philippines is composed of universal banks, commercial banks, thrift banks, savings and mortgage banks, private development banks, stock savings and loan associations, rural banks, cooperative banks, Islamic banks, and digital banks.

According to BSP's Directory of Banks and Non-Bank Financial Institutions (**BSP Directory**), as of 4 November 2024, the commercial banking sector, consist of universal and commercial banks, consisted of 44 banks, of which 22 were universal banks and 22 were commercial banks. Of the commercial banks, two are private domestic banks, two are foreign bank subsidiaries, and 18 are foreign bank branches. Of the universal banks, 13 were private domestic banks, three were government banks, and six 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 evidences of indebtedness, receive deposits, 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, invest in the equity of businesses not related to banking and own up to 100.0 per cent. of the equity in a thrift bank, a rural bank or financial or non-financial allied enterprises. A publicly-listed universal or commercial bank may own up to 100.0 per cent. of the voting stock of only one other universal or commercial bank.

Thrift banks are composed of savings and mortgage banks, private development banks, stock savings and loan associations and microfinance thrift banks. These banks primarily accumulate the savings of depositors and invest them, together with their capital, in secured or unsecured loans, financing for home building and home development, readily marketable debt notes, commercial paper or accounts receivable, 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, housing and other financial and allied services for its chosen market and constituencies, especially for small and medium-sized enterprises and individuals. According to the BSP Directory, as of 4 November 2024, there were 41 thrift banks.

Rural and cooperative 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. Rural banks are privately owned and managed while cooperative banks are owned by cooperatives or federations of cooperatives. According to the BSP Directory, as of 4 November 2024, there was a combined total of 386 rural and cooperative banks.

## DIGITAL BANKS

Financial Technology and Digitalisation as a banking trend started to take off with the rise of the internet at the start of 21st century when banks launched internet banking facilities to enable clients to access their accounts and make payment transactions using personal computers. As future generations become more tech savvy, internet and mobile users are also increasing. According to We Are Social, a global social media marketing company, in the Philippines, internet users reached 85.16 million by 2023 with a penetration rate of 73.1 per cent. of the population, while mobile connections numbered 168.3 million as of 2023.

Hand in hand with digitalisation is the thrust of the BSP to increase financial inclusion, as only about 30 per cent. of adults have a bank account. The BSP's goal is to bring 70 per cent. of the Filipino adult population to the financial system and 50 per cent. of all payments (volume and value) online by 2023. Based on the latest report by BSP, at the end of 2023, digital payments have reached 52.8 per cent. by volume from 42.1 per cent. in 2022 and 55.3 per cent. by value from 40.1 per cent., driven by person-to-merchant and person-to-person payments.

To further advance financial inclusion in the country, the BSP has released Circular No. 1105, or the *Guidelines on the Establishment of Digital Banks* in December 2020 which outlines the framework for digital banks as a distinct classification of banks. In September 2022, the BSP issued Circular No. 1154 which clarifies the extent to which prudential requirements apply to digital banks and amends the documentary and licensing requirements on the establishment of digital banks. According to these issuances, digital banks' products and services should be processed end-to-end through a digital platform and/or electronic channels with no physical branch/sub-branch or branch-lite unit, and these banks should have at least ₱1.0 billion capital.

Digital banks offer financial products and services that are processed end-to-end through a digital platform and/or electronic channels with no physical branch or sub-branch or branch-lite unit offering financial products and services. Digital banks may grant loans, whether secured or unsecured, accept savings and time deposits, accept foreign currency deposits, invest in readily marketable bonds and other debt securities, commercial papers and accounts receivables, drafts, bills of exchange, acceptances or notes arising out of commercial transactions, act as correspondent for other financial institutions, act as collection agent for non-government entities, issue credit cards and electronic money products, buy and sell foreign exchange, and present, market, sell, and service microinsurance products.

Previously, the BSP capped the number of digital banks to six and temporarily closed the application window effective 31 August 2021, to allow BSP to monitor performance and impact of these banks on the banking system and their contribution to financial inclusion. In August 2024, the Monetary Board approved the lifting of the moratorium on the grant of new digital banking licenses. Beginning 1 January 2025, the BSP is poised to reopen applications for digital bank licenses after a three-year hiatus and will be accommodating four additional licensees.

As of 4 November 2024, six digital banks have been granted a Certificate of Authority by the BSP to operate in the Philippines; namely, Tonik Digital Bank Inc., Maya Bank Inc., Overseas Filipino Bank Inc., the digital bank subsidiary of state-owned Land Bank of the Philippines, UNObank Inc., UnionDigital Bank Inc., and GoTyme Bank Corporation. According to the BSP's latest Status of Digital Payments report, the value of digital payments amounted to a total of $110.5 billion towards the end of 2023. Furthermore, the share of digital payments to total retail payment transactions in the Philippines grew to 52.8 per cent. in 2023 from 42.1 per cent. in 2022.

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 Al-Amanah Islamic Investment Bank of the Philippines (**AAIIB**). DBP was organised primarily to provide banking services catering to the medium-term 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 programme. 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 – liberalisation and mergers and consolidation.

Foreign bank entry was liberalised in 1994, enabling foreign banks to invest in up to 60.0 per cent. 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 ten 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 per cent. of the voting stock of one domestic bank. 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 per cent. 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 per cent. of the voting stock thereof. Further, the ASEAN Banking Integration Framework (**ABIF**) took effect on 1 January 2020, allowing certain qualified ASEAN banks to operate in other ASEAN countries just like any other local bank. According to the BSP Directory, as of 4 November 2024, there were 18 foreign banks with branches and two foreign banks with subsidiaries in the Philippines.

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 Bank, United Overseas Bank and Hua Nan Commercial Bank being granted new licenses, 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.

Subject to prior Monetary Board approval of the applicants, foreign banks may be authorised to operate in the Philippines through any one of the following modes of entry (a) acquiring up to 100 per cent. of the voting stock of an existing bank; (b) investing in up to 100 per cent. of the voting stock of a new banking subsidiary incorporated in the Philippines; or (c) establishing branches with full banking authority. Foreign banks applying for entry into the Philippine banking system will be subjected to the statutory and regulatory guidelines set forth in the Act and its implementing guidelines. Among the key amendments of the law was the removal of the ranking requirement for foreign banks and the addition of the applicant banks being widely-owned and publicly-listed in the country of its origin. In addition, the law allows authorised foreign banks to participate in the bidding and foreclosure sales of mortgaged real property (including lands) as well as to avail of enforcement and other proceedings and even take possession (but not title) to such mortgaged property for a period of five years. The foreign banks must, however, transfer its rights over the mortgaged property to a qualified Philippines national within the period of five years. In July 2014, Republic Act No. 10641, or "An Act Allowing the Full Entry of Foreign Banks in the Philippines" (the **Act**) was enacted. In November 2024, its implementing rules and regulations were issued as BSP Circular No. 858. These further liberalised foreign bank entry by allowing foreign banks to own up to 100 per cent. of the voting stock of an existing bank, a branch, or a subsidiary. The Act reopened the domestic banking sector to foreign banks whose full access was closed as of 2007. Under the Act, in approving applications, the Monetary Board is required to adopt such measures as may be necessary to ensure that the control of at least 60 per cent. of the resources or assets of the entire banking system is held by domestic banks which are majority-owned by Filipinos. Pursuant to BSP Circular No. 858, such measures may include (a) suspension of entry of additional foreign bank subsidiaries and branches; and (b) suspension of licence upgrade or conversion to subsidiary of existing foreign bank branches. Other measures consistent with the Act may also be implemented by the Monetary Board, taking into consideration vested rights and non-impairment of contracts.

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:

| Name | Market Capitalization[1] | Total Equity[2] | Total Assets[2] | Loans and Receivables-net[2] | Deposit Liabilities[2] | No. of Branches[3] |
|---|---|---|---|---|---|---|
| | (in ₱ millions, except number of branches) | | | | | |
| **BDO Unibank, Inc.** | **675,467** | **547,330** | **4,712,455** | **3,027,245** | **3,737,273** | **1,720** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Metropolitan Bank & Trust Company** | **303,800** | **365,479** | **3,280,153** | **1,625,343** | **2,429,722** | **699** |
| **Bank of the Philippine Islands** | **627,907** | **408,681** | **3,109,984** | **2,029,477** | **2,451,780** | **709** |
| **China Banking Corp.** | **107,654** | **151,913** | **1,544,931** | **797,245** | **1,283,261** | **648** |
| **Rizal Commercial Banking Corp.** | **56,012** | **152,104** | **1,260,898** | **667,222** | **959,918** | **458** |

*Notes*:

(1) *Market Capitalization as of 30 June 2024.*
(2) *Financial data taken from each bank's unaudited interim financial statements as of 30 June 2024.*
(3) *From BSP directory of banks, filings with the PSE.*

**COMPETITION**

The Bank faces competition from both domestic and foreign banks, in part, as a result of the liberalisation of the banking industry by the Government. Since 1994, a number of foreign banks which have greater financial resources than the Bank have been granted licences to operate in the Philippines. Such foreign banks have generally focused their operations on larger corporations and selected consumer finance products, such as credit cards. The foreign banks have not only increased competition in the corporate market but have, as a result, caused more domestic banks to focus on the commercial middle-market, placing pressure on margins in both markets.

The Bank also faces competition from domestic banks in part as a result of mergers and consolidation in the banking industry. In the domestic market, prior to 2000, many banks expanded their networks in order to tap low-cost retail deposits following the relaxation of restrictions on branch banking. As a result, the Philippine banking market is relatively fragmented by comparison with other Asian countries. Since September 1998, the BSP has been encouraging consolidation among banks in order to strengthen the Philippine banking system, 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. 771-12 was issued in order to grant incentives to investors who purchase a controlling stake in a bank. Accordingly, the coverage of reliefs and incentives for mergers and consolidations now includes the purchase and acquisition of a majority or all of the outstanding shares of stock of a bank. In May 2022, Joint Circular No. 01, series of 2022 was issued to streamline the merger, consolidation, and acquisition process among banks. The multi-agency agreement was signed by the BSP, Philippine Deposit Insurance Corporation, Securities and Exchange Commission, Cooperative Development Authority, and the Philippine Competition Commission. The agencies agreed to simplify the procedure and to reduce the documentary requirements and processing time for the merger, consolidation, and acquisition process of banks.

Based on BSP data, since the new package of incentives took effect in September 1998, there have been more than 100 mergers, acquisitions, and consolidations of banks, reducing the number of banks from 996 in 1998 to 471 as of November 2024. However, while recent mergers increased market concentrations, BSP studies showed that they were not enough to pose a threat to overall competition levels since market share remained relatively well dispersed among the remaining players.

## BANKING REGULATION AND SUPERVISION

*The following is a general description of certain laws and regulations applicable to Philippine banks. It is based on the laws, regulations and administrative rulings in force as of the date of this Offering Circular and is subject to any changes in law 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 laws and regulations that may be relevant to a decision to purchase, own or dispose of the Securities. Prospective purchasers should consult their advisers as to the consequences of acquiring, holding and disposing of the Securities.*

### General

The New Central Bank Act of 1993 (Republic Act No. 7653) and the General Banking Law of 2000 (Republic Act No. 8791, the **General Banking Law**) vest the Monetary Board of the BSP with the power 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, private development banks, stock savings and loan associations and microfinance thrift banks), Islamic banks, rural banks, as well as branches and agencies of foreign banks in the Philippines. Entities performing quasi-banking functions, trust companies, building and loan associations, non-stock savings and loan associations and other non-deposit accepting entities, while not considered banking institutions, are also subject to regulation by the Monetary Board. Moreover, 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.

The Manual of Regulations for Banks (as amended from time to time, the **Manual**) is the principal source of rules and regulations for the operation of banks in the Philippines. The Manual contains regulations applicable to universal banks, commercial banks, thrift banks, rural banks and non-bank financial intermediaries performing quasi-banking functions. These regulations include those relating to the organisation, management and administration, deposit and borrowing operations, loans, investments and special financing programs, treasury and money market operations and trust and other fiduciary functions, of the relevant banks and non-bank financial intermediaries. Supplementing the Manual are rules and regulations promulgated in various circulars, memoranda, letters and other directives issued by the Monetary Board.

The Manual and other BSP rules and regulations are principally implemented by the Financial Supervision Sector (the **FSS**) of the BSP. The FSS is responsible for monitoring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines (including Government banks and their subsidiaries and affiliates), 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 the Savings and Loan Association Act (Republic Act No. 3779), and pawnshops under the Pawnshop Regulation Act (Presidential Decree No. 114).

### Selected COVID-19 Government Support Measures

In March 2020, former President Rodrigo Duterte issued Proclamation No. 922, declaring a State of Public Health Emergency nationwide due to the COVID-19 pandemic. This prompted various government support measures and regulations.

On 24 March 2020, pursuant to the authority from the Monetary Board, BSP Governor Diokno approved a reduction in the reserve requirement ratio by 200 basis points for universal/commercial banks with effect from 30 March 2020. Subsequently, BSP Circular No. 1082 further lowered the rates of required reserves against deposit and deposit substitute liabilities in local currency of banks, effective reserve week of 3 April 2020 for universal and commercial banks, to 12 per cent.

On 22 April 2020, in light of the effects of the COVID-19 pandemic on micro, small and medium-sized enterprises (**MSMEs**), the BSP issued Circular No. 1083, which provides that loans that are granted to MSMEs shall be allowed as alternative compliance with the required reserves against deposit and deposit substitute liabilities, subject to specific conditions. This mode of allowable alternative compliance was available to banks from 24 April 2020 to 30 December 2021, and was further extended to 29 December 2022 pursuant to Circular No. 1110.

***Loan Limit to a Single Borrower***

On 19 March 2020, the BSP issued BSP Memorandum No. M-2020-011 which granted additional operational relief to BSFIs affected by the COVID-19 pandemic. Such relief includes an increase in this single borrower's limit from 25 per cent. to 30 per cent. for a period of six months from 19 March 2020, and was further extended to 31 December 2022, pursuant to BSP Memorandum No. M-2022-004.

***Regulatory Relief Package***

On 14 March 2020, the BSP issued BSP Memorandum No. M-2020-008, as amended by Memorandum No. M-2020-032. This offered a regulatory relief package which all BSFIs were eligible to avail of within one year from 8 March 2020 until 31 December 2021. The relief package includes a one year exclusion from the past due loan ratio of loans to affected borrowers and the staggered booking of provision for probable losses for five years for all types of credits extended to affected individuals and businesses, subject to BSP approval.

***Relaxation of Requirements***

On 21 July 2020, the BSP issued Memorandum No. M-2020-057 relaxing certain requirements under the MORB. A bank need not inform the BSP of changes in its banking days, hours of operation, and temporary closure. This was implemented until 31 March 2021 and extended until 31 December 2022 by BSP Memorandums Nos. M-2021-029 and M-2022-005.The same three memorandums also relaxed the notification requirement in case of the temporary closure of bank branches/branch-lite units and BSFI offices/service units from March 2020 to 31 December 2022.

***Supervisory Expectations***

Due to the uncertainties brought about by the pandemic, the BSP issued Memorandum No. M-2020-061 on 3 August 2020, providing for supervisory expectations on the measurement of ECL under PFRS 9 and the treatment of relief measures that have been granted by the BSP to BSFIs. BSFIs availing regulatory relief measures must report actual past due and non-performing loans and allowances for credit losses in their Financial Report Package and the Capital Adequacy Ratio reports.

***Overnight Reverse Repurchase Facility***

On 19 March 2020, in a bid to spur the economy amid the slowdown caused by COVID-19, the BSP announced a reduction in the interest rate on its overnight reverse repurchase (**RRP**) facility. By 19 November 2020, the RRP interest rate was trimmed to 2.00 per cent, with overnight deposit and lending rates trimmed to 1.50 per cent. and 2.50 per cent., respectively. Effective 17 October 2024, the Monetary Board updated the RRP rate by 25 basis points to 6.0 per cent., adjusting the interest rates on the overnight deposit and lending activities to 5.50 and 6.50 per cent., respectively.

***Bayanihan to Heal as One Act***

On 23 March 2020, the Bayanihan to Heal as One Act (**Bayanihan I**) was signed into law, imposing a 30-day grace period on the payment of loans falling due during the enhanced community quarantine without incurring interests, penalties, or other charges. The enhanced community quarantine in Luzon ended on 30 April 2020, but in other areas, this was extended until 15 May 2020. Thereafter, BSP Memorandum No. M-2020-045 removed this mandatory grace period, effective 1 June 2020. Bayanihan I expired on 24 June 2020.

On 15 September 2020, the Bayanihan to Heal as One Act II (**Bayanihan II**) was enacted. Under the law, BSFIs are mandated to grant a one-time 60-day grace period to all loans that are existing, current, and outstanding falling due, or any part thereof, on or before 31 December 2020. During the grace period, no interest, penalties, fees, or other charges may be applied to the loan. Bayanihan II expired on 30 June 2021.

On 22 July 2023, President Ferdinand R. Marcos Jr. issued Proclamation No. 297, lifting the State of Public Health Emergency due to COVID-19 in the Philippines. Pursuant to this, all orders, memoranda, and issuances effective only during this period were deemed revoked or canceled, and no longer in effect.

***Expected Credit Loss***

In 2018, the BSP provided guidelines for adopting PFRS 9 through BSP Circular No. 1011. PFRS 9 covers loans and receivables that are measured at amortised cost, investments in debt instruments that are measured at amortised cost or FVOCI, and credit commitments and financial guarantee contracts that are not measured at FVTPL, With PFRS 9, the BSP also provided for an ECL model to measure credit impairment. Credit exposures are classified into three stages. Stage 1 means the credit exposure is considered "performing" and has no significant increase in credit risk since its initial recognition or has a low credit risk. In stage 2 the credit exposure is considered as "under-performing" or is not yet non-performing but with a significant increase in credit risk since its initial recognition. Stage 3 means the credit exposure is considered as “non-performing”. For stage 1, the time horizon in measuring ECL is through a twelve-month ECL, while stage 2 and stage 3 follow a lifetime ECL time horizon.

On 19 October 2021, BSP issued Memorandum No. M-2021-055 providing temporary regulatory relief on capital treatment of provisioning requirements under PFRS 9. Beginning 1 January 2022, covered BSFIs can add-back increase in Stage 1 and Stage 2 provisioning requirements booked under allowance for credit losses from end-December 2019 to CET 1 capital over two years or until 2023. From 01 January 22 to 31 December 2022, the add-back factor is 100 per cent. Thereafter, from 1 January 2023 to December 2023, the add-back factor will be reduced to 50 per cent.

On 21 October 2021, the BSP provided guidelines on the treatment of loans restructured during the pandemic and the determination of its ECL classification. The guidelines for the assessment of ECL should be based on the borrower’s ability to fully pay the loan based on the revised terms. The guidelines can be found in BSP Memorandum No. M-2021-056 and is in effect as of 31 December 2022.

**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 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 100.0 per cent. of the equity in a thrift bank, a rural bank, or a financial or non-financial allied enterprise. A publicly listed universal or commercial bank may own up to 100.0 per cent. of the voting stock of only one other universal or commercial bank. A universal bank may also own up to 100 per cent. of the equity in a non-financial allied enterprise.

In addition to those functions specifically authorised by the General Banking Law and the Manual, 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 allowed, to a certain extent, to invest in allied (both financial and non-financial) undertakings while only universal banks may invest in non-allied undertakings.

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 per cent. of the net worth of the bank. Its equity investment in any one enterprise, whether allied or non-allied, is not permitted to exceed 25.0 per cent. of the net worth of the bank. For this purpose, net worth is defined as the total unimpaired paid-in capital including surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by the BSP.

**Minimum Capitalisation**

By virtue of BSP Circular No. 854 (2014), the minimum capital requirement for all bank categories, namely universal banks, commercial banks, thrift banks, rural banks, and cooperative banks, increased in order to strengthen the banking system. In 2022, the BSP issued Circular No. 1151 which amended the minimum capitalization for rural banks in the Philippines. Below are the amended minimum capital requirements for banks as of 2024:

| 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 |
| **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: | | |

| Bank Category/Network Size | Existing Minimum Capitalisation (₱) | Reviewed Minimum Capitalisation (₱) |
|---|---|---|
| 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) | | 20 million |
| Head Office only | | 30 million |
| Up to 10 branches* | | 40 million |
| 11 to 50 branches* | | 80 million |
| More than 50 branches* | | |
| Head Office in All Other Areas Outside NCR | | |
| (4th to 6th Class Municipalities) | | 10 million |
| Head Office only | | 15 million |
| Up to 10 branches* | | 20 million |
| 11 to 50 branches* | | 40 million |
| More than 50 branches* | | |
| **Digital Banks** | | 1.00 billion |

**Capital Adequacy Requirements**

In January 2012, the BSP required the universal and commercial banks in the Philippines, including their subsidiary banks and quasi-banks, to adopt in full the capital adequacy standards under Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems effective 1 January 2014. Basel III supplemented the capital adequacy framework under Basel II: Revised International Convergence of Capital Measurement and Capital Standards to further strengthen the loss absorption capacity of local banks and encourage banks to rely more on core capital instruments like CET1 and Tier 1 issues.

This 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 T1 capital in addition to the CAR. The BSP maintained the minimum CAR at 10 per cent. and set a minimum CET1 ratio of 6 per cent. and a minimum T1 capital ratio of 7.5 per cent. The new guidelines also introduced a CCB of 2.5 per cent. which shall be made up of CET1 capital. This buffer was intended to promote the conservation of capital and build-up of adequate cushion that can be drawn down by banks to absorb losses during periods of financial and economic stress. Under BSP Circular No. 1027 dated 28 December 2018, net due from head office, branches and subsidiaries outside the Philippines of foreign banks branches, excluding accumulated net earnings is required to be deducted from CET1 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 under Basel III". Under the circular, the BSP adopts policy measures for D-SIBs, which are essentially aligned with documents issued by the BCBS on G-SIBs and D-SIBs. The policy aims to reduce the probability of failure of D-SIBs by increasing their going-concern loss absorbency and to reduce the extent or impact of failure of D-SIBs on the domestic or real economy. The submission of data requirements for the identification of D-SIBs took effect starting with 2014 data while compliance with the additional higher loss absorbency requirement was phased in from 1 January 2017 with full implementation on 1 January 2019.

Under BSP Circular No. 856, the systemic importance of a bank is assessed in relation to the impact of its failure on the domestic economy based on certain bank-specific factors (on a consolidated basis): size, interconnectedness, substitutability/financial institution infrastructure, and complexity. Banks that have a score that exceeds the cut-off under the indicator-based measurement approach shall be classified as D-SIBs. In assessing D-SIBs, supervisory judgment may also be utilised based on the principles set forth in the circular. Using cluster analysis, D-SIBs will be initially allocated into two buckets with an empty bucket to provide banks with an incentive to avoid becoming more systemically important. The assessment will be run annually and D-SIBs reallocated as a result. If the empty bucket becomes populated in the future, a new empty bucket shall be added with a required higher additional loss absorbency level which shall increase in increments of 1.0 per cent. of risk-weighted assets.

Banks identified as D-SIBs will be required to have higher loss absorbency (**HLA**). This higher requirement is aimed at ensuring that D-SIBs have a higher share of their balance sheets funded by instruments which increase their resilience as a going concern, considering that the failure of a D-SIB is expected to have a greater impact on the domestic financial system and the economy as a whole. To ensure a maximum degree of consistency in terms of effective loss absorbing capacity, the HLA requirement will be addressed through CET1 capital.

On 27 September 2019, the BSP issued Circular No. 1051, entitled Amendments to BSP 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 per cent. of risk-weighted assets at all times. For the higher populated bucket, the HLA requirement shall range from above 1.5 per cent. to 2 per cent. of risk-weighted assets. An empty top bucket with HLA requirement of 2.5 per cent. 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 per cent. |
| 2 | A-B | >1.5 per cent. to 2.0 per cent. |
| 1 | Cut-off point – A | 1.5 per cent. |

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:

C. CCyB rate is at 0 per cent:

| **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 per cent | 2.5 per cent | 0 per cent | 2.5 per cent | 5 per cent | 11.0 per cent |
| 2* | 6.0 per cent | 2.5 per cent | 0 per cent | 2 per cent | 4.5 per cent | 10.5 per cent |
| 1 | 6.0 per cent | 2.5 per cent | 0 per cent | 1.5 per cent | 4.0 per cent | 10.0 per cent |

*Assuming an HLA requirement of 2 per cent.

D. CCyB rate is at 2.5 per cent:

| 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 per cent | 2.5 per cent | 2.5 per cent | 2.5 per cent | 7.5 per cent | 10.0 per cent |
| 2* | 6.0 per cent | 2.5 per cent | 2.5 per cent | 2.0 per cent | 7.0 per cent | 9.0 per cent |
| 1 | 6.0 per cent | 2.5 per cent | 2.5 per cent | 1.5 per cent | 6.5 per cent | 8.0 per cent |

*Assuming an HLA requirement of 2 per cent.

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 starting 1 January 2017, with full compliance on 1 January 2019. Under BSP Circular No. 857, further lists of D-SIBs will be issued until 31 December 2021. 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):

C. CCyB rate is at 0 per cent

| 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 per cent. of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with) | <=9.25 per cent. | <=9.50 per cent. |
| 50 per cent. of earnings may be distributed (if the minimum CET1, the combined requirement for CCB and CCyB, and more than 50 per cent. of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with. | >9.25 per cent. – 10.0 per cent | >9.50 per cent. – 10.5 per cent. |

*Assuming an HLA requirement of 2 per cent.

D. CCyB rate is at 2.5 per cent

| 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 per cent. of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with) | <=11.75 per cent. | <=12.00 per cent. |

| | | |
|---|---|---|
| 50 per cent. of earnings may be distributed (if the minimum CET1, the combined requirement for CCB and CCyB, and more than 50 per cent. of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with. | >11.75 per cent. – 12.50 per cent. | >12.00 per cent. – 13.00 per cent. |

*Assuming an HLA requirement of 2 per cent.

A D-SIB will not be subject to any restriction on distribution if the following conditions are met:

(b) Positive retained earnings as of the preceding quarter and compliance with the regulatory requirements for the declaration of dividends;

(c) Compliance with total required CET1 and D-SIBS HLA requirement (under the circular) before distribution; and

(d) Compliance with minimum capital ratios after distribution.

D-SIBs will also be subjected to greater supervisory requirements such as additional disclosures and reports in its Internal Capital Adequacy Assessment Process (**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.

On 9 June 2015, the BSP issued Circular No. 881, entitled Implementing Guidelines on the Basel III Leverage Ratio Framework (**Circular No. 881**). In accordance with Circular No. 881, the leverage ratio of universal and commercial banks as well as their subsidiary banks and quasi-banks, computed as the level of a bank's Tier 1 capital against its total on-book and off book exposures, must not be less than 5 per cent. During the monitoring period up to 31 December 2016, sanctions were not imposed on covered institutions falling below the 5 per cent. minimum; however, all covered institutions were required to submit periodic reports. On both a solo and consolidated basis, this ratio should not be less than 5 per cent. for universal and commercial banks, as well as their subsidiary banks/quasi-banks. On 22 January 2018, however, the BSP issued Circular No. 990, extending the monitoring period up to 30 June 2018. By 1 July 2018, the leverage ratio became a Pillar 1 requirement.

Banks also face new liquidity requirements under Basel III's framework on liquidity standards, which were adopted by the BSP through Circular No. 905, entitled Implementation of Basel III Framework on Liquidity Standards — Liquidity Coverage Ratio and Disclosure Standards (**Circular No. 905**). Circular No. 905 adopted the Basel III for Liquidity Coverage Ratio (**LCR**) Framework and Minimum Liquidity Ratio Framework, and the Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (**NSFR**).

The LCR requires banks to hold sufficient levels of high-quality liquid assets to enable them to withstand a 30-day liquidity stress scenario. Beginning 1 January 2018, the LCR threshold that banks would have to meet is 90 per cent, which was increased to 100 per cent. beginning 1 January 2019. During the observation period prior to 1 January 2018, banks were required to submit quarterly LCR reports for monitoring purposes. On 15 March 2019, the BSP issued Circular No. 1035, entitled Amendments to the Basel III Liquidity Coverage Ratio Framework and Minimum Liquidity Ratio Framework (**BSP Circular No. 1035**), which introduced certain amendments to the Basel III LCR Framework and Minimum Liquidity Ratio Framework. BSP 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 per cent. LCR floor for subsidiary banks and quasi-banks during the observation period, and (iii) amended the formula for minimum liquidity ratio.

Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. On 6 June 2018, the BSP issued Circular No. 1007, entitled Implementing Guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio. It provided that the implementation of the minimum NSFR would be phased in to help ensure that the covered banks and quasi-banks could meet the standard through reasonable measures without disrupting credit extension and financial market activities. Covered banks and quasi-banks went through an observation period from 1 July 2018 to 31 December 2018 before the actual implementation of the minimum 100 per cent. NSFR, which would begin on 1 January 2019 and continue thereafter. On 15 March 2019, the BSP issued Circular No. 1034, further extending the observation period for subsidiary banks and quasi-banks of universal and commercial banks from 1 July 2018 to 31 December 2019 before the implementation of the minimum 100 per cent. NSFR beginning 1 January 2020.

Both the LCR threshold and the NSFR threshold are now at 100 per cent., following the full implementation of the provisions of Circulars 1035 and 1034, respectively. On 13 February 2020, the BSP issued Memorandum No. M-2020-003, entitled Guidelines on the Electronic Submission of the BASEL III Net Stable Funding Ration (NSFR) Report and Liquidity Coverage Ratio Report. It states that all subsidiary banks and quasi-banks must observe the guidelines for purposes of the NSFR and LCR reports beginning reporting period ended 31 January 2020, in line with BSP Circular Nos. 1035 and 1034.

On 16 April 2021, BSP Circular 1113 amended the guidelines on the recovery plan of banks designated as D-SIBs. In order to reduce the negative impact of D-SIBs on the economy, the BSP provided for a framework consisting of three parts: assessment methodology; HLA and interaction with other elements of the Basel III framework; and the intensive supervisory approach. Under the intensive supervisory approach, a D-SIB must prepare a concrete and reasonable recovery plan which must be implemented in the event that the HLA capital requirement is breached. This includes specific initiatives such as restructuring and disposing of assets, capital raising activities and streamlining businesses. Apart from a recovery plan, the D-SIB must also submit an ICAAP. On 20 July 2022, Circular No. 1158 amended the guidelines governing the submission of recovery plans of banks as well as the prudential measures under the ICAAP and Supervisory Review Process.

**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 the BSP on the amount of any deficiency.

Under Section X251 of the Manual, as amended by BSP Circular No. 1041, 1054, 1056, 1063 (2019), 1082, and 1092 (2020), universal and commercial banks (including the Bank) are required to maintain regular reserves of 12.0 per cent. against demand deposits, "NOW" accounts, savings deposits, 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, 4.0 per cent. against long-term negotiable CTDs issued under BSP Circular No. 304 (2001), 0.0 per cent. against deposit substitutes evidenced by repo agreements and inter-bank call loans under Section X343 of the Manual, and 3.0 per cent. against bonds.

The Monetary Board's reduction in the reserve requirement rate for bonds issued by banks and QBs from 6.0 per cent. to 3.0 per cent. took effect from the reserve week starting 1 November 2019 pursuant to Circular No. 1054. The reduction was implemented in furtherance of the BSP's commitment to the growth of the local debt market. The reduction is also intended to incentivise banks and QBs to tap the domestic bond market as part of their liquidity management.

The Monetary Board's reduction of the reserve requirement ratio for universal and commercial banks took effect from the reserve week starting 3 April 2020 pursuant to Circular No. 1082. The reduction is in line with the BSP's broad financial sector reform agenda to promote a more efficient financial system by lowering financial intermediation costs. The adjustment in reserve requirement ratios is also aimed at increasing domestic liquidity in support of economic activity.

Under BSP Circular 1087, as amended by BSP Circular 1100, from 24 April 2020 to 29 December 2022 Peso-denominated loans that are granted to MSMEs may be used as an alternative mode of compliance for the reserve requirement. For large enterprises, excluding banks and non-banks with quasi-banking functions, Peso-denominated loans may be used as an alternative mode of compliance from 29 May 2020 to 29 December 2022. For both enterprises, the Peso-denominated loan should be granted, renewed or restructured after 15 March 2020. For loans granted on or before 15 March 2020 but have been renewed or restructured after 15 March 2020, it may be used as an alternative compliance if the bank demonstrates an increase in its MSME loan portfolio during the month preceding the reserve day. In the determination of the increase in the loan portfolio, accrued interest and accumulated charges which have been capitalised or made part of the principal of the restructured loan must be excluded. Moreover, the loan should not be hypothecated or encumbered in any way, or rediscounted with the BSP or earmarked for any other purpose. In computing the reserve position, the loan shall be valued at amortised cost, gross of allowance for credit losses, but excluding accrued and accumulated charges which have been capitalised or made part of the principal of restructured loans.

BSP Circular 1176 issued on 29 June 2023 supplemented prior circulars and provides that universal and commercial banks are required to maintain regular reserves of: (a) 9.5 per cent. 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 (Philippine branch of a foreign bank); (b) 0 per cent. against deposit substitutes evidenced by repurchase agreements; (c) 4 per cent. against long-term negotiable certificates of time deposits; (d) 3 per cent. against bonds; and (e) 0 per cent. against basic deposit accounts as defined under Section X222 of the MORB and for interbank call loan transactions.

### Loan Limit to a Single Borrower

Under the General Banking Law and its implementing regulations, the total amount of loans, credit accommodations and guarantees that may be extended by a bank to any borrower shall at no time exceed 25.0 per cent. of the net worth of such bank (or 30.0 per cent. of the net worth of the bank in the event that certain types and levels of security are provided). This ceiling may be adjusted by the Monetary Board from time to time. In light of the Covid-19 pandemic, BSP Memorandum No. M-2022-004 has set the ceiling to 30.0 per cent. until 31 December 2022.

Pursuant to the General Banking Law, the basis for determining compliance with the single borrower's limit is the total credit commitment of the bank to or on behalf of the borrower, which includes outstanding loans and other credit accommodations, deferred letters of credit (**LCs**) less margin deposits and guarantees. Except as specifically provided in the Manual, total credit commitment is determined on a credit risk-weighted basis consistent with existing regulations.

Other credit accommodations refer to credit and specific market risk exposures of banks arising from accommodations other than loans such as receivables (sales contract receivables, accounts receivables and other receivables), and debt securities booked as investments.

Among the items excluded from the determination of the loan limit are: (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 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 hold-out on or assignment of deposits maintained in the lending bank and held in the Philippines, (e) loans, credit accommodations and acceptances under LCs to the extent covered by margin deposits, (f) debt securities acquired as a result of market making activities pursuant to the rules and guidelines of the SEC and the market or exchange where such securities are traded and/or enrolled and (g) other loans or credit accommodations which the Monetary Board of the BSP may from time to time specify as non-risk items. For debt securities, the exclusion shall only be for a period of 90 days if acquired between 1 August 2020 to 31 July 2021, and 60 days if acquired from 1 August 2021 onwards as provided under BSP Circular No. 1091.

On 13 December 2023, the BSP issued Circular No. 1185 which approved the grant of additional single borrower's limit of 15 per cent. percent of net worth on loans, credit accommodation and guarantees for the purpose of financing eligible green or sustainable projects, including transitional activities related to decarbonization.

**Trust Regulation**

The Manual contains the regulations governing the grant of authority to and the management, administration and conduct of trust, other fiduciary business and investment management activities of trust corporations and financial institutions allowed by law to perform such operations. Trust corporations, banks and investment houses may engage in trust and other fiduciary business after complying with the requirements imposed by the Manual. The Bank may, under its charter documents, accept and manage trust funds and properties and carry on the business of a trust corporation. BSP Circular No. 1025 dated 13 December 2018 provides that in addition to the basic security deposit, banks authorized to engage in trust and other fiduciary business shall maintain reserves on trust and other fiduciary account, 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 (l4) specialised institutional accounts under trust.

**Foreign Currency Deposit System**

An FCDU is a unit of a local bank or of a local branch of a foreign bank authorised by the BSP to engage in foreign currency-denominated transactions. Commercial banks which meet the net worth or combined capital accounts and profitability requirements prescribed by the Monetary Board of the BSP may be authorised to operate an expanded FCDU. Thrift banks with a net worth or combined capital accounts of at least ₱325 million if they are located in Metro Manila, and ₱52 million if they are located outside Metro Manila, may be authorised to operate FCDUs.

In general, FCDUs of such banks may, in any acceptable foreign currency (a) accept deposits and trust accounts from residents and non-residents; (b) deposit with foreign banks abroad, offshore banking units (**OBUs**) and other FCDUs/Expanded FCDUs (**EFCDUs**); (c) invest in foreign currency-denominated debt instruments; (d) grant short-term foreign currency loans as may be allowed by the BSP; (e) borrow from other FCDUs/EFCDUs, from non-residents and OBUs, subject to existing rules on foreign borrowings; (f) engage in foreign currency to foreign currency swaps with the BSP, OBUs and FCDUs; (g) engage in securities lending activities as lender, subject to certain conditions; (h) engage in repurchase agreements involving foreign currency denominated government securities; (i) purchase foreign currency denominated securities under resale agreements from other banks' FCDUs/EFCDUs, non-resident financial institutions and OBUs; (j) issue Hybrid Tier 1 (**HT1**) capital instruments subject to the requirements under existing regulations; and (k) engage in U.S.$-denominated repurchase agreements with the BSP. In addition to the foregoing, commercial banks and universal banks may: (a) engage in foreign exchange trading and, with prior BSP approval, engage in financial futures and options trading; (b) on request/instruction from its foreign correspondent banks, provided that the foreign correspondent banks deposit sufficient foreign exchange with the FCDU, (i) issue LCs for a non-resident importer in favour of a non-resident exporter, (ii) pay, accept, or negotiate drafts/bills of exchange drawn under the LC and (iii) make payment to the order of the non-resident exporter; (c) engage in the direct purchase of export bills of resident exporters, subject to certain conditions; and (d) invest in foreign currency denominated structured products issued by banks and special purpose vehicles (**SPVs**) of high credit quality, subject to the provisions of the MORB. FCDUs are required to maintain a 100.0 per cent. cover for their foreign currency liabilities, except for U.S.$-denominated repurchase agreements with the BSP, and at least 30.0 per cent. of the cover requirement for foreign currency liabilities must be in the form of liquid assets. The 100.0 per cent. asset cover and 30.0 per cent. to be held in the form of liquid assets must be unencumbered, except as otherwise provided in the Manual of Regulations for Foreign Exchange Transactions. FCDUs of universal and commercial banks and thrift banks have the option to maintain foreign currency deposits with the BSP equivalent to 15.0 per cent. of their foreign currency deposit liabilities as a form of foreign exchange cover.

Effective on 1 January 2019, however, pursuant to BSP Circular No. 996, the liquid asset cover requirement for FCDU/EFCDU liabilities for universal, commercial, thrift, rural and cooperative banks is 0 per cent.

BSP Circular 1134 (2021) amended provisions in the FX Manual. Universal banks, commercial banks, thrift banks, Islamic banks, and digital banks may accept foreign currency deposits as provided under R.A. No. 6426 or the Foreign Currency Deposit Act. Universal banks, commercial banks, and Islamic banks are authorised to operate an EFCDU, while thrift banks, digital banks, and RB/Coops are authorised to operate an FCDU as long the respective bank has the pre-qualification requirements for the corresponding license type. The guidelines on lending foreign currency funds to the bank's RBU have also been amended by the deletion of Appendix 14. The requirement of submitting Appendix 14 signifies that the outstanding balance on funds borrowed from FCDU/EFCDU did not exceed the prescribed cap of 30 per cent. of the level of FCDU/EFCDU deposit liabilities. Under the amended guidelines, there is no longer a prescribed cap.

Under Circular 1134 dated 28 December 2021, appendices 13 and 14 of the FX Manual on the guidelines on the availment of US Dollar-Denominated Repurchase Agreement Facility with the BSP, and the Sworn Certificate of FCDU/EFCDU lending to RBU, respectively have been deleted. Recently, Circular 1197 which introduced amendments to foreign exchange regulations covering reporting guidelines and penalty provisions, including the sworn certification of compliance with FCDU/EFCDU cover requirements.

**Lending Policies, Secured and Unsecured Lending**

Banks are generally required to ascertain the purpose of a proposed loan, and the proceeds of the loan are to be used for that purpose only. Under existing regulations, total real estate loans of universal and commercial banks should not exceed 20 per cent. of their total loan portfolio, net of interbank loans, with certain exceptions under the BSP MORB.

In accordance with the BSP Circular No. 855 issued on 29 October 2014, BSP-supervised financial institutions are mandated to have adequate and effective credit risk management systems commensurate to their credit risk-taking activities. The BSP shall evaluate the financial institution's credit risk management system on both the individual and subsidiary levels, and if the BSP determines that the financial institution's risk exposures are excessive relative to its capital, the BSP may direct the institution to reduce its exposure to an appropriate level. A loan may be considered secured by collateral to the extent the estimated value of net proceeds at disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan, provided that such collateral has an established market and the valuation methodology used is sound. In the case of real estate collateral, the maximum collateral value shall be 60 per cent. of its appraised value, while in the case of cash and standby letters of credit, the maximum collateral value shall be 100 per cent. of its appraised value. A loan may also be considered as secured to the extent covered by a third-party financial guarantee or surety arrangement where the credit enhancement provider is itself considered to be of high credit quality (credit rating of at least AA or equivalent) or is considered to be such by the BSP. Finally, a loan may be secured by a combination of acceptable collateral and guarantee arrangements as defined above, provided such arrangements are independent of one another for credit enhancement purposes.

The BSP also clarified that the collateral cap on real estate mortgages is not the same as a loan-to-value ratio limit, or a minimum borrower equity requirement, which remains a bank-determined policy (and averages 20.0 per cent. under current industry practice according to the BSP). Under the enhanced guidelines of the BSP, however, the bank's internal policy on minimum borrower equity will be subject to closer regulatory scrutiny as to whether it is prudent given the risk profile of its target market. Prior to lending on an unsecured basis, a bank must investigate the borrower's financial condition and ability to service the debt and must obtain certain documentation from the borrower, such as financial statements and tax returns. Any lending should be only for a time period essential for completion of the operations to be financed.

On 27 June 2014, the BSP issued BSP Circular No. 839 adopting a prudential real estate stress test (**REST**) limit for universal, commercial and thrift banks on a solo and consolidated basis on their aggregate real estate exposures. The REST limit combines a macroprudential overlay of a severe test scenario, the principal of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. Real estate exposures are those defined in Memorandum No. M-2012-046 and include other real estate property of the banks such as those recorded under Real and Other Properties Acquired and Non-Current Assets Held for Sale. For purposes of the circular, a stress test will be undertaken on a bank's Real Estate Exposure and other real estate property under an assumed write-off rate of 25 per cent.

For universal and commercial banks, the prudential REST limits are 6 per cent. of CET1 capital ratio and 10 per cent. of risk-based CAR, on a solo and consolidated basis under the prescribed write-off rate.

In light of the pandemic, the BSP issued Circular 1133 to provide relief to the unbanked and underserved population. Effective 3 January 2022, the following ceilings on interest rates and other fees for covered loans are as follows:

1. A nominal interest rate ceiling equivalent to 6 per cent. per month (0.2 per cent. per day).

2. An effective interest rate ceiling equivalent to 15 percent per month (0.5 per cent. per day), which shall include the nominal interest rate along with all other applicable fees and charges (i.e. processing fees, service fees, notarial fees, handling fees and verification fees, among others), but excluding fees and penalties for late payment or non-payment.

3. A cap on penalties for late payment or non-payment at 5 per cent. per month on the outstanding scheduled amount due.

4. A total cost cap of 100 per cent. of the total amount borrowed (applying to all interest, other fees and charges, and penalties) regardless of time the loan has been outstanding.

On 19 January 2023, the BSP issued Circular 1165 which amends the ceiling on interest or finance charges for credit card receivables to an annual rate of 36 per cent. from the 24 per cent. cap imposed by BSP Circular No. 1098, which was issued to alleviate the burden on Filipino consumers due to the COVID-19 pandemic.

The circular provides that banks may now impose a maximum annual interest rate of 36 per cent. except for credit card installment loans which shall be subject to a monthly add-on rate not exceeding one per cent. (1 per cent.). For credit card cash advances, in addition to the foregoing interest rates, no other fee or charge shall be imposed apart from the maximum processing fee of ₱200.00 per transaction. These fees and rates are subject to the review by the BSP every six (6) months.

### Mandatory Lending Requirements

Republic Act No. 11901, or the Agricultural, Fisheries and Rural Development Financing Enhancement Act of 2022 (Agri-Agra Law), which 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 per cent. of their total loanable funds for agriculture and fisheries credit in general. 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 per cent.) and agricultural beneficiaries (15 per cent.)

under the Agri-Agra Law. Under the law, banks may also comply through the various alternative forms of compliance.

Banks that fail to comply or only partially comply with the minimum requirements under the Agri-Agra Law shall be penalized by the BSP with an annual monetary penalty and/or administrative sanctions. 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.

On 3 December 2020, the BSP issued Memorandum No. M-2020-086, which allowed housing loans granted from 15 September 2020 to 31 December 2020 as an alternative mode of compliance with the mandatory agrarian credit allocation. Housing loans include all loans granted to individuals, fully secured by the first mortgage on residential property that is or will be occupied by the borrower as well as housing microfinance loans as provided under Section 314 of the MORB. On 3 March 2021, the BSP issued Circular No. 1111, amending Section 331 of the MORB in order to implement the provisions of the Implementing Rules and Regulations of R.A. No. 10000. The 25 per cent. mandatory agriculture, fisheries and agrarian reform credit allocation may be complied with through:

1. Actual extension of loans undertaken after 20 April 2010 to qualified borrowers for financing agriculture, fisheries, and agrarian reform activities other than loans rediscounted with universal or commercial banks or loans to the extent funded by proceeds from bonds issued for the exclusive purpose of on-lending to the agriculture, fisheries and agrarian reform sector in the case of DBP or LBP;

2. Special deposit accounts maintained for the exclusive purpose of on-lending to the agriculture, fisheries and agrarian reform sector in the case of Bangko Sentral-accredit rural financial institutions; or

3. Wholesale lending of other banks for the exclusive purpose of on-lending to the agriculture, fisheries, and agrarian reform sector, in the case of Bangko Sentral accredited rural financial institutions.

In complying with the mandatory reform credit, eligible securities purchased after 20 April 2010, and loans and other credits granted after 20 April 2010 may be used as alternative modes.

Republic Act No. 9501 provides that for a period of ten years from 17 June 2008, all lending institutions shall set aside at least 8.0 per cent. for loans to micro and small enterprises and at least 2.0 per cent. for medium enterprises of their total loan portfolio based on their balance sheet as of the end of the previous quarter and make it available for lending to such enterprises. Investments in Government securities will not satisfy such obligation.

In addition, branches or agencies of commercial banks located within certain geographical groupings outside Metro Manila must lend at least 75.0 per cent. of total deposits, net of required reserves and total cash in vault, at such branches to businesses in their locality. This requirement is deemed to be complied with if, in the relevant geographical grouping, the bank's total lending for the financing of agricultural and export industries constitutes 60.0 per cent. of its deposits. However, for the purposes of compliance with this requirement, loans granted at the head office or other offices to customers in that area may be assigned to the branch in the geographic area in which the customer is located.

Furthermore, the Barangay Micro Business Enterprises Act (Republic Act No. 9178) provides incentives to private banks and financial institutions extending credit to Barangay Micro Business Enterprises (**BMBEs**). Accordingly, all loans granted to BMBEs shall be considered as part of alternative compliance with the rules on reservation of funds for the agricultural sector and for small and medium enterprises.

Banks may be allowed to report compliance on a group-wide basis (i.e. on a parent-subsidiary consolidated basis), so that excess compliance of any bank in the group can be used as compliance for any deficient bank in the group, provided that any such subsidiary bank is at least majority-owned by the parent bank, and provided further that the parent bank shall be held responsible for the compliance of the group.

**Qualifications of Directors and Officers**

On 22 August 2017, BSP issued Circular No. 969, strengthening guidelines on corporate governance in BSP-supervised financial institutions as set out in the Manual. The BSP, through the circular, aimed to align its existing regulations with the Code of Corporate Governance for Publicly-listed Companies issued by the SEC. Pursuant to the Circular, prospective directors have the burden of proving that they possess all the minimum qualifications and none of the disqualifications listed in the Manual and must submit proof to the BSP of their qualification. 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 19 February 2024, Circular No. 1188 was issued, introducing amendments to the persons exempted from attending the seminar on corporate governance for board of directors.

Certain persons are permanently disqualified from acting as bank directors or officers, as outlined in BSP Circular No. 1076, Series of 2020. Those permanently disqualified include the following: (a) persons who have been convicted by final judgment of a court (i) for an offense involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of Batas Pambansa Blg. 22 (which penalises the issuance of checks that are not sufficiently funded), violation of Anti-Graft and Corrupt Practices Act and prohibited acts and transactions under Section 7 of Republic Act No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees); (b) persons who have been convicted by final judgment of a court or other tribunal for violation of banking laws, rules and regulations; (c) persons who have been convicted by final judgment for cases filed against them for offenses under Republic Act No. 3591, as amended (**PDIC Charter**); (d) persons who have been convicted by final judgment of a court for offenses which involve moral turpitude, or for offenses which they were sentence to serve a term of imprisonment of more than six years; (e) persons who have been judicially declared insolvent, spendthrift, or incapacitated to contract; (f) persons who were found to be culpable for the bank's closure, as determined by the Monetary Board; (g) persons found by the Monetary Board to be administratively liable for violation of laws, rules, or regulations implemented by the BSP, where a penalty of removal from office is imposed, and which resolution of the Monetary Board has become final and executory; and (h) persons found liable by any government agency/corporation, including government financial institutions, for violation of any law, rule, or regulation involving dishonesty, misconduct, or any other grave or less grave offense classified under the Revised Administrative Code or Civil Service rules that adversely affect their fitness and propriety as directors or officers, and which finding of said government institution has become final and executory.

Meanwhile, certain persons are temporarily disqualified from holding a director or officer position, including:

- Persons who have shown unwillingness to settle their financial obligations, as evidenced by, but not limited to, the following circumstances: (a) the person has failed to satisfy any financial obligation that has been adjudicated by court; (b) the person has filed for insolvency or suspension of payments that adversely affects his or her fitness and propriety as director or officer; or (c) a person who is delinquent in the payment of an obligation with a bank where he or she is a director or officer, or at least two obligations with other banks or financial intermediaries. They shall remain temporarily disqualified until the financial obligation has been settled or satisfied;

- Persons involved in the closure of banks pending their closure by the Monetary Board.

- Persons confirmed by the Monetary Board to have committed acts or omissions, which include failure to observe or discharge their duties and responsibilities prescribed under existing regulations, that (a) caused undue injury or disadvantage to the bank through manifest partiality, evident bad faith, or gross inexcusable negligence; (b) caused or may have caused material loss or damage to the bank, its depositors, creditors, investors, stockholders, to the BSP or to the public in general; or (c) exposed the safety, stability, liquidity, or solvency of the bank to abnormal risk or danger;

- Persons found to have been involved in any irregularity or violation which constitutes a just cause for dismissal or termination as defined under the Labor Code of the Philippines, as amended, regardless of any action by the bank;

- Persons certified by, or in the official files of, foreign financial regulatory authorities, financial intelligence units, or similar agencies or authorities of foreign countries, as charged with commission of, or having committed, irregularities or violations of any law, rule, or regulation which may adversely affect the fitness and propriety of the person or the ability to effectively discharge his or her duties;

- Persons, other than those disqualified due to crimes involving moral turpitude, who after conduct of investigation by domestic financial or commercial regulatory authorities, financial intelligence units, or similar agencies such as the SEC, AMLC, or PDIC, have complaints filed against them by the aforementioned agencies, units, or authorities pending before a court of law or quasi-judicial body, or convicted by said court or quasi-judicial body but whose conviction has not become final and executory, for offenses involving violation of laws, rules and regulations, which may adversely affect the fitness and propriety of the person or the ability to effectively discharge his or her duties;

- Persons with cases pending before a court or other tribunal, or those convicted by said court or tribunal but whose conviction has not become final and executory, for offenses involving: estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of Batas Pambansa Blg. 22 (which penalises the issuance of checks that are not sufficiently funded), violation of Anti-Graft and Corrupt Practices Act and prohibited acts and transactions under Section 7 of Republic Act No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees), (b) persons who have been convicted by final judgment of a court or other tribunal for violation of banking laws, rules, and regulations;

- Persons who have been convicted by a court for an offense involving moral turpitude, and persons who have been sentenced to serve a term of imprisonment of more than six years for other crimes but whose conviction has not become final and executory;

- Persons with pending cases for offenses under the PDIC Charter or those who have been convicted for said cases but whose conviction has not yet become final and executory;

- Persons found by the Monetary Board to be administratively liable for violation of laws, rules, and regulations implemented by the BSP, where a penalty of removal from office is imposed, and which resolution of the Monetary Board is on appeal, unless execution or enforcement thereof is restrained by the appellate court; and

- Persons against whom a formal charge has been filed or who are found liable by any government agency/corporation, including government financial institutions, for violation of any law, rule, or regulation involving dishonesty, misconduct, or any other grave or less grave offense classified under the Revised Administrative Code or Civil Service rules that adversely affect their fitness and propriety as directors or officers, and which finding of said government institution is on appeal and the execution or enforcement thereof is restrained by the appellate court.

Resignation or retirement from his or her office would not exempt the director or officer from being permanently or temporarily disqualified.

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.

Under BSP Circular No. 969, independent directors shall have the additional qualifications that he or she: (a) is not or has not been an officer or employee of the bank, its subsidiaries or affiliates within three years from his election; (b) is not a director or officer of the bank's majority stockholder and of its related companies within three years from his election; (c) is not an owner of more than 2 per cent. of the outstanding shares or a stockholder of the bank with shares of stock sufficient to elect one seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders; (d) is not a close family member (spouse, parent, child, brother, sister, parent-in-law, son-/daughter-in-law, and brother-/sister-in-law) of any director, officer or a shareholder holding shares of stock sufficient to elect one seat in the board of the bank or any of its related companies, or any of its substantial shareholders; (e) is not acting as a nominee or representative of any director or substantial shareholder or any of its related companies; and (f) is not retained as a professional adviser, consultant or counsel of the bank, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm; (g) is independent of the management and free from any business or other relationship; and (h) was not appointed in the bank, its subsidiaries, affiliates, or related interests as Chairman "Emeritus," "Ex-Officio," Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the board of directors in the performance of its duties and responsibilities during the past three years from the date of appointment; (i) is not affiliated with any non-profit organisation that receives significant funding from the bank or any of its related companies or substantial shareholders; and (j) is not employed as an executive officer of another company where any of the bank's executives serve as directors. BSP Circular No. 1129, Series of 2021 amended BSP Circular No. 969, adding a maximum cumulative term for independent directors set to nine years. In the case of cooperative banks, the maximum cumulative term shall be eight years. Once the maximum cumulative term has been reached, the independent director shall be perpetually barred from serving as an independent director in the same BSFI, but may serve as a regular director. This maximum cumulative term rule shall be reckoned from 2012.

**Loans to DOSRI**

The amount of total outstanding loans, other credit accommodations and guarantees to each DOSRI, of which at least 70.0 per cent. must be secured, should not exceed the unencumbered amount of the relevant DOSRI's outstanding deposits and book value of the DOSRI's paid-in capital contribution in the bank. In the aggregate, outstanding loans, other credit accommodations and guarantees to DOSRI generally should not exceed 100.0 per cent. of the bank's net worth or 15.0 per cent. of the total loan portfolio of the bank, whichever is lower. In no case shall the total unsecured loans, other credit accommodations and guarantees to DOSRI exceed 30.0 per cent. of the aggregate ceiling or of their outstanding loans, other credit accommodations and guarantees, whichever is lower. For the purpose of determining compliance with the aggregate ceiling on unsecured credit accommodations and guarantees, banks shall be allowed to average their ceiling on unsecured loans, other credit guarantees and guarantees every week.

On 2 June 2016, the Monetary Board approved the revisions to prudential policies on loans, other credit accommodations and guarantees granted to DOSRIs. The Monetary Board allowed the exclusion of loans granted by a bank to its DOSRI for the purpose of project finance from the 30 per cent. unsecured individual ceiling during the project gestation phase, provided that the lending bank shall ensure that standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include a 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 Circular No. 914, Series of 2016, amending the prudential policy on loans, other credit accommodations, and guarantees granted to DOSRI, subsidiaries and affiliates. Circular No. 914 has raised the ceilings on the exposure of subsidiaries and affiliates of banks to priority programs, 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 per cent. instead of 10 per cent. and 12.5 per cent. instead of 5 per cent. of the net worth of the lending bank, respectively, subject to certain conditions. Further, the circular also provides for a refined definition of "related interest" and "affiliates" to maintain the prudential requirements and pre-empt 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.

The credit card operations of banks shall not be subject to these regulations where the credit cardholders are the bank's directors, officers, stockholders and their related interests, subject to certain conditions.

**Valuation Reserves for Credit Losses Against Loans**

As a general rule, banking regulations define past due accounts of a bank as referring to all accounts in a bank's loan portfolio, all receivable components of trading account securities and other receivables that are not paid at maturity. In the case of loans or receivables payable in instalments, banking regulations consider the total outstanding obligation past due in accordance with the following schedule:

| Mode of Payment | Minimum Number of Instalments in Arrears |
|---|---|
| Monthly | 3 |
| Quarterly | 1 |
| Semi-annual | 1 |
| Annually | 1 |

However, when the total amount in arrears reaches 20.0 per cent. of the total outstanding balance of a loan or receivable, the total outstanding balance of the loan or receivable is considered past due notwithstanding the number of instalments in arrears.

BSP regulations allow loans and advances to be written-off as bad debts only if it can be justified as being uncollectible. The board of directors of the bank has discretion as to the frequency of write-offs provided that these are made against provisions for credit losses or against current operations. The prior approval of the Monetary Board of the BSP is required to write off loans to the bank's directors, officers, stockholders and their related interests. On 21 October 2021, BSP Memorandum No. M-2021-056 was issued, providing guidelines on the regulatory treatment of restructured loans for purposes of measuring expected credit losses.

In accordance with BSP Circular No. 941 dated 20 January 2017, loans, investments, receivables or any financial asset, including restructured loans, as a general rule shall be considered past due when any principal and/or interest or instalment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due. However, BSP-supervised financial institutions may provide a cure period on a credit product-specific basis, not to exceed 30 days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due. Any cure period policy shall be based on verifiable collection experience and reasonable judgment which support the tolerance of occasional payment delays.

The observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness(es), and the BSP-supervised financial institutions are mandated to regularly review the reasonableness of its cure period policy. For microfinance and other small loans that feature high frequency payments, the cure period allowable by policy shall not exceed ten days. Policies for writing off problem credits must be approved by the board of directors in accordance with defined policies and must incorporate well-defined criteria under which credit exposure may be written off. Procedures must explicitly set out and document the necessary operational steps and processes to execute the policies. Policies shall define and establish the reasonable period of time within which to write off loans already classified as "loss". BSP regulations allow loans and advances to be written off as bad debts only if they can be justified as being uncollectible. The board of directors of the bank have discretion as to the frequency of write-offs provided that these are made against provisions for credit losses or against current operations. The prior approval of the Monetary Board of the BSP is required to write off loans to DOSRI.

On 29 October 2014, the BSP issued BSP Circular No. 855 on "Guidelines on Sound Credit Risk Management Practices; Amendments to the Manual of Regulations for Banks and Non-Bank Financial Institutions". The Circular prescribes guidelines in setting up allowances for credit losses.

**Guidelines on General Reserves**

Under the MORB, banks are required to develop and document a sound loan loss methodology that can reasonably estimate provisions for loans and other credit accommodations and risk assets in a timely manner, and to ensure that the specific and collective allowance for credit losses, aggregate amount of individual and collectively assessed probable credit losses are adequate and approximates the expected losses in their credit portfolio. Banks are also required to set up a general loan loss provision equivalent to one per cent. of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. Banks are not required to provide a one per cent. general provisioning on other credit exposures covered by PFRS 9 such as off-balance sheet accounts and investments.

**Restrictions on Branch Opening**

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 allows banks, with prior Monetary Board approval, to use any or all of its branches as outlets for the presentation and/or sale of financial products of its allied undertakings or investment house units.

BSP Circular No. 854 (2014) prescribes the amended minimum capitalisation for banks in order to be given authority to establish branches — *See Minimum Capitalisation discussion.*

Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Once approved, a branch should be opened within six months from the date of approval (extendable for another six-month period, upon the presentation of justification therefor). Under the Manual, as amended by BSP Circular No. 759 (2012), banks may establish as many branches as its Qualifying Capital can support taking into account any approved but unopened branch(es) outstanding at the time of application. Approved branches shall be opened within one year from the date of approval thereof, subject to extension on a case-to-case basis, but in no case exceeding three years, while approved Other Banking Offices (**OBOs**) shall be opened within one year from date of approval thereof, which shall not be subject to any extension. Requirements for opening branches/OBOs are also contained in BSP Circular No. 759.

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, Quezon and the municipality of San Juan, Metro Manila. However, under BSP Circular No. 728 (2011), the restrictions on the establishment of branches were lifted as of 1 July 2014, subject to certain requirements. In BSP Circular No. 987 (2017), the BSP approved the guidelines on the establishment of branch-lite units amending relevant provisions of the Manual. 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.

Under the first phase, second-tier universal and commercial banks with capital accounts of at least ₱10 billion and thrift banks with capital of at least ₱3 billion that have fewer than 200 branches in restricted areas as of December 2010 were allowed to apply and establish branches in these restricted areas until 30 June 2014. The second phase of the current liberalisation approach began on 1 July 2014, pursuant to which all banks (except rural and cooperative banks that are not allowed to establish branches in Metro Manila) were able to apply and establish branches in previously restricted areas, subject to certain requirements.

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.

Branches of microfinance-oriented banks, microfinance-oriented branches of regular banks and branches that cater primarily to the credit needs of BMBEs duly registered under Republic Act No. 9178 may be established anywhere upon the fulfilment of certain conditions.

On 26 November 2020, the Monetary Board approved the inclusion of digital banks as a distinct classification of banks. Digital banks offer financial products and services that are processed end-to-end through a digital platform and/or electronic channels without any physical branch or sub-branch or branch-lite unit offering financial products and services. While digital banks have no physical branch or 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.

**Anti-Money Laundering Law**

The AMLA was passed on 29 September 2001 and was most recently amended on 19 July 2017. Under its provisions, as amended, certain financial intermediaries, including a bank's offshore banking units, quasi-banks, trust entities, non-stock savings and loan associations, all other institutions including their subsidiaries and affiliates supervised and/or regulated by the BSP and insurance companies and/or institutions regulated by the Philippines' Insurance Commission, are required to submit a "covered" transaction report involving a single transaction in cash or other equivalent monetary instruments in excess of ₱500,000 within one banking day.

Covered institutions are also required to submit a "suspicious" transaction report if there are reasonable grounds to believe that any amounts processed are the proceeds of money laundering activities. These transactions are required to be reported to the Anti-Money Laundering Council of the Philippines (the **AMLC**) of the BSP within five working days from the occurrence thereof, unless the AMLC prescribes a different period not exceeding 15 days. The Court of Appeals, upon verified *ex parte* petition by the AMLC and after determination of the probable cause that the monetary instrument or property is in any way related to an unlawful activity as defined in the AMLA, may issue a freeze order, which shall be effective immediately, over such monetary instrument or property.

BSP Circular No. 495 (2005) as amended by BSP Circular No. 527 (2006) requires all universal and commercial banks to adopt an electronic money laundering transaction monitoring system by 14 October 2007. The said system should, at a 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 the AMLA.

BSP Memorandum No. M2012-017 (April 2012) likewise requires all covered banking institutions to comply with the AML Risk Rating System (the **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 AML 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 Memorandum No. M-2020-84 (November 2020) provided for the adoption of the Money Laundering/Terrorist Financing Risk Assessment System (**MRAS**), replacing the ARRS. MRAS assesses the inherent money laundering/terrorist financing risk and the quality of the risk management system of a BSFI in order to determine the net money laundering/terrorist financing risk of a BSFI. The system uses a four-point rating scale in its assessment: high (excessive level of residual risk), above average (substantial level of residual risk), moderate (manageable level of residual risk), and low (marginal level of residual risk).

Institutions that are subject to the 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. Records of closed accounts must also be kept for five years after their closure.

In 2012, two amendments to the Philippines' AML regime came into effect, Republic Act No. 10167 and Republic Act No. 10168. Republic Act No. 10167 amended Section 10 of the AMLA, which requires that a petition to the Court of Appeals for an order to freeze accounts be verified. Furthermore, the Court of Appeals must act on the petition within a period of 24 hours of filing. The affected depositor's remedy would be to file a motion to lift, which the Court of Appeals must resolve within the 20-day freeze period.

Section 11 of the AMLA was likewise amended. Section 11 now provides that the AMLC is authorised to examine bank accounts "upon order of any competent court based on an *ex parte* application". However, the same provision sets out additional instances when no court application is required.

Further to the above, an order to examine bank accounts receives the same treatment by the Court of Appeals as an order to freeze accounts. Now, the Court of Appeals is compelled to act on such applications within 24 hours of filing.

Also, R.A. No. 10167 has expanded the coverage of AMLC to enable inquiries into so-called "related accounts", defined as: "funds and sources of which originated from and/or are materially linked to the monetary instrument(s) or property(ies) subject of the freeze order(s)".

Republic Act No. 10168 defined the crime of financing of terrorism, in accordance with the state policy to protect life, liberty and property from acts of terrorism. The offence is committed by one who "directly or indirectly, wilfully and without lawful excuse, possesses, provides, collects, or uses property or funds or makes available property, funds or financial services or other related services, by any means, with the unlawful and wilful intention that they should be used or with the knowledge that they are to be used, in full and in part: (a) to carry out or facilitate the commission of any terrorist act; (b) by a terrorist organisation, association, or group; or (c) by an individual terrorist".

On 15 February 2013, Republic Act No. 10365 was approved. This amendment expanded the coverage of the AMLA to include "covered persons, natural and juridical". Additions to the enumeration of covered persons include jewellery dealers for transactions in excess of ₱1 million and the Land Registration Authority for real estate purchases in excess of ₱500,000. Furthermore, the enumeration of predicate crimes expanded to include 20 additional crimes including bribery, extortion, malversation of public funds, fraud, and financing of terrorism.

In 2016, the AMLC approved the Revised Implementing Rules and Regulations of the AMLA. On 15 March 2017, the BSP issued BSP circular no. 950 which further expanded covered persons to include company service providers, and person who manage their client's money, security or other assets, manage bank or securities accounts, organise funds for the creation, operation, or management of companies, create, operate, or manage entities or relationships, or who buy and sell business entities.

In July 2017, Republic Act No. 109271 was signed into law, and it further expanded the coverage of AMLA to include casinos for a single casino cash transaction involving an amount in excess of ₱5.0 million or its equivalent in any other currency. The measure requires casinos to report suspicious transactions to the AMLC. This amendment was one of the recommendations of the Financial Action Task Force (**FATF**), a global anti-money laundering and anti-terrorism watchdog. Furthermore, the law provides that: (a) a freeze order issued by the Court of Appeals pursuant to an *ex parte* petition by the AMLC shall not exceed six months and 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; and (b) 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 such property as proceeds of the predicate crime. In January 2021, AMLC issued Resolution No. 27 amending the implementing rules and regulations of R.A. No. 9160. The amendment added as a covered transaction, a cash transaction with or involving real estate developers or brokers exceeding ₱7.5 Million or its equivalent in any other currency.

The AMLC plays a central role in the enforcement of this law as the AMLC, *motu propio* or at the request of the Anti-Terrorism Council, is authorised to investigate in order for it to ascertain that there is probable cause that the financing of terrorism is being conducted, planned or facilitated. When the AMLC is satisfied that funds are for terrorist funding, it can issue an *ex parte* order to freeze, without delay, funds which it has "determined to be related to financing of terrorism or acts of terrorism" or where there is probable cause to believe that funds are to be used in connection with terrorist activities.

In order to assist the AMLC in its investigations, it released guidelines on the digitisation of customer records (**DIGICUR**) in 2018. Under DIGICUR, all covered persons must digitise all customer records. The AMLC, in AMLC Regulatory Issuance (**ARI**) No. 6 Series of 2021, granted a final extension for covered persons to comply with DIGICUR until 30 September 2022, and non-compliance with DIGICUR will result in a penalty between ₱37,5000 to ₱375,000 per customer. Moreover, the covered persons must submit a quarterly DIGICUR Status Report of Compliance (**QUADSREC**) within 15 calendar days after each reference quarter, with the first report submitted on or before 31 October 2021. The submission of the QUADSREC must be continuously done until the covered person has fully complied with the requirements under DIGICUR. As an exemption, covered persons who do not maintain an account or e-wallet for their customers need not comply with DIGICUR and would only need to submit a QUADSREC once, indicating that they are exempt from the coverage of DIGICUR. This must be submitted on or before 31 October 2021.

On 20 April 2018, the AMLC issued AMLC Letter No. AMLET-18-03, providing for Operational Guidelines in the Conduct of the 2018 Third Round Mutual Evaluation of the Philippines. The guidelines aim to (a) create an inter-agency Mutual Evaluation Working Group and sub-working groups; (b) enumerate the functions and obligations of the member-agencies with respect to the Mutual Evaluation process; (c) outline the Mutual Evaluation process and provide guidance as to the different components of the process; (d) provide timelines for the Mutual Evaluation process and Mutual Evaluation-related activities; (e) enumerate effects of a "non-compliant" or "poor" Mutual Evaluation; and (f) lay down the framework towards the adoption of a national anti-money laundering/counter-financing of terrorism (**AML/CFT**) Strategy. The Guidelines are addressed to all participating government agencies and other entities.

The Mutual Evaluation is a government-wide concern given that the compliance of the Philippines with the Financial Action Task Force Forty Recommendations and the effectiveness of its AML/CFT regime will be assessed. The entire Mutual Evaluation process spans two (2) years and will require the support and active participation of various government agencies, including supervisory authorities, law enforcement agencies, and public and private stakeholders. The Philippines will be evaluated by a pool of experts from Financial Intelligence Units from other member-jurisdictions of the Asia-Pacific Group on Money Laundering (**APG**), pursuant to the APG's membership rules.

On 27 November 2018, the 2018 Implementing Rules and Regulations of the AMLA took effect. This incorporated the amendments under Republic Act No. 10972, which included casinos as covered persons. However, implementation by casinos of AMLA will continue to be governed by the existing Casino Implementing Rules and Regulations. These implementing rules and regulations feature new rules on the AMLC's coordination with law enforcement agencies, beneficial ownership, customer due diligence and national risk management and assessment. In relation thereto, on 14 January 2019, BSP issued Circular Letter No. CL-2019-002, addressed to all BSFIs on the guidelines issued by the AMLC on digitisation of customer records and identification of beneficial owners.

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 (**PEPs**) and expanded the definition of a customer or client to include juridical persons.

On 18 July 2020, Republic Act No. 11479 or 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 Anti-Money Laundering Council (**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. In this regard, 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 refers to the money laundering/terrorist/proliferation financing risk assessment system (**MRAS**) applicable to BSP-supervised financial institutions.

On 30 March 2023, BSP Circular No. 1170, s. 2023 was issued which amended the provisions of the Manual of Regulation for Banks on Customer Due Diligence (**CDD**). The circular provides that "where a covered person is unable to comply with the relevant CDD measures, considering risk-based approach, it shall (a) not open the account, commence business relations, or perform the transaction; or (b) terminate the business relationship; but in both cases, it shall consider filing a suspicious transaction report (**STR**) in relation to the customer." The circular also includes the guidelines for the use of the Electronic Know Your Customer system as a method of electronically verifying the credentials of a customer.

### Electronic Banking Operations

The BSP has prescribed prudential guidelines in the conduct of electronic banking, which refers to systems that enable bank customers to avail themselves of the 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.

Private domestic banks with a BSP-approved electronic banking facility may accept payments 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 more secure Europay, MasterCard and Visa (**EMV**) chip-enabled cards. In 2014, BSP Circular No. 859 set out the EMV Implementation Guidelines which govern the implementation for debit cards in any card- accepting device/terminal. As of 1 January 2017, all cards issued and card-accepting devices are required to be EMV-compliant. Prior to full compliance, failure on the part of BSFIs to submit and implement their EMV migration plan is subject to additional enforcement actions. However, pursuant to BSP Memorandum No. M-2017-019 issued on 9 June 2017, BSP-supervised financial institutions are required to fully comply with the EMV requirement by 30 June 2018. Failure to do so is considered a serious offense and will subject these institutions to monetary sanctions provided under relevant provisions of the Manual.

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 parties to obtain the approval of the BSP prior to offering EPFS and to meet certain BSP reporting requirements.

On 1 June 2020, the BSP issued Memorandum No. M-2020-047 reminding BSFIs to exercise caution when publicly promoting themselves as “digital banks” and clarified that no distinct “digital banking” license is issued to institutions that have pursued a digital-centric business model. Instead, institutions offering digital-centric financial services are either existing or have applied as a universal, commercial, thrift, or rural bank that conduct electronic banking services under the specific rules laid out in BSP Circular No. 1033.

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. This is in line with the BSP’s goal to ensure the efficiency of payment systems in the country. In line with this, 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, BSP Circular No. 1166 or the Amendments to the Regulations on Electronic Money (**E-Money**) and the Operations of Electronic Money Issuers (**EMI**) in the Philippines. The amended guidelines cover BSFIs that issue E-money and engage in the E-money business in the Philippines. Additionally, the amended guidelines provide that banks may offer E-money services subject to prior approval of the BSP under an EPFS license. The guidelines provide for minimum disclosure requirements that BSFIs must include in the terms and conditions that customers must acknowledge prior to the availment of e-money services. Further, the guidelines require BSFIs to have sufficient liquidity requirements to meet E-money redemptions and provide minimum amounts for BSFIs with outstanding E-money balance of at least ₱100 million and those with outstanding E-money balance below ₱100 million.

Under the Circular, EMI banks are required to have minimum capitalization, which is the higher of the bank’s required capitalization depending on its bank category or the bank’s required capitalization based on EMI category. Moreover, large-scale EMI banks are required to have a minimum capital of ₱200 million, whereas small-scale EMI banks are required to have a minimum capital of ₱100 million. Monetary penalty or a non-monetary penalty as may be authorized by the Monetary Board may be imposed as sanction on a BSFI and/or its directors/officers, in case of violation of the guidelines.

Finally, BSP Memorandum No. M-2023-037 was issued on 15 December 2023, providing for the Moratorium on Increase of Fee for InstaPay and PESONet transactions to participants who currently charge transfer fees for person-to-person fund transfers via InstaPay and PESONet, which directed said participants to maintain said fees.

**Virtual Asset Service Providers**

On 26 January 2021, the BSP issued Circular No. 1108 which provides the guidelines and regulations governing the grant of authority to and the management and administration of Virtual Asset Service Providers (**VASPs**). Under the Circular, the BSP recognizes that once fiat currency (the legal tender of an issuing country) is exchanged or converted into a Virtual Asset (**VA**), it becomes easily transferrable, facilitating expedient movement or transfer of funds and payment services, among others. Under the guidelines, the covered entities are required to secure a Certificate of Authority to operate as a Money Service Business and are required to observe the capitalization requirements of either ₱50 million or ₱10 million, for VASPs with or without safekeeping and/or administration services aa define in said Circular, respectively.

Virtual asset refers to any type of digital unit that can be digitally traded, or transferred, and can be used for payment or investment purposes. It can be defined as “property”, “proceeds”, “funds”, “funds or other assets”, and other “corresponding value”. It is used as a medium of exchange or a form of digitally stored value created by agreement within the community of VA users. Notably, digital units of exchange that is used for (a) the payment of goods and services solely provided by its issuer like gift checks; or (b) the payment of virtual goods and services within an online game like gaming tokens, are not considered as virtual assets. VASPs are defined as any entity that offers services or engages in activities that provide facility for the transfer or exchange of VA, which involve the conduct of the following activities: (i) exchange between VAs and fiat currencies; (ii) exchange between one or more forms of VAs; (iii) transfer of VAs; and (iv) safekeeping and/or administration of VAs.

The Circular also defines Money Service Business as financial services that involve the acceptance of cash, checks, other monetary instruments or other stores of value, and the payment of a corresponding sum in cash or other form to a beneficiary by means of a communication, message, transfer, or through a clearing network which the service provider belongs. On 10 August 2022, the BSP issued BSP Memorandum No. M-2022-035 which provides for a modified approach in the grant of VASP Licenses. The regular application window for new VASP licenses has been closed for three (3) years, beginning 1 September 2022, subject to re-assessment by the BSP based on market developments.

**Related Party Transactions**

On 1 December 2015, the BSP approved guidelines strengthening oversight and control standards for managing related party transactions. The standards were further strengthened through the issuance of BSP Circular No. 969 (2017). 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 related party transactions to protect the interest of all stakeholders. It is emphasised that related party transactions are generally allowed as long as they are conducted on an arm’s length basis with respect to both the process involved in handling the transaction and the economic terms of the transaction.

Under the Manual, a universal or commercial bank which is part of a conglomerate is required to form a Related Party Transactions Committee (**RPT Committee**), composed of at least three members of the board of directors, two of whom must be independent directors, including the chairperson. The committee may not contain non-executive directors, and independent directors must always comprise a majority of the Committee. The RPT Committee has the duty to ensure that all related parties are continuously identified, related party transactions are monitored and subsequent changes in relationships with counterparties (from non-related to related and vice-versa) are captured. It is also responsible for evaluating all material related party transactions to ensure that these are not undertaken on more favourable economic terms and to ensure that appropriate disclosures are made and/or information is provided to regulating and supervising authorities in respect of the institution’s related party transaction exposures. The RPT Committee must also prepare a report to the board on a regular basis, on the status and aggregate exposures to each related party, as well as to all related parties. Lastly, they are tasked with overseeing the implementation of the system for identifying, monitoring, measuring, controlling, and reporting related party transactions, including the periodic review of related party transaction policies and procedures.

On 25 April 2019, the SEC issued Memorandum Circular No. 10-2019 regarding the Rules on Material Related Party Transactions for Publicly-Listed Companies (**SEC MC 10-2019**). Under SEC MC 10-2019, when the related party transactions amount to 10 per cent. or higher of a company's total assets, it is considered a material related party transaction and is disclosable and reportable to the SEC.

**Islamic Banking Law**

On 22 August 2019, former President Rodrigo R. Duterte signed into law Republic Act No. 11439, or "An Act Providing for the Regulation and Organization of Islamic Banks". Under Rep. Act No. 11439, the government recognised the vital role of Islamic banking and finance in creating opportunities for greater financial inclusion, especially for the underserved Muslim population, in expanding the funding base for small and medium-sized enterprises as well as large government infrastructure projects through financial arrangements with risk sharing as their core element and in contributing to financial stability through the use of financial contracts and services that are founded on risk sharing rather than speculation in compliance with *Shari'ah* principles.

Rep. Act No. 11439 authorised the establishment of Islamic banks and authorised conventional banks to engage in Islamic banking arrangements, including structures and transactions, through a designated Islamic banking unit within the bank subject to segregation of such banking units (**Islamic banks**). In addition to traditional banking powers and other banking powers that are compliant with *Shari'ah* principles, Islamic banks may perform the following services: (i) accept drafts and issue letters of credit or letters of guarantee, negotiate notes and bills of exchange and other evidence of indebtedness; provided, that such financial instruments are in accordance with the principles of *Shari'ah*; (ii) act as collection agents in respect of payment orders, bills of exchange or other commercial documents covering *Shari'ah* compliant transactions; (iii) provide *Shari'ah* compliant financing contracts and structures; and (iv) make investments in any transactions allowed under *Shari'ah* principles. Islamic banks may also issue investment participation certificates, *sukuk* and other *Shari'ah* compliant funding instruments to be used by the Islamic banks in their operations or capital needs. Islamic banks may also carry out financing and joint investment operations by way of *mudarabah* partnership, *musharakah* joint venture or by decreasing participation, *murabahah* purchasing on a cost-plus financing arrangement, lease (*ijara*) arrangements, construction and manufacture (*istisna'a*) arrangements and other *Shari'ah* compliant contracts and structures and invest funds directly in various projects or through the use of funds whose owners desire to invest jointly with other resources available to the Islamic bank on a joint *mudarabah* basis in accordance with the foregoing arrangements, contracts and structures. On 29 December 2019, the BSP issued Circular No. 1069 and 1070 which, respectively, provided the Guidelines on the Establishment of Islamic Banks and Islamic Banking Units and the Shari'ah Governance Framework for Islamic Banks and Islamic Banking Units. On 23 March 2022, the BSP issued Circular No. 1139 which provides the guidelines for reporting Islamic banking and finance transactions or arrangements. Further, on April 2023, the BSP issued Circular No. 1173 on the modified minimum capitalization of conventional banks with Islamic banking units.

**National Payment Systems Act**

On 30 October 2018, Congress enacted Republic Act No. 11127, or "An Act Providing for the Regulation and Supervision of Payment Systems". Rep. Act No. 11127 seeks to regulate payment systems, recognizing that they are crucial parts of the financial infrastructure of the country. The law defines payment systems as the set of payment instructions, 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 Rep. Act No. 11127, all operators of payment systems must register with the BSP. Furthermore, the SEC can no longer register the charter documents of any operator of a designated payment system, or any amendment thereto, or otherwise issue to an operator a license 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 Rep. Act No. 11127. It provides that banks which act as payment systems operators must register with the BSP through notification but do not have to separately file an application or pay registration fees. The BSP will then issue the registering bank a Provisional Certificate of Registration. Thereafter, the BSP will issue the bank a Certificate of Registration, if warranted, and provided 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.

On 7 July 2020, the BSP issued BSP Circular No. 1089 which provides the Payment System Oversight Framework that sets out the approach and rules of the BSP in the conduct of its oversight function pursuant to Rep. Act No. 11127.

On 5 April 2021, the BSP issued Memorandum M-2021-021 which provides the guidelines that BSFIs must comply to ensure the soundness and adequacy of their risk management and practices in dealing with Operators of Payment Systems (**OPS**) and Non-bank Electronic Money Issuers (**EMIs**), including but not limited to (i) performing appropriate assessment of entities based on observable business activities and transactions indicating that such entities are OPS or non-bank EMIs; (ii) dealing only with OPS registered with the BSP and non-bank EMIs duly licensed by the BSP; (iii) performing appropriate customer due diligence when dealing with entities that are registered with the BSP as OPS or licensed as non-bank EMI; (iv) conducting appropriate risk assessment of OPS or non-bank EMI; and (v) performing continuing account and transaction monitoring.

On 14 September 2021, the BSP issued Circular No. 1126, which provides the mandatory adoption of the Principles for Financial Market Infrastructure (**PFMI**) by the designated payment systems pursuant to Circular No. 1089 and Rep. Act No. 11127. The PFMI is a set of international standards designed to strengthen FMIs and make them more resilient to financial crises and participant defaults. On 17 September 2021, the BSP issued Circular No. 1127 providing the governance policy for OPS, which are required to be added or created in the Manual of Regulations for Payment Systems. On 29 November 2022, BSP issued Circular No. 1161 which introduced amendments to the Manual of Regulations for Payment Systems to incorporate the National Retail Payment System Framework.

**Data Privacy Act**

Rep. Act No. 10173, otherwise known as the Data Privacy Act of 2012 (the **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 persons through the use of Information and Communications Technology (**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 by which data is recorded, transmitted or stored and any procedure related to the recording, transmission or storage of electronic data, electronic messages or electronic documents. 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 Data Privacy Act applies to all other personal information obtained by banks for other purposes. It mandated the creation of a National Privacy Commission, which administers and implements the provisions of the Data Privacy Act and ensures compliance by the Philippines with international standards set for data protection. The Philippines recognizes the need to protect the fundamental human right of privacy and communication, while ensuring the 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 are secure 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 certain rights to data subjects or individuals 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.

On 19 August 2020, the BSP issued Memorandum No. M-2020-066 reminding BSFIs to further intensify information security awareness and education campaigns against SMS-based attacks in response to the rise of phishing campaigns which lure and defraud BSFI employees and customers to disclose their user account credentials and sensitive information or to click malicious links. Thus, BSFIs are required to adopt multi-layer controls such as calibration of fraud management system rules and parameters and conducting threat hunting exercises to detect unusual activities and takedown phishing sites, among others.

On 2 November 2021, the BSP issued Memorandum No. M-2021-059 which advises BSFIs to cooperate and share relevant information to third parties, other financial institutions, payment gateway providers, third party service providers, and law enforcement agencies in the conduct of fraud investigations. The following information may be shared in the conduct of fraud investigations: (i) name, (ii) home or delivery address, (iii) email address, (iv) mobile or contact numbers, (v) bank or financial information, and (vi) bank or financial transaction details without a prior court order or proceeding. On 11 June 2024, BSP Memorandum No. M-2024-019 was issued, reminding BSFIs on the proper handling of personally identifiable information and other sensitive data of customers.

***Miscellaneous BSP Circulars***

On 20 January 2017, the BSP began the electronic clearing of checks. Under this new system, only digital images of the checks 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 checks will be needed.

On 26 June 2017, the BSP amended the Manual again through Circular No. 963. The issuance instituted governance processes in accordance with the BSP's expectation that banks establish an effective reporting system generation and timely submission of reports. The reports must comply with those standards prescribed by the BSP, and those banks that fail to do so (i.e. file an erroneous report, delayed report or no report) are subject to certain sanctions that can be aggravated by habitual violations. Banks had until 31 December 2017 to make the necessary preparations to their systems and processes in order to comply with the new provision, with full implementation on 1 January 2018.

On 3 November 2017, the BSP issued Circular No. 981, amending the guidelines on liquidity risk management and the related amendments to the Manual. Among the highlights of the changes were 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 had 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.

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.

On 9 November 2017, BSP issued Circular No. 982, providing enhanced guidelines on information security risk management (ISRM) 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.

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 D-SIBs, in developing recovery plans. These expectations are consistent with the earlier issued guidelines on corporate governance under Circular No. 969.

On 1 February 2018, BSP issued Circular No. 992, which set out the framework for banks to offer a basic deposit account to promote account ownership among the unbanked. The minimum key features of the account include: simplified KYC requirements; an opening amount of less than ₱100.00; no minimum maintaining balance; and no dormancy charges. To prevent misuse of the basic deposit account, its maximum balance is set at ₱50,000.00. As an incentive for banks, the basic deposit account is granted a preferential 0.00 per cent. reserve requirement which lowers their account maintenance cost. Notably, on 23 November 2021, the BSP issued Memorandum No. M-2021-065, providing temporary regulatory relief for banks that offer basic deposit accounts. Under the Circular, non-presentation of identification cards (**IDs**) for basic deposit accounts are allowed for the year 2022, subject to the following conditions: (i) the customer shall submit duly signed certification that he/she has no valid ID; (ii) the customer's account activities shall be subject to ongoing monitoring by the bank to identify potential abuse of the relaxed requirement and any suspicious transactions must be reported to the AMLC; and (iii) should the depositor exceeded the ₱50,000.00 maximum balance, the bank must initiate measures to convert the account into a regular deposit account.

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 one per cent. 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 one per cent. of the book value of the total investment management assets and at no point in 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 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 paper without prior BSP approval, provided that the following conditions are met:

a. The bank must have a CAMELS composite rating of at least “3” and a “Management” rating of not lower than “3”.

b. The bank has no major supervisory concerns in governance, risk management systems, and internal controls and compliance system;

c. The bank/QB has complied with directives and/or is not subject of specific directives and/or enforcement actions by the BSP; and

d. The bonds issued are enrolled and/or traded in a market which is organised in accordance with the 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 paper. 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.

On 31 August 2018, the SEC issued Memorandum Circular No. 12, establishing guidelines on the issuance of green bonds in the Philippines under the ASEAN Green Bonds Standards (**ASEAN GBS**). The proceeds of the issuance must be exclusively applied to finance or refinance, in part or in full, new and/or existing eligible Green Projects. Green Projects refer to the broad categories of eligible projects as listed in the ASEAN GBS, including renewable energy, pollution prevention and control, terrestrial and aquatic biodiversity conservation, among others. The list is non-exhaustive, but all Green Projects must provide clear environmental benefits which will be assessed and, where feasible, quantified by the issuer. The SEC circular further provides for various reporting and disclosure requirements, including annual reports to investors throughout the life of the green bonds.

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 (QBs) affected by calamities. Under the framework, banks/QBs may access 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 (1) year from the date of declaration of state of calamity.

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.

On 7 February 2019, the BSP issued BSP Circular No. 1031 which provided additional guidelines on the grant of specific type of licenses to the permissible activities of BSFIs, as enumerated therein.

On 26 February 2019, the SEC issued MC No. 05 s.2019, which established guidelines for the reference of Capital Market Professionals in the Philippines and other Signatory countries who intend to obtain an ACMF Pass in a Signatory country under the Memorandum of Understanding on the ACMF Pass.

On 4 April 2019, the BSP issued BSP Circular No. 1037, which provided an extension of transitory period of the amended reporting templates on bank loans and deposit interest rates. The Monetary Board, in its Resolution No. 547, approved the amendments to Section 173 on Reports of the MORB, as amended by Circular No. 1029 dated 25 January 2019.

On 11 April 2019, the BSP Monetary Board, in its Resolution No. 546, approved the amendments to the Manual of Regulations for Non-Bank Financial Institutions (**MORNBFI**) on the election of foreign nationals as directors of QBs and/or other BSP-supervised financial institutions and the employment of foreign nationals as officers or employees of financing companies. This resolution is now known as BSP Circular No. 1038.

On 25 April 2019, the SEC issued MC No. 08 s. 2019, which implemented set of rules that primarily governs the issuance of ASEAN Sustainability bonds where proceeds shall be exclusively applied to finance or refinance a combination of both Green and Social projects that respectively offer environmental and social benefits.

On 25 April 2019, the SEC issued MC No. 09 s. 2019, which implemented set of rules that primarily governs the issuance ASEAN Social bonds where proceeds shall be exclusively applied to finance or refinance in part or in full, new and/or existing Social projects.

On 20 May 2019, the BSP issued BSP Circular No. 1040, supported by Monetary Board Resolution No. 543. This approved the revised framework on the selection of external auditors for BSFIs in accordance with the cooperative arrangement among the Financial Sector Supervisors, namely the BSP, the SEC, Insurance Commission, and the Philippine Deposit Insurance Corporation, under the auspices of the Financial Sector Forum.

On 29 May 2019, the BSP issued Circular No. 1041 supported by Monetary Board Resolution Nos.727.A dated 16 May 2019 and 753.A dated 23 May 2019, the Monetary Board approved the reduction in the reserve requirement ratios of selected reservable liabilities of banks and non-bank financial institutions with quasi-banking functions.

On 6 September 2019, the BSP issued Circular No. 1048 which contained the Guidelines and Procedures Governing the Consumer Assistance and Management System. The Circular provides that BSFI should have Consumer Protection Risk Management System (**CPRMS**) which should include the governance structure, policies, processes, measurement and control procedures to ensure that consumer protection risks are identified, measured, monitored, and mitigated. The Circular further empowered the BSP to deploy enforcement actions to ensure compliance with BSP Regulations on Financial Consumer Protection.

On 9 September 2019, the BSP issued BSP Circular No. 1049, which implements the provisions of Republic Act No. 11127. It provides that banks which act as payment systems operators must register with the BSP through notification; it will not have to apply or pay registration fees. The BSP will then issue the registering bank a Provisional Certificate of Registration. Thereafter, the BSP will issue the bank a Certificate of Registration, if warranted, and provided the documents submitted by the bank meet all regulatory requirements. BSP Circular No. 1068, issued on 26 December 2019, extended the deadline for registration of existing payment systems operations from 1 October 2019, as originally stated in Circular No. 1049, to 1 April 2020.

On 7 February 2020, the BSP issued Circular No. 1074, which amends regulations on financial audits, applicable to banks under the MORB and the Manual of Regulations for Foreign Exchange Transactions.

On 10 February 2020, the BSP issued Circular No. 1073, which approved the extension of the transitory period on single borrower's limit, as applicable to foreign bank branches. The circular provides that existing foreign bank branches can use twice the level of capital as basis for determining the single borrower's limit.

On 9 March 2020, the BSP issued Circular No. 1078, prescribing the Guidelines on Correspondent Banking Relationships. The circular states that covered persons must adopt the stated policies and procedures to prevent correspondent banking activities from being used for money laundering or terrorist financing activities; furthermore, covered persons must designate an officer responsible to ensure compliance with the Guidelines and the covered person's policies and procedures.

On 4 February 2021, the BSP issued Circular No. 1109, which provides the amendments to the regulations on investment management activities (**IMA**) under the MORB and MORNBFI. Under the circular, the minimum size of an account was reduced and the securities eligible as investment outlet for commingled funds under investment management was expanded. The circular provides that BSFIs may determine the minimum amount that should be maintained by a client in an IMA which shall be at least ₱100,000. It also provides the requirements for the commingling of funds, which refer to acts of combining funds from multiple IMAs for the sole purpose of investing in qualified assets.

On 28 May 2021, the BSP issued Memorandum No. M-2021-031, which provides the guidelines on cash agents. Cash agents are third party entities where customers can perform secure real-time deposit and withdrawal transactions for their own accounts, fund transfers, bills payment, and payments online. The circular provides for mechanisms that banks with cash agent operation are required to observe to allow their customers to verify accredited agents and lodge complaints for agent-related transactions.

**Other Regulations**

*The Philippine Competition Act*

Rep. Act No. 10667, or the Philippine Competition Act (the **PCA**), was signed into law on 21 July 2015 and took effect on 8 August 2015. The PCA is the first anti-trust statute in the Philippines and 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 apply for a warrant with the relevant court.

The PCA prohibits and imposes sanctions on: (a) anti-competitive agreements between or among competitors, (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, because such conduct would substantially prevent, restrict or lessen competition, such as selling goods or services below cost to drive out competition, imposing barriers to entry or to 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 (the **PCA IRR**). Under Section 3, Rule 4 of the PCA IRR, as amended by PCC Advisory 2019-001 (effective 1 March 2019), parties to a merger or acquisition are required to provide the PCC notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or the value of the assets in the Philippines of the ultimate parent entity of at least one of the acquiring or the acquired entities, including that of all entities that the ultimate parent entity controls, directly or indirectly, exceed ₱5.6 billion; and (b) the value of the transaction exceeds ₱2.2 billion, as determined under the PCA IRR; while parties to a joint venture transaction are subject to the notification requirement if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2.2 billion, or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2.2 billion. As provided in MC No. 18-001 (2018), the thresholds are automatically adjusted commencing on 1 March 2019 and on 1 March of every succeeding year, using as an 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, transactions requiring notification consummated before the effectiveness of the memorandum circular and transactions already the subject of a decision by the PCC.

PCC Advisory 2019-001 further adjusted the thresholds such that effective 1 March 2019, 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 of at least one of the acquiring or acquired entities, including that of all entities that the ultimate parent entity controls, directly or indirectly, exceed ₱5.6 billion; and (b) the value of the transaction exceeds ₱2.2 billion, as determined in the PCA IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2.2 billion; or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2.2 billion.

The threshold amounts were last modified by the PCC in Commission Resolution No. 02-2020, effective 1 March 2020. Currently, parties to a merger or notification are required to provide notification when (a) the aggregate annual gross revenues in, or into, or from the Philippines, or the value of the assets in the Philippines of the ultimate parent entity of the acquiring or the acquired entities exceeds ₱6 billion; and (b) the value of the transaction, as determined under subsections (1), (2), (3), and (4) of Rule 4, Section 3 of the PCA IRR, exceeds ₱2.4 billion.

Notably, Section 4(eee) of the Bayanihan to Recover as One Act (the Bayanihan 2) provides that all mergers and acquisitions with transaction values below ₱50 billion shall be exempt from compulsory notification under the PCA if entered into within a period of 2 years from the effectivity of Bayanihan 2 on 15 September 2020 or until 15 September 2022. Effective 16 September 2022, and with the expiration of the 2-year moratorium under the Bayanihan 2, the PCC provisionally set the thresholds in relation to the Size of Party and Size of Transaction tests by increasing these to ₱6.1 billion and ₱2.5 billion, respectively. Recently under PCC Resolution No, 01-2024, the PCC increased the thresholds in relation to the Size of Party and Size of Transaction tests by increasing these further to ₱7.8 billion and ₱3.2 billion, respectively.

Violations of the PCA and the PCA IRR have severe consequences. Under the PCA and the PCA IRR, a transaction that meets the thresholds but is not in compliance with the notification requirements and waiting periods are considered void and will subject the parties to the transaction to an administrative fine of one per cent. to five per cent. 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 offenses. Administrative fines of ₱100 million to ₱250 million may be imposed on entities found to have violated prohibitions on 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.

On 15 September 2017, the PCC published the 2017 Rules of Procedure (the **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 PCA IRR. The Merger Rules provide that parties to a merger that meets the thresholds in Section 3 of Rule 4 of the PCA IRR are required to notify the PCC within 30 days from the signing of definitive agreements relating to such merger.

On 10 September 2019, the Supreme Court of the Philippines approved the Rules on Administrative Search and Inspection under the PCA. The rules govern the application, issuance, and enforcement of inspection orders for administrative investigations of alleged violations of the PCA. Inspection orders will allow the PCC and its deputised agents to enter, search and inspect business premises, offices, land and vehicles to examine, copy, photograph, record or print information in order to prevent their removal, concealment, tampering with or destruction.

On 19 January 2021, the PCC issued Memorandum Circular No. 21-001 adjusting the schedule of fines for violations of the 2017 Rules of Procedure and the Rules of Merger Procedure. The amount of administrative fines may amount up to ₱275 million. 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 ₱55,000.00 up to ₱2.2 million.

On 18 May 2023, the PCC issued the Non-Horizontal Merger Guidelines that aim to strengthen the transparency of the analytical process undertaken by the PCC when reviewing mergers and acquisitions. Th Guidelines on substantive non-horizontal merger analysis were issued pursuant to Section 16 of the Competition Act and are supplementary to the 2018 PCC Merger Review Guidelines.

On 21 August 2023, the PCC issued the Guidelines for the *Motu Proprio* Review of Mergers and Acquisitions in Digital Markets. The Guidelines were issued to provide greater transparency and predictability over the PCC's power of *motu proprio* review of mergers and acquisitions, by providing a non-exhaustive list of transactions that PCC believes may indicate competition issues in the digital market, thus potentially triggering *motu proprio* review by the PCC.

*Corporate Recovery and Tax Incentives for Enterprises*

Rep. Act No. 11534, or the Corporate Recovery and Tax Incentives for Enterprises (the **CREATE**), was signed into law on 26 March 2021 and took effect on 11 April 2021. The CREATE provides various tax incentives that are relevant and responsive to the needs of businesses negatively affected by the COVID-19 pandemic and improved the ability of the Philippines to attract foreign investments.

Among the tax incentives provided under the CREATE Act are the following:

1. Income tax holiday for export enterprises and domestic market enterprises for a period of four to seven years, followed by the (a) Special Corporate Income Tax Rate of 5 per cent. on gross income earned, in lieu of all national and local taxes, or (b) enhanced deductions for 5 or 10 years; and

2. Tax-free exchanges for reorganizations, without the need to obtain a confirmatory ruling from the Bureau of Internal Revenue.

Further, the CREATE Act lowered the corporate income tax from 30 per cent. to 25 per cent., and further reduces the rate to 20 per cent. if the corporation's net income does not exceed ₱5 million and its total assets do not exceed ₱100 million, excluding the land where the business is located.

On 8 November 2024, RA No. 12066 or the Corporate Recovery and Tax Incentives for Enterprises to Maximize Opportunities for Reinvigorating the Economy (**CREATE MORE**) was passed, amending the CREATE Act. The CREATE MORE establishes a simplified value-added tax (**VAT**) refund system to reduce delays in tax processes. Moreover, the CREATE MORE streamlines processes for projects that are eligible for incentives, by raising the investment capital threshold for approval by investment promotion agencies from ₱1 billion to ₱15 billion. Finally, the CREATE MORE also extends the maximum duration of availment of tax incentives from 17 years to 27 years.

*Amended Retail Trade Liberalization Act*

Rep. Act No. 11595, which amends the Retail Trade Liberalization Act (the **RTLA**) was signed into law on 10 December 2021 and took effect on 21 January 2022. The amended RTLA reduced the minimum paid-up capital requirements for foreign retail enterprises from ₱125 million to ₱25 million, removed the requirement for certificate of pre-qualification to the Philippine Board of Investment, and lowered the investment requirement for each store owned by a foreign enterprise from U.S.$830,000 (around ₱43 million) to ₱10 million, among others.

*Amended Foreign Investment Act of 1991*

Rep. Act No. 11647, which amends the Foreign Investment Act of 1991 (the **FIA**), was signed into law on 2 March 2022 and was published in the Official Gazette on 14 March 2022. The amended FIA provided less stringent requirements for non-Philippine nationals to do business in the country.

The amended FIA modified the requirements for the application of reduced capital requirement of U.S.$100,000 from U.S.$200,000 for domestic market enterprises:

1. Prior to the amendment, domestic market enterprises must have at least 50 direct employees. The amended FIA only requires that majority of the direct employees are Filipinos and that the domestic market enterprise must have at least 15 Filipino employees.

2. The reduced capital is also applicable if the domestic market enterprise is a startup or startup enablers as defined under Republic Act No. 11337 or the Innovative Startup Act.

Further, the amended FIA created the Inter-Agency Investment Promotion Coordination, a body that will integrate all promotion and facilitation efforts to encourage foreign investments in the country.

*Amended Public Service Act*

Rep. Act No. 11659, which amends the Public Service Act (the **PSA**), was signed into law on 21 March 2022. The amended PSA clarified what may be considered a “public utility” by providing an exclusive list of what public utilities are. Prior to the amendment, there was no statutory definition of a “public utility”. Hence, the Supreme Court filled the gap by construing the term “public service” under the prior PSA as equivalent to public utility under the Constitution.

The amendments now classify the following services as a public utility, subject to the 40 per cent. foreign ownership cap under the Constitution: (i) Distribution of electricity, (ii) Transmission of electricity, (iii) Petroleum and petroleum products pipeline transmission systems, (iv) Water pipeline distribution systems and wastewater pipeline systems, including sewerage pipeline systems, (v) seaports, and (vi) public utility vehicles.

The amended PSA likewise defines critical infrastructure as any public service which owns, uses, or operates systems and assets, whether physical or virtual, so vital to the Republic of the Philippines that the incapacity or destruction of such systems or assets would have a detrimental impact on national security, including telecommunications and other services as may be declared by the President.

It further provides that nationality requirements may not be imposed by the relevant administrative agencies on any public service that is not classified as public utility. With the amendments brought by Rep. Act No. 11659, foreign nationals may now fully own industries that were previously considered as public utilities such as telecommunication, shipping, airline, railway, toll road and transport network vehicle companies, subject to the Reciprocity Clause under the PSA. However, the amended PSA provides that in the interest of national security, the President, after review, evaluation, and recommendation of the relevant government department or administrative agency, may suspend or prohibit any proposed merger or acquisition transaction or any investment in a public service that results in the grant of control to a foreigner or foreign corporation. Moreover, entities controlled by or acting on behalf of a foreign government or foreign state-owned enterprises are prohibited from owning capital in any public service classified as either public utility or critical infrastructure.

Further, the amended PSA provides that upon recommendation of the National Economic Development Authority, the President may recommend to Congress the classification of a public service as a public utility based on the following criteria:

1. The person or juridical entity regularly supplies and transmits and distributes to the public through a network a commodity or service of public consequence;

2. The commodity or service is a natural monopoly that needs to be regulated when the common good so requires. For this purpose, natural monopoly exists when the market demand for a

commodity or service can be supplied by a single entity at a lower cost than by two or more entities;

3. The commodity or service is necessary for the maintenance of life and occupation of the public; and

4. The commodity or service is obligated to provide adequate service to the public on demand.

*Maharlika Investment Fund Act of 2023*

On 18 July 2023, Republic Act No. 11954, was enacted which provides that for the first and second fiscal years upon effectivity of the law, 100 per cent. of the BSP's total declared dividends will be remitted to the National Government for the capitalization of the Maharlika Investment Corporation (**MIC**), in the amount not exceeding ₱50 billion for the initial subscription of the National Government to the capitalization of the MIC. Thereafter, the dividends of the BSP shall be remitted to the National Government to fund the increase in the capitalization of the BSP.

# BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream (together, the* ***Clearing Systems****) currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Bank, the Trustee nor any Agent 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 Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Information in this section has been derived from the Clearing Systems.*

**Book-entry Systems**

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective accountholders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an accountholder of either system.

**Transfers of Notes Represented by Registered Global Notes**

Transfers of any interests in Notes represented by a Registered Global Note within Euroclear and Clearstream will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form.

Clearstream and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of Clearstream and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Bank, the Agents or any Dealer will be responsible for any performance by Clearstream or Euroclear or their direct or indirect participants or accountholders of their obligations under the rules and procedures governing their operations nor with the Issuer, any Agent or any Dealer have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

# 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. The tax treatment of a prospective holder of the Notes may vary depending on such Noteholder's particular situation and these statements do not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules.*

*Prospective purchasers of Notes are advised to consult their own tax advisers as to the particular tax consequences for such Noteholder in relation to the tax consequences of purchasing, owning, and disposing 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 or of which they have tax exposures.*

## Philippine Taxation

The following is a general description of certain Philippine tax aspects of the Notes. It is based on the present provisions of Philippine tax laws, in particular 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 and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as banks and dealers in securities) may be subject to special rules. 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.

The tax in the Philippines on the issuance of and transactions concerning debt instruments may vary depending upon several factors, including whether such instruments are issued by a depository bank under the expanded FCDU or as an RBU.

As used herein, the term “resident alien” refers to an individual whose residence is within the Philippines and who is not a citizen thereof; while 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. The term "foreign" when applied to a corporation means a corporation which is not domestic; while the term "domestic" when applied to a corporation means a corporation created or organised in the Philippines or under its laws.

### *Documentary Stamp Taxes*

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 face value of such debt instruments. For debt instruments with terms of less than one (1) year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days 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 will generally be subject to Philippine documentary stamp tax, which shall be for the account of the Bank. No documentary stamp tax is imposed on a subsequent sale or disposition of the Notes if there is no change in the maturity date or remaining period of coverage from that of the original instrument.

The Bank has undertaken to pay the documentary stamp tax on the Notes, to the extent required by the Tax Code and other applicable laws and regulations.

***Interest on the Notes***

Under the Tax Code, any income of non-residents, whether individuals or corporations, and of depositary banks under the expanded foreign currency deposit system, from foreign currency transactions with FCDUs is exempt from income tax. However, net income of depositary banks under the FCDU system from foreign currency transactions as may be specified by the Secretary of Finance, upon recommendation of the Monetary Board, shall be subject to the regular income tax payable by banks.

Accordingly, if the Notes are issued or booked by the Bank's FCDU, interest received by Noteholders who are non-resident aliens, whether or not doing business in the Philippines, and non-resident foreign corporations are exempt from withholding tax. On the other hand, interest income on the Notes earned from transactions with FCDUs by residents, individual citizens of the Philippines, resident aliens, domestic corporations (except depositary banks under the foreign currency deposit unit system) and resident foreign corporations is subject to a final withholding tax at a rate of 15 per cent.

If the Notes are issued or booked by the Bank's RBU, interest income on such Notes is subject to final withholding tax at a rate of: (a) 25 per cent. if received by non-resident aliens not doing business in the Philippines; (b) 25 per cent. if received by non-resident foreign corporations; (c) 20 per cent. if received by individual citizens of the Philippines, resident aliens, and non-resident aliens doing business in the Philippines, domestic corporations and resident foreign corporations.

***Sale or other Disposition of the Notes***

A Noteholder will recognise a gain or loss on the sale, exchange, retirement, or other disposition of the Notes in an amount equal to the difference between the amount realised from such disposition and such Noteholder's acquisition cost. Such gain or loss is likely to be deemed a capital gain or loss assuming that the Noteholder has recorded its Notes as a capital asset.

Any gain 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 certificate of indebtedness) will not be subject to income tax. To the extent that the Notes have a maturity of more than five years from the date of issuance, any gains realised by any resident or non-resident holder from the sale of the Notes effected within or outside the Philippines will not be subject to Philippine income tax.

To the extent that the Notes have a maturity of not more than five years (as measured from the date of the issuance of such bonds, debentures or other certificate of indebtedness), any capital gain realised from the sale, exchange or retirement of the Notes will form part of the gross income of the sellers for purposes of computing the relevant taxable income and will generally be subject to the following income tax rates: (1) variable rates based on net annual taxable income, the highest of which is 35.0 per cent. of net taxable income of Philippine citizens, Philippine residents and non-resident aliens engaged in trade or business in the Philippines; (2) 25.0 per cent. final withholding tax for sellers who are non-resident aliens not engaged in trade or business in the Philippines; (3) 25.0 per cent. of net taxable income of domestic corporations and resident foreign corporations; and (4) 25.0 per cent. of gross income for sellers which are non-resident foreign corporations. If the Notes are sold by a seller who is an individual and who is not a dealer in securities and who has held the Notes for a period of more than

12 months prior to the sale, then only 50.0 per cent. of any capital gain will be recognised and included in the seller's gross taxable income.

Non-Philippine Noteholders will not be subject to Philippine income or withholding tax in connection with the sale, exchange or retirement of the Notes if (1) such sale, exchange or retirement is made outside the Philippines; or (2) an exemption is available under an applicable tax treaty in force between the Philippines and the country of domicile of the non-Philippine Noteholder and such Noteholder complies with the procedures prescribed by the Bureau of Internal Revenue for the availment of tax treaty benefits.

***Estate and Donor's Taxes***

The transfer of the Notes by a Noteholder to his heirs, whether or not such Noteholder was residing in the Philippines, will be subject to an estate tax which is levied on the total net estate of the deceased at a fixed rate of 6 per cent.

Noteholders, whether or not citizens or residents of the Philippines, will be subject to donor's tax upon the donation of the Notes to any person at a flat rate of 6 per cent. of the net gifts in excess of ₱250,000 made during the calendar year.

The foregoing apply even if the holder is a non-Philippine holder. The estate tax, as well as the donor's tax in respect of the Notes, shall not be collected if: (a) the deceased at the time of his 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 (b) 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 allows 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 jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of domicile or business activities and such holder's situation. Each holder of any of the Notes should consult its own tax adviser as to the particular tax consequences of such holder acquiring, owning, and disposing of the Notes, including the applicability and effect of any state, local and national laws.

**The Proposed Financial Transactions Tax (FTT)**

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

**Foreign Account Tax Compliance Act**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a **foreign financial institution** (as defined by FATCA) may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the Philippines) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Notes (as described under "*Terms and Conditions of the Notes—Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes.

# SUBSCRIPTION AND SALE

The Dealers have, in an amended and restated programme agreement dated 20 December 2024 as amended or supplemented from time to time (the **Programme Agreement**), agreed with the Bank 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*". In the Programme Agreement, the Bank has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update 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 Bank may also from time to time agree with the relevant Dealer(s) that the Bank may pay certain third-party commissions (including, without limitation, rebates to private banks as specified in the applicable Final Terms).

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically, such persons may over-allot 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 above 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. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may cease at any time.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Dealer or its affiliate on behalf of the Issuer in such jurisdiction.

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 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. 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.

**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 Offering Circular and/or the applicable Final Terms.

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 Final Terms 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 Final Terms.

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.

**Selling Restrictions**

**United States**

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 may not be offered or sold within the United States or, if Category 2 is specified in the Final Terms, 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. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

If Category 2 is specified in the Final Terms, each Dealer has represented, warranted, undertaken and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant, undertake and agree, that it will not offer, sell or deliver such Notes (i) as part of their distribution at any time; or (ii) 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 have the meanings given to them by Regulation S under the Securities Act.

Accordingly, if Category 1 is specified in the Final Terms the Notes are being offered and sold only outside the United States in offshore transactions in reliance on, and in compliance with, Regulation S.

The Bearer Notes 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 Final Terms will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

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.

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 Final Terms.

**Prohibition of sales to EEA Retail Investors**

Unless the Final Terms 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 Final Terms in relation thereto to any retail investor in the EEA. 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 Final Terms 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 Final Terms 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 the 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 Bank 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 Bank 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 Bank 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 Final Terms 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 Final Terms 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 the Insurance Distribution Directive, 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 Final Terms 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 final terms 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 the Prospectus Regulation 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 Financial Services and Markets Act 2000 (**FSMA**) by the Bank;

(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 Bank; 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 UK.

**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.

**Hong Kong**

Each Dealer has represented, warranted 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 (**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 **CWUMPO**) or which do not constitute an offer to the public within the meaning of the CWUMPO; 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.

**Singapore**

Unless the applicable Final Terms 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 applicable Final Terms 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.

**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 REGULATIONS (THE **SRC**). ANY FUTURE OFFER OR SALE OF THE NOTES WITHIN THE PHILIPPINES IS SUBJECT TO THE REGISTRATION REQUIREMENTS UNDER THE SRC UNLESS SUCH OFFER OR SALE IS MADE UNDER CIRCUMSTANCES IN WHICH THE NOTES QUALIFY AS EXEMPT SECURITIES OR QUALIFIES AS AN EXEMPT TRANSACTION UNDER THE SRC.

Any offer or sale of securities within the Philippines is subject to registration unless such offer or sale is made under circumstances in which the securities qualify as exempt securities or pursuant to an exempt transaction under the SRC. 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, the Philippine Securities and Exchange Commission, and the Philippine Stock Exchange.

**Thailand**

Each Dealer has represented, warranted and agreed and each future 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 any Notes in Thailand; (b) it has not made and will not make any invitation in Thailand to subscribe for the Notes; and (c) it 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 such Notes in Thailand, except where in compliance with the applicable laws and regulations of Thailand. The Notes may not be resold, pledged, transferred or otherwise in Thailand.

**PRC**

Each Dealer has represented, warranted and agreed and each future Dealer appointed under the Programme will be required to represent, warrant and agree that neither it nor any of its affiliates has offered or sold or will offer or sell any of the Notes in the PRC (excluding Hong Kong, Macau and Taiwan) as part of the initial distribution of the Notes. This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC to any person to whom it is unlawful or make the offer or solicitation in the PRC.

**General**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and 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 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 neither the Bank, the Trustee nor any of the Agents or other Dealers shall have any responsibility therefor.

None of the Bank, the Trustee, the Agents and 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.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Bank and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

# GENERAL INFORMATION

## Authorisation

The update of the Programme and the issue of Notes has been duly authorised by the resolution of the board of directors of the Issuer dated 28 October 2024.

## Listing of Notes

Approval in-principle has been received from the SGX-ST in relation to the Programme and application will be made for permission to deal in, and the quotation of, any Notes that may be issued pursuant to the Programme and that 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 herein. The approval in-principle from, the admission to the Official List of, and the listing and quotation of any Notes on, the SGX-ST is not to be taken as an indication of the merits of the Bank, the Programme or the Notes. Unlisted Notes may be issued under the Programme. The relevant Final Terms in respect of any Series will specify whether or not such Notes will be listed and, if so, on which exchange(s) the Notes are to be listed. There is no assurance that the application to the SGX-ST for the listing and quotation of the Notes of any Series will be approved. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in other currencies).

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 Bank 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.

## Rating of the Notes

Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the rating(s) assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

## Documents Available

Copies of the following documents will, when published, be available for inspection at the Bank's registered office:

(a) the Articles of Incorporation and By-Laws of the Bank;

(b) the Bank's audited consolidated financial statements in respect of the financial years ended 31 December 2023, 2022 and 2021 and the Bank's unaudited interim condensed consolidated financial statements in respect of the nine months ended 30 September 2024 and 2023;

(c) the most recently published audited consolidated and non-consolidated annual financial statements of the Bank and the most recently published consolidated interim financial statements (if any) of the Bank, in each case together with any audit or review reports prepared in connection therewith (where relevant);

(d) the Trust Deed, the Agency Agreement and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;

(e) a copy of this Offering Circular; and

(f) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms to this Offering Circular and any other documents incorporated herein or therein by reference.

The Bank currently prepares audited consolidated and non-consolidated accounts on an annual basis, unaudited reviewed condensed consolidated interim accounts on a semi-annual basis and unaudited unreviewed consolidated interim accounts on a quarterly basis.

Copies of the Trust Deed and the Agency Agreement (i) are available to Noteholders during normal business hours from the specified office for the time being of the Trustee being at 160 Queen Victoria Street, London EC4V 4LA, United Kingdom and from the specified office of the Principal Paying Agent or (ii) may be provided by email to a Noteholder following their prior written request to the Trustee or the Agents and provision of proof of holding and identity (in a form satisfactory to the Trustee and the relevant Agent, as the case may be).

**Clearing Systems**

Each series of Bearer Notes will be initially represented by either a Temporary Global Note or a Permanent Global Note that will be deposited on the issue date thereof with a common depositary on behalf of Euroclear and Clearstream or any other agreed clearance system compatible with Euroclear and Clearstream. Each series of Registered Notes will be initially represented by interests in a Global Registered Note and deposited on the issue date thereof with a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream. The appropriate Common Code and the ISIN for each series of Bearer Notes or Registered Notes allocated by Euroclear and Clearstream will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

**Conditions for Determining Price**

The price and amount of Notes to be issued under the Programme will be determined by the Bank and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

**Significant or Material Change**

Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Bank since 30 September 2024 and there has been no material adverse change in the financial position or prospects of the Bank since 30 September 2024.

**Litigation**

Other than as disclosed in this Offering Circular, neither the Bank nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Bank or the Group.

**Auditors**

The Bank's consolidated financial statements as of and for the years ended 31 December 2023, 2022 and 2021 and the condensed consolidated financial statements as of and for the nine months ended 30 September 2024, prepared in accordance with PFRS and included in this Offering Circular, have been audited and reviewed by Punongbayan & Araullo, independent accountants, in accordance with international auditing standards, respectively, as stated in their reports appearing herein.

### Dealers Transacting with the Bank

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Bank and its affiliates in the ordinary course of business.

## INDEX TO FINANCIAL STATEMENTS

P&A Grant Thornton

**Punongbayan & Araullo**
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 8988 2288

# Report on Review of Condensed Consolidated Interim Financial Statements

**The Board of Directors and the Stockholders**
**Rizal Commercial Banking Corporation and Subsidiaries**
Yuchengco Tower, RCBC Plaza
6819 Ayala Avenue cor. Sen. Gil Puyat Avenue
Makati City

## *Introduction*

We have reviewed the accompanying condensed consolidated interim financial statements of Rizal Commercial Banking Corporation and subsidiaries (together hereinafter referred to as the Group), which comprise the condensed consolidated statements of financial position as of September 30, 2024, and the condensed consolidated statements of profit or loss, condensed consolidated statements of comprehensive income, condensed consolidated statements of changes in equity and condensed consolidated statements of cash flows for the nine months ended September 30, 2024 and 2023, and notes to condensed consolidated interim financial statements. Management is responsible for the preparation and fair presentation of the condensed consolidated interim financial statements in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting.* Our responsibility is to express a conclusion on these condensed consolidated interim 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 condensed consolidated interim financial position of the Group as at September 30, 2024, and its condensed consolidated interim financial performance and condensed consolidated interim cash flows for the nine months ended September 30, 2024 and 2023 are not prepared, in all material respects, in accordance with PAS 34.

### *Other Matter*

We have previously audited the consolidated financial statements of the Group as of December 31, 2023, including the consolidated statement of financial position, which is presented herein for comparative purposes, on which we have rendered an unqualified opinion thereon dated February 26, 2024.

**PUNONGBAYAN & ARAULLO**

**By: Maria Isabel E. Comedia**
Partner

CPA Reg. No. 0092966
TIN 189-477-563
PTR No. 10076138, January 3, 2024, Makati City
BIR AN 08-002511-021-2022 (until Oct. 13, 2025)
BOA/PRC Cert. of Reg. No. 0002/P-005 (until Aug. 27, 2027)

November 14, 2024

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**SEPTEMBER 30, 2024 AND DECEMBER 31, 2023**
***(Amounts in Millions of Philippine Pesos)***

| | Notes | September 30, 2024 (Unaudited) | December 31, 2023 (Audited) |
|---|---|---|---|
| **RESOURCES** | | | |
| **CASH AND OTHER CASH ITEMS** | 8 | P 14,560 | P 19,875 |
| **DUE FROM BANGKO SENTRAL NG PILIPINAS** | 8 | 99,003 | 151,762 |
| **DUE FROM OTHER BANKS** | 8 | 8,501 | 14,892 |
| **LOANS ARISING FROM REVERSE REPURCHASE AGREEMENTS** | 8 | 30,420 | 35,799 |
| **TRADING AND INVESTMENT SECURITIES** - Net | 9 | 398,100 | 330,742 |
| **LOANS AND RECEIVABLES** - Net | 10 | 697,725 | 649,929 |
| **INVESTMENTS IN ASSOCIATES** - Net | 11 | 568 | 509 |
| **BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT** - Net | 12 | 8,266 | 9,129 |
| **INVESTMENT PROPERTIES -** Net | 13 | 642 | 543 |
| **DEFERRED TAX ASSETS -** Net | | 6,086 | 5,775 |
| **OTHER RESOURCES -** Net | 14 | 21,101 | 19,377 |
| **TOTAL RESOURCES** | | P 1,284,972 | P 1,238,332 |
| **LIABILITIES AND EQUITY** | | | |
| **DEPOSIT LIABILITIES** | 15 | P 990,440 | P 956,712 |
| **BILLS PAYABLE** | 16 | 59,153 | 50,858 |
| **BONDS PAYABLE** | 17 | 26,578 | 34,939 |
| **ACCRUED INTEREST, TAXES AND OTHER EXPENSES** | | 10,249 | 12,082 |
| **OTHER LIABILITIES** | 18 | 40,453 | 31,466 |
| Total Liabilities | | 1,126,873 | 1,086,057 |
| **EQUITY** | 19 | | |
| Attributable to: | | | |
| Parent Company's Shareholders | | 158,093 | 152,269 |
| Non-controlling Interests | | 6 | 6 |
| | | 158,099 | 152,275 |
| **TOTAL LIABILITIES AND EQUITY** | | P 1,284,972 | P 1,238,332 |

***See Notes to Condensed Consolidated Interim Financial Statements.***

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023**
***(Amounts in Millions of Philippine Pesos, Except Per Share Data)***
**(UNAUDITED)**

| | Notes | 2024 | 2023 |
|---|---|---|---|
| **INTEREST INCOME** | | | |
| Loans and receivables | 10 | P 44,804 | P 35,674 |
| Trading and investment securities | 9 | 12,093 | 9,710 |
| Due from BSP and other banks | 8 | 1,620 | 2,627 |
| | | 58,517 | 48,011 |
| **INTEREST EXPENSE** | | | |
| Deposit liabilities | 15 | 23,443 | 20,242 |
| Bills payable and other borrowings | 16, 17, 18 | 4,142 | 3,523 |
| | | 27,585 | 23,765 |
| **NET INTEREST INCOME** | | 30,932 | 24,246 |
| **IMPAIRMENT LOSSES** - Net | 9, 10, 13, 14 | 5,612 | 4,957 |
| **NET INTEREST INCOME AFTER IMPAIRMENT LOSSES** | | 25,320 | 19,289 |
| **OTHER OPERATING INCOME (CHARGES)** | | | |
| Service fees and commissions | | 6,275 | 4,750 |
| Foreign exchange gains (losses) - net | | ( 2,063 ) | 781 |
| Gain on assets sold - net | 12, 13, 14 | 920 | 4,104 |
| Trading and securities gains - net | | 515 | 128 |
| Share in net earnings of associates | 11 | 53 | 91 |
| Trust fees | | - | 306 |
| Miscellaneous - net | 20 | 1,135 | 1,546 |
| | | 6,835 | 11,706 |
| **TOTAL OPERATING INCOME** | | 32,155 | 30,995 |
| **OTHER OPERATING EXPENSES** | | | |
| Employee benefits | | 6,036 | 5,355 |
| Taxes and licenses | | 4,671 | 4,676 |
| Occupancy and equipment-related | | 2,815 | 2,454 |
| Depreciation and amortization | 12, 13, 14 | 2,505 | 2,544 |
| Miscellaneous | 20 | 7,262 | 6,864 |
| | | 23,289 | 21,893 |
| **PROFIT BEFORE TAX** | | 8,866 | 9,102 |
| **TAX EXPENSE** | | 2,651 | 71 |
| **NET PROFIT** | | P 6,215 | P 9,031 |
| **ATTRIBUTABLE TO:** | | | |
| **PARENT COMPANY'S SHAREHOLDERS** | | P 6,215 | P 9,032 |
| **NON-CONTROLLING INTERESTS** | | - | ( 1 ) |
| | | P 6,215 | P 9,031 |
| **Earnings Per Share** | | | |
| Basic and diluted | 25 | P 2.97 | P 3.92 |

***See Notes to Condensed Consolidated Interim Financial Statements.***

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023**
***(Amounts in Millions of Philippine Pesos)***
**(UNAUDITED)**

| | 2024 | 2023 |
|---|---|---|
| **NET PROFIT** | P 6,215 | P 9,031 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| **Items that will not be reclassified subsequently to profit or loss** | | |
| Fair value gains (losses) on equity securities at fair value through other comprehensive income (FVOCI) | 118 | ( 32 ) |
| Actuarial gains (losses) on defined benefit plan | 5 | ( 1,218 ) |
| | 123 | ( 1,250 ) |
| **Items that will be reclassified subsequently to profit or loss** | | |
| Fair value gains (losses) on debt securities at FVOCI | 3,032 | ( 824 ) |
| Translation adjustments on foreign operations | 6 | - |
| | 3,038 | ( 824 ) |
| **Total Other Comprehensive Income (Loss)** | 3,161 | ( 2,074 ) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | P 9,376 | P 6,957 |
| **ATTRIBUTABLE TO:** | | |
| **PARENT COMPANY'S SHAREHOLDERS** | P 9,376 | P 6,958 |
| **NON-CONTROLLING INTERESTS** | - | ( 1 ) |
| | P 9,376 | P 6,957 |

***See Notes to Condensed Consolidated Interim Financial Statements.***

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023**
***(Amounts in Millions of Philippine Pesos)***
**(UNAUDITED)**

| | | ATTRIBUTABLE TO PARENT COMPANY'S SHAREHOLDERS | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | COMMON STOCK | PREFERRED STOCK | CAPITAL PAID IN EXCESS OF PAR | HYBRID PERPETUAL SECURITIES | REVALUATION RESERVES | TREASURY SHARES | RESERVE FOR TRUST BUSINESS | OTHER RESERVES | GENERAL LOAN LOSS RESERVE | SURPLUS | TOTAL | NON-CONTROLLING INTERESTS | TOTAL EQUITY |
| Balance at January 1, 2024 | | P 24,195 | P 3 | P 58,228 | P 14,463 | (P 6,044) | P - | P 551 | (P 86) | P 4,599 | P 56,360 | P 152,269 | P 6 | P 152,275 |
| Transactions with owners: | | | | | | | | | | | | | | |
| Cash dividends | 19 | - | - | - | - | - | - | - | - | - | (3,575) | (3,575) | - | (3,575) |
| | | - | - | - | - | - | - | - | - | - | (3,575) | (3,575) | - | (3,575) |
| Net profit for the year | | - | - | - | - | - | - | - | - | - | 6,215 | 6,215 | - | 6,215 |
| Other comprehensive income | | - | - | - | - | 3,161 | - | - | - | - | - | 3,161 | - | 3,161 |
| General loan loss appropriation | | - | - | - | - | - | - | - | - | 518 | (518) | - | - | - |
| Transfer of fair value gain on financial assets at fair value through other comprehensive income (FVOCI) to surplus | | - | - | - | - | - | | | | | 23 | 23 | - | 23 |
| Changes in ownership interest of a subsidiary | | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Transfer from reserve for trust business to surplus | | - | - | - | - | - | - | (551) | - | - | 551 | - | - | - |
| | | - | - | - | - | 3,161 | - | (551) | - | 518 | 6,271 | 9,399 | - | 9,399 |
| **Balance at September 30, 2024** | | **P 24,195** | **P 3** | **P 58,228** | **P 14,463** | **(P 2,883)** | **P -** | **P -** | **(P 86)** | **P 5,117** | **P 59,056** | **P 158,093** | **P 6** | **P 158,099** |
| Balance at January 1, 2023 | | P 22,509 | P 3 | P 42,493 | P 14,463 | (P 6,392) | (P 9,287) | P 532 | (P 86) | P 3,824 | P 48,294 | P 116,353 | P 8 | P 116,361 |
| Transactions with owners: | | | | | | | | | | | | | | |
| Reissuance of treasury shares | 19 | - | - | 5,866 | - | - | 9,287 | - | - | - | - | 15,153 | - | 15,153 |
| Issuance of common stock | 19 | 1,686 | - | 10,286 | - | - | - | - | - | - | - | 11,972 | - | 11,972 |
| Share issuance costs | | - | - | (417) | - | - | - | - | - | - | - | (417) | - | (417) |
| Cash dividends | 19 | - | - | - | - | - | - | - | - | - | (3,268) | (3,268) | - | (3,268) |
| | | 1,686 | - | 15,735 | - | - | 9,287 | - | - | - | (3,268) | 23,440 | - | 23,440 |
| Net profit for the year | | - | - | - | - | - | - | - | - | - | 9,032 | 9,032 | (1) | 9,031 |
| Other comprehensive loss | | - | - | - | - | (2,074) | - | - | - | - | - | (2,074) | - | (2,074) |
| General loan loss appropriation | | - | - | - | - | - | - | - | - | 703 | (703) | - | - | - |
| Transfer of fair value loss on financial asset at FVOCI to surplus | | - | - | - | - | - | - | - | - | - | (27) | (27) | - | (27) |
| Changes in ownership interest of a subsidiary | | - | - | - | - | - | - | - | - | - | (66) | (66) | - | (66) |
| Transfer from surplus to reserve for trust business | | - | - | - | - | - | - | 16 | - | - | (16) | - | - | - |
| | | - | - | - | - | (2,074) | - | 16 | - | 703 | 8,220 | 6,865 | (1) | 6,864 |
| Balance at September 30, 2023 | | P 24,195 | P 3 | P 58,228 | P 14,463 | (P 8,466) | P - | P 548 | (P 86) | P 4,527 | P 53,246 | P 146,658 | P 7 | P 146,665 |

***See Notes to Condensed Consolidated Interim Financial Statements.***

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023**
***(Amounts in Millions of Philippine Pesos)***
**(UNAUDITED)**

| | Notes | 2024 | 2023 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | P 8,866 | P 9,102 |
| Adjustments for: | | | |
| Interest received | | 58,758 | 47,407 |
| Interest income | 8, 9, 10 | ( 58,517 ) | ( 48,011 ) |
| Interest paid | | ( 28,568 ) | ( 22,839 ) |
| Interest expense | 15, 16, 17, 18 | 27,585 | 23,765 |
| Impairment losses - net | 9, 10, 13, 14 | 5,612 | 4,957 |
| Depreciation and amortization | 12, 13, 14 | 2,505 | 2,544 |
| Gain on assets sold - net | 12, 13, 14 | ( 920 ) | ( 4,104 ) |
| Dividend income | 20 | ( 310 ) | ( 285 ) |
| Share in net earnings of associates | 11 | ( 53 ) | ( 91 ) |
| Operating income before working capital changes | | 14,958 | 12,445 |
| Increase in financial assets at fair value through profit and loss | | ( 2,106 ) | ( 2,286 ) |
| Increase in loans and receivables | | ( 64,409 ) | ( 68,406 ) |
| Decrease (increase) in investment properties | | ( 99 ) | 676 |
| Decrease (increase) in other resources | | ( 2,958 ) | 318 |
| Increase in deposit liabilities | | 33,728 | 44,590 |
| Increase (decrease) in accrued interest, taxes and other expenses | | ( 821 ) | 67 |
| Increase (decrease) in other liabilities | | 11,896 | ( 2,460 ) |
| Cash used in operations | | ( 9,811 ) | ( 15,056 ) |
| Income taxes paid | | ( 2,974 ) | ( 2,183 ) |
| Net Cash Used in Operating Activities | | ( 12,785 ) | ( 17,239 ) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisition of securities at fair value through other comprehensive income (FVOCI) | | ( 232,584 ) | ( 357,436 ) |
| Proceeds from maturity and disposal of securities at FVOCI | | 191,187 | 367,111 |
| Additional investments in securities at amortized cost | | ( 21,264 ) | ( 9,503 ) |
| Acquisitions of bank premises, furniture, fixtures, and equipment | | ( 1,264 ) | ( 1,276 ) |
| Proceeds from disposal of bank premises, furniture, fixtures and equipment | | 795 | 802 |
| Proceeds from redemption and maturity of securities at amortized cost | | 537 | 28,966 |
| Acquisitions of software | 14 | ( 396 ) | ( 315 ) |
| Cash dividends received | 20 | 310 | 285 |
| Net Cash From (Used in) Investing Activities | | ( 62,679 ) | 28,634 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issuance of bills payable | 16, 26 | 39,209 | 59,220 |
| Payments of bills payable | 16, 26 | ( 31,120 ) | ( 61,072 ) |
| Payments of bonds payable | 17, 26 | ( 30,824 ) | ( 25,637 ) |
| Proceeds from isssuance of bonds payable | 17, 26 | 22,412 | - |
| Dividends paid | 19 | ( 3,575 ) | ( 3,268 ) |
| Payment of lease liabilities | 18, 26 | ( 1,759 ) | ( 1,731 ) |
| Net proceeds from issuance of shares of stock | 19 | - | 26,708 |
| Net Cash Used in Financing Activities | | ( 5,657 ) | ( 5,780 ) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | ( 81,121 ) | 5,615 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | 8 | | |
| Cash and other cash items | | 19,875 | 18,078 |
| Due from Bangko Sentral ng Pilipinas | | 151,762 | 156,664 |
| Due from other banks | | 14,892 | 5,836 |
| Loans arising from reverse repurchase agreements | | 35,799 | 8,724 |
| Interbank loans receivable | | 27,780 | 19,021 |
| | | 250,108 | 208,323 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | 8 | | |
| Cash and other cash items | | 14,560 | 13,038 |
| Due from Bangko Sentral ng Pilipinas | | 99,003 | 151,650 |
| Due from other banks | | 8,501 | 11,330 |
| Loans arising from reverse repurchase agreements | | 30,420 | 20,721 |
| Interbank loans receivable | | 16,503 | 17,199 |
| | | P 168,987 | P 213,938 |

See Note 26 for the supplementary information on non-cash operating, investing and financing activities of the Bank.

***See Notes to Condensed Consolidated Interim Financial Statements.***

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED INTERIM**
**FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2024 AND 2023**
**(UNAUDITED)**
***(With Comparative Audited Figures as of December 31, 2023)***
***(Amounts in Millions of Philippine Pesos, Except Par Value,***
***Per Share Data and as Indicated)***

## 1. CORPORATE MATTERS

### *1.1 Incorporation and Operations*

Rizal Commercial Banking Corporation (the Parent Company, the Bank or RCBC), a universal bank engaged in all aspects of banking, was originally incorporated on September 23, 1960. The Bank renewed its corporate existence on December 10, 2009. It provides products and services related to traditional loans and deposits, trade finance, domestic and foreign fund transfers or remittance, cash management, treasury, and trust and custodianship services. Under relevant authority granted by the Bangko Sentral ng Pilipinas (BSP), the Bank is also licensed to deal in different types of derivatives products such as, but not limited, to foreign currency forwards, interest rate swaps and cross currency swaps. The Parent Company and its subsidiaries (together hereinafter referred to as the Group) are engaged in all aspects of traditional banking, investment banking, retail financing (credit cards, auto loans, mortgage/housing and microfinance loans), remittance, leasing and stock brokering.

As a banking institution, the Group's operations are regulated and supervised by the BSP. As such, the Group is required to comply with banking rules and regulations such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Group's activities are subject to the provisions of Republic Act (RA) No. 8791, *the General Banking Law of 2000*, and other related banking laws.

The Parent Company's common shares are listed in the Philippine Stock Exchange (PSE).

The Parent Company is a 33.92% owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies, with registered business address at 48th Floor, Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City. As of September 30, 2024, Cathay Life Insurance Corporation (Cathay) and Sumitomo Mitsui Banking Corporation (SMBC) also own 18.68% and 20.00% interest in RCBC, respectively.

The registered address of the Parent Company is Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City.

### *1.2 Approval of Condensed Consolidated Interim Financial Statements*

The condensed consolidated interim financial statements of the Group as of and for the nine months ended September 30, 2024 (including the comparatives as of and for the nine months ended September 30, 2023) and the year ended December 31, 2023 were presented to and reviewed by the Bank's Audit and Compliance Committee.

## 2. BASIS OF PREPARATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. This condensed consolidated interim financial statements do not include all of the information required for annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements of the Group as of and for the year ended December 31, 2023 which have been prepared in accordance with PFRS Accounting Standards. PFRS Accounting Standards are adopted by the Financial and Sustainability Reporting Standards Council from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

The Group adopted for the first time the amendments to existing standards relevant to the Group but had no material impact on the condensed consolidated interim financial statements, which are mandatorily effective for annual periods beginning on or after January 1, 2024: (i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants*, and (ii) PAS 7 and PFRS 7 (Amendments), *Statement of Cash Flow, and Financial Instruments: Disclosures – Supplier Finance Arrangements*.

These condensed consolidated interim financial statements are presented in Philippine pesos, the Group's functional and presentation currency. All amounts are in millions, except for per share data or when otherwise indicated.

## 3. MATERIAL ACCOUNTING POLICY INFORMATION

The condensed consolidated interim financial statements have been prepared in accordance with the accounting policies adopted by the Group in its recent annual consolidated financial statements for the year ended December 31, 2023.

The policies have been consistently applied to all periods presented, unless otherwise stated.

Effective 2024, the Group adopted hedge accounting under the provisions of PFRS 9, *Financial Instruments*. At the inception of the hedging relationships, the Group formally designates and documents the hedging relationship. This documentation includes the risk management objective and strategy for undertaking the hedge, the identification of the hedging instrument and the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements at inception and on an ongoing basis (including the analysis of sources of hedge ineffectiveness and how the hedge ratio for the hedging relationships is determined).

Under a fair value hedge, the subsequent change in the fair value of the hedging instrument is recognized in the statement of profit or loss. The change in the fair value of the hedged item, attributable to the risk being hedged, is recorded as part of the carrying value of the hedged item and is also recognized in the statement of profit or loss.

Under a cash flow hedge, changes in the fair value of the hedging instrument are initially recognized in other comprehensive income for the effective portion of the hedge while the ineffective portion is recognized in profit or loss. The amount recognized in other comprehensive shall be the lower of (a) cumulative gain or loss on the hedging instrument from inception of hedge, or (b) cumulative change in FV of the expected cash flows on the hedged item.

## 4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's condensed consolidated interim financial statements in accordance with PAS 34 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the financial statements. Actual results may vary from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied in the Group's recent annual consolidated financial statements as of and for the year ended December 31, 2023.

## 5. RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group is exposed to risk in relation to its operating, investing, and financial activities, and the business environment in which it operates. Generally, the Group's objectives in risk management are to ensure that it identifies, measures, monitors, and controls the various risks that arise from its business activities and that it adheres strictly to the policies, procedures, and control systems which are established to address these risks. In managing financial instruments, the Group is exposed to financial risk such as market risk (including foreign currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), liquidity risk and credit risk.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual consolidated financial statements; hence, they should be read in conjunction with the Group's annual financial statements as of and for the year ended December 31, 2023.

In relation to the 2024 adoption of hedge accounting in accordance with PFRS 9, the Group sets its appetite for interest rate risk through tolerance limits and triggers namely interest rate gap limit, earnings-at-risk approach, and economic value of equity approach. These risk exposures are reported to the Asset Liability Committee and the Risk Oversight Committee.

Day-to-day strategies with respect to banking book interest rate risk rest with the Treasury Group which monitors the bank's interest rate and liquidity profile. Interest rate gaps are influenced through its bond and money market portfolios, medium term funding and derivatives transactions.

Hedging transactions are, therefore, evaluated and executed by the Treasury Group within the boundaries set by interest rate risk limits and hedging product limits. Hedging decisions may also be initiated by the appropriate senior management committees.

## 6. FAIR VALUE MEASUREMENT AND DISCLOSURES

### *6.1 Fair Value Hierarchy*

In accordance with PFRS 13, *Fair Value Measurements*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS Accounting Standards, are categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels:

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

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

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

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3. Changes in assumptions could also affect the reported fair value of the financial instruments. The Group uses judgment to select a variety of valuation techniques and to make assumptions that are mainly based on market conditions existing at the end of each reporting period.

### *6.2 Financial Instruments Measured at Fair Value*

The table below and in the succeeding page shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of September 30, 2024 and December 31, 2023.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **September 30, 2024 (Unaudited)** | | | | |
| **Financial assets at Fair Value through Profit or Loss (FVPL):** | | | | |
| Government securities | P 10,428 | P - | P - | P 10,428 |
| Corporate debt securities | 19 | - | - | 19 |
| Equity securities | 874 | - | - | 874 |
| Derivative financial assets | 11 | 2,551 | - | 2,562 |
| | 11,332 | 2,551 | - | 13,883 |
| **Financial assets at Fair Value through Other Comprehensive Income (FVOCI):** | | | | |
| Government securities | 108,761 | - | - | 108,761 |
| Corporate debt securities | 14,191 | - | - | 14,191 |
| Equity securities | 968 | 549 | 2,494 | 4,011 |
| | 123,920 | 549 | 2,494 | 126,963 |
| **Total resources at fair value** | **P 135,252** | **P 3,100** | **P 2,494** | **P 140,846** |
| **Derivative financial liabilities** | **P 208** | **P 6,010** | **P -** | **P 6,218** |
| December 31, 2023 (Audited) | | | | |
| Financial assets at FVPL: | | | | |
| Government securities | P 9,647 | P - | P - | P 9,647 |
| Equity securities | 783 | - | - | 783 |
| Corporate debt securities | 28 | - | - | 28 |
| Derivative assets | 10 | 1,310 | - | 1,320 |
| *Balance forwarded* | P 10,468 | P 1,310 | P - | P 11,778 |

| | | Level 1 | | Level 2 | | Level 3 | | Total |
|---|---|---|---|---|---|---|---|---|
| *Balance carried forward* | P | 10,468 | P | 1,310 | P | - | P | 11,778 |
| Financial assets at FVOCI: | | | | | | | | |
| Equity securities | | 863 | | 620 | | 2,421 | | 3,904 |
| Government securities | | 65,962 | | - | | - | | 65,962 |
| Corporate debt securities | | 12,571 | | - | | - | | 12,571 |
| | | 79,396 | | 620 | | 2,421 | | 82,437 |
| Total resources at fair value | P | 89,864 | P | 1,930 | P | 2,421 | P | 94,215 |
| Derivative liabilities | P | - | P | 1,690 | P | - | P | 1,690 |

There were no transfers between the levels of the fair value hierarchy during the nine months ended September 30, 2024.

Described below and in the succeeding page is the information about how the fair values of the Group's classes of financial assets and financial liabilities were determined.

*(a) Government and Corporate Debt Securities*

The fair value of the Group's government and corporate debt securities are categorized within Level 1 of the fair value hierarchy.

The fair values of peso-denominated government debt securities issued by the Philippine government, are determined based on the reference price per Bloomberg which used Bloomberg Valuation Service (BVAL). These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparable.

Fair values of actively traded corporate debt securities are determined based on their market prices quoted in the Philippine Dealing System (PDS) or based on the direct reference price per Bloomberg at the end of each reporting period; hence, categorized within Level 1.

*(b) Equity Securities*

The fair values of equity securities classified as financial assets at FVPL and FVOCI as of September 30, 2024 and December 31, 2023 were valued based on their market prices quoted in the PSE at the end of each reporting period; hence, categorized within Level 1.

Level 2 category includes the Group's investments in proprietary club shares as their prices are not derived from a market considered as active due to lack of trading activities among market participants at the end of each reporting period.

For equity securities which are not traded in an active market and with fair value categorized within Level 3, their fair value is determined through valuation techniques such as market-based approach (price-to-book value method) using current market values of comparable listed entities, discounted cash flow method, net asset value method, or dividend discounted model.

The price-to-book value method uses the price-to-book ratio of comparable listed entities as multiple in determining the fair value of the Group's equity securities adjusted by a certain valuation discount. The price-to-book ratio used by the Group in the fair value measurement of its level 3 equity securities as of September 30, 2024 and December 31, 2023 ranges from 0.25:1 to 3.72:1 for financial assets at FVOCI.

Increase (decrease) in the price-to-book ratio and net asset value would result in higher (lower) fair values, all else equal.

A reconciliation of the carrying amounts of Level 3 equity securities at the beginning and end of September 30, 2024 and December 31, 2023 is shown below.

| | **September 30, 2024 (Unaudited)** | | December 31, 2023 (Audited) | |
|---|---|---|---|---|
| Balance at beginning of period | **P** | **2,421** | P | 2,112 |
| Fair value gains – net | | **73** | | 309 |
| Balance at end of period | **P** | **2,494** | P | 2,421 |

(c) *Derivative Financial Assets and Financial Liabilities*

The fair value of the Group's derivative assets categorized within Level 1 is determined directly based on the published price quotation available in Bloomberg for an identical instrument in an active market at the end of each of the reporting period.

On the other hand, the fair values of certain derivative financial assets and financial liabilities categorized within Level 2 were determined through valuation techniques using net present value computation which makes use of the streams of cash flows related to the derivative financial instruments such as interest rate swaps and currency swaps.

### 6.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

| | | Level 1 | | Level 2 | | Level 3 | | Total |
|---|---|---|---|---|---|---|---|---|
| **September 30, 2024 (Unaudited)** | | | | | | | | |
| ***Financial Assets:*** | | | | | | | | |
| Cash and other cash items | **P** | 14,560 | P | - | P | - | P | 14,560 |
| Due from BSP | | 99,003 | | - | | - | | 99,003 |
| Due from other banks | | 8,501 | | - | | - | | 8,501 |
| Loans arising from reverse repurchase agreements | | 30,420 | | - | | - | | 30,420 |
| Interbank loan receivables | | 16,503 | | - | | - | | 16,503 |
| Investment securities at amortized cost | | 239,728 | | - | | - | | 239,728 |
| Loans and receivables - net | | - | | - | | 676,680 | | 676,680 |
| Other resources | | - | | - | | 1,454 | | 1,454 |
| | **P** | **408,715** | **P** | **-** | **P** | **678,134** | **P** | **1,086,849** |
| ***Financial Liabilities:*** | | | | | | | | |
| Deposit liabilities | P | - | P | - | P | 990,440 | P | 990,440 |
| Bills payable | | - | | - | | 59,153 | | 59,153 |
| Bonds payable | | - | | 27,061 | | - | | 27,061 |
| Accrued interest and other expenses | | - | | - | | 1,346 | | 1,346 |
| Other liabilities | | - | | - | | 24,934 | | 24,934 |
| | **P** | **-** | **P** | **27,061** | **P** | **1,075,873** | **P** | **1,102,934** |
| December 31, 2023 (Audited) | | | | | | | | |
| *Financial Assets:* | | | | | | | | |
| Cash and other cash items | **P** | 19,875 | P | - | P | - | P | 19,875 |
| Due from BSP | | 151,762 | | - | | - | | 151,762 |
| Due from other banks | | 14,892 | | - | | - | | 14,892 |
| Loans arising from reverse repurchase agreements | | 35,799 | | - | | - | | 35,799 |
| Interbank loans | | 27,780 | | - | | - | | 27,780 |
| Investment securities at amortized cost | | 213,708 | | - | | - | | 213,708 |
| Loans and receivables - net | | - | | - | | 640,850 | | 640,850 |
| Other resources - net | | - | | - | | 1,459 | | 1,459 |
| | P | 463,816 | P | - | P | 642,309 | P | 1,106,125 |
| *Financial Liabilities:* | | | | | | | | |
| Deposit liabilities | P | - | P | - | P | 929,590 | P | 929,590 |
| Bills payable | | - | | - | | 50,858 | | 50,858 |
| Bonds payable | | - | | 34,356 | | - | | 34,356 |
| Accrued interest and other expenses | | - | | - | | 10,745 | | 10,745 |
| Other liabilities | | - | | - | | 26,990 | | 26,990 |
| | P | - | P | 34,356 | P | 1,018,183 | P | 1,052,539 |

## 7. SEGMENT REPORTING

### *7.1 Business Segments*

The Group's operating businesses are recognized and managed separately according to the nature of services provided (primary segments) and the different geographical markets served (secondary segments) with a segment representing a strategic business unit. The Group's business segments follow:

*(a)* *Retail* – principally handles the business centers offering a wide range of consumer banking products and services. Products offered include individual customer's deposits, credit cards, home and mortgage loans, auto, personal and microfinance loans, overdraft facilities, payment remittances and foreign exchange transactions. It also upsells bank products (unit investment trust funds, etc.) and cross-sells bancassurance products. The segment includes the net assets of the servicing entity, RCBC Bankard Services Corporation (RBSC), and portfolios of Rizal Microbank, Inc.

*(b)* *Corporate* – principally handles distinct customer segments: (i) conglomerates; (ii) large corporations; (iii) emerging corporates, which focus on large middle accounts often referred to as the "Next 500 Corporations"; (iv) Japanese multinationals with a strong presence in the country; (v) Filipino-Chinese businesses; and, (vi) Korean businesses. This segment includes portfolio of RCBC Leasing and Finance Corporation (RLFC).

*(c)* *Small and Medium Enterprises (SME)* – principally handles the financial needs of the country's small businesses or the SMEs and the Commercial Middle Market segments. The SME Banking Group provides a holistic approach serving both the financial (e.g. loans, deposits, investments, insurance, etc.) and non-financial needs (e.g. networking, financial literacy trainings, etc.) of client to help them grow their business. Clients are the entrepreneurs located in different parts of the country and spread in various industry sectors such as manufacturing, wholesale & retail trade, construction, hotels, agriculture, and healthcare, among others.

*(d)* *Treasury* – principally provides 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.

*(e)* *Others* – consists of other subsidiaries except for RBSC and Rizal Microbank, Inc., which is presented as part of Retail, and RLFC which is presented under Corporate.

These segments are the basis on which the Group reports its primary segment information. Other operations of the Group comprise the operations and financial control groups. Transactions between segments are conducted at estimated market rates on an arm's length basis.

Segment revenues and expenses that are directly attributable to primary business segment and the relevant portions of the Group's revenues and expenses that can be allocated to that business segment are accordingly reflected as revenues and expenses of that business segment.

For secondary segments, revenues and expenses are attributed to geographic areas based on the location of the resources producing the revenues, and in which location the expenses are incurred.

There were no changes in the Group's operating segments as of September 30, 2024 and December 31, 2023.

### *7.2 Analysis of Primary Segment Information*

Primary segment information (by business segment) on a consolidated basis as of and for the periods ended September 30, 2024 and December 31, 2023 are shown below and in the succeeding page:

| | Retail | Corporate | SME | Treasury | Others | Total |
|---|---|---|---|---|---|---|
| **September 30, 2024 (Unaudited)** | | | | | | |
| **Results of operations** | | | | | | |
| Interest income | P 54,884 | P 37,991 | P 12,785 | P 16,102 | (P 63,245) | P 58,517 |
| Interest expense | ( 31,813) | ( 21,101) | ( 8,323) | ( 12,920) | 46,572 | ( 27,585) |
| Net interest income (expense) | 23,071 | 16,890 | 4,462 | 3,182 | ( 16,673) | 30,932 |
| Non-interest income | 9,507 | 2,026 | 242 | ( 1,470) | ( 3,469) | 6,836 |
| Total revenues | 32,578 | 18,916 | 4,704 | 1,712 | ( 20,142) | 37,768 |
| Non-interest expense | 21,231 | 3,969 | 1,363 | 922 | 1,417 | 28,902 |
| Profit (loss) before tax | 11,347 | 14,947 | 3,341 | 790 | ( 21,559) | 8,866 |
| Tax income (expense) | 74 | ( 3) | 94 | ( 2,274) | ( 542) | 2,651 |
| Net profit (loss) | **P 11,421** | **P 14,944** | **P 3,435** | **(P 1,484)** | **(P 22,101)** | **P 6,215** |
| **Total resources and liabilities** | | | | | | |
| Total resources | **P 921,215** | **P 294,304** | **P 114,796** | **P 460,939** | **(P 800,586)** | **P 1,284,972** |
| Total liabilities | **P 977,731** | **P 347,892** | **P 144,351** | **P 34,898** | **(P 725,891)** | **P 1,126,873** |
| **Other segment information** | | | | | | |
| Depreciation and amortization | **P 1,100** | **P 571** | **P 48** | **P 18** | **P 197** | **P 2,505** |
| September 30, 2023 (Unaudited) | | | | | | |
| Results of operations | | | | | | |
| Interest income | P 44,217 | P 34,408 | P 10,745 | P 15,748 | (P 57,107) | P 48,011 |
| Interest expense | ( 25,660) | ( 18,858) | ( 7,164) | ( 17,044) | 44,961 | ( 23,765) |
| Net interest income (expense) | 18,557 | 15,550 | 3,581 | ( 1,296) | ( 12,146) | 24,246 |
| Non-interest income | 7,197 | 2,419 | 227 | 1,311 | 552 | 11,706 |
| Total revenues | 25,754 | 17,969 | 3,808 | 15 | ( 11,594) | 35,952 |
| Non-interest expense | 17,002 | 4,441 | 1,749 | 1,157 | 2,500 | 26,849 |
| Profit (loss) before tax | 8,752 | 13,528 | 2,059 | ( 1,142) | ( 14,094) | 9,103 |
| Tax income (expense) | 135 | 101 | - | ( 1,847) | 1,539 | ( 72) |
| Net profit (loss) | P 8,887 | P 13,629 | P 2,059 | (P 2,989) | (P 12,555) | P 9,031 |
| December 31, 2023 (Audited) | | | | | | |
| Total resources and liabilities | | | | | | |
| Total resources | P 229,909 | P 315,840 | P 104,513 | P 468,411 | P 119,659 | P 1,238,332 |
| Total liabilities | P 701,541 | P 500,825 | P 128,867 | P 90,495 | (P 335,671) | P 1,086,057 |

| | Retail | Corporate | SME | Treasury | Others | Total |
|---|---|---|---|---|---|---|
| September 30, 2023 (Unaudited) | | | | | | |
| Other segment information | | | | | | |
| Depreciation and amortization | P 1,266 | P 466 | P 38 | P 17 | P 757 | P 2,544 |

### *7.3 Analysis of Secondary Segment Information*

Secondary information (by geographical location) for the nine months ended September 30, 2024 and year ended December 31, 2023:

| | **Philippines** | **Asia** | **Total** |
|---|---|---|---|
| **September 30, 2024 (Unaudited)** | | | |
| **Condensed consolidated statement of income** | | | |
| Total income | **P 65,343** | **P 9** | **P 65,352** |
| Total expenses | **59,120** | **17** | **59,137** |
| Net profit (loss) | **P 6,223** | **(P 8)** | **P 6,215** |
| **Condensed consolidated statement of financial position** | | | |
| Total resources | **P 1,284,875** | **P 97** | **P 1,284,972** |
| Total liabilities | **P 1,126,868** | **P 5** | **P 1,126,873** |
| **Other segment information –** Depreciation and amortization | **P 2,505** | **P -** | **P 2,505** |
| September 30, 2023 (Unaudited) | | | |
| Condensed consolidated statement of income | | | |
| Total income | P 59,706 | P 11 | P 59,717 |
| Total expenses | 50,669 | 17 | 50,686 |
| Net profit (loss) | P 9,037 | (P 6) | P 9,031 |
| December 31, 2023 (Audited) | | | |
| Condensed consolidated statement of financial position | | | |
| Total resources | P 1,238,229 | P 103 | P 1,238,332 |
| Total liabilities | P 1,086,053 | P 4 | P 1,086,057 |

| | Philippines | Asia | Total |
|---|---|---|---|
| September 30, 2023 (Unaudited) | | | |
| Other segment information – Depreciation and amortization | P 2,544 | P - | P 2,544 |

## 8. CASH AND CASH EQUIVALENTS

The components of Cash and Cash Equivalents follow:

| | **September 30, 2024 (Unaudited)** | December 31, 2023 (Audited) |
|---|---|---|
| Cash and other cash items | **P 14,560** | P 19,875 |
| Due from BSP | **99,003** | 151,762 |
| Due from other banks | **8,501** | 14,892 |
| Loans arising from reverse repurchase agreements | **30,420** | 35,799 |
| Interbank loans receivables (see Note 10) | **16,503** | 27,780 |
| | **P 168,987** | P 250,108 |

Interest rates per annum on these deposits range from 0.00% to 6.89% in 2024 and from 0.00% to 6.70% in 2023.

Interest in placements with BSP and other banks amounts to P1,620 and P2,627 for the nine months ended September 30, 2024 and 2023, respectively.

## 9. TRADING AND INVESTMENT SECURITIES

This account is composed of the following:

| | **September 30, 2024 (Unaudited)** | December 31, 2023 (Audited) |
|---|---|---|
| Financial assets at FVPL | **P 13,883** | P 11,778 |
| Financial assets at FVOCI | **126,963** | 82,437 |
| Investment securities at amortized cost - net | **257,254** | 236,527 |
| | **P 398,100** | P 330,742 |

Interest income recognized by the Group from trading and investment securities amounts to P12,093 and P9,710 for the nine months ended September 30, 2024 and 2023, respectively.

### 9.1 Financial Assets at FVPL

This account is composed of the following:

| | September 30, 2024 (Unaudited) | December 31, 2023 (Audited) |
|---|---|---|
| Government securities | P 10,428 | P 9,647 |
| Derivative financial assets | 2,562 | 1,320 |
| Equity securities | 874 | 783 |
| Corporate debt securities | 19 | 28 |
| | P 13,883 | P 11,778 |

### 9.2 Financial Assets at FVOCI

This account is composed of the following:

| | September 30, 2024 (Unaudited) | December 31, 2023 (Audited) |
|---|---|---|
| Government bonds | P 108,761 | P 65,962 |
| Corporate debt securities | 14,191 | 12,571 |
| Unquoted equity securities | 2,494 | 2,421 |
| Quoted equity securities | 1,517 | 1,483 |
| | P 126,963 | P 82,437 |

### 9.3 Investments Securities at Amortized Cost

This account is composed of the following:

| | September 30, 2024 (Unaudited) | December 31, 2023 (Audited) |
|---|---|---|
| Government securities | P 226,444 | P 211,451 |
| Corporate debt securities | 30,941 | 25,237 |
| | 257,385 | 236,688 |
| Allowance for impairment | ( 131 ) | ( 161 ) |
| | P 257,254 | P 236,527 |

## 10. LOANS AND RECEIVABLES

This account consists of the following:

| | September 30, 2024 (Unaudited) | December 31, 2023 (Audited) |
|---|---|---|
| Receivable from customers: | | |
| Loans and discounts | **P 555,604** | P 525,041 |
| Credit card receivables | **98,401** | 74,667 |
| Customers' liabilities on acceptances, import bills and trust receipts | **18,274** | 16,345 |
| Bills purchased | **3,178** | 3,894 |
| Lease contract receivable | **2,892** | 2,710 |
| Receivables financed | **91** | 91 |
| | **678,440** | 622,748 |
| Unearned discount | **( 661 )** | ( 826) |
| | **677,779** | 621,922 |
| Other receivables: | | |
| Interbank loans receivables (see note 8) | **16,503** | 27,780 |
| Accounts receivable | **10,446** | 5,425 |
| Accrued interest receivable | **9,277** | 9,519 |
| Sales contract receivable | **2,565** | 2,678 |
| | **38,791** | 45,402 |
| | **716,570** | 667,324 |
| Allowance for impairment | **( 18,845 )** | ( 17,395) |
| | **P 697,725** | P 649,929 |

The concentration of credit of receivables from customers as to industry follows:

| | September 30, 2024 (Unaudited) | | December 31, 2023 (Audited) | |
|---|---|---|---|---|
| | **Amount** | **Share** | Amount | Share |
| Consumer | **P 258,409** | **38%** | P 201,949 | 32% |
| Real estate, renting and other related activities | **93,594** | **14%** | 100,918 | 16% |
| Financial intermediaries | **74,345** | **11%** | 49,479 | 8% |
| Wholesale and retail trade | **68,963** | **10%** | 63,963 | 10% |
| Electricity, gas and water | **65,601** | **9%** | 70,407 | 11% |
| Transportation and communication | **47,190** | **7%** | 53,146 | 9% |
| Manufacturing (various industries) | **45,637** | **7%** | 58,061 | 9% |
| *Balance forwarded* | **P 653,739** | **96%** | P 597,923 | 95% |

| | September 30, 2023 (Unaudited) | | | December 31, 2022 (Audited) | | |
|---|---|---|---|---|---|---|
| | | Amount | Share | | Amount | Share |
| *Balance carried forward* | **P** | **653,739** | **96%** | P | 597,923 | 95% |
| Agriculture, fishing, and forestry | | **4,320** | **1%** | | 5,076 | 1% |
| Mining and quarrying | | **3,711** | **1%** | | 2,243 | - |
| Hotels and restaurants | | **3,687** | **1%** | | 4,079 | 1% |
| Other community, social and personal activities | | **3,092** | **-** | | 2,847 | 1% |
| Others | | **9,230** | **1%** | | 9,754 | 2% |
| | **P** | **677,779** | **100%** | P | 621,922 | 100% |

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable or 10% of Tier 1 Capital.

The breakdown of the receivables from customers' portfolio as to secured and unsecured follows:

| | | September 30, 2024 (Unaudited) | | December 31, 2023 (Audited) |
|---|---|---|---|---|
| Secured: | | | | |
| Real estate mortgage | **P** | **195,747** | P | 184,910 |
| Chattel mortgage | | **59,046** | | 51,280 |
| Hold-out deposit | | **7,701** | | 8,153 |
| Other securities | | **11,749** | | 11,119 |
| | | **274,243** | | 255,462 |
| Unsecured | | **403,536** | | 366,460 |
| | **P** | **677,779** | P | 621,922 |

A reconciliation of the allowance for impairment of loans and receivables at the beginning and end of September 30, 2024 and December 31, 2023 is shown below.

| | | September 30, 2024 (Unaudited) | | December 31, 2023 (Audited) |
|---|---|---|---|---|
| Balance at beginning of period | **P** | **17,395** | P | 16,030 |
| Impairment losses during the period | | **5,416** | | 6,574 |
| Accounts written-off and others | **(** | **3,966)** | ( | 5,209) |
| Balance at end of period | **P** | **18,845** | P | 17,395 |

Interest income recognized by the Group from accruing loans and receivables amounts to P44,804 and P35,674 during the nine months ended September 30, 2024 and 2023, respectively.

## 11. INVESTMENTS IN ASSOCIATES

The analysis of the carrying values of investments in associates is shown below.

| | September 30, 2024 (Unaudited) | December 31, 2023 (Audited) |
|---|---|---|
| Acquisition costs of associates: | | |
| Honda Cars Phils., Inc. | **P 91** | P 91 |
| Luisita Industrial Park Co. | **57** | 57 |
| RCBC Trust Corporation (RTC) | **40** | 40 |
| YGC Corporate Services, Inc. | **4** | 4 |
| | **192** | 192 |
| Accumulated equity in net earnings: | | |
| Balance at beginning of period | **317** | 227 |
| Share in net earnings for the period | **53** | 92 |
| Share in actuarial losses on defined benefit plan | **5** | 16 |
| Others | **1** | ( 18 ) |
| Balance at end of period | **376** | 317 |
| Carrying amount | **P 568** | P 509 |

### *11.1 Spin-off of the RCBC Trust Operations to a Stand-Alone Trust Corporation (SATC)*

With the endorsement of the Group's Trust Committee, on November 28, 2022, the Bank's Board of Directors (BOD) approved the spin-off of the Trust operations from the Parent Company into a separate corporate entity by establishing a SATC in accordance with the Manual of Regulations for Non-Bank Financing Institution. The BOD approved the capital infusion by the Parent Company equivalent to 40% of the required capital under the capital build-up plan.

On March 27, 2023, the Bank's BOD approved the incorporation of the RTC, where the Bank subscribed to 400 thousand shares amounting to P40, equivalent to 40% of the subscribed share capital of the RTC. RTC was officially incorporated on June 29, 2023. RTC was officially incorporated on June 29, 2023, while its application of Trust License from BSP – Stage 3 was approved on October 10, 2023. RTC started operations on January 2, 2024.

In September 2024, the Bank's BOD approved an additional capital contribution of P40 million to RTC representing the Bank's 40% share in line with RTC's capital call of P100 million as part of its compliance with BSP's minimum capital requirements for trust corporations. As of September 30, 2024, the additional capital is subject to BSP's approval.

### *11.2 Sale of Niyog Property Holdings, Inc. (NPHI) and Cajel Realty Corporation (CRC) shares to Filinvest Land, Inc. (FLI)*

On March 27, 2023, the Bank's BOD approved the proposed sale and transfer to FLI of its shares in NPHI and CRC, wholly-owned subsidiaries of the Bank, subject to completion of FLI's due diligence and compliance with conditions to be agreed by the parties. NPHI and CRC, as owners of certain parcels of land located in Bacoor, Cavite have joint development agreements with FLI, wherein FLI undertook to develop the land properties into an exclusive residential subdivision, now known as Princeton Heights.

On July 14, 2023, the Bank and FLI executed a Deed of Absolute Sale for the sale and transfer of the Bank's 100% ownership in NPHI and CRC to FLI. The total consideration for the shares amounted to P544 for NPHI and P89 for CRC.

### *11.3 Liquidation of RCBC Telemoney Europe*

On April 29, 2024, RCBC Telemoney Europe received the final regulatory approval for its liquidation. Following such approval, RCBC Telemoney's balances were deconsolidated from the Group.

## 12. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of the Group's premises, furniture, fixtures and equipment at the beginning and end of the nine-month period ended September 30, 2024 and the year ended December 31, 2023 are shown below.

| | Land | Buildings | Furniture, Fixtures and Equipment | Leasehold Rights and Improvements | Right-of-use Asset | Total |
|---|---|---|---|---|---|---|
| **September 30, 2024 (Unaudited)** | | | | | | |
| Cost | P - | P - | P 8,902 | P 2,698 | P 11,896 | P 23,496 |
| Accumulated depreciation and amortization | - | - | ( 5,643 ) | ( 1,510 ) | ( 8,077 ) | ( 15,230 ) |
| Net carrying amount | **P -** | **P -** | **P 3,259** | **P 1,188** | **P 3,819** | **P 8,266** |
| December 31, 2023 (Audited) | | | | | | |
| Cost | P - | P - | P 12,948 | P 2,381 | P 11,399 | P 26,728 |
| Accumulated depreciation and amortization | - | - | ( 9,407 ) | ( 1,209 ) | ( 6,983 ) | ( 17,599 ) |
| Net carrying amount | P - | P - | P 3,541 | P 1,172 | P 4,416 | P 9,129 |
| January 1, 2023 (Audited) | | | | | | |
| Cost | P 918 | P 2,385 | P 12,537 | P 1,900 | P 9,842 | P 27,582 |
| Accumulated depreciation and amortization | - | ( 1,435 ) | ( 8,431 ) | ( 899 ) | ( 5,553 ) | ( 16,318 ) |
| Net carrying amount | P 918 | P 950 | P 4,106 | P 1,001 | P 4,289 | P 11,264 |

A reconciliation of the carrying amounts of the Group's bank premises, furniture, fixtures and equipment at the beginning and end of the nine months ended September 30, 2024 and the year ended December 31, 2023 are shown below.

| | Land | Buildings | Furniture, Fixtures and Equipment | Leasehold Rights and Improvements | Right-of-use Asset | Total |
|---|---|---|---|---|---|---|
| **September 30, 2024 (Unaudited)** | | | | | | |
| Balance at January 1, 2024, net of accumulated depreciation and amortization | P - | P - | P 3,541 | P 1,172 | P 4,416 | P 9,129 |
| Additions | - | - | 837 | 427 | 497 | 1,761 |
| Disposals (see Note 21.5) | - | - | ( 447) | ( 110) | - | ( 557) |
| Depreciation and amortization charges for the period | - | - | ( 672) | ( 301) | ( 1,094) | ( 2,067) |
| Balance at September 30, 2024, net of accumulated depreciation and amortization | **P -** | **P -** | **P 3,259** | **P 1,188** | **P 3,819** | **P 8,266** |
| December 31, 2023 (Audited) | | | | | | |
| Balance at January 1, 2023, net of accumulated depreciation and amortization | P 918 | P 950 | P 4,106 | P 1,001 | P 4,289 | P 11,264 |
| Additions | - | 1,551 | 1,532 | 633 | 1,557 | 5,273 |
| Disposals | ( 918) | ( 2,488) | ( 1,095) | ( 152) | - | ( 4,653) |
| Depreciation and amortization charges for the period | - | ( 13) | ( 1,002) | ( 310) | ( 1,430) | ( 2,755) |
| Balance at December 31, 2023, net of accumulated depreciation and amortization | P - | P - | P 3,541 | P 1,172 | P 4,416 | P 9,129 |

The Bank has no significant outstanding commitment to acquire any additional bank premises, furniture, fixtures and equipment as of September 30, 2024 and December 31, 2023.

## 13. INVESTMENT PROPERTIES

Investment properties pertain to land, buildings or condominium units acquired by the Group in settlement of loans from defaulting borrowers through foreclosure or dacion in payment, and properties which are held for rental.

The gross carrying amounts and accumulated depreciation and impairment losses of investment properties at the beginning and end of the nine-month period ended September 30, 2024 and the year ended December 31, 2023 are shown below.

| | Land | Buildings | Total |
|---|---|---|---|
| **September 30, 2024 (Unaudited)** | | | |
| Cost | P 14 | P 979 | P 993 |
| Accumulated depreciation | - | ( 348) | ( 348) |
| Accumulated impairment | ( 3) | - | ( 3) |
| Net carrying amount | **P 11** | **P 631** | **P 642** |
| December 31, 2023 (Audited) | | | |
| Cost | P 13 | P 828 | P 841 |
| Accumulated depreciation | - | ( 294) | ( 294) |
| Accumulated impairment | ( 4) | - | ( 4) |
| Net carrying amount | P 9 | P 534 | P 543 |

The reconciliations of the carrying amounts of investment properties at the beginning and end of the nine-month period ended September 30, 2024 and the year ended December 31, 2023 are shown below.

| | **September 30, 2024 (Unaudited)** | December 31, 2023 (Audited) |
|---|---|---|
| Balance at beginning of period, net of accumulated depreciation and impairment | **P 543** | P 2,616 |
| Additions | **171** | 689 |
| Depreciation charges for the period | **( 63)** | ( 104) |
| Disposals | **( 9)** | ( 316) |
| Reclassification (see Note 14) | **-** | ( 2,341) |
| Impairment losses | **-** | ( 1) |
| Balance at end of the period, net of accumulated depreciation and impairment | **P 642** | P 543 |

## 14. OTHER RESOURCES

This account consists of the following:

| | September 30, 2024 (Unaudited) | December 31, 2023 (Audited) |
|---|---|---|
| Assets held-for-sale and disposal group | **P 4,920** | P 4,503 |
| Creditable withholding taxes | **4,433** | 4,280 |
| Net defined benefit asset | **2,443** | 2,665 |
| Prepaid expenses | **2,181** | 1,645 |
| Software – net | **1,254** | 1,237 |
| Branch licenses | **1,000** | 1,000 |
| Other assets held in trust | **846** | 669 |
| Deferred charges | **840** | 660 |
| Refundable and other deposits | **806** | 955 |
| Unused stationery and supplies | **643** | 618 |
| Goodwill | **426** | 426 |
| Returned checks and other cash items | **375** | 221 |
| Margin deposits | **236** | 243 |
| Miscellaneous | **1,741** | 1,323 |
| | **22,144** | 20,445 |
| Allowance for impairment | **( 1,043 )** | ( 1,068 ) |
| | **P 21,101** | P 19,377 |

Assets held-for-sale represents assets that are approved by management to be immediately sold in its present condition and management believes that the sale is highly probable at the time of reclassification.

The breakdown of assets held-for-sale are as follows:

| | September 30, 2024 (Unaudited) | December 31, 2023 (Audited) |
|---|---|---|
| Equity securities | **P 1,518** | P 1,809 |
| Foreclosed real properties | **2,722** | 1,981 |
| Foreclosed automobiles | **680** | 713 |
| | **4,920** | 4,503 |
| Allowance for impairment | **( 886 )** | ( 881 ) |
| Balance at the end of year | **P 4,034** | P 3,622 |

During 2024, the Bank partially disposed of its shares in Hanjin Heavy Industry Co., Ltd. (HHIC-Korea) which the Bank received in 2019 as settlement of gross outstanding loan of Hanjin Heavy Industries and Construction Philippines, Inc. (HHIC-Phil) amounting to USD63.5 million or P3,285. As of September 30, 2024, the Bank recognized total gain from the disposal of HHIC-Korea shares amounting to P15 and is presented as part of Gain on assets sold in the condensed consolidated statement of profit or loss.

On May 29, 2023, the Bank's BOD approved the sale of its consolidated ROPA. The program consists of three phases of execution, namely; (a) the sale of high-end properties, (b) the sale of Tarlac property, and (c) the sale of consolidated ROPA nationwide, which includes both properties of the Bank and its subsidiaries. The book and appraised values of these properties amount to P1,192 and P5,810, respectively.

In 2023, the Bank partially disposed of the assets aforementioned and executed Deeds of Absolute Sale for three high-end properties with carrying values aggregating to P428. The total consideration amounted to P563, resulting in a gain amounting to P520, presented as part of Gain on assets sold in the 2023 condensed consolidated statement of profit or loss.

The Bank's management is committed to sell the said properties within the year. Accordingly, these properties were reclassified from investment properties to Assets held-for-sale under Other resources in the 2023 condensed consolidated statement of financial position (see Note 13).

In 2024, the Bank further disposed of two high-end properties with carrying values amounting to P26. The total consideration amounted to P552, resulting in a gain of P526, presented as part of Gain on assets sold in the 2024 condensed consolidated statement of profit or loss.

As of September 30, 2024, the Bank is in its final stage of negotiating the terms and conditions regarding the possible sale of the remaining consolidated ROPA to a third party.

Assets held in trust is placed to comply with the requirements of BSP on e-money issuers (EMI) in its circular dated January 2023.

Amortization charges for software amount to P375 and P336 as of September 30, 2024 and 2023, respectively.

## 15. DEPOSIT LIABILITIES

The following is the breakdown of deposit liabilities:

| | **September 30, 2024 (Unaudited)** | December 31, 2023 (Audited) |
|---|---|---|
| Demand | **P 215,490** | P 214,395 |
| Savings | **286,253** | 287,738 |
| Time | **488,697** | 450,999 |
| Long-term Negotiable Certificate of Deposits (LTNCD) | **-** | 3,580 |
| | **P 990,440** | P 956,712 |

The details of the Parent Company's LTNCD as of December 31, 2023 are as follows:

| Issuance Date | Maturity Date | Coupon Interest | Outstanding Balance |
|---|---|---|---|
| September 28, 2018 | March 28, 2024 | 5.50% | P 3,580 |

The Parent Company's LTNCD was used in the expansion of its term deposit base to support long-term asset growth and for other general funding purposes.

Interest expense recognized by the Group on deposit liabilities amounts to P23,443 and P20,242 during the nine months ended September 30, 2024 and 2023, respectively.

## 16. BILLS PAYABLE

This account consists of borrowings from:

| | September 30, 2024 (Unaudited) | December 31, 2023 (Audited) |
|---|---|---|
| Foreign banks | **P 51,775** | P 36,653 |
| Local banks | **7,348** | 14,165 |
| Others | **30** | 40 |
| | **P 59,153** | P 50,858 |

Interest expense recognized by the Group on bills payable amounts to P2,084 and P1,757 during the nine months ended September 30, 2024 and 2023, respectively.

## 17. BONDS PAYABLE

The composition of this account for the Group are as follows:

| Issuance Date | Maturity Date | Coupon Interest | Face Value | Outstanding Balance September 30, 2024 (Unaudited) | Outstanding Balance December 31, 2023 (Audited) |
|---|---|---|---|---|---|
| January 7, 2024 | January 18, 2029 | 5.50% | **$ 400** | **P 22,448** | P - |
| February 21, 2022 | May 21, 2024 | 3.00% | **P 14,756** | **-** | 14,756 |
| March 31, 2021 | June 30, 2026 | 4.18% | **P 4,130** | **4,130** | 4,130 |
| September 11, 2019 | September 11, 2024 | 3.05% | **$ 293** | **-** | 16,053 |
| | | | | **P 26,578** | P 34,939 |

On January 7, 2024, the Group issued a US$400 5-year Senior Unsecured Fixed Rate Sustainability Bonds via a drawdown under its US$3,000 Medium Term Note Program.

The net proceeds from the issue of the Notes will be applied by the Group to support and finance its loans to customers or its own operating activities in eligible green and social categories as defined in the Group's Sustainable Finance Framework.

Out of the US$400 senior notes issued in January 7, 2024, US$200 are designated as liability under fair value hedge accounting (see Note 3). As of September 30, 2024, the Group has four outstanding interest rate swaps designated as fair value hedges of the interest rate risk arising from 50% of the Group's US$400 fixed rate bonds payable.

Interest expense recognized by the Group on bonds payable amounts to P1,759 and P1,472 during the nine months ended September 30, 2024 and 2023, respectively.

## 18. OTHER LIABILITIES

Other liabilities consist of the following:

| | | September 30, 2024 (Unaudited) | | December 31, 2023 (Audited) |
|---|---|---|---|---|
| Accounts payable | **P** | **15,708** | P | 10,197 |
| Derivative financial liabilities | | **6,218** | | 1,690 |
| Lease liabilities | | **5,709** | | 6,687 |
| Manager's checks | | **2,701** | | 1,878 |
| Outstanding acceptances payable | | **2,341** | | 1,467 |
| Bills purchased – contra | | **2,082** | | 2,673 |
| Withholding taxes payable | | **1,177** | | 1,108 |
| Unearned income | | **1,055** | | 824 |
| Unclaimed balances | | **810** | | 1,398 |
| Deposits on lease contracts | | **604** | | 796 |
| Other credits | | **423** | | 381 |
| Sundry credits | | **401** | | 269 |
| Expected credit loss provisions on loan commitments | | **369** | | 304 |
| Payment orders payable | | **253** | | 147 |
| Due to BSP | | **6** | | 108 |
| Miscellaneous | | **596** | | 1,539 |
| | **P** | **40,453** | P | 31,466 |

Accounts payable is mainly composed of prepaid card balances of customers, settlement billing from credit card operations and the Group's expenditure purchases which are to be settled within the next reporting period.

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

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities as at September 30, 2024 and December 31, 2023 is as follows:

| | Within 1 Year | Within 2 Years | Within 3 Years | Within 4 Years | Within 5 Years | More than 5 Years | Total |
|---|---|---|---|---|---|---|---|
| **September 30, 2024** | | | | | | | |
| Lease payments | P 2,023 | P 1,752 | P 1,416 | P 548 | P 245 | P 467 | P 6,451 |
| Finance charges | ( 276 ) | ( 208) | ( 118) | ( 53) | ( 33 ) | ( 54 ) | ( 742 ) |
| Net present value | **P 1,747** | **P 1,544** | **P 1,298** | **P 495** | **P 212** | **P 413** | **P 5,709** |
| December 31, 2023 | | | | | | | |
| Lease payments | P 2,107 | P 2,064 | P 1,470 | P 1,158 | P 228 | P 499 | P 7,526 |
| Finance charges | ( 316 ) | ( 228) | ( 143 ) | ( 69) | ( 30) | ( 53 ) | ( 839) |
| Net present value | P 1,791 | P 1,836 | P 1,327 | P 1,089 | P 198 | P 446 | P 6,687 |

As of September 30, 2024, the Group does not have committed leases which had not yet commenced.

The total cash outflow in respect of leases amounted to P1,759 and P1,731 for the Group, as of September 30, 2024 and 2023, respectively. Interest expense in relation to lease liabilities amounted to P254 and P244 for the Group for the nine months ended September 30, 2024 and 2023, respectively, and is presented as part of Interest expense on bills and other borrowings in the condensed consolidated statements of profit or loss.

Miscellaneous liabilities include unclaimed balances for deposits and other miscellaneous liabilities. Interest expense in relation to these liabilities amounted to P45 and P50 for the Group for the nine months ended September 30, 2024 and 2023, respectively.

## 19. EQUITY

The movements in the outstanding capital stock are as follows:

| | **Number of Shares*** | |
|---|---|---|
| | **September 30, 2024 (Unaudited)** | December 31, 2023 (Audited) |
| Preferred stock – voting, non-cumulative non-redeemable, participating convertible into common stock – P10 par value Authorized – 200,000,000 shares | | |
| Balance at beginning of period | **267,410** | 267,410 |
| Conversion of shares | **( 1,216)** | - |
| Balance at the end of the period | **266,194** | 267,410 |

| | Number of Shares* | |
|---|---|---|
| | **September 30, 2024 (Unaudited)** | December 31, 2023 (Audited) |
| Common stock – P10 par value | | |
| Authorized – 2,600,000,000 shares | | |
| Balance at beginning of period | **2,419,536,120** | 2,037,478,896 |
| Conversion of shares | **239** | - |
| Reissuance of treasury shares | **-** | 213,437,248 |
| Issuance of new shares | **-** | 168,619,976 |
| Balance at the end of the period | **2,419,536,359** | 2,419,536,120 |

**Amounts in absolute number of shares*

## *19.1 Surplus and Dividend Declarations*

As of September 30, 2024 and December 31, 2023, there are 745 and 746 holders, respectively, of the Parent Company's listed shares holding an equivalent of 100.00% of the Parent Company's total issued and outstanding shares. Such listed shares closed at P26.80 per share and P23.00 per share as of September 30, 2024 and December 31, 2023, respectively.

The details of the cash dividend distributions follow:

| Date Declared | Dividend Per Share | Dividend Total Amount | Record Date | Date Approved by BOD | Date Paid/Payable |
|---|---|---|---|---|---|
| January 30, 2023* | - | 532.74 | February 27, 2023 | January 30, 2023 | February 27, 2023 |
| February 27, 2023 | 0.1685 | 0.05 | March 21, 2023 | February 27, 2023 | March 23, 2023 |
| March 27, 2023 | 1.0800 | 2,200.48 | April 13, 2023 | March 27, 2023 | April 27, 2023 |
| March 27, 2023 | 1.0800 | 0.29 | April 13, 2023 | March 27, 2023 | April 27, 2023 |
| May 29, 2023 | 0.1789 | 0.05 | June 21, 2023 | May 29, 2023 | June 26, 2023 |
| July 31, 2023* | - | 535.08 | August 26, 2023 | July 31, 2023 | August 27, 2023 |
| August 29, 2023 | 0.1920 | 0.05 | September 21, 2023 | August 29, 2023 | September 25, 2023 |
| November 29, 2023 | 0.1870 | 0.05 | December 21, 2023 | November 29, 2023 | December 29, 2023 |
| January 29, 2024* | - | 549.41 | February 27, 2024 | January 29, 2024 | February 27, 2024 |
| February 26, 2024 | 0.1864 | 0.05 | March 21, 2024 | February 26, 2024 | March 21, 2024 |
| March 25, 2024 | 1.0800 | 2,453.41 | April 13, 2024 | March 25, 2024 | April 26, 2024 |
| March 25, 2024 | 1.0800 | 0.27 | April 13, 2024 | March 25, 2024 | April 26, 2024 |
| May 27, 2024 | 0.1854 | 0.05 | June 21, 2024 | May 27, 2024 | June 26, 2024 |
| July 29, 2024 | - | 572.23 | August 26, 2024 | July 29, 2024 | August 26, 2024 |
| August 29, 2024 | 0.1857 | 0.05 | September 21, 2024 | August 29, 2024 | September 25, 2024 |

**Dividends for Hybrid Perpetual Securities*

## *19.2 Hybrid Perpetual Securities*

In August 27, 2020, the Parent Company issued US$300 non-cumulative, unsecured, subordinated capital securities which qualify as AT1 capital under Basel III standards.
On January 29, 2024, the BOD approved the dividend declaration amounting to US$9.75 payable on February 27, 2024. This dividend declaration is relative to the Bank's US$300 non-cumulative hybrid perpetual securities payable on a semi-annual basis.

As of September 30, 2024 and December 31, 2023, the hybrid perpetual securities amounted to P14,463, net of issuance costs.

## 20. MISCELLANEOUS INCOME AND EXPENSES

These accounts consist of the following:

### *20.1 Miscellaneous Income*

| | For the Nine months Ended | |
|---|---|---|
| | **September 30, 2024 (Unaudited)** | September 30, 2023 (Unaudited) |
| Recoveries from written off assets | **P 498** | P 458 |
| Dividend income | **310** | 285 |
| Rentals | **212** | 346 |
| Gain on extinguishment of loans | **-** | 390 |
| Others | **115** | 67 |
| | **P 1,135** | P 1,546 |

In 2023, the Bank recovered settlement-related fees from HHIC-Phil, Inc. related to the full collection of its outstanding receivables and was recognized as Gain on extinguishment of loan under Miscellaneous income in the condensed consolidated interim statement of profit or loss.

### *20.2 Miscellaneous Expenses*

| | For the Nine months Ended | |
|---|---|---|
| | **September 30, 2024 (Unaudited)** | September 30, 2023 (Unaudited) |
| Credit card related expenses | **P 1,772** | P 1,301 |
| Insurance | **1,556** | 1,460 |
| Service processing fees | **890** | 755 |
| Litigation/asset acquired expenses | **566** | 585 |
| Communication and information | **485** | 511 |
| Advertising and publicity | **474** | 284 |
| Management and other professional fees | **395** | 395 |
| Employee activities | **199** | 237 |
| Stationery and office supplies | **136** | 159 |
| Banking fees | **120** | 308 |
| Other outside services | **117** | 97 |
| Transportation and travel | **99** | 162 |
| Donations and charitable contributions | **88** | 139 |
| Shipment and freight | **49** | 37 |
| Representation and entertainment | **13** | 35 |
| Others | **303** | 399 |
| | **P 7,262** | P 6,864 |

## 21. RELATED PARTY TRANSACTIONS

The Group's related parties include its ultimate parent company, PMMIC, entities under common ownership and key management personnel.

### *21.1 Due from Other Banks*

The outstanding balances for due from other banks with certain Directors, Officers, Stockholders and Related Interests (DOSRIs) as of and for the periods ended September 30, 2024 and December 31, 2023 amounted to P1,356 and P1,896, respectively.

### *21.2 Loans and Receivables*

In the ordinary course of business, the Group has loan transactions with the entities under common ownership, and with certain DOSRIs. As of September 30, 2024 and December 31, 2023, the total loans and receivables to related parties amounted to P27,558 and P26,739, respectively. Under existing policies of the Group, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Under current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of the encumbered deposit and book value of the investment in the Group and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Group. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of September 30, 2024 and December 31, 2023, there are no outstanding loans, credit accommodations and guarantees to DOSRI (excluding loans granted as fringe benefits to officers which are excluded from the individual ceiling) in accordance with BSP reporting guidelines. As of these periods, the Group is in compliance with these regulatory requirements.

As of September 30, 2024 and December 31, 2023, the Group has not recognized impairment loss on loans and receivables from DOSRI.

### *21.3 Deposit Liabilities*

The outstanding balances for deposit liabilities with its related parties as of September 30, 2024 and December 31, 2023 amounted to P28,752 and P31,922, respectively.

### *21.4 Lease Contract with RCBC Realty Corporation*

The Group occupies several floors of RCBC Plaza as leaseholders of RCBC Realty Corporation (RRC). Rental expense incurred by the Group related to this lease arrangement is included as part of Occupancy and Equipment-related account in the condensed consolidated statements of profit or loss. The Group's lease contract with RRC is effective until December 31, 2025. The outstanding payable on the lease contract is presented as part of Lease liabilities under Other Liabilities in the condensed consolidated statements of financial position.

### *21.5 Increase in Shareholding of SMBC*

On November 2, 2022, the Bank's BOD approved the increase in shareholding of SMBC, an existing shareholder of 4.99% of the total outstanding common stock of the Bank, to 20% through the combined sale of subscription of an aggregate of 382 common stock to SMBC, partly coming from the reissuance of treasury shares and issuance of new common stock, at the price of P71 per share. The additional capital infusion was made on July 31, 2023. There is no additional capital infusion in 2024.

### *21.6 Donation of RCBC shares in JPL*

On April 8, 2024, the Parent Bank executed a Deed of Donation and Acceptance where the Bank donated and transferred ownership of 36,612,373 Preferred C shares representing 19.41% of the outstanding capital of RCBC-JPL Holding Corporation (JPL) to RCBC Retirement Fund which is managed by RCBC Trust Corporation. Subsequent to the donation, RCBC's ownership interest over JPL is now reduced to 80%.

### *21.7 Sale and Leaseback of Real Estate Properties*

On March 27, 2023, the Bank transferred and leased back certain real estate properties with total net book value of P1,796 to Frame Properties, Inc. (Frame) in exchange for 100% ownership in the latter, which were subsequently transferred to the post-employment defined benefit plan as contribution to the plan assets. The total value of shares received amounted to P6,208 resulting in a gain of P3,106 presented as part of Gain on Assets sold in the 2023 condensed consolidated interim statement of profit or loss. The sale qualified as a sale and leaseback and was accounted under the applicable financial reporting standard. Right-of-use asset and lease liability recognized amounted to P549 and P1,915, respectively, in the 2023 condensed consolidated statement of financial position.

In 2024, the Bank amended its lease contract with Frame to revise area occupied and lease rate for selected properties resulting in a reduction in right-of-use asset and lease liability amounting to P9 and P41, respectively.

### *21.8 Lease Contracts with ATYCI*

In October 2022, the Parent Company entered into a five-year lease agreement with A.T. Yuchengo Center, Inc. (ATYCI). Amortization of right-of-use of asset amounted to P114 for both periods ended September 30, 2024 and 2023, and are presented as part of Depreciation and Amortization expenses account in the condensed consolidated statements of profit or loss. The Parent Company's lease contract with ATYCI is effective until September 30, 2027.

### *21.9 Bills Payable*

The outstanding balances for bills payable with its related parties as of September 30, 2024 and December 31, 2023 amounted to P14,385 and P14,160, respectively.

## 22. COMMITMENTS AND CONTINGENCIES

In the normal course of operations of the Group, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, tax assessments, etc., with amounts not reflected in the condensed consolidated interim financial statements. Management does not anticipate losses from these transactions that will adversely affect the Group's operations.

In the opinion of management, the suits and claims arising from the normal course of operations of the Group that remain unsettled, if decided adversely, will not involve sums that would have material effect on the Group's financial position or operating results.

### *22.1 Contingent Accounts, Guarantees and Other Commitments*

The following is a summary of contingencies and commitments arising from off-statement of financial position items at their equivalent peso contractual amounts as of September 30, 2024 and December 31, 2023.

| | **September 30, 2024 (Unaudited)** | December 31, 2023 (Audited) |
|---|---|---|
| Derivative assets | **P 281,819** | P 142,921 |
| Outstanding guarantees issued | **253,451** | 205,268 |
| Derivative liabilities | **121,200** | 84,461 |
| Unused commercial letters of credit | **29,336** | 25,079 |
| Spot exchange sold | **28,226** | 16,985 |
| Spot exchange bought | **28,218** | 16,980 |
| Inward bills for collection | **8,647** | 8,061 |
| Late deposits/payments received | **784** | 872 |
| Outward bills for collection | **36** | 1 |
| Trust department accounts | **-** | 155,705 |
| Others | **64** | 64 |

## 23. OTHER MATTERS

### *Impact of Global Conflicts*

The ongoing Russia-Ukraine conflict, which began in February 2022, significantly contributed to higher global crude oil and commodity prices throughout 2022. This, in turn, expanded the Philippines' import costs and pushed its trade deficit to record levels. The price surge also fueled inflation worldwide, prompting aggressive interest rate hikes by the U.S. Federal Reserve to strengthen the U.S. dollar.

In response to these global economic pressures, the BSP raised its local policy rates twice in 2023 – by 50 basis points in May and 25 basis points in October. However, in August 2024, the BSP reversed course, implementing a 25 basis point rate cut.

The BSP's rate cut led to a decrease in the cost of deposits, while also triggering unrealized mark-to-market gains in the bank's FVOCI portfolio. These gains fluctuate with market conditions and, unless realized through sales, are recorded as part of other comprehensive income or loss in the condensed consolidated interim statement of comprehensive income.

## 24. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled:

| | September 30, 2024 (Unaudited) | | | December 31, 2023 (Audited) | | |
|---|---|---|---|---|---|---|
| | Within One Year | Beyond One Year | Total | Within One Year | Beyond One Year | Total |
| ***Financial Assets*** | | | | | | |
| Cash and other cash items | P 14,560 | P - | P 14,560 | P 19,875 | P - | P 19,875 |
| Due from BSP | 77,772 | 21,231 | 99,003 | 94,369 | 57,393 | 151,762 |
| Due from other banks | 8,501 | - | 8,501 | 14,526 | 366 | 14,892 |
| Loans arising from reverse repurchase agreements | 30,420 | - | 30,420 | 35,799 | - | 35,799 |
| Interbank loans receivables | 16,503 | - | 16,503 | 27,780 | - | 27,780 |
| Financial assets at FVPL | 13,883 | - | 13,883 | 7,166 | 4,612 | 11,778 |
| Financial assets at FVOCI - net | 9,119 | 117,844 | 126,963 | 2,256 | 80,181 | 82,437 |
| Investments at amortized cost - net | 16,775 | 240,479 | 257,254 | 4,385 | 232,142 | 236,527 |
| Loans and other receivables - net | 71,112 | 610,110 | 681,222 | 68,481 | 553,668 | 622,149 |
| Other resources - net | 1,454 | - | 1,454 | 1,459 | - | 1,459 |
| | 260,099 | 989,664 | 1,249,763 | 276,096 | 928,362 | 1,204,458 |
| ***Non-financial Assets*** | | | | | | |
| Investment in associates - net | - | 568 | 568 | - | 509 | 509 |
| Bank premises, furniture, fixtures and equipment - net | - | 8,266 | 8,266 | - | 9,129 | 9,129 |
| Investment properties - net | - | 642 | 642 | - | 543 | 543 |
| Deferred tax asset - net | - | 6,086 | 6,086 | - | 5,775 | 5,775 |
| Other resources – net | 119 | 19,528 | 19,647 | 12,764 | 5,154 | 17,918 |
| | 119 | 35,090 | 35,209 | 12,764 | 21,110 | 33,874 |
| | **P 534,156** | **P 750,816** | **P 1,284,972** | P 288,860 | P 949,472 | P 1,238,332 |
| ***Financial Liabilities*** | | | | | | |
| Deposit liabilities | P 225,421 | P 765,019 | P 990,440 | P 199,862 | P 756,850 | P 956,712 |
| Bills payable | 40,291 | 18,902 | 59,193 | 44,991 | 5,867 | 50,858 |
| Bonds payable | - | 26,578 | 26,578 | 30,809 | 4,130 | 34,939 |
| Accrued interest and other expenses | 3,928 | 253 | 4,181 | 5,985 | 4,760 | 10,745 |
| Other liabilities | 17,778 | 252 | 18,030 | 19,252 | 9,428 | 28,680 |
| | 287,418 | 811,004 | 1,098,422 | 300,899 | 781,035 | 1,081,934 |
| ***Non-financial liabilities*** | | | | | | |
| Accrued interest and other expenses | 4,381 | - | 4,381 | 1,337 | - | 1,337 |
| Other liabilities | 24,070 | - | 24,070 | 2,747 | 39 | 2,786 |
| | 28,451 | - | 28,451 | 4,084 | 39 | 4,123 |
| | **P 315,868** | **P 811,005** | **P 1,126,873** | P 304,983 | P 781,074 | P 1,086,057 |

## 25. EARNINGS PER SHARE

The following reflects the profit and per share data used in the basic and diluted earnings per share (EPS) computations:

| | For the Nine months Ended | |
|---|---|---|
| | **September 30, 2024 (Unaudited)** | September 30, 2023 (Unaudited) |
| a. Adjusted annualized net profit | **P 7,185** | P 8,232 |
| b. Weighted average number of outstanding common stock | **2,420** | 2,101 |
| Basic and diluted EPS (a/b) | **P 2.97** | P 3.92 |

## 26. SUPPLEMENTARY INFORMATION TO STATEMENT OF CASH FLOWS

Significant non-cash transaction of the Group includes additional leases under PFRS 16 as discussed in Notes 12 and 21.8; disposals of investment properties as discussed in Note 13 and Note 14, additions of real properties, chattel properties and other assets through foreclosures, dacion in payment and repossessions; and, partial settlement of certain loan in exchange of equity securities.

In 2023, the Parent Company disposed of a portion of its bank premises and investment properties with total selling price P6,208, which is paid fully through issuance of equity securities (see Note 21.7).

Presented below is the reconciliation of the Group and Parent Company's liabilities and equity arising from financing activities, which includes both cash and non-cash changes.

| | Bills Payable (see Note 16) | Bonds Payable (see Note 17) | Lease Liabilities (see Note 18) | Hybrid Perpetual Securities (see Note 19) | Total Financing Activities |
|---|---|---|---|---|---|
| Balance at January 1, 2024 | P 50,858 | P 34,939 | P 6,687 | P 14,463 | P 106,947 |
| Cash flow from financing activities: | | | | | |
| Availments/proceeds from issuance | 39,209 | 22,412 | - | - | 61,621 |
| Payments/redemption | ( 31,120) | ( 30,824 ) | ( 1,759) | - | ( 63,703) |
| Non-cash financing activities: | | | | | |
| Additional lease liabilities | - | - | 527 | - | 527 |
| Foreign exchange loss | 206 | - | - | - | 206 |
| Fair value of bonds payable - hedge | - | 169 | - | - | 169 |
| Amortization of discount and interest | - | ( 118 ) | 254 | - | 136 |
| **Balance at September 30, 2024 (Unaudited)** | **P 59,153** | **P 26,578** | **P 5,709** | **P 14,463** | **P 105,903** |
| | | | | | |
| Balance at January 1, 2023 | P 66,660 | P 74,411 | P 5,500 | P 14,463 | P 161,034 |
| Cash flow from financing activities: | | | | | |
| Payments/redemption | ( 29,767 ) | ( 39,041) | ( 2,131) | - | ( 70,939) |
| Availments/proceeds from issuance | 15,333 | - | - | - | 15,333 |
| Non-cash financing activities: | | | | | |
| Additional lease liabilities | - | - | 2,983 | - | 2,983 |
| Foreign exchange gains | ( 1,368) | ( 450) | - | - | ( 1,818) |
| Amortization of discount and interest | - | 19 | 335 | - | 354 |
| Balance at December 31, 2023 (Audited) | P 50,858 | P 34,939 | P 6,687 | P 14,463 | P 106,947 |

**Punongbayan & Araullo**
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 8988 2288

# Report of Independent Auditors

**The Board of Directors and the Stockholders**
**Rizal Commercial Banking Corporation**
Yuchengco Tower, RCBC Plaza
6819 Ayala Avenue cor. Sen. Gil Puyat Avenue
Makati City

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the financial statements of Rizal Commercial Banking Corporation and subsidiaries (together hereinafter referred to as the Group) and of Rizal Commercial Banking Corporation (the Parent Company), which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and 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 of the Parent Company as at December 31, 2023 and 2022, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2023 in accordance with Philippine Financial Reporting Standards (PFRS).

### *Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The following are the key audit matters identified in our audit of the financial statements of the Group and of the Parent Company:

### *(a) Valuation of Loans and Other Receivables (Expected Credit Losses)*

*Description of the Matter*

As at December 31, 2023, the Group's and the Parent Company's expected credit losses (ECL) allowance for loans and receivables amounted to P17,395 million and P16,021 million, respectively, while the carrying amount of loans and receivables amounted to P649,929 million and P643,681 million, respectively (as disclosed in Note 11). We have identified the Group's and the Parent Company's ECL model significant to our audit as this:

- requires significant management judgment on the interpretation and implementation of the requirements of PFRS 9, *Financial Instruments*, in assessing impairment of loans and receivables based on an ECL model that involves segmenting credit risk exposures, defining when does default occur and what constitutes a significant increase in credit risk (SICR) of different exposures;

- involves high degree of estimation uncertainty related to management's use of various inputs and assumptions applied in the ECL model such as credit risk rating and probability of default for corporate loans, flow rates for consumer loans, expected amount and timing of cash flows, including recovery of collaterals for defaulted accounts, and forward-looking macroeconomic information which may be affected by management estimation bias; and

- requires complex estimation process that entails implementation of internal controls and use of information system in ensuring the completeness and accuracy of data used in the ECL calculation and in the preparation of required disclosures in the financial statements.

In accordance with the Group's and the Parent Company's policy to appropriately validate its credit risk assessment models, management engaged an independent consultant to conduct a validation of its ECL model parameters, assumptions, design, and calibration in 2023. This included a review of the governance framework for ECL computation, the related processes and systems, input data quality checks, and methodologies used in the calculation of ECL. This also involved the validation of the robustness, consistency and accuracy of the ECL model as well as its continued relevance to the loans and receivables of the Group and the Parent Company. As a result, the Group and the Parent Company incorporated adjustments through an enhancement on application of criteria to identify SICR, exclusion of periods affected by COVID-19, and refresh of its probability of default, overlay and LGD models.

The material accounting policy information, significant judgments, including estimation applied by the management, and those related to the credit risk assessment process of the Group and the Parent Company are disclosed in Notes 2, 3 and 4 to the financial statements, respectively.

*How the Matter was Addressed in the Audit*

We obtained an understanding of the Group's and the Parent Company's accounting policies and methodologies applied and evaluated whether those: (a) are established and implemented consistent with the underlying principles of PFRS 9; (b) are appropriate in the context of the Group's lending activities and asset portfolio that takes into consideration the different segments of credit exposures and the relevant regulatory framework; and, (c) are supported by pertinent processes and controls, including documentations of the accounting policies that capture in sufficient detail the judgment, including estimation applied in the development of the Group's refreshed ECL model. We also obtained an understanding of the model validation process and the corresponding results, and evaluated whether: (a) the validation process is conducted by an independent party with the necessary experience and expertise; (b) the scope, methodologies and assumptions used in the model validation are appropriate; and (c) the recommendations from the model validation are reviewed and resulting changes to the ECL model are approved.

With respect to the use of significant judgments, including those involving estimation of inputs and assumptions used in the refreshed ECL model, we performed the following:

- engaged our Firm specialist to assist in evaluating the appropriateness of methodologies and assumptions used in the ECL calculation, including the changes on the Group's refreshed ECL model;

- assessed the Group's and the Parent Company's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics and past due determination based on portfolio flow rates, and evaluated the appropriateness of the specific model applied for each loan portfolio;

- evaluated both the quantitative and qualitative criteria applied in the definition of default against historical analysis for each segment of loan portfolio and in accordance with credit risk management practices, and tested the criteria in the determination of the SICR, including assignment of a loan or group of loans into different stages of impairment;

- tested the Group's and the Parent Company's application of internal credit risk rating system for selected items of loans, and verified the mapping of the ratings to the ECL calculation;

- for forward-looking information, evaluated management's selection of macro-economic factors, scenarios and probability weightings, and assessed the reasonableness of the forecasted economic indicators by comparing with trusted publicly available information;

- tested loss given default information across various types of loan by inspecting records of historical recoveries and relevant costs, including valuation and cash flows from collateral, and write-offs; and,

- reconciled and tested exposure at default for all outstanding loans against the relevant loan databases, including review of the potential exposures from undrawn commitments against historical drawdown and impact of loan modifications.

As part of our audit of the ECL methodology, we reviewed the completeness and accuracy of the historical and measurement data used in the ECL model through reconciliation of loan data subjected to the ECL calculations, which were prepared by management outside its general ledger system, against the relevant financial reporting applications and other accounting records. Moreover, we tested the stratification of loan data that were disaggregated into various portfolio segments for purposes of ECL calculations. Furthermore, we verified the mathematical formula and the computation logics applied in the calculation of the different inputs in the ECL model and the estimation of the credit losses for all loans and receivables subjected to impairment assessment. In addition, in using the work of the management's expert, we evaluated the expert's competence, capabilities and objectivity on the ECL model validation performed.

We evaluated the completeness and appropriateness of the disclosures in the financial statements against the requirements of the relevant financial reporting standards.

***(b) Fair Value Measurement of Unquoted Equity Securities***

*Description of the Matter*

The Group and the Parent Company have significant investments in unquoted equity securities measured at fair value through other comprehensive income amounting to P2,480 million and P2,402 million, respectively, as of December 31, 2023 (as disclosed in Note 10). The valuation of these financial instruments involves complex valuation techniques (i.e., price-to-book value method and discounted cash flow method) and significant estimation which are highly dependent on underlying assumptions and inputs such as price-to-book ratios of selected comparable listed entities, application of a certain haircut rate, and appropriate discount rate in computing the present value of future cash flows expected from dividend or redemption payments. These inputs are considered Level 3 unobservable inputs in the fair value hierarchy under PFRS 13, *Fair Value Measurement*, as discussed in Notes 3 and 7 to the financial statements. Accordingly, we assessed the valuation of the unquoted equity securities as a key audit matter.

*How the Matter was Addressed in the Audit*

We evaluated the appropriateness of management's valuation methodology in accordance with PFRS 13. For equity securities valued using the price-to-book value method, we engaged our Firm valuation specialist to assess and challenge the valuation assumptions used, including the identification and selection of comparable listed entities and the related financial information such as net book value per share and quoted prices of those listed entities. In testing the reasonableness of the haircut rate used, we reviewed available non-financial information relevant to the assessment of the potential marketability of the subject security, and the consistency of the application of the haircut rate used in prior period in light of the current industry and economic circumstances. With respect to the equity securities measured using the net asset value method, we involved our Firm valuation specialist to evaluate the appropriateness of the valuation method and reasonableness of the fair value of the net assets of the counterparties. We also verified the mathematical accuracy of the calculation for both valuation techniques used by management.

***(c) Recoverability of Goodwill and Branch Licenses***

*Description of the Matter*

The Group and the Parent Company has goodwill of P426 million and P269 million, respectively, and branch licenses with indefinite useful lives amounting to P1,000 million as of December 31, 2023. These are reported as part of Other Resources in the 2023 statement of financial position of the Group and Parent Company (as disclosed in Note 15).

Under PFRS, the Group and the Parent Company are required to annually test the amount of goodwill and branch license with indefinite useful lives for impairment. This annual impairment testing of goodwill and branch licenses with indefinite useful lives for impairment is considered to be a key audit matter because of the complexity of the management's process in assessing the recoverability of the intangible assets. In addition, the assumptions used in determining the cash generating units (CGUs) where the goodwill and branch licenses with indefinite useful lives are allocated and estimating the recoverable amount involves significant judgment. The recoverable amount of the CGUs has been computed using discounted cash flows method. This valuation method uses several key assumptions, including estimates for forecasted statements of financial position and income of CGUs, terminal value growth rates and discount rates. Hence, we assessed this as a key audit matter.

The Group and the Parent Company's disclosures about goodwill and branch licenses are included in Notes 2, 3 and 15 to the financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to impairment of goodwill and branch licenses with indefinite useful lives included, among others, evaluating the appropriateness of valuation methodologies and related assumptions used by the management, in particular, those relating to the forecasted statements of financial position and statement of income as well as the discount and growth rates used. We have engaged our Firm valuation specialist to assist in evaluating the appropriateness of the valuation method and assumptions used in estimating the recoverable amount of CGUs. In addition, our audit of the financial statements of the Group and the Parent Company as of and for the year ended December 31, 2023 did not identify events or conditions that may indicate impairment of the Group's and the Parent Company's goodwill and branch licenses.

### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the Group's and the Parent Company's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2023, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, 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 auditors' report.

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, 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 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.

### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, 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 PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the 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 and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group 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 auditors' 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 Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 25 to the financial statements, the Parent Company presented the supplementary information required by the Bureau of Internal Revenue (BIR) under Revenue Regulations (RR) 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR 15-2010 requires the supplementary information to be presented in the notes to financial statements. The supplementary information for the year ended December 31, 2023, 2022 and 2021 required by the Bangko Sentral ng Pilipinas (BSP) as disclosed in Note 33 to the financial statements is presented for purposes of additional analysis. Such supplementary information required by the BIR and BSP are the responsibility of management and are not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the Revised Securities Regulation Code Rule 68 of the SEC. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner on the audits resulting in this independent auditors' report is Maria Isabel E. Comedia.

**PUNONGBAYAN & ARAULLO**

**By: Maria Isabel E. Comedia**
Partner

CPA Reg. No. 0092966
TIN 189-477-563
PTR No. 10076138, January 3, 2024, Makati City
SEC Group A Accreditation
Partner - No. 92966-SEC (until financial period 2027)
Firm - No. 0002 (until financial period 2024)
BIR AN 08-002511-021-2022 (until Oct. 13, 2025)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 26, 2024

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**
**STATEMENTS OF FINANCIAL POSITION**
**DECEMBER 31, 2023 AND 2022**
***(Amounts in Millions of Philippine Pesos)***

| | Notes | GROUP 2023 | GROUP 2022 | PARENT COMPANY 2023 | PARENT COMPANY 2022 |
|---|---|---|---|---|---|
| **RESOURCES** | | | | | |
| **CASH AND OTHER CASH ITEMS** | 9 | **P 19,875** | P 18,078 | **P 19,812** | P 18,024 |
| **DUE FROM BANGKO SENTRAL NG PILIPINAS** | 9 | **151,762** | 156,664 | **150,771** | 155,340 |
| **DUE FROM OTHER BANKS** | 9 | **14,892** | 5,836 | **14,630** | 5,383 |
| **LOANS ARISING FROM REVERSE REPURCHASE AGREEMENTS** | 9 | **35,799** | 8,724 | **34,948** | 8,552 |
| **TRADING AND INVESTMENT SECURITIES -** Net | 10 | **330,742** | 374,365 | **328,443** | 371,732 |
| **LOANS AND RECEIVABLES -** Net | 11 | **649,929** | 558,869 | **643,681** | 551,214 |
| **INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES -** Net | 12 | **509** | 379 | **6,401** | 7,035 |
| **BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT -** Net | 13 | **9,129** | 11,264 | **7,805** | 9,546 |
| **INVESTMENT PROPERTIES -** Net | 14 | **543** | 2,616 | **543** | 2,488 |
| **DEFERRED TAX ASSETS -** Net | 25 | **5,775** | 3,740 | **5,351** | 3,508 |
| **OTHER RESOURCES -** Net | 15 | **19,377** | 13,573 | **18,505** | 11,927 |
| **TOTAL RESOURCES** | | **P 1,238,332** | P 1,154,108 | **P 1,230,890** | P 1,144,749 |

***See Notes to Financial Statements.***

| | Notes | GROUP 2023 | GROUP 2022 | PARENT COMPANY 2023 | PARENT COMPANY 2022 |
|---|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | | |
| **DEPOSIT LIABILITIES** | 17 | **P 956,712** | P 857,244 | **P 957,369** | P 857,639 |
| **BILLS PAYABLE** | 18 | **50,858** | 66,660 | **43,957** | 58,391 |
| **BONDS PAYABLE** | 19 | **34,939** | 74,411 | **34,939** | 74,411 |
| **ACCRUED INTEREST, TAXES AND OTHER EXPENSES** | 20 | **12,082** | 8,428 | **11,786** | 8,192 |
| **OTHER LIABILITIES** | 21 | **31,466** | 31,004 | **30,573** | 29,832 |
| Total Liabilities | | **1,086,057** | 1,037,747 | **1,078,624** | 1,028,465 |
| **EQUITY** | 22 | | | | |
| Attributable to: | | | | | |
| Parent Company's Shareholders | | **152,269** | 116,353 | **152,266** | 116,284 |
| Non-controlling Interests | | **6** | 8 | **-** | - |
| | | **152,275** | 116,361 | **152,266** | 116,284 |
| **TOTAL LIABILITIES AND EQUITY** | | **P 1,238,332** | P 1,154,108 | **P 1,230,890** | P 1,144,749 |

***See Notes to Financial Statements.***

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**
**STATEMENTS OF PROFIT OR LOSS**
**FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021**
***(Amounts in Millions of Philippine Pesos, Except Per Share Data)***

| | Notes | GROUP 2023 | GROUP 2022 | GROUP 2021 | PARENT COMPANY 2023 | PARENT COMPANY 2022 | PARENT COMPANY 2021 |
|---|---|---|---|---|---|---|---|
| **INTEREST INCOME** | | | | | | | |
| Loans and receivables | 11 | **P 49,407** | P 34,970 | P 31,900 | **P 48,569** | P 34,367 | P 31,095 |
| Trading and investment securities | 10 | **13,239** | 9,755 | 4,448 | **13,171** | 9,683 | 4,379 |
| Due from BSP and other banks | 9 | **3,643** | 1,110 | 763 | **3,544** | 1,077 | 755 |
| | | **66,289** | 45,835 | 37,111 | **65,284** | 45,127 | 36,229 |
| **INTEREST EXPENSE** | | | | | | | |
| Deposit liabilities | 17 | **28,035** | 10,057 | 4,059 | **28,056** | 10,055 | 4,056 |
| Bills payable and other borrowings | 13, 18, 19, 21, 23 | **4,625** | 4,562 | 4,221 | **4,246** | 4,173 | 3,837 |
| | | **32,660** | 14,619 | 8,280 | **32,302** | 14,228 | 7,893 |
| **NET INTEREST INCOME** | | **33,629** | 31,216 | 28,831 | **32,982** | 30,899 | 28,336 |
| **IMPAIRMENT LOSSES** - Net | 16 | | | | | | |
| Financial assets | 4, 10, 11 | **6,677** | 5,347 | 5,013 | **5,864** | 5,131 | 4,912 |
| Non-financial assets | 14, 15 | **211** | 359 | 1,035 | **210** | 358 | 1,021 |
| | | **6,888** | 5,706 | 6,048 | **6,074** | 5,489 | 5,933 |
| **NET INTEREST INCOME AFTER IMPAIRMENT LOSSES** | | **26,741** | 25,510 | 22,783 | **26,908** | 25,410 | 22,403 |
| **OTHER OPERATING INCOME** | | | | | | | |
| Gain on assets sold - net | 13, 14, 15 | **6,714** | 3,088 | 101 | **6,656** | 2,985 | 196 |
| Service fees and commissions | 2 | **6,658** | 5,469 | 4,549 | **6,362** | 5,112 | 4,047 |
| Trading and securities gains (losses) - net | 10 | **444** | ( 37 ) | 863 | **429** | 22 | 856 |
| Trust fees | 26 | **423** | 415 | 392 | **423** | 415 | 392 |
| Gain on disposal of subsidiaries | 12 | **243** | - | - | **243** | - | - |
| Share in net earnings (losses) of subsidiaries and associates | 12 | **92** | 32 | 12 | **( 157 )** | 154 | 477 |
| Foreign exchange gains (losses) - net | 19 | **( 15 )** | 1,567 | 181 | **( 22 )** | 1,555 | 171 |
| Miscellaneous - net | 24 | **1,809** | 2,704 | 1,465 | **1,373** | 2,012 | 575 |
| | | **16,368** | 13,238 | 7,563 | **15,307** | 12,255 | 6,714 |
| **TOTAL OPERATING INCOME** *(Forward)* | | **P 43,109** | P 38,748 | P 30,346 | **P 42,215** | P 37,665 | P 29,117 |

***See Notes to Financial Statements.***

| | Notes | GROUP 2023 | GROUP 2022 | GROUP 2021 | PARENT COMPANY 2023 | PARENT COMPANY 2022 | PARENT COMPANY 2021 |
|---|---|---|---|---|---|---|---|
| **TOTAL OPERATING INCOME** | | **P 43,109** | P 38,748 | P 30,346 | **P 42,215** | P 37,665 | P 29,117 |
| **OTHER OPERATING EXPENSES** | | | | | | | |
| Employee benefits | 23 | **7,150** | 6,563 | 6,371 | **6,321** | 5,794 | 5,686 |
| Taxes and licenses | | **6,534** | 4,645 | 3,475 | **6,416** | 4,508 | 3,341 |
| Depreciation and amortization | 13, 14, 15 | **3,365** | 3,037 | 3,020 | **3,014** | 2,544 | 2,524 |
| Occupancy and equipment-related | 27, 28 | **3,262** | 2,908 | 2,820 | **3,172** | 2,813 | 2,763 |
| Miscellaneous | 24 | **9,283** | 7,947 | 6,849 | **9,791** | 8,408 | 7,196 |
| | | **29,594** | 25,100 | 22,535 | **28,714** | 24,067 | 21,510 |
| **PROFIT BEFORE TAX** | | **13,515** | 13,648 | 7,811 | **13,501** | 13,598 | 7,607 |
| **TAX EXPENSE** | 25 | **1,298** | 1,568 | 728 | **1,283** | 1,518 | 525 |
| **NET PROFIT** | | **P 12,217** | P 12,080 | P 7,083 | **P 12,218** | P 12,080 | P 7,082 |
| **ATTRIBUTABLE TO:** | | | | | | | |
| **PARENT COMPANY'S SHAREHOLDERS** | | **P 12,218** | P 12,080 | P 7,082 | | | |
| **NON-CONTROLLING INTERESTS** | | **( 1 )** | - | 1 | | | |
| | | **P 12,217** | P 12,080 | P 7,083 | | | |
| **Earnings Per Share** | | | | | | | |
| Basic and diluted | 29 | **P 5.07** | P 5.42 | P 3.09 | | | |

***See Notes to Financial Statements.***

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**
**STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021**
***(Amounts in Millions of Philippine Pesos)***

| | Notes | GROUP 2023 | GROUP 2022 | GROUP 2021 | PARENT COMPANY 2023 | PARENT COMPANY 2022 | PARENT COMPANY 2021 |
|---|---|---|---|---|---|---|---|
| **NET PROFIT** | | **P 12,217** | P 12,080 | P 7,083 | **P 12,218** | P 12,080 | P 7,082 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | | | | | |
| Actuarial gains (losses) on defined benefit plan | 23 | **( 1,366 )** | 782 | 425 | **( 1,324 )** | 782 | 375 |
| Fair value gains on equity securities at fair value through other comprehensive income (FVOCI) | 10, 22 | **263** | 191 | 548 | **276** | 272 | 490 |
| Share in other comprehensive income (losses) of the subsidiaries and associates: | | | | | | | |
| Actuarial gains (losses) on defined benefit plan | 12 | **16** | 4 | ( 3 ) | **( 26 )** | 4 | 47 |
| Fair value gains (losses) on equity securities at FVOCI | 12, 22 | **-** | - | - | **( 13 )** | ( 81 ) | 58 |
| | | **( 1,087 )** | 977 | 970 | **( 1,087 )** | 977 | 970 |
| **Items that will be reclassified subsequently to profit or loss** | | | | | | | |
| Fair value gains (losses) on debt securities at FVOCI | 10, 22 | **1,432** | ( 5,446 ) | ( 823 ) | **1,432** | ( 5,446 ) | ( 823 ) |
| | | **1,432** | ( 5,446 ) | ( 823 ) | **1,432** | ( 5,446 ) | ( 823 ) |
| **Total Other Comprehensive Income (Loss)** | 22 | **345** | ( 4,469 ) | 147 | **345** | ( 4,469 ) | 147 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **P 12,562** | P 7,611 | P 7,230 | **P 12,563** | P 7,611 | P 7,229 |
| **ATTRIBUTABLE TO:** | | | | | | | |
| **PARENT COMPANY'S SHAREHOLDERS** | | **P 12,563** | P 7,611 | P 7,229 | | | |
| **NON-CONTROLLING INTERESTS** | | **( 1 )** | - | 1 | | | |
| | | **P 12,562** | P 7,611 | P 7,230 | | | |

***See Notes to Financial Statements.***

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**
**STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021**
***(Amounts in Millions of Philippine Pesos)***

| | | GROUP | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | ATTRIBUTABLE TO PARENT COMPANY'S SHAREHOLDERS | | | | | | | | | | | | |
| | Notes | COMMON STOCK | PREFERRED STOCK | CAPITAL PAID IN EXCESS OF PAR | HYBRID PERPETUAL SECURITIES | REVALUATION RESERVES | TREASURY SHARES | RESERVE FOR TRUST BUSINESS | OTHER RESERVES | GENERAL LOAN LOSS RESERVE | SURPLUS | TOTAL | NON-CONTROLLING INTERESTS | TOTAL EQUITY |
| Balance at January 1, 2023 | | P 22,509 | P 3 | P 42,493 | P 14,463 | (P 6,392) | (P 9,287) | P 532 | (P 86) | P 3,824 | P 48,294 | P 116,353 | P 8 | P 116,361 |
| Transactions with owners: | | | | | | | | | | | | | | |
| Reissuance of treasury shares | 22 | - | - | | - | - | 9,287 | - | - | - | - | 9,287 | - | 9,287 |
| Issuance of common stock | 22 | 1,686 | - | 15,735 | - | - | - | - | - | - | - | 17,421 | - | 17,421 |
| Cash dividends | 22 | - | - | - | - | - | - | - | - | - | (3,289) | (3,289) | - | (3,289) |
| | | 1,686 | - | 15,735 | - | - | 9,287 | - | - | - | (3,289) | 23,419 | - | 23,419 |
| Net profit for the year | | - | - | - | - | - | - | - | - | - | 12,218 | 12,218 | (1) | 12,217 |
| Other comprehensive income | | - | - | - | - | 345 | - | - | - | - | - | 345 | (1) | 344 |
| General loan loss appropriation | 22 | - | - | - | - | - | - | - | - | 775 | (775) | - | - | - |
| Transfer of fair value loss on financial asset at fair value through other comprehensive income (FVOCI) to surplus | 10, 22 | - | - | - | - | 3 | | | | | (3) | - | - | - |
| Changes in ownership interest of a subsidiary | 22 | - | - | - | - | - | - | - | - | - | (66) | (66) | - | (66) |
| Transfer from surplus to reserve for trust business | 26 | - | - | - | - | - | - | 19 | - | - | (19) | - | - | - |
| | | - | - | - | - | 348 | - | 19 | - | 775 | 11,355 | 12,497 | (2) | 12,495 |
| **Balance at December 31, 2023** | | **P 24,195** | **P 3** | **P 58,228** | **P 14,463** | **(P 6,044)** | **P -** | **P 551** | **(P 86)** | **P 4,599** | **P 56,360** | **P 152,269** | **P 6** | **P 152,275** |
| Balance at January 1, 2022 | | P 22,509 | P 3 | P 42,505 | P 14,463 | (P 1,923) | (P 9,287) | P 508 | (P 97) | P 3,617 | P 38,764 | P 111,062 | P 18 | P 111,080 |
| Transactions with owners: | | | | | | | | | | | | | | |
| Reissuance of treasury shares | 22 | - | - | (12) | - | - | - | - | - | - | - | (12) | - | (12) |
| Cash dividends | 22 | - | - | - | - | - | - | - | - | - | (2,308) | (2,308) | - | (2,308) |
| | | - | - | (12) | - | - | - | - | - | - | (2,308) | (2,320) | - | (2,320) |
| Net profit for the year | | - | - | - | - | - | - | - | - | - | 12,080 | 12,080 | - | 12,080 |
| Other comprehensive loss | | - | - | - | - | (4,469) | - | - | - | - | - | (4,469) | - | (4,469) |
| General loan loss appropriation | 22 | - | - | - | - | - | - | - | - | 207 | (207) | - | - | - |
| Changes in ownership interest of a subsidiary | 22 | - | - | - | - | - | - | - | 11 | - | (11) | - | (10) | (10) |
| Transfer from surplus to reserve for trust business | 26 | - | - | - | - | - | - | 24 | - | - | (24) | - | - | - |
| | | - | - | - | - | (4,469) | - | 24 | 11 | 207 | 11,838 | 7,611 | (10) | 7,601 |
| Balance at December 31, 2022 | | P 22,509 | P 3 | P 42,493 | P 14,463 | (P 6,392) | (P 9,287) | P 532 | (P 86) | P 3,824 | P 48,294 | P 116,353 | P 8 | P 116,361 |
| Balance at January 1, 2021 | | P 22,509 | P 3 | P 42,568 | P 14,463 | (P 2,070) | (P 13,719) | P 499 | (P 97) | P 3,451 | P 33,754 | P 101,361 | P 17 | P 101,378 |
| Transactions with owners: | | | | | | | | | | | | | | |
| Issuance of hybrid perpetual securities | 22 | - | - | (63) | - | - | 4,432 | - | - | - | - | 4,369 | - | 4,369 |
| Cash dividends | 22 | - | - | - | - | - | - | - | - | - | (1,897) | (1,897) | - | (1,897) |
| | | - | - | (63) | - | - | 4,432 | - | - | - | (1,897) | 2,472 | - | 2,472 |
| Net profit for the year | | - | - | - | - | - | - | - | - | - | 7,082 | 7,082 | 1 | 7,083 |
| Other comprehensive income | | - | - | - | - | 147 | - | - | - | - | - | 147 | - | 147 |
| General loan loss appropriation | 22 | - | - | - | - | - | - | - | - | 166 | (166) | - | - | - |
| Transfer from surplus to reserve for trust business | 26 | - | - | - | - | - | - | 9 | - | - | (9) | - | - | - |
| | | - | - | - | - | 147 | - | 9 | - | 166 | 6,907 | 7,229 | 1 | 7,230 |
| Balance at December 31, 2021 | | P 22,509 | P 3 | P 42,505 | P 14,463 | (P 1,923) | (P 9,287) | P 508 | (P 97) | P 3,617 | P 38,764 | P 111,062 | P 18 | P 111,080 |

***See Notes to Financial Statements.***

| | Notes | PARENT COMPANY | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | COMMON STOCK | PREFERRED STOCK | CAPITAL PAID IN EXCESS OF PAR | HYBRID PERPETUAL SECURITIES | REVALUATION RESERVES | TREASURY SHARES | RESERVE FOR TRUST BUSINESS | GENERAL LOAN LOSS RESERVE | SURPLUS | TOTAL EQUITY |
| Balance at January 1, 2023 | | P 22,509 | P 3 | P 42,493 | P 14,463 | ( P 6,392 ) | ( P 9,287 ) | P 532 | P 3,823 | P 48,140 | P 116,284 |
| Transactions with owners: | | | | | | | | | | | |
| Reissuance of treasury shares | 22 | - | - | | - | - | 9,287 | - | - | - | 9,287 |
| Issuance of common stock | 22 | 1,686 | - | 15,735 | - | - | - | - | - | - | 17,421 |
| Cash dividends | 22 | - | - | - | - | - | - | - | - | ( 3,289 ) | ( 3,289 ) |
| | | 1,686 | - | 15,735 | - | - | 9,287 | - | - | ( 3,289 ) | 23,419 |
| Net profit for the year | | - | - | - | - | - | - | - | - | 12,218 | 12,218 |
| Other comprehensive income | | - | - | - | - | 345 | - | - | - | - | 345 |
| General loan loss appropriation | 22 | - | - | - | - | - | - | - | 766 | ( 766 ) | - |
| Transfer of fair value gain on financial asset at fair value through other comprehensive income (FVOCI) to surplus | 10, 23 | - | - | - | - | 3 | - | - | - | ( 3 ) | - |
| Transfer from surplus to reserve for trust business | 26 | - | - | - | - | - | - | 19 | - | ( 19 ) | - |
| | | - | - | - | - | 348 | - | 19 | 766 | 11,430 | 12,563 |
| **Balance at December 31, 2023** | | **P 24,195** | **P 3** | **P 58,228** | **P 14,463** | **( P 6,044 )** | **P -** | **P 551** | **P 4,589** | **P 56,281** | **P 152,266** |
| Balance at January 1, 2022 | | P 22,509 | P 3 | P 42,505 | P 14,463 | ( P 1,923 ) | ( P 9,287 ) | P 508 | P 3,616 | P 38,599 | P 110,993 |
| Transactions with owners: | | | | | | | | | | | |
| Reissuance of treasury shares | 22 | - | - | ( 12 ) | - | - | - | - | - | - | ( 12 ) |
| Cash dividends | 22 | - | - | - | - | - | - | - | - | ( 2,308 ) | ( 2,308 ) |
| | | - | - | ( 12 ) | - | - | - | - | - | ( 2,308 ) | ( 2,320 ) |
| Net profit for the year | | - | - | - | - | - | - | - | - | 12,080 | 12,080 |
| Other comprehensive loss | | - | - | - | - | ( 4,469 ) | - | - | - | - | ( 4,469 ) |
| General loan loss appropriation | 22 | - | - | - | - | - | - | - | 207 | ( 207 ) | - |
| Transfer from surplus to reserve for trust business | 26 | - | - | - | - | - | - | 24 | - | ( 24 ) | - |
| | | - | - | - | - | ( 4,469 ) | - | 24 | 207 | 11,849 | 7,611 |
| Balance at December 31, 2022 | | P 22,509 | P 3 | P 42,493 | P 14,463 | ( P 6,392 ) | ( P 9,287 ) | P 532 | P 3,823 | P 48,140 | P 116,284 |
| Balance at January 1, 2021 | | P 22,509 | P 3 | P 42,568 | P 14,463 | ( P 2,070 ) | ( P 13,719 ) | P 499 | P 3,440 | P 33,599 | P 101,292 |
| Transactions with owners: | | | | | | | | | | | |
| Issuance of hybrid perpetual securities | 22 | - | - | ( 63 ) | - | - | 4,432 | - | - | - | 4,369 |
| Cash dividends | 22 | - | - | - | - | - | - | - | - | ( 1,897 ) | ( 1,897 ) |
| | | - | - | ( 63 ) | - | - | 4,432 | - | - | ( 1,897 ) | 2,472 |
| Net profit for the year | | - | - | - | - | - | - | - | - | 7,082 | 7,082 |
| Other comprehensive income | 22 | - | - | - | - | 147 | - | - | - | - | 147 |
| General loan loss appropriation | | - | - | - | - | - | - | - | 176 | ( 176 ) | - |
| Transfer from surplus to reserve for trust business | | - | - | - | - | - | - | 9 | - | ( 9 ) | - |
| | | - | - | - | - | 147 | - | 9 | 176 | 6,897 | 7,229 |
| Balance at December 31, 2021 | | P 22,509 | P 3 | P 42,505 | P 14,463 | ( P 1,923 ) | ( P 9,287 ) | P 508 | P 3,616 | P 38,599 | P 110,993 |

***See Notes to Financial Statements.***

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**
**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021**
***(Amounts in Millions of Philippine Pesos)***

| | Notes | GROUP 2023 | GROUP 2022 | GROUP 2021 | PARENT COMPANY 2023 | PARENT COMPANY 2022 | PARENT COMPANY 2021 |
|---|---|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | | | |
| Profit before tax | | **P 13,515** | P 13,648 | P 7,811 | **P 13,501** | P 13,598 | P 7,607 |
| Adjustments for: | | | | | | | |
| Interest income | 9, 10, 11 | **(66,289)** | (45,835) | (37,111) | **(65,284)** | (45,127) | (36,229) |
| Interest received | | **47,718** | 45,379 | 35,416 | **46,932** | 44,516 | 34,676 |
| Interest expense | 17, 18, 19, 21, 23 | **32,660** | 14,619 | 8,280 | **32,302** | 14,228 | 7,893 |
| Interest paid | | **(30,830)** | (12,577) | (8,244) | **(30,476)** | (12,145) | (7,892) |
| Impairment losses - net | 16 | **6,888** | 5,706 | 6,048 | **6,074** | 5,489 | 5,933 |
| Gain on assets sold - net | 13, 14, 15 | **(6,714)** | (3,088) | (101) | **(6,656)** | (2,985) | (196) |
| Depreciation and amortization | 13, 14, 15 | **3,365** | 3,037 | 3,020 | **3,014** | 2,544 | 2,524 |
| Recoveries from written-off assets | 24 | **600** | (486) | (223) | **600** | (486) | (223) |
| Dividend income | 24 | **(318)** | (311) | (105) | **(252)** | (227) | (39) |
| Gain on disposal of subsidiaries | 12 | **(243)** | - | - | **(243)** | - | - |
| Share in net losses (earnings) of subsidiaries and associates | 12 | **(92)** | (32) | (12) | **157** | (154) | (477) |
| Operating loss (profit) before working capital changes | | **260** | 20,060 | 14,779 | **(331)** | 19,251 | 13,577 |
| Increase in financial assets at fair value through profit and loss | | **(4,741)** | (1,174) | (975) | **(4,815)** | (1,260) | (1,064) |
| Increase in loans and receivables | | **(70,902)** | (35,643) | (62,435) | **(71,714)** | (35,452) | (62,076) |
| Decrease (increase) in investment properties | | **2,072** | 2,093 | (359) | **1,842** | 2,009 | (363) |
| Decrease (increase) in other resources | | **(6,100)** | 180 | (2,636) | **(2,717)** | 725 | (1,806) |
| Increase in deposit liabilities | | **99,468** | 184,785 | 136,671 | **99,730** | 183,225 | 137,666 |
| Increase in accrued interest, taxes and other expenses | | **2,590** | 256 | 130 | **2,552** | 189 | 194 |
| Increase (decrease) in other liabilities | | **(694)** | 10,688 | (1,628) | **(462)** | 10,585 | (2,729) |
| Cash generated from operations | | **21,953** | 181,245 | 83,547 | **24,085** | 179,272 | 83,399 |
| Income taxes paid | | **(4,099)** | (2,069) | (859) | **(3,910)** | (1,973) | (773) |
| Net Cash From Operating Activities | | **17,854** | 179,176 | 82,688 | **20,175** | 177,299 | 82,626 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | | | |
| Disposal of securities at fair value through other comprehensive income (FVOCI) | 10 | **476,584** | 60,578 | 117,158 | **476,576** | 59,863 | 116,890 |
| Acquisition of securities at FVOCI | 10 | **(442,380)** | (131,018) | (127,044) | **(442,360)** | (130,903) | (126,809) |
| Proceeds from redemption and maturity of securities at amortized cost | 4 | **31,956** | 61,045 | 110,217 | **29,688** | 59,894 | 110,418 |
| Additional investments in securities at amortized cost | 4 | **(16,099)** | (149,832) | (230,816) | **(14,092)** | (148,342) | (230,816) |
| Proceeds from disposals of bank premises, furniture, fixtures and equipment | 13 | **9,836** | 2,487 | 88 | **3,796** | 2,032 | 95 |
| Acquisitions of bank premises, furniture, fixtures, and equipment | 13 | **(3,716)** | (1,627) | (1,333) | **(1,432)** | (1,251) | (995) |
| Acquisitions of software | 15 | **(381)** | (334) | (494) | **(362)** | (333) | (493) |
| Cash dividends received | 12, 24 | **318** | 293 | 105 | **344** | 798 | 663 |
| Net Cash From (Used in) Investing Activities *(Forward)* | | **P 56,118** | (P 158,408) | (P 132,119) | **P 52,158** | (P 158,242) | (P 131,047) |

***See Notes to Financial Statements.***

| | Notes | GROUP 2023 | GROUP 2022 | GROUP 2021 | PARENT COMPANY 2023 | PARENT COMPANY 2022 | PARENT COMPANY 2021 |
|---|---|---|---|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | | | |
| Maturity of bonds payable | 19, 30 | **( P 39,041 )** | ( P 31,170 ) | ( P 18,810 ) | **( P 39,041 )** | ( P 31,170 ) | ( P 18,810 ) |
| Payments of bills payable | 18, 30 | **( 29,767 )** | ( 52,865 ) | ( 104,018 ) | **( 28,399 )** | ( 44,867 ) | ( 98,411 ) |
| Net proceeds from issuance of shares of stock | 22 | **17,421** | - | - | **17,421** | - | - |
| Proceeds from availments of bills payable | 30 | **15,333** | 62,142 | 148,820 | **15,333** | 55,380 | 142,675 |
| Reissuance of treasury shares | 22 | **9,287** | ( 12 ) | 4,369 | **9,287** | ( 12 ) | 4,369 |
| Dividends paid | 22 | **( 3,289 )** | ( 2,308 ) | ( 1,897 ) | **( 3,269 )** | ( 2,308 ) | ( 1,897 ) |
| Payment of lease liabilities | 21, 30 | **( 2,131 )** | ( 2,265 ) | ( 1,360 ) | **( 2,044 )** | ( 2,189 ) | ( 1,205 ) |
| Issuance of bonds payable | 19, 30 | **-** | 14,756 | 17,873 | **-** | 14,756 | 17,873 |
| Net Cash From (Used in) Financing Activities | | **( 32,187 )** | ( 11,722 ) | 44,977 | **( 30,712 )** | ( 10,410 ) | 44,594 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **41,785** | 9,046 | ( 4,454 ) | **41,621** | 8,647 | ( 3,827 ) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 9 | | | | | | |
| Cash and other cash items | | **18,078** | 14,691 | 16,520 | **18,024** | 14,663 | 16,464 |
| Due from Bangko Sentral ng Pilipinas | | **156,664** | 130,170 | 115,467 | **155,340** | 128,931 | 113,949 |
| Due from other banks | | **5,836** | 12,162 | 15,707 | **5,383** | 11,860 | 15,214 |
| Loans arising from reverse repurchase agreements | | **8,724** | 11,691 | 13,356 | **8,552** | 11,656 | 13,226 |
| Interbank loans receivable | | **19,021** | 30,563 | 42,681 | **19,021** | 30,563 | 42,647 |
| | | **208,323** | 199,277 | 203,731 | **206,320** | 197,673 | 201,500 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 9 | | | | | | |
| Cash and other cash items | | **19,875** | 18,078 | 14,691 | **19,812** | 18,024 | 14,663 |
| Due from Bangko Sentral ng Pilipinas | | **151,762** | 156,664 | 130,170 | **150,771** | 155,340 | 128,931 |
| Due from other banks | | **14,892** | 5,836 | 12,162 | **14,630** | 5,383 | 11,860 |
| Loans arising from reverse repurchase agreements | | **35,799** | 8,724 | 11,691 | **34,948** | 8,552 | 11,656 |
| Interbank loans receivable | | **27,780** | 19,021 | 30,563 | **27,780** | 19,021 | 30,563 |
| | | **P 250,108** | P 208,323 | P 199,277 | **P 247,941** | P 206,320 | P 197,673 |

***See Notes to Financial Statements***

***(Amounts in Millions of Philippine Pesos, Except Share and Per Share Data or As Indicated)***

## 1. CORPORATE MATTERS

### *1.1 Incorporation and Operations*

Rizal Commercial Banking Corporation (the Parent Company, the Bank or RCBC), a universal bank engaged in all aspects of banking, was originally incorporated on September 23, 1960. The Bank renewed its corporate existence on December 10, 2009. It provides products and services related to traditional loans and deposits, trade finance, domestic and foreign fund transfers or remittance, cash management, treasury, and trust and custodianship services. Under relevant authority granted by the Bangko Sentral ng Pilipinas (BSP), the Bank is also licensed to deal in different types of derivative products such as, but not limited, to foreign currency forwards, interest rate swaps and cross currency swaps. The Parent Company and its subsidiaries (together hereinafter referred to as the Group) are engaged in all aspects of traditional banking, investment banking, retail financing (credit cards, auto loans, mortgage/housing and microfinance loans), remittance, leasing and stock brokering.

As a banking institution, the Group's operations are regulated and supervised by the BSP. As such, the Group is required to comply with banking rules and regulations such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Group's activities are subject to the provisions of Republic Act (R.A.) No. 8791, the *General Banking Law of 2000*, and other related banking laws.

The Parent Company's common shares are listed in the Philippine Stock Exchange (PSE).

The Group and the Parent Company's banking network within and outside the Philippines as of December 31 follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Automated teller machines (ATMs) | **1,460** | 1,352 | **1,460** | 1,352 |
| ATM Go | **3,861** | 3,861 | **1,559** | 1,559 |
| Branches | **454** | 456 | **438** | 440 |
| Extension offices | **4** | 6 | **2** | 4 |

RCBC is a 33.92%-owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC or Ultimate Parent), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies (YGC), with registered business address at 48th Floor, Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City. As of December 31, 2023 and 2022, Cathay Life Insurance Corporation (Cathay) also owns 18.68% and 22.19% interest in RCBC, respectively.

On August 26, 2022 and September 30, 2022, respectively, the BSP and Securities and Exchange Commission (SEC) approved the amendment of Articles of Incorporation (AOI) of the Parent Company to allow foreign ownership to exceed 40% (see Note 22.1).

In 2023, Sumitomo Mitsui Banking Corporation (SMBC) has completed its acquisition of an additional 15.01% equity stake in RCBC resulting in an increase of SMBC's shareholding to 20.00% (see Note 22.2), effectively making RCBC 44.10% foreign-owned. To comply with constitutional requirements on land ownership, the Bank committed to dispose of its land through the following strategies:

- sale and leaseback transaction of bank premises and investment properties with AT Yuchengco Center Inc. (ATYCI) [see Notes 13 and 27.7(a)];
- disposal of 119 Bank-owned real estate properties to a property holding company - Frame Properties Inc. (see Notes 13, 23.2 and 27.5);
- sale of subsidiaries Niyog Property Holdings, Inc. (NPHI) and Cajel Realty Corporation (Cajel) to Filinvest Land Inc. (FLI) (see Notes 12 and 15.1); and,
- disposal of other consolidated properties of the Bank until June 2024 (see Note 15.1).

With the endorsement of the Group's Trust Committee, on November 28, 2022, the Bank's BOD approved the spin-off of the trust operations from the Parent Company into a separate corporate entity by establishing a Stand-Alone Trust Corporation in accordance with the Manual of Regulations for Non-Bank Financing Institutions. The BOD approved the capital infusion by the Parent Company equivalent to 40% of the required capital under the capital build-up plan.

On March 27, 2023, the Bank's BOD approved the incorporation of the RCBC Trust Corporation (RTC), where the Bank subscribed to 400,000 shares amounting to P40, equivalent to 40% of the subscribed share capital of RTC. RTC was officially incorporated on June 29, 2023, while its application of Trust License from BSP – Stage 3 was approved on October 10, 2023. RTC started operations on January 2, 2024 (see Notes 12 and 26).

The Parent Company's registered address, which is also its principal office, is at Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City.

### 1.2 Subsidiaries and Associates

The Parent Company holds ownership interests in the following subsidiaries and associates at the end of 2023 and 2022:

| Subsidiaries and Associates | Line of Business | Explanatory Notes | Effective Percentage of Ownership 2023 | 2022 |
|---|---|---|---|---|
| **Subsidiaries:** | | | | |
| RCBC Forex Brokers Corporation (RCBC Forex) | Foreign exchange dealing | | **100.00** | 100.00 |
| RCBC Telemoney Europe (RCBC Telemoney) | Remittance | | **100.00** | 100.00 |
| RCBC International Finance Limited (RCBC IFL) | Remittance | | **100.00** | 100.00 |
| RCBC Investment Ltd. | Remittance | (a) | **100.00** | 100.00 |
| RCBC Capital Corporation (RCBC Capital) | Investment house | | **99.96** | 99.96 |
| RCBC Securities, Inc. (RSI or RCBC Securities) | Securities brokerage and dealing | (b) | **99.96** | 99.96 |
| RCBC Bankard Services Corporation (RBSC) | Credit card management | (b) | **99.96** | 99.96 |
| RCBC-JPL Holding Company, Inc. (RCBC JPL) | Property holding | | **99.41** | 99.41 |
| Rizal Microbank, Inc. (Rizal Microbank) | Thrift banking and microfinance | | **100.00** | 100.00 |
| RCBC Leasing and Finance Corporation (RCBC LFC) | Financial leasing | | **99.67** | 99.67 |
| RCBC Rental Corporation (RRC) | Property leasing | (c) | **99.67** | 99.67 |
| Cajel | Real estate buying and selling | (d) | - | 100.00 |
| NPHI | Real estate buying and selling | (d) | - | 100.00 |
| **Associates:** | | | | |
| YGC Corporate Services, Inc. (YCS) | Support services for YGC | | **40.00** | 40.00 |
| RTC | Trust, fiduciary and investment management | (e) | **40.00** | - |
| Luisita Industrial Park Co. (LIPC) | Real estate buying, developing, selling and rental | | **35.00** | 35.00 |
| Honda Cars Phils., Inc. (HCPI) | Sale of motor vehicles | | **12.88** | 12.88 |

Except for RCBC Telemoney (Italy), RCBC IFL (Hongkong) and RCBC Investment Ltd. (Hongkong), all other subsidiaries and associates are incorporated and conducting their businesses in the Philippines. RCBC Telemoney was operational only until March 1, 2016 and is currently in the process of liquidation.

Explanatory Notes:

(a) A wholly-owned subsidiary of RCBC IFL.
(b) Wholly-owned subsidiaries of RCBC Capital.
(c) A wholly-owned subsidiary of RCBC LFC.
(d) In 2019, SPCs other than NPHI and Cajel were liquidated pursuant to BSP recommendation and upon receipt of necessary regulatory clearance. In 2023, the Bank sold and transferred its ownership interest with NPHI and Cajel to FLI (see Notes 12 and 15.1).
(e) In 2023, the Bank subscribed to 400 thousand shares equivalent to 40% of subscribed share capital of RTC (see Note 1.1).

### *1.3 Approval of Financial Statements*

The consolidated financial statements of the Group and the separate financial statements of RCBC as of and for the year ended December 31, 2023 (including the comparative financial statements as of December 31, 2022 and for the years ended December 31, 2022 and 2021) were approved and authorized for issue by the Board of Directors (BOD) of the Parent Company on February 26, 2024.

## 2. MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policies that have been used in the preparation of these financial statements are summarized below. The accounting policies have been consistently applied to all the years presented, except when otherwise indicated.

### *2.1 Basis of Preparation of Financial Statements*

*(a) Statement of Compliance with Philippine Financial Reporting Standards*

The consolidated financial statements of the Group and the separate financial statements of the Parent Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial and Sustainability Reporting Standards Council (FSRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by Philippine Board of Accountancy.

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

*(b) Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*. The Group presents all items of income and expenses in two statements: a “statement of profit or loss” and a “statement of comprehensive income”.

The Group presents a third statement of financial position as of the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that have a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

*(c) Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Group’s functional and presentation currency (see Note 2.10). All amounts are in millions, except share and per share data or when otherwise indicated.

Items included in the financial statements of the Group are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Group operates. The financial statements of the Group's foreign currency deposit unit (FCDU), which is reported in United States (US) dollar, are translated to Philippine peso based on Philippine Dealing System (PDS) closing rates at the end of reporting period for the statement of financial position accounts and at the average PDS rate for the period for the profit and loss accounts.

### *2.2 Adoption of Amended PFRS*

*(a) Effective in 2023 that are Relevant to the Group and Parent Company*

The Group adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2023:

| | | |
|---|---|---|
| PAS 1 and PFRS Practice Statement 2 (Amendments) | : | Presentation of Financial Statements – Disclosure of Accounting Policies |
| PAS 8 (Amendments) | : | Definition of Accounting Estimates |
| PAS 12 (Amendments) | : | Deferred Tax Related to Assets and Liabilities from a Single Transaction |

Discussed below are the relevant information about these pronouncements.

(i) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies*. The amendments replaced the requirement for entities to disclose their significant accounting policies with the requirement to disclose their material accounting policy information. The amendments also include guidance to help entities apply the definition of material in making decisions about accounting policy disclosures.

The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial, that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements and if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. The application of these amendments is reflected in the Group and Parent Company's financial statements under Notes 2 and 3.

(ii) PAS 8 (Amendments), *Definition of Accounting Estimates*. The amendments introduced a new definition of accounting estimate which is a monetary amount in the financial statements that are subject to measurement uncertainty. It also clarifies that a change in accounting estimate that results from new information or new developments is not a correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. The application of these amendments had no significant impact on the Group and Parent Company's financial statements.

(iii) PAS 12 (Amendments), *Deferred Tax Related to Assets and Liabilities 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). Management assessed that the application of such amendments had no significant impact on the Group and Parent Company's financial statements.

*(b) Effective in 2023 that is not Relevant to the Group and Parent Company*

Among the amendments to PFRS which are mandatorily effective for annual periods beginning on or after January 1, 2023, the Amendments to PAS 12, *International Tax Reform – Pillar Two Model Rules*, is not relevant to the Group and Parent Company's financial statements.

*(c) Effective Subsequent to 2023 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2023, which are adopted by the FSRSC. Management will adopt the following relevant pronouncements below in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group and Parent Company's financial statements:

(i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2024)

(ii) PAS 1 (Amendments), *Presentation of Financial Statements – Non-current Liabilities with Covenants* (effective from January 1, 2024)

(iii) PAS 7 (Amendments), *Cash Flow Statements* and PFRS 7 (Amendments), *Financial Instruments: Disclosures – Supplier Finance Arrangements* (effective from January 1, 2024)

(iv) PFRS 16 (Amendments), *Leases – Lease Liability in a Sale and Leaseback* (effective from January 1, 2024)

(v) PAS 21 (Amendments), *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability* (effective from January 1, 2025)

### *2.3 Basis of Consolidation and Accounting for Investments in Subsidiaries and Associates in the Separate Financial Statements*

The Parent Company's investments in subsidiaries are initially recognized at cost and subsequently accounted for in its separate financial statements using the equity method.

The Parent Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls. Accordingly, entities are deconsolidated from the date that control ceases.

Acquired subsidiaries are subject to either of the following relevant policies:

(i) *Purchase method* – is applicable if the business combination does not involve entities under common control. The method involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of a subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of a subsidiary prior to acquisition.

(ii) *Pooling of interest method* – is applicable for business combinations involving entities under common control. On initial recognition, the assets and liabilities of a subsidiary are included in the consolidated statement of financial position at their book values. Adjustments, if any, are recorded to achieve uniform accounting policies. The combining entities' results and financial positions are presented in the consolidated financial statements as if they had always been combined.

No goodwill or negative goodwill is recognized. Any difference between the cost of the investment and the subsidiary's identifiable net assets is recognized on consolidation in Capital Paid in Excess of Par account in equity.

Acquired investments in associates are subject to purchase method of accounting as described above. However, any goodwill that represents the excess of identifiable net assets of the acquiree at the date of acquisition or fair value adjustment attributable to the Group's share in the associate is included in the amount recognized as investments in associates.

The Group reassesses whether or not an entity qualifies as an associate in the occurrence of changes to facts and circumstances surrounding its ability to exert significant influence.

### *2.4 Financial Instruments*

*(a) Financial Assets*

*(i) Classification and Measurement of Financial Assets*

The Group's financial assets include financial assets at amortized cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVTPL).

*Financial Assets at Amortized Cost*

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

The Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost.

*Financial Assets at Fair Value Through Other Comprehensive Income*

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Group for trading or a contingent consideration recognized arising from a business combination. The Group has made irrevocable designation of equity instruments not held for trading into this category.

*Financial Assets at Fair Value Through Profit or Loss*

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

A change in the objective of the Group's business model will be effected only at the beginning of the next reporting period following the change in the business model.

*(ii) Effective Interest Rate Method and Interest Income*

Interest income on financial assets measured at amortized cost and all interest-bearing debt financial assets classified as at FVTPL, or at FVOCI, is recognized using the effective interest rate method.

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

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset with an increase or reduction in interest income. The Group calculates interest income by applying the effective interest rate to the gross carrying amount of the financial assets, except for those that are subsequently identified as credit-impaired and or are purchased or originated credit-impaired assets.

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

*(iii) Impairment of Financial Assets*

The Group's ECL model follows a three-stage impairment approach, which guide in the determination of the loss allowance to be recognized in the financial statements. The staging of financial assets and definition of default for purposes of determining ECL are further discussed in Note 4.4.

ECL is a function of the probability of default (PD), loss-given default (LGD), and exposure-at-default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgement. These elements are discussed more fully in Note 4.4.

The Group calculates ECL either on an individual or a collective basis. For consumer loans which were carried out on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics, such as but not limited to instrument type, credit risk rating, collateral type, product type, historical net charge-offs, industry type, and geographical locations of the borrowers or counterparties. The Group calculates ECL for corporate loans, finance lease receivables, and investment securities at amortized cost on an individual basis.

The Group applies a simplified ECL approach for its accounts receivables and other risk assets wherein the Group uses a provision matrix that considers historical changes in the behavior of the portfolio of credit exposures based on internally collected data to predict conditions over the span of a given observation period. These receivables include claims from various counterparties, which are not originated through the Group's lending activities. For these instruments, the Group measures the loss allowance at an amount equal to lifetime ECL.

The Group recognizes an impairment loss in profit or loss for all financial instruments subjected to ECL impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account. With respect to investments in debt securities that are measured at FVOCI, the related loss allowance account is recognized in other comprehensive income and accumulated in the Revaluation Reserves account, and does not reduce the carrying amount of the financial asset in the statement of financial position.

For loan commitments, the loss allowance is recognized as provisions (presented and included as part of Other Liabilities account in the statement of financial position). Where a financial instrument includes a drawn and undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn commitment; the Group presents a combined allowance for ECL for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as provisions.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

*(iv) Modification of Loans*

When the Group renegotiates or otherwise modifies the contractual cash flows of loans to customers, the Group assesses whether or not the new terms are substantially different to the original terms of the instrument.

In making such assessment, the Group considers, among others:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced that will affect the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; and/or,
- Insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

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

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

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

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

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

As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

*(b) Financial Liabilities*

Financial liabilities including deposit liabilities, bills payable, bonds payable, accrued interest and other expenses, and other liabilities (except derivatives with negative fair value, tax-related payables, post-employment defined benefit obligation and deferred income)

*(c) Financial Guarantees and Undrawn Loan Commitments*

The Group issues financial guarantees and loan commitments. Financial guarantees are those issued by the Group to creditors as allowed under existing rules and regulations whereby it guarantees third party obligations by signing as guarantor in the contract or agreement. Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. The ECL related to financial guarantees and loan commitments without outstanding drawn amounts is recognized under Other Liabilities account in the statement of financial position.

*(d) Derivative Financial Instruments and Hedge Accounting*

The Group is a party to various foreign currency forward contracts, cross currency swaps, futures, interest rate swaps, debt warrants, options and credit default swap. These contracts are entered into as a service to customers and as a means of reducing or managing the Group's foreign exchange and interest rate exposures as well as for trading purposes. Amounts contracted are recorded as contingent accounts and are not included in the statement of financial position.

### *2.5 Bank Premises, Furniture, Fixtures and Equipment*

Land is stated at cost less impairment losses, if any. All other bank premises, furniture, fixtures and equipment are carried at cost less accumulated depreciation, amortization and any impairment in value.

Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets as follows:

| | |
|---|---|
| Buildings | 20-50 years |
| Furniture, fixtures and equipment | 3-15 years |

Leasehold rights and improvements are amortized over the term of the lease or the estimated useful lives of the improvements of 1 to 12 years, whichever is shorter.

### *2.6 Investment Properties*

Investment properties pertain to land, buildings or condominium units acquired by the Group, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment, which are either held by the Group for sale in the next 12 months or being used in the rendering of services or for administrative purposes. This also includes properties held for rental.

Investment properties are stated at cost, less accumulated depreciation and any impairment losses (see Note 2.11).

Transfers from other accounts (such as bank premises, furniture, fixtures and equipment) are made to investment properties when and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party or holding the property for capital appreciation, while transfers from investment properties are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use.

Investment properties, except land, are depreciated on a straight-line basis over a period of 10 to 50 years.

### *2.7 Intangible Assets*

Intangible assets include goodwill, branch licenses, trading right, and computer software licenses which are accounted for under cost model and are reported under Other Resources account in the statement of financial position.

Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net assets acquired at the date of acquisition (see Note 2.3).

Branch licenses represent the rights given by the BSP to the Group to establish a certain number of branches in various areas in the country.

Goodwill and branch licenses are classified as intangible assets with indefinite useful life and, thus, not subject to amortization but are tested annually for impairment (see Note 2.11). After initial recognition, goodwill and branch licenses are subsequently carried at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those generating units is represented by each primary reporting segment.

Trading right, included as part of Miscellaneous under Other Resources account, represents the right given to RSI, a subsidiary engaged in stock brokerage, to preserve its access to the trading facilities and to transact business at the PSE. Trading right is assessed as having an indefinite useful life. It is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less allowance for impairment, if any. The trading right is tested annually for any impairment in value (see Note 2.11).

Acquired computer software licenses are amortized on a straight line basis over the expected useful lives of the software of three to ten years.

Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives (not exceeding ten years).

### *2.8 Other Income and Expense Recognition*

The Group assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or agent. The Group concluded that it is acting as a principal in all its revenue arrangements except for certain brokerage transactions.

For revenues arising from various services which are to be accounted for under PFRS 15, *Revenue from Contracts from Customers*, the following provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

*(a)* *Service fees and Commissions*

The following service fees and commissions are recognized as follows:

*(i)* *Commissions and fees* – these income arising from loans, deposits, and other banking and brokerage transactions are recognized as income based on agreed terms and conditions with customers, which are generally when the services have been performed.

*(ii)* *Annual membership fees* – pertains to annual fees charged to credit cardholders. Revenues from membership fees are recognized over time from the date of renewal of the credit card until the validity date covered by the said renewal, usually termed as the expiry date of the issued cards. The credit card's validity period is deemed to be the servicing period.

*(iii)* *Interchange fees, net of interchange costs* – are recognized as income upon presentation by member establishments of charges arising from RBSC and non-RBSC (associated with MasterCard, JCB, VISA and China UnionPay labels) credit card availments passing through the Point of Sale (POS) terminals of the Parent Company. These discounts are computed based on agreed rates and are deducted from the amounts remitted to member establishments. Interchange costs pertain to the other credit card companies' share in RBSC's merchant discounts whenever their issued credit cards transact in the Parent Company's POS terminals.

The Parent Company has a rewards program related to its deposit, loans and credit card operations, which allows its cardholders to accumulate award credits or loyalty points that can be redeemed for free products. The loyalty points give rise to a separate performance obligation as they provide a material right to the cardholder. Accordingly, the Parent Company allocates a portion of the interchange fee billed to participating merchants to the loyalty points granted to cardholders based on relative stand-alone selling price and recognizes liability equivalent to the estimated loyalty points until these are redeemed. Revenue is recognized upon actual redemption by the cardholder.

*(iv)* *Loan syndication fees* – are recognized as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

*(v)* *Underwriting and arrangers fees* – are fees arising from negotiating, or participating in the negotiation of a transaction for a third party such as arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized at the completion of the underlying transaction and where there are no further obligations to perform under the agreement.

*(b)* *Trust Fees*

These are service fees calculated in reference to the net asset value of the funds managed and deducted from the customer's account balance on a monthly basis which are recognized over time as the asset management services are provided. These are also applicable for wealth management and asset custody services that are continuously provided over an extended period of time.

For other income outside the scope of PFRS 15, the following provides information about the nature and the related revenue recognition policies:

(a) *Trading and Securities Gains (Losses)*

These are recognized when the ownership of the securities is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the securities disposed of. These also include trading gains and losses as a result of the mark-to-market valuation of investment securities classified as FVTPL.

(b) *Gain on Assets Sold*

Gain on assets sold arise from the disposals of bank premises, furniture, fixtures and equipment, investment properties, real estate properties for sale, and assets held-for-sale. The Group recognizes the gain on sale at the time the control of the assets is transferred to the buyer, when the Group does not retain either continuing managerial involvement to the degree usually associated with ownership, or effective control over the assets sold, and when the collectability of the entire sales price is reasonably assured. Gain on assets sold are included as part of Other Operating Income account in the statement of profit or loss.

(c) *Dividend Income*

Dividend income is recognized when the Group and Parent Company's right to receive payment is established.

(d) *Recoveries from Assets Written Off*

These are income recognized from the increase in carrying amount of assets previously written off. The amount of reversal does not exceed the amount of impairment loss previously recognized for the related asset.

Collections from accounts, which did not qualify for revenue recognition are treated as customers' deposit included as part of Accounts payable under Other Liabilities account in the statement of financial position.

### *2.9 Leases*

The Group accounts for its leases as follows:

(a) *Group as Lessee*

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

(b) *Group as Lessor*

The Group applies judgment in determining whether a lease contract is a finance or operating lease (see Note 3.1).

*(c) Sale and Leaseback Transaction*

As a seller-lessee, the Group measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Group. Accordingly, the Group recognizes only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

### *2.10 Foreign Currency Transactions and Translations*

Except for the foreign subsidiaries and accounts of the Parent Company's FCDU, the accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing at transaction dates. Resources and liabilities denominated in U.S. dollars are translated to Philippine pesos at the prevailing Philippine Dealing System closing rates (PDSCR) at the end of the reporting period.

For financial reporting purposes, the accounts of the FCDU are translated into their equivalents in Philippine pesos based on the prevailing PDSCR at the end of each reporting period (for resources and liabilities) and at the weighted average PDSCR for the period (for income and expenses). Any foreign exchange difference is recognized in profit or loss.

The translation of the financial statements into Philippine peso should not be construed as a representation that the amounts stated in currencies other than the Philippine peso could be converted in Philippine peso amounts at the translation rates or at any other rates of exchange.

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

Investments in subsidiaries and associates, bank premises, furniture, fixtures and equipment (including right-of-use asset), investment properties, and other resources (including intangible assets, and assets held for sale and disposal group) and other non-financial assets are subject to impairment testing.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows [cash-generating units (CGU)]. As a result, some assets are tested for impairment either individually or at the CGU level. Except for intangible assets with an indefinite useful life (i.e., goodwill, branch licenses and trading right) or those not yet available for use, individual assets or CGU are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

All assets, except for intangible assets with indefinite useful life, are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or CGU's recoverable amount exceeds its carrying amount.

### *2.12 Employee Benefits*

The Group provides post-employment benefits to employees through a defined benefit plan and defined contribution plans, and other employee benefits.

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

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group and Parent Company's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately vary from these estimates.

### *3.1 Critical Management Judgments in Applying Accounting Policies*

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

*(a) Application of ECL to Financial Assets at Amortized Cost and Financial Assets at FVOCI*

The Group uses the general approach to calculate ECL for all debt instruments carried at amortized cost and FVOCI, together with loan commitments and financial guarantee contracts. The allowance for impairment is based on the ECLs associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

The Group has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

*(b) Evaluation of Business Models Applied in Managing Financial Instruments*

The Group manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely, its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for trading activities consistent with its risk appetite.

The Group's business models reflect how it manages its portfolio of financial instruments. The Group's business models need not be assessed at entity level or as a whole but applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument, the Group evaluates in which business model a financial instrument or a portfolio of financial instruments belongs to taking into consideration the objectives of each business model established by the Group (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Group's investment, trading and lending strategies.

If more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with the HTC business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

There is no disposal of HTC investments in 2023 and 2022.

In 2022, the Parent Company started to perform evaluation of its business models for HTC and FVOCI investments as a result of internal changes on how it manages these financial assets. Such changes are determined by senior management as significant to the Parent Company's operations wherein it implemented adjustments to its portfolio strategies in light of the revised long-term outlook following the pandemic and other global developments. Revisions in the business models may result in reclassifications in the categories of portfolio investments to be effected only at the beginning of the next reporting period following the change in business model. The Parent Company expects to complete its assessment before the end of year 2024.

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

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

*(d) Determination of Timing of Satisfaction of Performance Obligation*

The Group determines that its revenue shall be recognized at a point in time for loan syndication and underwriting fees and commission. In making its judgment, the Group considers the timing of receipt and consumption of benefits provided by the Group to the customers. The services provided by the Group would need substantial reperformance from other entities. This demonstrates that the customers do not simultaneously receive and consume the benefits provided by the Group.

For the revenues from services related to credit card membership and account management, the Group determines that its revenues shall be recognized over time. In making its judgment, the Group considers the timing of receipt and consumption of benefits provided to the customers. As the work is performed, the Group becomes entitled to payments. This demonstrates that the customers simultaneously receive and consume the benefits of the Group's rendering of these services as it performs.

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

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

For leases of offices, branches, and equipment, the factors that are normally the most relevant are (a) if there are significant penalties should the Group pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Group is reasonably certain to extend and not to terminate the lease contract.

The Group did not include renewal options as part of the lease term as the terms are renewable upon mutual agreement.

The lease term is reassessed if an option is actually exercised or not exercised or the Group becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Group.

*(f) Distinction Between Investment Properties and Owner-occupied Properties*

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

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease) then these portions can be accounted for separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in operations or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property.

*(g) Determination of the Classification of Assets/Liabilities under Assets Held-for-Sale and Disposal Group*

The Group classifies an asset (or disposal group) as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In determining whether reclassification is in order, the asset (or disposal group) must be available for immediate sale in its present condition subject to usual terms and the same must be highly probable, evidenced by a commitment to a plan to sell the asset, and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except if a delay will be caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset (or disposal group).

*(h) Distinction Between Operating and Finance Leases where the Group is the Lessor*

The Group has entered into various lease agreements as a lessor. Judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets or liabilities (see Note 2.9).

In determining whether the lease arrangements of the Parent Company and RCBC LFC qualify as a finance lease, the following factors have been considered:

*(i)* the lease provides the lessee an option to purchase the asset; or,

*(ii)* the lease transfers ownership of the property at the end of the lease and the related lease terms approximate the estimate useful life of the asset being leased.

*(i) Classification and Determination of Fair Value of Acquired Properties*

The Group classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets held-for-sale and disposal group presented under Other Resources account if the Group expects that the assets will be sold within one year from the date of recognition, or as Investment Properties if held for rental or for currently undetermined future use and is regarded as held for capital appreciation, or as financial assets. At initial recognition, the Group determines the fair value of acquired properties through internal and external appraisal depending on the Group's threshold policy. The appraised value is determined based on the current economic and market conditions, as well as the physical condition of the property.

The Group's methodology in determining the fair value of Investment Properties are further discussed in Note 7.4.

*(j) Assessment of Significant Influence on HCPI in which the Group and the Parent Company Holds Less than 20% Ownership*

The management considers that the Group and the Parent Company have significant influence on HCPI even though it holds less than 20% of the outstanding ordinary shares of the latter. In making this judgment, management considered the Group's and the Parent Company's agreement with another stockholder of HCPI to commit and undertake to vote, and to regulate the conduct of voting and the relationship between them with respect to their exercise of their voting rights (see Note 12.1).

*(k) Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Provisions are recognized when present obligations will probably lead to an outflow of economic resources, and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain.

Where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

In dealing with the Group's various legal proceedings, the Group's estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Group's internal and outside counsels acting in defense for the Group and the Parent Company's legal cases and are based upon the analysis of probable results.

Although the Group does not believe that its on-going proceedings, as disclosed in Note 28, will have material adverse effect on the Group's financial position, it is possible that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies conducted relating to those proceedings.

### *3.2 Key Sources of Estimation Uncertainty*

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

(a) *Estimation of Expected Credit Loss on Financial Assets*

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

Significant factors affecting the estimates on the ECL model include:

- internal rating matrix which determines the PD to be assigned to a financial asset;
- criteria for assessing if there has been an SICR and when a financial asset will be transferred between the three stages;
- the Group's definition of default for different segments of credit exposures that considers the regulatory requirements;
- establishing groups of similar financial assets (i.e., segmentation) for the purposes of measuring ECL on a collective basis;
- establishment of LGD parameters based on historical recovery rates of claims against defaulted counterparties across different group of financial instruments; and,
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

The explanation of inputs, assumptions and estimation techniques used in measuring ECL and the analysis of the allowance for ECL on various groups of financial instruments is further discussed in Note 4.4.

(b) *Fair Value Measurement for Financial Assets at FVTPL and at FVOCI*

The Group carries certain financial assets at fair value which requires judgment and extensive use of accounting estimates. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another financial instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument or other more appropriated valuation techniques (see Note 7.2).

The amount of changes in fair value would differ if the Group had utilized different valuation methods and assumptions. Any change in fair value of the financial assets and financial liabilities would affect profit or loss or other comprehensive income. The fair value of derivative financial instruments that are not quoted in an active market is determined through valuation techniques using the net present value computation (see Note 7.2).

The carrying values of the Group's and the Parent Company's trading and investment securities and the amounts of fair value changes recognized on those financial assets are disclosed in Note 10.

(c) *Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Assets, Investment Properties, Computer Software, Goodwill, Branch Licenses and Trading Right*

The Group estimates the useful lives of bank premises, furniture, fixtures and equipment, including right-of-use assets, investment properties and computer software based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The Group's goodwill, branch licenses and trading right were regarded as having indefinite useful lives considering there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the Group. The assessment of having indefinite useful lives is reviewed periodically and is updated whether events and circumstances such as the period of control over these assets and legal or similar limits on the use of these assets continue to support such assessment.

The carrying amounts of bank premises, furniture, fixtures and equipment, including right-of-use assets, investment properties and computer software are analyzed in Notes 13, 14 and 15, respectively, while the carrying amounts of goodwill, branch licenses and trading right are analyzed in Note 15. Based on management's assessment as of December 31, 2023 and 2022, there are no changes in the useful lives of these assets.

(d) *Determination of Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Significant judgment is applied by management to determine the amount of deferred tax assets that can be recognized based on the likely timing and level of the Group's future taxable income together with its future tax planning strategies. The Group assessed its projected performance in determining the sufficiency of the future taxable income to support the recognition of deferred tax assets.

The carrying values of recognized and unrecognized deferred tax assets as of December 31, 2023 and 2022 are disclosed in Note 25.1.

(e) *Estimation of Impairment Losses of Non-financial Assets*

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indications are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.11.

The Group assesses impairment on these non-financial assets and considers the following important indicators:

- significant changes in asset usage;
- significant decline in assets' market value;
- obsolescence or physical damage of an asset;
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of usage of the acquired assets or the strategy for the Group's overall business; and,
- significant negative industry or economic trends.

If such indications are present and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Though management believes that the assumptions used in the estimation of fair values of non-financial assets are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

*(f) Determination of Fair Value of Investment Properties*

The Group's investment properties are composed of parcels of land, buildings and condominium units which are measured using cost model. The estimated fair value of investment properties disclosed in Note 7.4 is determined by either an independent or internal appraiser on the basis of current appraised values of the properties or similar properties in the same location and condition.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

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

*(g) Determination of Appropriate Discount Rate in Measuring Lease Liabilities*

The Group measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Group's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment.

*(h) Recognition of Reward Points*

The Group has a reward program related to its deposits, loans and credit card operations, which allows its cardholders to accumulate award credits or loyalty points that can be redeemed for free products.

The Group allocated a portion of the interchange fee billed to participating merchants to the loyalty points granted to cardholders based on relative stand-alone selling price and recognizes liability equivalent to the estimated loyalty points until these are redeemed.

*(i) Valuation of Post-employment Defined Benefits*

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

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

*(j) Determination of Recoverable Amount of Assets Held-for-Sale*

In determining the recoverable amount of assets the Group's assets held-for-sale, the estimated fair value less cost to sell are determined by an independent appraiser or internal appraiser based on current appraised values of the properties or similar properties in the same location and condition.

The amount of assets classified as held-for sale by the Group, its impairment and recovery are presented in Notes 15.1 and 16, respectively.

## 4. RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group is exposed to risks in relation to its operating, investing, and financing activities, and the business environment in which it operates. The Group's objectives in risk management are to ensure that it identifies, measures, monitors, and controls the various risks that arise from its business activities, and that it adheres strictly to the policies, procedures, and control systems which are established to address these risks.

A committee system is a fundamental part of the Group's process of managing risk. The following five committees of the Parent Company's BOD are relevant in this context:

- The Executive Committee, which meets weekly, has the power to act and pass upon such matters as the BOD may entrust to it for action in between BOD meetings. It may also consider and approve loans and other credit related matters, investments, purchase of shares of stock, bonds, securities and other commercial papers for the Bank's portfolio. The Executive Committee also has the power to review an asset or loan to ensure timely resolution and recognition of losses of impaired assets.

- The Risk Oversight Committee (ROC), which meets monthly, carries out the BOD's oversight responsibility for Group's capital adequacy and risk management strategy and actions covering credit, market and operational risks under Pillar I of the Basel framework; as well as the management of other material risks determined under Pillar II and the Internal Capital Adequacy Assessment Process (ICAAP) (see Note 5.2). Risk limits are reviewed and approved by the ROC.

- The Audit and Compliance Committee (ACC), which meets monthly, reviews the results of the Internal Audit examinations and recommends remedial actions to the BOD as appropriate. The ACC also performs oversight functions over the Regulatory Affairs Group on matters such as compliance risk assessment, annual testing work plan, compliance breaches, and other regulatory issues.

- The Related Party Transactions (RPT) Committee, which meets monthly and as necessary, reviews proposed material RPTs to ensure that they are conducted in the regular course of business and not undertaken on more favorable economic terms (e.g. price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. On favorable review, the RPT Committee endorses material RPTs to the BOD for approval.

- The Anti-Money Laundering (AML) Board Committee, which meets monthly, oversees the implementation of the Bank's Money Laundering and Terrorist Financing Prevention Program (MTPP) and ensures that Money Laundering/Terrorist Financing risks are effectively managed. The AML Board Committee also ensures that infractions are immediately corrected, issues are addressed and AML training of directors, officers, and staff are regularly conducted.

Four senior management committees also provide a regular forum to take up risk issues.

- The Credit and Collection Committee (CRECOL), chaired by the Chief Executive Officer (CEO) and composed of the heads of credit risk-taking business units and the head of credit management group, meets weekly to review and approve credit exposures within its authority. It also reviews plans and progress on the resolution of problem loan accounts.

- The Asset/Liability Committee (ALCO), chaired by the Treasurer of the Parent Company and with the participation of the CEO and key business and support unit heads meets weekly to appraise market trends, and economic and political developments. It provides direction in the management of interest rate risk, liquidity risk, foreign currency risk, and trading and investment portfolio decisions. It sets prices or rates for various asset and liability, and trading products, in light of funding costs and competitive and other market conditions. It receives confirmation that market risk limits (as described in the succeeding pages) are not breached; or if breached, it provides guidance on the handling of the relevant risk exposure in between ROC meetings.

- The Related Party Transactions Management Committee (RPT ManCom), composed of the Group Heads of the business units as specified in the charter or their respective designates. It meets monthly to review and approve proposed non-material RPTs or those that do not require Board approval to ensure that the said RPTs are conducted in the regular course of business and not undertaken on more favorable economic terms (e.g. price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances. On favorable review, the RPT ManCom approves the non-material RPT and submits the same to the BOD for confirmation.

- The Anti-Money Laundering Management Committee (AML ManCom), which meets weekly, evaluates the unusual/suspicious transaction reported by the different bank units, RCBC Business Centers, alerts that are generated by the Bank's Screening System (Accuity), Transaction Monitoring System (Predator) and other referrals from relevant Regulators to determine the filing of Suspicious Transaction Reports (STRs) to the Anti-Money Laundering Council (AMLC).

  The AML ManCom is composed of the Chief Compliance Officer as the Chairperson and Presiding Officer and the Heads of Operations Group, Retail Banking Group, Controllership Group, Legal Affairs Group, Risk Management Group or their duly appointed designates, as members, and Investigators from the Compliance Operations Division (COD) as the Rapporteur. The AML Monitoring and Reporting Division (AMRD), through the Chief Compliance Officer, reports to the AML Board Committee its monthly activities including the results of the AML ManCom meetings.

The Parent Company established a Risk Management Group (RMG), headed by the Chief Risk Officer, to ensure that consistent implementation of the objectives of risk identification, measurement and/or assessment, mitigation, and monitoring are pursued via practices commensurate with the group-wide risk profile.

In addition to established risk management systems and controls, the Group holds capital commensurate with the levels of risk it undertakes (see Note 5), in accordance with regulatory capital standards and internal benchmarks set by the Parent Company's BOD.

### *4.1 Group's Strategy in Using Financial Instruments*

It is the Group's intent to generate returns mainly from the traditional financial intermediation and service-provision activities, augmented by returns from positions based on views on the financial markets. The main source of risk, therefore, remains to be that arising from credit risk exposures. Nevertheless, within BSP regulatory constraints, and subject to limits and parameters established by the BOD and/or the ROC, the Group is exposed to liquidity risk and interest rate risk inherent in the Group's operations, and other market risks, which include foreign exchange risk.

In the course of performing financial intermediation function, the Group accepts deposits from customers at fixed and floating rates, and for various periods, and seeks to earn interest margins by investing these funds in high-quality assets. The conventional strategy to enhance net interest margin is the investment of short-term funds in longer-term assets, such as fixed-income securities. While, in doing so, the Group maintains liquidity at prudent levels to meet all claims that fall due, the Group fully recognizes the consequent interest rate risk exposure.

The Group's investment portfolio is composed mainly of marketable, sovereign and corporate debt instruments.

The Parent Company was granted by the BSP additional derivatives authorities effective January 2011. Products approved under the Limited Dealer Authority (Type 2) are foreign currency forwards, non-deliverable forwards, interest rate and cross currency swaps while credit-linked notes and bond options were approved under the Limited User Authority (Type 3). In February 2012, bond forwards, non-deliverable swaps and foreign exchange options have been included under the same Type 3 license. In June 2013, the Parent Company was granted a Type 2 license non-deliverable swaps, foreign currency options, bond and interest rate options, and asset swaps. During the same period, additional Type 3 licenses for foreign exchange-option and bond-option linked notes were likewise approved. The Parent Company's derivatives portfolio consists mostly of short-term currency forward contracts and swaps, and interest rate swaps and futures.

### *4.2 Liquidity Risk*

Liquidity risk refers to current and prospective risk to earnings or capital arising from a 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. The Group manages liquidity risk by limiting the maturity mismatch between assets and liabilities, and by holding sufficient liquid assets of appropriate quality and marketability.

The Group recognizes the liquidity risk inherent in its activities, and identifies, measures, monitors and controls the liquidity risk inherent to the members of the Group which are financial intermediaries.

The Group's liquidity policy is to manage its operations to ensure that funds available are more than adequate to meet demands of its customers and to enable deposits to be repaid on maturity. The Group's liquidity policies and procedures are set out in its funding and liquidity plan which contains certain funding requirements based on assumptions and uses resources and liability maturity gap analysis.

The Group uses Maximum Cumulative Outflow (MCO) model to measure liquidity risk arising from mismatches of assets and liabilities. MCO is a liquidity gap tool to project cash flow expectations on a status quo condition. The MCO is generated by distributing the cash flows of the Group's assets, liabilities and off-balance sheet items to time buckets based cash flow expectations such as contractual maturity, nature of the account, behavioral patterns, projections on business strategies, and/or optionality of certain products.

The incorporation of behavioral cash flow assumptions and business projections or targets results in a dynamic gap report which realistically captures the behavior of the products and creates a forward-looking cash flow projection.

The Group monitors MCO regularly to ensure that it remains within the set limits. The Parent Company generates and monitors daily its MCO. The subsidiaries generate at least monthly their respective MCO reports. The liquidity profile of the Group is reported monthly to the Parent Company's ROC. To supplement the status quo scenario parameters reflected in the MCO report, the Group also conducts liquidity stress testing to determine the impact of extreme factors, scenarios and events to the Group's liquidity profile.

The gap analyses as of December 31, 2023 and 2022 are presented below.

| | Group 2023 | | | | | |
|---|---|---|---|---|---|---|
| | One to Three Months | Three Months to One Year | One to Five Years | More than Five Years | Non-maturity | Total |
| **Resources:** | | | | | | |
| Cash and cash equivalents | P 190,847 | P 1,502 | P 1,727 | P 1 | P 56,031 | P 250,108 |
| Investment - net | 9,989 | 3,818 | 112,095 | 201,914 | 2,926 | 330,742 |
| Loans and receivables - net | 38,995 | 29,486 | 153,155 | 151,395 | 249,118 | 622,149 |
| Other resources - net | 7,716 | 6,507 | 1,100 | 1,354 | 18,656 | 35,333 |
| Total resources | 247,547 | 41,313 | 268,077 | 354,664 | 326,731 | 1,238,332 |
| **Liabilities:** | | | | | | |
| Deposit liabilities | 184,137 | 15,725 | 22,859 | 7 | 733,984 | 956,712 |
| Bills payable | 42,698 | 2,293 | 4,349 | 396 | 1,122 | 50,858 |
| Bonds payable | - | 30,809 | 4,130 | - | - | 34,939 |
| Other liabilities | 12,833 | 16,507 | 297 | 411 | 13,500 | 43,548 |
| Total liabilities | 239,668 | 65,334 | 31,635 | 814 | 748,606 | 1,086,057 |
| **Equity** | - | - | - | - | 152,275 | 152,275 |
| Total liabilities and equity | 239,668 | 65,334 | 31,635 | 814 | 900,881 | 1,238,332 |
| **On-book gap** | 7,879 | ( 24,021) | 236,442 | 353,850 | ( 574,150) | - |
| **Cumulative on-book gap** | 7,879 | ( 16,142) | 220,300 | 574,150 | - | - |
| Contingent resources | 53,274 | 6,091 | - | - | - | 59,365 |
| Contingent liabilities | 71,752 | 6,140 | - | - | - | 77,892 |
| **Off-book gap** | ( 18,478) | ( 49) | - | - | - | ( 18,527) |
| **Cumulative off-book gap** | ( 18,478) | ( 18,527) | ( 18,527) | ( 18,527) | ( 18,527) | - |
| **Periodic gap** | **( 10,599)** | **( 24,070)** | **236,442** | **353,850** | **( 574,150)** | **18,527** |
| **Cumulative total gap** | **( P 10,599)** | **( P 34,669)** | **P 201,773** | **P 555,623** | **(P 18,527)** | **P -** |

| | Group 2022 | | | | | |
|---|---|---|---|---|---|---|
| | One to Three Months | Three Months to One Year | One to Five Years | More than Five Years | Non-maturity | Total |
| Resources: | | | | | | |
| Cash and cash equivalents | P 143,756 | P 1,941 | P 2,583 | P 1 | P 60,042 | P 208,323 |
| Investment - net | 104,192 | 6,773 | 69,882 | 187,972 | 5,546 | 374,365 |
| Loans and receivables - net | 31,278 | 23,537 | 39,306 | 47,412 | 398,315 | 539,848 |
| Other resources - net | 3,230 | 4,109 | 1,195 | 294 | 22,744 | 31,572 |
| Total resources | 282,456 | 36,360 | 112,966 | 235,679 | 486,647 | 1,154,108 |
| Liabilities: | | | | | | |
| Deposit liabilities | 182,086 | 24,074 | 10,413 | 4 | 640,667 | 857,244 |
| Bills payable | 48,571 | 10,848 | 6,863 | - | 378 | 66,660 |
| Bonds payable | 25,081 | 13,743 | 35,587 | - | - | 74,411 |
| Other liabilities | 14,506 | 11,385 | 428 | - | 13,113 | 39,432 |
| Total liabilities | 270,244 | 60,050 | 53,291 | 4 | 654,158 | 1,037,747 |
| Equity | - | - | - | - | 116,361 | 116,361 |
| Total liabilities and equity | 270,244 | 60,050 | 53,291 | 4 | 770,519 | 1,154,108 |
| On-book gap | 12,212 | ( 23,690) | 59,675 | 235,675 | ( 283,872) | - |
| Cumulative on-book gap | 12,212 | ( 11,478) | 48,197 | 283,872 | - | - |
| Contingent resources | 41,796 | - | - | - | - | 41,796 |
| Contingent liabilities | 62,608 | - | - | - | - | 62,608 |
| Off-book gap | ( 20,812) | - | - | - | - | ( 20,812) |
| Cumulative off-book gap | ( 20,812) | ( 20,812) | ( 20,812) | ( 20,812) | ( 20,812) | - |
| Periodic gap | ( 8,600) | ( 23,690) | 59,675 | 235,675 | ( 283,872) | 20,812 |
| Cumulative total gap | ( P 8,600) | ( P 32,290) | P 27,385 | P 263,060 | ( P 20,812) | P - |

| | Parent Company 2023 | | | | | |
|---|---|---|---|---|---|---|
| | One to Three Months | Three Months to One Year | One to Five Years | More than Five Years | Non-maturity | Total |
| **Resources:** | | | | | | |
| Cash and cash equivalents | P 170,128 | P 20,756 | P 1,118 | P 1 | P 55,938 | P 247,941 |
| Investments - net | 10,134 | 408 | 112,095 | 203,726 | 2,080 | 328,443 |
| Loans and receivables - net | 38,525 | 28,726 | 148,270 | 151,286 | 249,094 | 615,901 |
| Other resources - net | 7,630 | 6,350 | 1,100 | 1,499 | 22,026 | 38,605 |
| Total resources | 226,417 | 56,240 | 262,583 | 356,512 | 329,138 | 1,230,890 |
| **Liabilities:** | | | | | | |
| Deposit liabilities | 183,600 | 15,579 | 22,856 | 8 | 735,326 | 957,369 |
| Bills payable | 42,314 | - | 1,247 | 396 | - | 43,957 |
| Bonds payable | - | 30,809 | 4,130 | - | - | 34,939 |
| Other liabilities | 11,853 | 16,483 | 297 | 1,275 | 12,451 | 42,359 |
| Total liabilities | 237,767 | 62,871 | 28,530 | 1,679 | 747,777 | 1,078,624 |
| **Equity** | - | - | - | - | 152,266 | 152,266 |
| Total liabilities and equity | 237,767 | 62,871 | 28,530 | 1,679 | 900,043 | 1,230,890 |
| **On-book gap** | ( 11,350 ) | ( 6,631) | 234,053 | 354,833 | ( 570,905) | - |
| **Cumulative on-book gap** | ( 11,350 ) | ( 17,981) | 216,072 | 570,905 | - | - |
| Contingent resources | 53,269 | 6,091 | - | - | - | 59,360 |
| Contingent liabilities | 71,752 | 6,140 | - | - | - | 77,892 |
| **Off-book gap** | ( 18,483 ) | ( 49 ) | - | - | - | ( 18,532) |
| **Cumulative off-book gap** | ( 18,483) | ( 18,532 ) | ( 18,532) | ( 18,532) | ( 18,532) | - |
| **Periodic gap** | **( 29,833)** | **( 6,680)** | **234,053** | **354,833** | **( 570,905)** | **18,532** |
| **Cumulative total gap** | **( P 29,833)** | **(P 36,513)** | **P 197,540** | **P 552,373** | **(P 18,532)** | **P -** |

| | Parent Company 2022 | | | | | |
|---|---|---|---|---|---|---|
| | One to Three Months | Three Months to One Year | One to Five Years | More than Five Years | Non-maturity | Total |
| Resources: | | | | | | |
| Cash and cash equivalents | P 142,520 | P 1,525 | P 1,316 | P 1 | P 60,958 | P 206,320 |
| Investments - net | 102,319 | 6,773 | 69,882 | 187,972 | 4,786 | 371,732 |
| Loans and receivables - net | 30,438 | 22,856 | 32,869 | 47,409 | 398,621 | 532,193 |
| Other resources - net | 3,106 | 4,109 | 1,195 | 294 | 25,800 | 34,504 |
| Total resources | 278,383 | 35,263 | 105,262 | 235,676 | 490,165 | 1,144,749 |
| Liabilities: | | | | | | |
| Deposit liabilities | 181,529 | 23,903 | 10,410 | 4 | 641,793 | 857,639 |
| Bills payable | 48,142 | 8,995 | 1,254 | - | - | 58,391 |
| Bonds payable | 25,081 | 13,743 | 35,587 | - | - | 74,411 |
| Other liabilities | 13,975 | 11,366 | 428 | - | 12,255 | 38,024 |
| Total liabilities | 268,727 | 58,007 | 47,679 | 4 | 654,048 | 1,028,465 |
| Equity | - | - | - | - | 116,284 | 116,284 |
| Total liabilities and equity | 268,727 | 58,007 | 47,679 | 4 | 770,332 | 1,144,749 |
| On-book gap | 9,656 | ( 22,744) | 57,583 | 235,672 | ( 280,167) | - |
| Cumulative on-book gap | 9,656 | ( 13,088) | 44,495 | 280,167 | - | - |
| Contingent resources | 41,767 | - | - | - | - | 41,767 |
| Contingent liabilities | 48,956 | - | - | - | - | 48,956 |
| Off-book gap | ( 7,189) | - | - | - | - | ( 7,189) |
| Cumulative off-book gap | ( 7,189) | ( 7,189) | ( 7,189) | ( 7,189) | ( 7,189) | - |
| Periodic gap | 2,467 | ( 22,744) | 57,583 | 235,672 | ( 280,167) | 7,189 |
| Cumulative total gap | P 2,467 | ( P 20,277) | P 37,306 | P 272,978 | (P 7,189) | P - |

Pursuant to applicable BSP regulations, the Group is required to maintain reserves against deposit liabilities which are based on certain percentages of deposits. The required reserves against deposit liabilities shall be kept in the form of deposits placed in the Group's demand deposit accounts with the BSP. The BSP also requires the Parent Company to maintain asset cover of 100% for foreign currency-denominated liabilities of its FCDU.

### *4.2.1 Foreign Currency Liquidity Management*

The liquidity risk management policies and objectives described also apply to the management of any foreign currency to which the Group maintains significant exposure. Specifically, the Group ensures that its measurement, monitoring, and control systems account for these exposures as well. The Group sets and regularly reviews limits on the size of the cash flow mismatches for each significant individual currency and in aggregate over appropriate time horizons. The Group also assesses its access to foreign exchange markets when setting up its risk limits.

Following MORB Section 130 and Appendices 94, 95, and 96 on ICAAP, the Group likewise calculates and maintains a level of capital needed to support unexpected losses attributable to liquidity risk (see Note 5.2).

#### *4.2.2 Liquidity Risk Stress*

To augment the effectiveness of the Group's gap analysis, the Group regularly assesses liquidity risk based on behavioral and hypothetical assumptions under stress conditions. Survivability and resilience of the Group are assessed for a minimum stress period of 30 days for all crisis scenarios enumerated in MORB Section 145 and Appendix 71: *Guidelines on Liquidity Risk Management*. The results of these liquidity stress simulations are reported monthly to ALCO and ROC.

### *4.3 Market Risk*

The Group's exposure to market risk is the potential diminution of earnings arising from the adverse movement of market interest rates and foreign exchange rates, as well as the potential loss of market value, primarily of its holdings of foreign exchange currencies, debt securities and derivatives.

The market risks of the Group are: (a) foreign exchange risk, (b) interest rate risk and (c) equity price risk. The Group manages these risks via a process of identifying, analyzing, measuring and controlling relevant market risk factors, and establishing appropriate limits for the various exposures. The market risk metrics in use, each of which has a corresponding limit, include the following:

- Nominal Position – an open risk position that is held as of any point in time expressed in terms of the nominal amount of the exposure.

- Dollar Value of 01 (DV01) – an estimate of the price impact due to a one-basis point change in the yield of fixed income securities. It effectively captures both the nominal size of the portfolio as well as its duration. A given DV01 limit accommodates various combinations of portfolio nominal size and duration, thus providing a degree of flexibility to the trading/risk taking function, but at the same time represents a ceiling to the rate sensitivity of the exposure according to the Group's risk appetite.

- Value-at-Risk (VaR) – an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movements of the relevant market risk factors, and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Group uses a 99% confidence level for this measurement. VaR is used as a risk measure for trading positions, which are marked-to-market (as opposed to exposures resulting from banking, or accrual, book resources and liabilities). Foreign Exchange Position VaR uses a one-day holding period, while Fixed Income VaR uses a defeasance period assessed periodically as appropriate to allow an orderly unwinding of the position. VaR models are back-tested to ensure that results remain consistent with the expectations based on the chosen statistical confidence level. The Bank employs appropriate back-testing methodology to perform a "reality check" on the models used. More specifically, the current back-test procedure employs the "hypothetical P&L" method where the daily position from which the VaR was computed is marked-to-market using the closing price of that day and the closing price of the next trading day. Any change in value in excess of the day's VaR is treated as an exception.

The Parent Company uses VaR as an important tool for measuring market risk, they are cognizant of its limitations, notably the following:

- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

- VaR is based on historical volatility. Future volatility may be different due to either random, one-time events or structural changes (including changes in correlation). VaR may be unable to capture volatility due to either of these.

- The holding period assumption may not be valid in all cases, such as during periods of extremely stressed market liquidity.

- VaR is, by definition, an estimate at a specified level of confidence. Losses may occur beyond VaR. A 99% VaR implies that losses can exceed VaR 1% of the time.

- In cases where a parametric distribution is assumed to calculate VaR, the assumed distribution may not fit the actual distribution well.

- VaR assumes a static position over the holding period. In reality, trading positions change, even during the trading day.

In addition to the limits corresponding to the above measurements, the following are also in place:

- Loss Limit – represents a ceiling on accumulated month-to-date and year-to-date losses. For trading positions, a Management Action Trigger (MAT) is also usually defined to be at 50% of the Loss Limit. When MAT is breached, the risk-taking unit must consult with ALCO for approval of a course of action moving forward.

- Product Limit – the nominal position exposure for certain specific financial instruments is established.

Stress Testing, which uses more severe rate/price volatility and/or holding period assumptions, (relative to those used for VaR) is applied to marked-to-market positions to arrive at "worst case" loss estimates. This supplements the VaR measure, in recognition of its limitations mentioned above.

A summary of the VaR position of the trading portfolios at December 31 is as follows:

| | **Group and Parent Company** | | | |
|---|---|---|---|---|
| | **At December 31** | **Average** | **Maximum** | **Minimum** |
| **2023:** | | | | |
| Foreign currency risk | P 45 | P 77 | P 215 | P 14 |
| Interest rate risk | 638 | 374 | 640 | 225 |
| Overall | **P 683** | **P 451** | **P 855** | **P 239** |
| 2022: | | | | |
| Foreign currency risk | P 54 | P 56 | P 106 | P 27 |
| Interest rate risk | 639 | 435 | 639 | 376 |
| Overall | P 693 | P 491 | P 745 | P 403 |

| | Group and Parent Company | | | |
|---|---|---|---|---|
| | At December 31 | Average | Maximum | Minimum |
| 2021: | | | | |
| Foreign currency risk | P 51 | P 56 | P 112 | P 37 |
| Interest rate risk | 501 | 425 | 769 | 183 |
| Overall | P 552 | P 481 | P 881 | P 220 |

### *4.3.1 Foreign Exchange Risk*

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The net foreign exchange exposure, or the difference between foreign currency denominated assets and foreign currency denominated liabilities, is capped by current BSP regulations. Compliance with this ceiling by the Group and the respective foreign currency positions of its subsidiaries are reported to the BSP on a daily basis as required. Beyond this constraint, the Group manages its foreign exchange exposure by limiting it within the conservative levels justifiable from a return/risk perspective. In addition, the Group regularly calculates VaR for each currency position, which is incorporated in the foregoing market risk management discussion.

The following table sets forth the impact of reasonably possible changes in the USD exchange rate and other currencies per Philippine peso on pre-tax income and equity of the Group and Parent Company:

| | **Group and Parent Company** | | | | | |
|---|---|---|---|---|---|---|
| | **2023** | | | 2022 | | |
| | **Change in currency rate in %** | **Effect on profit before tax** | **Effect on equity** | Change in currency rate in % | Effect on profit before tax | Effect on equity |
| **Currency:** | | | | | | |
| USD | **+1.00%** | **(P 4)** | **(P 4)** | +1.00% | P - | P - |
| | **-1.00%** | **4** | **4** | -1.00% | - | - |
| EUR | **+1.00%** | **( 4)** | **( 4)** | +1.00% | ( 1) | ( 1) |
| | **-1.00%** | **4** | **4** | -1.00% | 1 | 1 |
| GBP | **+1.00%** | **2** | **2** | +1.00% | ( 2) | ( 2) |
| | **-1.00%** | **( 2)** | **( 2)** | -1.00% | 2 | 2 |
| Others | **+1.00%** | **7** | **7** | +1.00% | 5 | 5 |
| | **-1.00%** | **( 7)** | **( 7)** | -1.00% | ( 5) | ( 5) |

Closing exchange rates and weighted average rates (WAR) of USD to Philippine peso as of and for each of the year ended December 31 are as follows:

| | **2023** | 2022 | 2021 |
|---|---|---|---|
| Closing | **P 55.37** | P 55.76 | P 50.99 |
| WAR | **55.51** | 55.58 | 49.26 |

The breakdown of the financial resources and financial liabilities as to foreign and Philippine peso-denominated balances, after elimination of intercompany accounts or transactions, as of December 31 follows:

| | Group | | |
|---|---|---|---|
| | Foreign Currencies | Philippine Pesos | Total |
| **2023:** | | | |
| **Resources:** | | | |
| Cash and other cash items | P 1,146 | P 18,729 | P 19,875 |
| Due from BSP | - | 151,762 | 151,762 |
| Due from other banks | 13,836 | 1,056 | 14,892 |
| Loans arising from reverse repurchase agreements | - | 35,799 | 35,799 |
| Financial assets at FVTPL | 3,788 | 7,990 | 11,778 |
| Financial assets at FVOCI | 17,582 | 64,855 | 82,437 |
| Investment securities at amortized cost - net | 87,444 | 149,083 | 236,527 |
| Loans and receivables - net | 85,639 | 564,290 | 649,929 |
| Other resources - net | 40 | 1,419 | 1,459 |
| | **P 209,475** | **P 994,983** | **P 1,204,458** |
| **Liabilities:** | | | |
| Deposit liabilities | P 189,457 | P 767,255 | P 956,712 |
| Bills payable | 43,957 | 6,901 | 50,858 |
| Bonds payable | 16,053 | 18,886 | 34,939 |
| Accrued interest and other expenses | 29 | 10,716 | 10,745 |
| Other liabilities | 1,610 | 25,380 | 26,990 |
| | **P 251,106** | **P 829,138** | **P 1,080,244** |
| 2022: | | | |
| Resources: | | | |
| Cash and other cash items | P 1,111 | P 16,967 | P 18,078 |
| Due from BSP | - | 156,664 | 156,664 |
| Due from other banks | 4,866 | 970 | 5,836 |
| Loans arising from reverse repurchase agreements | - | 8,724 | 8,724 |
| Financial assets at FVTPL | 392 | 6,645 | 7,037 |
| Financial assets at FVOCI | 46,124 | 68,822 | 114,946 |
| Investment securities at amortized cost - net | 118,135 | 134,247 | 252,382 |
| Loans and receivables - net | 85,911 | 472,958 | 558,869 |
| Other resources - net | 417 | 787 | 1,204 |
| | P 256,956 | P 866,784 | P 1,123,740 |
| Liabilities: | | | |
| Deposit liabilities | P 170,613 | P 686,631 | P 857,244 |
| Bills payable | 58,391 | 8,269 | 66,660 |
| Bonds payable | 41,782 | 32,629 | 74,411 |
| Accrued interest and other expenses | 1,507 | 6,350 | 7,857 |
| Other liabilities | 1,028 | 24,305 | 25,333 |
| | P 273,321 | P 758,184 | P 1,031,505 |

| | Parent Company | | |
|---|---|---|---|
| | Foreign Currencies | Philippine Pesos | Total |
| **2023:** | | | |
| **Resources:** | | | |
| Cash and other cash items | P 1,146 | P 18,666 | P 19,812 |
| Due from BSP | - | 150,771 | 150,771 |
| Due from other banks | 13,819 | 811 | 14,630 |
| Loans arising from reverse repurchase agreements | - | 34,948 | 34,948 |
| Financial assets at FVTPL | 3,788 | 7,166 | 10,954 |
| Financial assets at FVOCI | 17,576 | 64,181 | 81,757 |
| Investment securities at amortized cost - net | 87,444 | 148,288 | 235,732 |
| Loans and receivables - net | 85,639 | 558,042 | 643,681 |
| Other resources - net | 40 | 1,417 | 1,457 |
| | **P 209,452** | **P 984,290** | **P 1,193,742** |
| **Liabilities:** | | | |
| Deposit liabilities | P 189,457 | P 767,912 | P 957,369 |
| Bills payable | 43,957 | - | 43,957 |
| Bonds payable | 16,053 | 18,886 | 34,939 |
| Accrued interest and other expenses | 29 | 10,446 | 10,475 |
| Other liabilities | 1,610 | 24,608 | 26,218 |
| | **P 251,106** | **P 821,852** | **P 1,072,958** |
| 2022: | | | |
| Resources: | | | |
| Cash and other cash items | P 1,111 | P 16,913 | P 18,024 |
| Due from BSP | - | 155,340 | 155,340 |
| Due from other banks | 4,866 | 517 | 5,383 |
| Loans arising from reverse repurchase agreements | - | 8,552 | 8,552 |
| Financial assets at FVTPL | 392 | 5,747 | 6,139 |
| Financial assets at FVOCI | 46,124 | 68,141 | 114,265 |
| Investment securities at amortized cost - net | 118,135 | 133,193 | 251,328 |
| Loans and receivables - net | 85,911 | 465,303 | 551,214 |
| Other resources - net | 417 | 785 | 1,202 |
| | P 256,956 | P 854,491 | P 1,111,447 |
| Liabilities: | | | |
| Deposit liabilities | P 170,613 | P 687,026 | P 857,639 |
| Bills payable | 58,391 | - | 58,391 |
| Bonds payable | 41,782 | 32,629 | 74,411 |
| Accrued interest and other expenses | 1,507 | 6,156 | 7,663 |
| Other liabilities | 1,028 | 23,259 | 24,287 |
| | P 273,321 | P 749,070 | P 1,022,391 |

### *4.3.2 Interest Rate Risk in the Banking Book (IRRBB)*

The interest rate risk inherent in the Group's financial statements arises from re-pricing mismatches between financial assets and financial liabilities. The IRRBB Management Framework details the Group's policy on managing its assets and liabilities to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

To aid the Group in managing IRRBB, the following measurement techniques are used. These are prepared and reported to ALCO and ROC, on a monthly basis.

| Technique | Description |
|---|---|
| **Interest Rate Gap or Re-pricing Gap** | *Contractual Gap*<br>Measures the sensitivity of assets, liabilities and off-balance sheet items towards changes in the market interest rates based on the re-pricing frequency of each item.<br><br>*Behavioral Gap*<br>Behavioral assumption (BeA) is applied to the contractual cash flows to reflect sensitivity to market conditions or behavioral characteristics (i.e., early redemption of deposits, prepayment of loans, etc.). |
| **Earnings Approach** | |
| Net Interest Income at Risk | Measures the sensitivity of earnings to market interest rates movements over a short- and medium-term horizon. Interest rate volatility is based on the maximum volatility of the 1-mo, 3-mo, 6-mo and 1-yr tenors over a 260-day look back. |
| **Economic Value Approach** | |
| Earnings-at-Risk | Measures the sensitivity of capital to market interest rates given the resulting Net Interest Income (NII)-at-Risk and fair value through profit and loss portfolio value-at-risk (FVTPL VaR). |
| Capital-at-Risk | Measures the sensitivity of capital to market interest rates given the resulting EaR and fair value through other comprehensive income value-at-risk (FVOCI VaR). |
| Economic Value of Equity (EVE) | Measures the sensitivity of economic value of all non-trading book assets, liabilities and interest rate sensitive off-balance sheet products to interest rate movements over a longer time horizon. |
| Stress Test | Assesses the ability to withstand such changes, usually in relation to the capacity of its capital and earnings to absorb potentially significant loses. Stress testing, which includes both scenario and sensitivity analysis, is an integral part of IRR management. Scenario analysis estimates possible outcomes given an event or series of events, while sensitivity analysis estimates the impact of change in one or only a few of model's significant parameters.<br><br>*Earnings approach*: NII-at-Risk Stress Test assumes gradual increase in Peso and USD interest rates to 400bps and 300bps, respectively. These are based on past local and global market events.<br><br>*Economic Value approach*: The EVE Stress Test uses Basel's six interest rate scenarios to capture parallel and non-parallel gap risks. The standardized scenarios are as follows: 1) parallel shock up; 2) parallel shock down; 3) steepener shock (short rates down and long rates up); 4) flattener shock (short rates up and long rates down; 5) short rates shock up; and, 6) short rates shock down. |

The interest rate gap analyses of financial assets and financial liabilities as of end of the reporting period based on re-pricing maturities are shown in the succeeding pages. It should be noted that such interest rate gap analyses are based on the following key assumptions:

- Loans and time deposits are subject to re-pricing on their contractual maturity dates. Non-performing loans (NPL), however, are not re-priced;
- Debt securities at amortized cost are bucketed based on their re-pricing profile;
- Held-for-trading securities and derivatives are considered as non-rate sensitive; and,
- For financial assets and financial liabilities with no definite re-pricing schedule or maturity, slotting is based on the Group's empirical assumptions.

These assumptions are reviewed on a regular basis. Similarly, other assumptions and behavioral models used in the preparation of other IRRBB metrics are also being reviewed, annually, at the minimum.

| | Group 2023 | | | | | |
|---|---|---|---|---|---|---|
| | **One to Three Months** | **Three Months to One Year** | **One to Five Years** | **More than Five Years** | **Non-rate Sensitive** | **Total** |
| **Resources:** | | | | | | |
| Cash and cash equivalents | P 166,452 | P 2,103 | P 29,153 | P 32,376 | P 20,024 | P 250,108 |
| Investments - net | 1,822 | 3,286 | 69,910 | 243,158 | 12,566 | 330,742 |
| Loans and receivables - net | 391,011 | 58,068 | 132,177 | 5,557 | 35,336 | 622,149 |
| Other resources - net | 7,772 | 988 | 1,113 | 1,693 | 23,767 | 35,333 |
| Total resources | 567,057 | 64,445 | 232,353 | 282,784 | 91,693 | 1,238,332 |
| **Liabilities:** | | | | | | |
| Deposit liabilities | 458,990 | 44,396 | 237,728 | 215,292 | 306 | 956,712 |
| Bills payable | 42,698 | 2,293 | 4,349 | 396 | 1,122 | 50,858 |
| Bonds payable | - | 30,809 | 4,130 | - | - | 34,939 |
| Other liabilities | 55 | 223 | 44 | 1,574 | 41,652 | 43,548 |
| Total liabilities | 501,743 | 77,721 | 246,251 | 217,262 | 43,080 | 1,086,057 |
| **Equity** | - | - | - | - | 152,275 | 152,275 |
| Total liabilities and equity | 501,743 | 77,721 | 246,251 | 217,262 | 195,355 | 1,238,332 |
| On-book gap | 65,314 | ( 13,276) | ( 13,898 ) | 65,522 | ( 103,662) | - |
| Cumulative on-book gap | 65,314 | 52,038 | 38,140 | 103,662 | - | - |
| Contingent resources | 53,274 | 6,091 | - | - | - | 59,365 |
| Contingent liabilities | 71,752 | 6,140 | - | - | - | 77,892 |
| **Off-book gap** | ( 18,478) | ( 49) | - | - | - | ( 18,527) |
| **Cumulative off-book gap** | ( 18,478) | ( 18,527) | ( 18,527 ) | ( 18,527) | ( 18,527) | - |
| **Periodic gap** | **46,836** | **( 13,325)** | **( 13,898 )** | **65,522** | **( 103,662)** | **( 18,527)** |
| **Cumulative total gap** | **P 46,836** | **P 33,511** | **P 19,613** | **P 85,135** | **(P 18,527)** | **P -** |

| | Group 2022 | | | | | |
|---|---|---|---|---|---|---|
| | One to Three Months | Three Months to One Year | One to Five Years | More than Five Years | Non-rate Sensitive | Total |
| Resources: | | | | | | |
| Cash and cash equivalents | P 162,611 | P 4,970 | P 1,403 | P 21,010 | P 18,329 | P 208,323 |
| Investments - net | 99,525 | 6,838 | 69,910 | 187,876 | 10,216 | 374,365 |
| Loans and receivables - net | 229,590 | 92,608 | 132,177 | 30,710 | 54,763 | 539,848 |
| Other resources - net | 3,283 | 1,082 | 1,113 | 423 | 25,671 | 31,572 |
| Total resources | 495,009 | 105,498 | 204,603 | 240,019 | 108,979 | 1,154,108 |
| Liabilities: | | | | | | |
| Deposit liabilities | 476,848 | 76,158 | 156,993 | 146,761 | 484 | 857,244 |
| Bills payable | 48,571 | 10,848 | 6,863 | - | 378 | 66,660 |
| Bonds payable | 25,081 | 13,743 | 35,587 | - | - | 74,411 |
| Other liabilities | 839 | 132 | 252 | - | 38,209 | 39,432 |
| Total liabilities | 551,339 | 100,881 | 199,695 | 146,761 | 39,071 | 1,037,747 |
| Equity | - | - | - | - | 116,361 | 116,361 |
| Total liabilities and equity | 551,339 | 100,881 | 199,695 | 146,761 | 155,432 | 1,154,108 |
| On-book gap | ( 56,330) | 4,617 | 4,908 | 93,258 | ( 46,453) | - |
| Cumulative on-book gap | ( 56,330) | ( 51,713) | ( 46,805) | 46,453 | - | - |
| Contingent resources | 41,796 | - | - | - | - | 41,796 |
| Contingent liabilities | 62,608 | - | - | - | - | 62,608 |
| Off-book gap | ( 20,812) | - | - | - | - | ( 20,812) |
| Cumulative off-book gap | ( 20,812) | ( 20,812) | ( 20,812) | ( 20,812) | ( 20,812) | - |
| Periodic gap | ( 77,142) | 4,617 | 4,908 | 93,258 | ( 46,453) | ( 20,812) |
| Cumulative total gap | (P 77,142) | (P 72,525) | (P 67,617) | P 25,641 | (P 20,812) | P - |

| | Parent Company 2023 | | | | | |
|---|---|---|---|---|---|---|
| | **One to Three Months** | **Three Months to One Year** | **One to Five Years** | **More than Five Years** | **Non-rate Sensitive** | **Total** |
| **Resources:** | | | | | | |
| Cash and cash equivalents | P 126,153 | P 1,547 | P 28,545 | P 71,884 | P 19,812 | P 247,941 |
| Investments - net | 282 | 3,286 | 112,230 | 195,089 | 17,556 | 328,443 |
| Loans and receivables - net | 425,330 | 57,308 | 98,344 | 5,538 | 29,381 | 615,901 |
| Other resources - net | 15,137 | 988 | 1,061 | 115 | 21,304 | 38,605 |
| Total resources | 566,902 | 63,129 | 240,180 | 272,626 | 88,053 | 1,230,890 |
| **Liabilities:** | | | | | | |
| Deposit liabilities | 458,452 | 44,250 | 238,758 | 215,909 | | 957,369 |
| Bills payable | 42,314 | - | 1,247 | 396 | - | 43,957 |
| Bonds payable | - | 30,809 | 4,130 | - | - | 34,939 |
| Other liabilities | - | 199 | 44 | 1,273 | 40,843 | 42,359 |
| Total liabilities | 500,766 | 75,258 | 244,179 | 217,578 | 40,843 | 1,078,624 |
| **Equity** | - | - | - | - | 152,266 | 152,266 |
| Total liabilities and equity | 500,766 | 75,258 | 244,179 | 217,578 | 193,109 | 1,230,890 |
| On-book gap | 66,136 | ( 12,129) | ( 3,999) | 55,048 | ( 105,056) | - |
| Cumulative on-book gap | 66,136 | 54,007 | 50,008 | 105,056 | - | - |
| Contingent resources | 53,269 | 6,091 | - | - | - | 59,360 |
| Contingent liabilities | 71,752 | 6,140 | - | - | - | 77,892 |
| Off-book gap | ( 18,483) | ( 49 ) | - | - | - | ( 18,532 ) |
| Cumulative off-book gap | ( 18,483) | ( 18,532) | ( 18,532) | ( 18,532) | ( 18,532) | - |
| **Periodic gap** | **47,653** | **( 12,178 )** | **( 3,999)** | **55,048** | **( 105,056)** | **( 18,532 )** |
| **Cumulative total gap** | **P 47,653** | **P 35,475** | **P 31,476** | **P 86,524** | **(P 18,532)** | **P -** |

| | Parent Company 2022 | | | | | |
|---|---|---|---|---|---|---|
| | One to Three Months | Three Months to One Year | One to Five Years | More than Five Years | Non-rate Sensitive | Total |
| Resources: | | | | | | |
| Cash and cash equivalents | P 161,376 | P 4,554 | P 136 | P 22,230 | P 18,024 | P 206,320 |
| Investments - net | 97,653 | 6,838 | 69,910 | 187,876 | 9,455 | 371,732 |
| Loans and receivables - net | 228,750 | 91,927 | 125,740 | 30,708 | 55,068 | 532,193 |
| Other resources - net | 3,159 | 1,081 | 1,113 | 423 | 28,728 | 34,504 |
| Total resources | 490,938 | 104,400 | 196,899 | 241,237 | 111,275 | 1,144,749 |
| Liabilities: | | | | | | |
| Deposit liabilities | 476,290 | 75,987 | 157,801 | 147,395 | 166 | 857,639 |
| Bills payable | 48,142 | 8,995 | 1,254 | - | - | 58,391 |
| Bonds payable | 25,081 | 13,743 | 35,587 | - - | - - | 74,411 |
| Other liabilities | 308 | 114 | 252 | - | 37,350 | 38,024 |
| Total liabilities | 549,821 | 98,839 | 194,894 | 147,395 | 37,516 | 1,028,465 |
| Equity | - | - | - | - | 116,284 | 116,284 |
| Total liabilities and equity | 549,821 | 98,839 | 194,894 | 147,395 | 153,800 | 1,144,749 |
| On-book gap | ( 58,883) | 5,561 | 2,005 | 93,842 | ( 42,525) | - |
| Cumulative on-book gap | ( 58,883) | ( 53,322) | ( 51,317) | 42,525 | - | - |
| Contingent resources | 41,767 | - | - | - | - | 41,767 |
| Contingent liabilities | 48,956 | - | - | - | - | 48,956 |
| Off-book gap | ( 7,189) | - | - | - | - | ( 7,189) |
| Cumulative off-book gap | ( 7,189) | ( 7,189) | ( 7,189) | ( 7,189) | ( 7,189) | - |
| Periodic gap | ( 66,072) | 5,561 | 2,005 | 93,842 | ( 42,525) | 7,189 |
| Cumulative total gap | (P 66,072) | (P 60,511) | (P 58,506) | P 35,336 | (P 7,189) | P - |

The table below summarizes the potential impact on the Group and the Parent Company's annual interest income of parallel rate shifts using the re-pricing.

| | **Changes in Interest Rates (in basis points)** | | | |
|---|---|---|---|---|
| | **- 100** | **- 200** | **+ 100** | **+ 200** |
| **December 31, 2023** | | | | |
| **Group** | **(P 517)** | **(P 1,033)** | **P 517** | **P 1,033** |
| **Parent Company** | **( 529)** | **( 1,058)** | **529** | **1,058** |
| December 31, 2022 | | | | |
| Group | P 459 | P 918 | (P 459) | (P 918) |
| Parent Company | 480 | 960 | ( 480) | ( 960) |

### *4.3.3 Equity Price Risk*

The Group's exposure to price risk on equity securities held and classified in the statement of financial position as financial assets at FVTPL or financial assets at FVOCI (under Trading and Investment Securities account) as of December 31, 2023 and 2022 is managed through diversification of portfolio and monitoring of changes in market prices. Diversification of the portfolio is done in accordance with the limits set by the Group.

Moreover, RCBC Capital and RSI estimate the potential loss and determine the market and position risk requirement on equity securities at FVTPL in the computation of the market and position risk requirement for all equity positions.

RCBC Capital uses the delta-normal approach as its VaR model to estimate the daily potential loss that can be incurred from equity securities held for trading. VaR is a key measure in the management of market price risk. RCBC Capital uses a 99% confidence level and a minimum 260-day observation period in VaR calculation. In addition, RSI computes its market and position risk for all equity positions, if any, in conjunction with the Risk Based Capital Adequacy ratio required to be maintained. Market and position risk requirement is calculated using position risk factor multiplied by mark-to-market value security.

### *4.4 Credit Risk*

Credit risk is the risk that the counterparty in a transaction may default, and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the Group. The Group manages credit risk through a system of policies and authorities that govern the processes and practices of all credit-originating and borrowing relationship management units.

The Enterprise Risk Division of RMG assists senior management: (a) in establishing risk concentration limits at the portfolio level; and (b) in the continuous monitoring of the actual credit risk portfolio from the perspective of those limits and other risk management objectives. The Credit Management Group (CMG), on the other hand, is responsible for: (a) the development of credit policies relating to account management; (b) the financial evaluation and credit risk rating of borrowers; and, (c) asset quality review.

At the individual borrower level, exposure to credit risk is managed via adherence to a set of policies, the most notable features of which, in this context, are: (a) credit approving authority, except as noted below, is not exercised by a single individual but rather, through a hierarchy of limits that is effectively exercised collectively; (b) business center (BC) managers have limited approval authority only for credit exposure related to deposit-taking operations in the form of bills purchase, acceptance of second endorsed checks and 1:1 loan accommodations; (c) an independent credit risk assessment by the CMG of large corporate and middle-market borrowers, summarized into a borrower risk rating, is provided as input to the credit decision-making process; and, (d) borrower credit analysis is performed at origination and at least annually thereafter or co-terminus with the renewal of the credit line. In addition, adverse economic and market conditions that may impact a certain borrower or a group of borrowers may trigger the Group to conduct a special credit review prior to expiry of credit line.

CMG also identifies homogenous target market and design Credit Programs that will accelerate credit processing of accounts without sacrificing underwriting quality, and, set up enhanced data framework that would deepen the Bank's ability to identify potential problem accounts earlier.

In 2023, the Bank engaged an independent consultant to conduct an independent validation and refresh of the Bank's ECL model parameters, assumptions, design, and calibration. As a result of this refresh, the Bank made the following adjustments to its model:

- accounts with 1 to 30 days past due (DPD) are classified as Stage 1 instead of Stage 2 (see Note 4.4.3);
- a 12-month performance window is observed to consider the probability of an account defaulting in the future (see Note 4.4.5);
- periods affected by the COVID-19 were excluded from the computation of default rates (Note 4.4.6);
- a mean reversion approach was used for consumer loans to project the macroeconomic variables (MEVs) influencing the associated credit risk of the borrowers (Note 4.4.5); and
- the Vasicek equation was used to transform through-the-cycle PDs into point-in-time PDs (Note 4.4.5).

The updated ECL framework of the Bank was approved by ROC on January 19, 2024.

### *4.4.1 Concentrations of Credit Risk*

Credit risk concentration in the context of banking generally denotes the risk arising from an uneven distribution of counterparties in credit or in any other business relationships, or from a concentration in business sectors or geographic regions which is capable of generating losses large enough to jeopardize an institution's solvency. The Group monitors concentrations of credit risk by sector.

An analysis of concentrations of credit risk of the loan portfolio at the end of the reporting period is shown in Note 33.

In the course of the Group's implementation of ICAAP (see Note 5.2), it adopts a quantification of credit risk concentration following frameworks prescribed by some of the more advanced European central banks as well as established concentration metrics. Using sector distribution as a tool, the Group performs a straightforward application of the Herfindahl-Hirshman Index (HHI) to determine the existence of credit risk concentration. The Group supplements this methodology with the use of the Comprehensive Concentration Index (CCI) to monitor and analyze name concentration.

The Group, however, recognizes the inherent limitations of the use of HHI and CCI to assess credit concentration risk. To augment this measure and to appropriately manage said risk, the Group performs an in-depth analysis of its large borrowing groups. To ensure the independence of this process, the review and analysis are done during the ROC meetings.

### *4.4.2 Credit Risk Assessment*

The Group's credit risk assessment is performed based on the different segments of financial asset portfolio such as (a) corporate, which generally include corporate banking group loans, commercial and small-medium size segment loans, lease contract and finance receivables, and unquoted debt securities classified as loan (UDSCL), (b) retail, which include housing, auto, credit cards, and microfinance lending; and, (c) treasury, which covers credit exposures on debt securities under the Group's HTC portfolio and financial assets at FVOCI. The Group also established credit risk assessment procedures for sales contract receivables and other risk assets including accounts receivables.

*i.* *Corporate Loans*

Loans, regardless if the accounts have been fully paid, extended or renewed in subsequent period, are subjected to evaluation for possible losses. The Group's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions (or industry performance), expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such credit risk is measured using PD, LGD, and EAD, for purposes of measuring ECL.

The Group uses its internal credit risk rating system (ICRRS) to determine any evidence of potential deterioration in the quality of an instrument that takes into consideration both quantitative and qualitative criteria. The rating system classifies performing accounts from a scale of AAA indicating an extremely strong capacity of the counterparty to meet financial commitments down to ratings lower than CCC demonstrating weakness in the counterparty's economic and financial condition that could lead to payment default on financial commitments. Past due accounts, accounts identified for phase-out and those that exhibit the characteristics of classified loans shall be risk-rated following the guidelines on credit classification per BSP Manual of Regulations for Banks and under the BSP Circular No. 1011, i.e., Especially Mentioned, Substandard, Doubtful or Loss. These guidelines are used by the Group to assign the individually assessed loan or a group of loans within a particular portfolio segment to a specific stage category under the PFRS 9 loan impairment standards (i.e., Stage 1, 2, 3).

The ICRRS is established by the Group in congruence with and with reference to the credit risk rating methodology used by Standard & Poor's (S&P) in measuring the creditworthiness of an individual borrower, whether the related borrowing is still performing or current in status. The risk ratings determined by the Group for its portfolio of loans and receivables at a given review date is updated to consider the possible shift in the economy or business environment or circumstances affecting the industry and the entity or borrower, in particular. Accordingly, a periodic assessment of credit quality may improve the borrower's rating or it could lead to one or more rating downgrades over time; hence, could lead to the transfer of credit exposure in different stages of impairment. The credit risk ratings in ICRRS are calibrated such that the risk of default increases exponentially at each higher risk rating (e.g., a difference in the PD between a risk rating of A and A- is lower than the difference in the PD between a B and B- risk rating).

In the process of applying the Group's ICRRS in determining the credit quality of loans and receivables, the Group analyzes the credit quality of the borrowers and counterparties through a set of criteria and rating scale classified into the following:

| Rating Scale | Rating Description/Criteria |
|---|---|
| AAA | Extremely strong capacity to meet financial commitments. |
| AA* | Very strong capacity to meet financial commitments. |
| A* | Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances. |
| BBB* | Adequate capacity to meet financial commitments, but more subject to adverse economic conditions. |

| Rating Scale | Rating Description/Criteria |
|---|---|
| BB* | Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions. |
| B* | More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments. |
| CCC and below* | Not at risk of loss at the moment and the borrower has the financial capacity to meet its obligations but its exposure to adverse business, financial or economic conditions has weakened it and, unless present trends are reversed, could eventually lead to losses. |
| Especially Mentioned | Has potential weaknesses that deserve management's close attention and if left uncorrected, these weaknesses may affect the repayment of the loan. |
| Substandard | Have well-defined weakness(es), that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower. |
| Doubtful | Loans and credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable. |
| Loss | Loans considered absolutely uncollectible or worthless. |

** Ratings from AA to CCC are modified by a plus (+) or minus (-) sign to show relative standing within the rating categories.*

As part of credit risk assessment documentation and reporting, the Group includes financial instruments rated as AAA to B- under the "Pass" classification, while instruments rated CCC+ and below are grouped under the Watchlisted classification. Generally, "Pass" classification includes loans and other credit accommodations that do not have a greater-than-normal credit risk and do not possess the characteristics of classified loans. These are credits that have the apparent ability and willingness to satisfy their obligations in full and therefore, no loss in ultimate collection is anticipated. On the other hand, watchlisted counterparties are characterized by the following:

- those that belong to an unfavorable industry or has company-specific risk factors which represent a concern;
- the operating performance and financial strength may be marginal and it is uncertain if borrower can attract alternative course of finance;
- borrower finds it hard to cope with any significant economic downturn and a default in such a case is more than a possibility; and,
- borrower incurs net losses and has salient financial weaknesses, reflected on their financial statements, specifically in profitability.

Split classification/rating may apply for non-performing secured loans and other credit accommodations, depending on the recoverability and liquidity of the collateral. The secured portion may be classified as "substandard" or "doubtful", as appropriate, while the unsecured portion shall be classified "loss" if there is no other source of payment other than the collateral.

In the case of syndicated loans, the Group shall maintain credit information on the borrower, and grade and make provision for its portion of the syndicated loan in accordance with its policy. The lead financial institution or bank shall provide participating financial institutions with the credit information on the borrower upon request by the participating financial institutions and inform the latter if the loan will be classified so as to achieve uniform classification of the syndicated loan.

*(ii) Retail and Other Products*

CMG is tasked to measure, control and manage credit risk on the consumer loans business of the Group through the performance of regular monitoring, reporting and recommendation of risk mitigation measures of the actual credit risk portfolio to the CRECOL and ROC, as well as accomplishment of the corresponding review and development of credit policies and guidelines to sustain asset quality.

For consumer loans, risk assessment is performed on an individual borrower through the use of a credit application scorecard for Housing, Auto and Personal Loans while for Corporate Salary Loans, rule-based credit criteria on company accreditation and borrower evaluation has been established. The credit application scorecard makes use of customer, loan and collateral characteristics which have been assigned weights based on their predictive power in determining the propensity of an account to default or maintain a satisfactory credit performance. Credit decisions are based on recommended score cut-offs.

Asset quality of the Group is monitored through a regular portfolio performance review including customer segmentation and loan concentration risk assessment to identify sources of risk and to determine risk mitigation on segments that drive delinquency or manifests triggers for default. Likewise, close monitoring and review of industry performance, economic changes and market conditions that may affect the consumer loans business is also taken into consideration to establish a holistic risk assessment process.

For the credit card portfolio of the Group, credit risk assessment is performed through segmentation process to diversify the portfolio risk into different homogeneous populations or segments. Over-all account distribution is analyzed for three different snapshots with respect to month-on-month DPD to see consistency in the portfolio.

For microfinance and small business loans, regardless if the accounts have been fully paid, extended or renewed in subsequent period, are subjected to evaluation for possible losses. Credit risk assessment is performed based on groups of loan portfolio segmented by product type such as (a) credit accommodations to small-medium size borrowers; and, (b) agricultural and microfinance loans.

The Group classifies the consumer, microfinance and small business loans based on days past due following the categories that are consistent with the manner applied under the Group's internal credit risk assessment and regulatory reporting as follows:

| Bucket | Classification | Secured | Unsecured |
|---|---|---|---|
| Current | Unclassified | Unclassified | Unclassified |
| One to 30 days | Especially Mentioned | Unclassified | Especially Mentioned |
| 31 to 60 days | Especially Mentioned | Especially Mentioned | Especially Mentioned |
| 61 to 90 days | Substandard | Especially Mentioned | Substandard |
| 91 to 180 days | Substandard | Substandard | Substandard |
| 181 to 365 days | Doubtful | Doubtful | Doubtful |
| More than 365 days | Loss | Loss | Loss |

The Group assigns consumer, microfinance and small business loans based on classification into stages of impairment as follows:

| Classification | Stage |
|---|---|
| Unclassified | 1 |
| Especially Mentioned | 2 |
| Defaulted | 3 |

For purposes of the information disclosed for credit risk exposures, 'defaulted' accounts include those which are classified as Substandard, Doubtful, and Loss.

The groupings of financial instruments into a pool of shared credit quality are subject to the regular review by the Group's CMG in order to ensure that credit exposures within a particular group remain appropriately homogenous.

*(iii) Debt Securities at Amortized Cost and at FVOCI*

For debt securities, the Group adopts similar credit risk ratings published by reputable external rating agency (e.g., S&P). These ratings are continuously monitored and updated. The PD associated with each rating is determined based on realized default rates over the previous 12 months, as published by the rating agency.

### *4.4.3 Assessment of SICR*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group assesses the change in the risk of a default occurring over the remaining life of the financial instrument. In making this assessment, the Group assesses on a periodic basis both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information as appropriate. These may include macroeconomic conditions, economic sector and geographical region relevant to the counterparty or borrower and other factors that are counterparty-specific. As the Group holds various arrays of financial instruments, the extent of assessment may depend on the materiality of the financial instrument or the complexity of the portfolio being assessed.

The Group ECL model follows a three-stage impairment approach in determining the loss allowance to be recognized in the financial statements:

*(i)* Stage 1 – comprises of all credit exposures that are considered 'performing' and with no observed SICR since initial recognition. These include those financial instruments with low credit risk. For these financial instruments, the loss allowance is determined based on a 12-month ECL. PFRS 9 provides a rebuttable presumption that credit risk is considered to have significantly increased since initial recognition if the contractual payment is more than 30 days past due. The rebuttal must be in consideration of a reasonable and supportable information that is available without undue cost or effort.

*(ii)* Stage 2 – comprises of all financial instruments assessed to have SICR since initial recognition based on the Group's quantitative and qualitative criteria, though not yet deemed to be credit-impaired. Using the Group's ICRRS, Stage 2 includes credit exposures that are considered 'under-performing' in which risk ratings were downgraded by at least three notches and/or downgraded to CCC+ to Especially Mentioned. Stage 2 financial instruments may also include those facilities where the credit risk has improved and have been reclassified from Stage 3 subject to the Group's observation period on the creditworthiness of the counterparty. A lifetime ECL is recognized for these financial instruments.

*(iii)* Stage 3 – comprises credit exposures which are assessed as 'credit-impaired', thus considered by the Group as 'non-performing', which is assessed consistently with the Group's definition of default. Generally, this includes accounts classified as Substandard, Doubtful and Loss. The Group recognizes a lifetime ECL for all credit-impaired financial assets.

The Group considers low credit risk for listed debt security when its credit risk rating is equivalent to a globally understood definition of 'investment grade' (which should be from at least one major rating agency); other debt securities are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Financial assets that are credit-impaired on initial recognition are classified as purchased or originated credit-impaired assets. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. Under the Group's ICRRS, these are exposures rated at least Especially Mentioned. For exposures with no internal credit risk rating performed, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Depending on the number of days past due which differ across the various retail products of the Group, a credit exposure may be transferred to Stage 2 or Stage 3. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Group shall revert to recognizing a 12-month ECL. As a general rule, an upgrade or transfer of credit exposure from Stage 3 to Stage 1 is allowed when there is sufficient evidence to support that full collection of principal and interest is probable, consistent with the Group's definition of curing period which is 6 months of satisfactory performance before an account is moved from Stage 3 to Stage 2 and another 6 months from Stage 2 to Stage 1.

For portfolios in respect of which the Group has limited historical data, external benchmark information (e.g., Basel LGD) is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL include exposures to foreign borrowers and low default borrower segments.

#### *4.4.4 Definition of Default and Credit-impaired Assets*

*i. Loans and Receivables*

The Group defines a loan instrument as in default, which is aligned with the definition of credit-impaired, when the borrower is more than 90 days past due on its contractual payments, except for the 30 days past due threshold for retail loans of the Group and one day past due for microfinance loan portfolio of Rizal Microbank. As part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances and factors that may indicate unlikeliness to pay which may include (a) significant financial difficulty of the issuer or borrower; (b) the restructuring of a loan by the Group, for economic or legal reasons relating to the borrower's financial difficulty, on terms that the Group would not consider otherwise; or (c) it becoming probable that the borrower will enter bankruptcy or other financial reorganization. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

An instrument is considered to be no longer in default or have cured when the borrower is able to repay the installments in arrears and the account no longer meets any of the default criteria for a consecutive period of 180 days observation period, within which the borrower shall make consecutive payments.

The definitions of default and observation period have been aligned with the definition used for regulatory capital purposes. Definitions of default and cure period can be rebutted and the rebuttal will be monitored and reviewed by the CMG on annual basis to ensure definitions remains appropriate.

These criteria are consistent with the definition of default used for internal credit risk management purposes that is aligned with the default criteria used for regulatory capital purposes. Such definition is consistently applied in determining PD, LGD, and EAD for each loan portfolio segment and throughout the ECL calculations of the Group.

*ii. Investments in Debt Securities*

Investments in debt securities is assessed as credit-impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of an event that occurred after the initial recognition of the security (a "loss event") and that loss event has impact on the estimated future cash flows of the securities. Losses expected as a result of future events, shall also be considered in estimating the ECL.

Objective evidence that the security is impaired includes observable data that comes to the attention of the holder of the security about the following loss events:

- significant financial difficulty of the issuer or obligor;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the financial institution, for economic or legal reasons relating to the issuer's financial difficulty, granting to the issuer a concession that the financial institution would not otherwise consider;
- it becoming probable that the issuer will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that security because of financial difficulties; or,
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of securities since the initial recognition of those assets, although the decrease cannot yet be identified with the individual securities in the portfolio, including adverse change in the payment status of issuers in the portfolio; or national or local economic conditions that correlate with defaults on the securities in the portfolio.

The disappearance of an active market because a financial institution's held securities are no longer publicly traded is not evidence of impairment. A downgrade of an issuer's credit rating is not, by itself, evidence of impairment, although it may be evidence of impairment when considered with other available information. A decline in the fair value of a security below its cost or amortized cost is not necessarily evidence of impairment (for example, a decline in fair value of an investment in debt security that results from an increase in the risk-free interest rate).

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

- the market's assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessment of credit-worthiness;
- the country's ability to access the capital markets for new debt issuance;

- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; or,
- the internal support mechanism in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfill the required criteria.

### *4.4.5 ECL Measurement Inputs*

Integral in the Group's established policies in measuring and calculating ECL on financial instrument is the use of appropriate model for each segment of financial asset that applies relevant inputs and assumptions, including forward-looking information as appropriate.

*(a) Key Inputs and Assumptions in the ECL Model*

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment.

*(i)* PD represents an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. PD is calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures which considers both quantitative and qualitative factors. In determining PD, the Group performed segmentation of its credit exposures based on homogenous characteristics [including corporate loan and retail loan (including credit-card and microfinance)] and developed a systematic PD methodology for each portfolio. Generally, if a counterparty or exposure migrates between rating classes, this will lead to a change in the estimate of the associated PD.

*(ii)* LGD pertains to estimate of loss related to the amount that may not be recovered after the borrower defaults. The Group estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties, which takes into consideration the realization of any collateral that is integral to the financial asset. For secured credit exposure, the determination of LGD is dependent on the Group's collateral data which are available at the origination of the instrument which takes into account the amount and timing of the cash inflows (actual recovery) and outflows (actual expenses) and on the time value of money. Recoveries are calculated on a discounted cash flows basis using the effective interest rate as the discounting factor.

*(iii)* EAD represents the gross carrying amount of the exposure in the event of default which include the amortized cost amount of an instrument and any accrued interest receivable. For lending commitments, the EAD includes the amount of drawn and undrawn irrevocable loan commitments under the contract, which are estimated based on historical observations and forward-looking forecast. For some financial assets (e.g., credit card lending), EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical technique which considers the ability of borrowers to increase its exposure from the time of ECL calculation to the time of default (i.e., credit conversion factor).

These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not been prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to and summed at the end of the reporting period. The discount rate used in the ECL calculation is the original effective interest rate or the relevant fund transfer pricing rate, whichever is more applicable.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the life of the instrument. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. Such profile is supported by a historical analysis (i.e., an observation period of five years) which uses, among others the number of rated accounts and ratings of bad accounts at the time of default. Bad accounts are defaulted accounts classified into three classes such as the non-performing loans, accounts classified as Substandard, Doubtful or Loss, and real past due accounts.

For consumer loans, the PD models are used to compute a through-the-cycle (TTC) PD, which are PDs neutral to changes in conditions over the economic cycle covering the lifetime of the exposure. These TTC PDs are adjusted using a single factor Vasicek model to reflect the impact of macroeconomic factors to arrive at forward-looking Point-In-Time (PIT) PDs to consider the probability of default in current economic conditions in accordance with PFRS 9.

In a risk rating model applied by the Group for corporate loans, a better rating or score denotes less probability of default than those of a worse rating. Identifying the counterparty default is done through a computation of the portfolio's observed default rate (ODR). In cases when ODR method and the data to be used is limited, the Group may also employ the implied probability of default frequency (IPD) and the application of overlay factors in the PD.

Using the historical defaults under the Group's ICRRS based on S&P scale, ODR is calculated for each rating bucket as the ratio of the total number of defaults in next 12 months divided by the total count of accounts. On the other hand, unrated accounts are distributed to existing S&P rating classes using normal distribution assumption.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

For loans with periodic amortization and one-time full payment at end of the term, EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation.

For revolving products (such as credit cards and credit line facilities), EAD is determined by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on analysis of the Group's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default, and may vary by product type. For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market or book values due to forced sales, time to repossession and recovery costs observed. For unsecured products, LGD is typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. The LGD is influenced by collection strategies.

For cash and cash equivalents and debt securities, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECL on such instruments on a 12-month basis. However, when there has been a SICR since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from S&P to determine whether the debt instrument has significantly increased in credit risk and to estimate ECL.

The assumptions underlying the ECL calculation are monitored and reviewed on an annual basis. With the changes in the current economic condition and granular behavior analysis of customers, the management has enhanced its existing ECL model in 2022 to reflect the continuing impact of the COVID-19 pandemic and the Group's and Parent Company's financial support program to its customers on a reasonable and supportable basis. In 2023, the Bank conducted an independent model validation which encompasses comprehensive model testing to assess model robustness. A refresh is applied to update the ECL model to ensure it remains relevant and effective in estimating credit losses.

The determination of the 12-month and lifetime PD, LGD, and EAD includes the overlay of forward-looking economic information discussed below.

*(b) Overlay of Forward-looking Information*

The Group incorporates forward-looking information (FLI) in its calculation of ECL. The Group has performed historical analysis and has identified the key MEVs impacting credit risk associated with its borrowers and/or counterparties and the ECL for relevant portfolio of debt instruments.

The MEVs and their associated impact on the PD, LGD and EAD vary by financial instrument. For corporate loans, a multivariate analysis in the context of Vector Autoregressive (VAR) model is used to assess the effect of macroeconomic factors as historical and deterministic regressors to the portfolios PD. To determine the MEV, all possible combinations of the time series and considered lags with NPL ratio were considered and evaluated based on the soundness of economic theory, goodness of fit, and in accordance with the assumptions of VAR. For consumer loans, to project the MEVs for the full remaining life of each financial instrument, a mean reversion approach has been used for consumer loans, which means that MEVs tend to converge to either A long run average rate (e.g., for unemployment) or a long run average growth rate [e.g., Gross Domestic Product (GDP)] over a period of two to five years.

The impact of these economic variables on the PD, LGD and EAD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The MEVs considered by the Group include economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority), international organizations (e.g., International Monetary Fund), and certain reputable private and academic organizations involved in forecasting. Accordingly, the Group has identified key drivers for credit risk for its corporate loans portfolio, which include among others, GDP growth rate, inflation rate, unemployment rate, interest rate (i.e., based on 91-day T-bill Yield), household consumption expenditure growth, OFW remittances, and foreign currency exchange rates. On the other hand, the key drivers for the Group's retail and consumer loans portfolio include unemployment rate, GDP growth rate, consumer price index (CPI), foreign currency exchange rates, inflation rate, and bank lending rates. Using an analysis of historical data, the Group has estimated relationships between MEVs and credit risk and credit losses.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore, the actual outcomes may be significantly different to those projections. The Group considers these forecasts to represent its best estimate of the possible outcomes.

Management has also considered other FLI not incorporated within the above economic scenarios, such as any regulatory, legislative, or political changes, but are not deemed to have a significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs on a regular basis and additional factors may be incorporated from time to time as deemed appropriate.

### *4.4.6 Impact of COVID-19 on Measurement of ECL*

In response to the post-pandemic landscape and the economic effects on the Group, there has been a reassessment and adjustment of the key conditions and assumptions used in calculating ECL. The Group has reviewed economic scenarios and forward-looking macroeconomic assumptions that underpin the ECL calculation. Given the economic recovery in the Philippines post-pandemic, the impact of COVID-19 on the historical data of the Bank has been excluded, as default rates during the pandemic were unusually high.

Prior 2023, the Group utilized its revised business-as-usual (BAU) ECL methodology, incorporating the impacts of COVID-19 on historical trends, correlations, and forward-looking economic scenarios of the Bank under its new normal assessments, eliminating the necessity for separate post-model adjustments. Notwithstanding that the measurement inputs and assumptions, including forward-looking macroeconomic assumptions were recalibrated in response to the COVID-19 situation, the fundamental ECL mechanics and methodology underpinning the Group's measurement of ECL have remained consistent with the prior periods.

In assessing the impact of the COVID-19 pandemic on the Group's customers, the loan portfolio was re-segmented based on perceived and expected COVID-19 impacts on customers' businesses and industries, considering additional qualitative characteristics that would classify COVID-19 changes as SICR, such as distinguishing temporary liquidity needs from permanently impacted SICR.

Supporting the re-segmentation is the COVID-19 Assistance and Recovery Enhancement (CARE) Program, primarily designed to: (1) provide financial assistance to customers through extended repayment plans due to cash flow constraints and (2) promptly reintroduce customers to regular payment habits based on manageable amounts. Additionally, in compliance with regulatory guidance, the Group implemented mandatory payment holidays for all eligible loans (refer to Note 4.4.12). As of December 31, 2023, the Bank is no longer offering the CARE program, but it continues to offer regular restructuring programs to its customers.

With the expected full recovery of the Philippines from the impact of COVID-19 and the improving portfolio performance, the Group tailored its newly validated ECL model to exclude abnormally high default rates recorded during the pandemic period from their historical data set of 3 to 5 years used for ECL computation.

To identify the exclusion periods related to COVID-19, the Group employed a 12-month performance window in which any accounts that defaulted anytime in the subsequent 12 months were considered for the computation of historical default rates. Months with significantly high default rates were excluded from the dataset. This ensures that the average default rate computed by the Bank reflects the changes in the country's macroeconomic variables and their impact on customer payment behavior.

### *4.4.7 Credit Risk Exposures*

An analysis of the maximum credit risk exposure relating to receivables from customers is shown below:

| | Group | | | |
|---|---|---|---|---|
| | Gross Maximum Exposure | Fair Value of Collaterals | Net Exposure | Financial Effect of Collaterals |
| **2023** | | | | |
| Loans and discounts: | | | | |
| Corporate | P 414,311 | P 356,230 | P 58,081 | P 356,230 |
| Consumer* | 128,867 | 145,505 | 2,777 | 126,090 |
| Credit card receivables | 74,667 | - | 74,667 | - |
| Leasing and finance | 2,801 | 3,900 | - | 2,801 |
| Microfinance and small business | 1,276 | 5,978 | - | 1,276 |
| Other receivables | 45,402 | 5,504 | 39,898 | 5,504 |
| | **P 667,324** | **P 517,117** | **P 175,423** | **P 491,901** |
| 2022 | | | | |
| Loans and discounts: | | | | |
| Corporate | P 380,722 | P 334,727 | P 45,995 | P 334,727 |
| Consumer* | 107,776 | 145,007 | 1,434 | 106,342 |
| Credit card receivables | 50,380 | - | 50,380 | - |
| Leasing and finance | 3,233 | 12,248 | - | 3,233 |
| Microfinance and small business | 1,235 | 3,178 | - | 1,235 |
| Other receivables | 31,553 | 1,919 | 29,634 | 1,919 |
| | P 574,899 | P 497,079 | P 127,443 | P 447,456 |

**The net exposure balance pertains to the unsecured personal and salary loans*

| | Parent Company | | | |
|---|---|---|---|---|
| | Gross Maximum Exposure | Fair Value of Collaterals | Net Exposure | Financial Effect of Collaterals |
| **2023** | | | | |
| Loans and discounts: | | | | |
| Corporate | P 411,706 | P 351,499 | P 60,207 | P 351,499 |
| Consumer* | 128,867 | 145,505 | 2,777 | 126,090 |
| Credit card receivables | 74,667 | - | 74,667 | - |
| Other receivables | 44,462 | 5,504 | 38,958 | 5,504 |
| | **P 659,702** | **P 502,508** | **P 176,609** | **P 483,093** |
| 2022 | | | | |
| Loans and discounts: | | | | |
| Corporate | P 377,420 | P 334,727 | P 42,693 | P 334,727 |
| Consumer* | 107,776 | 145,005 | 1,434 | 106,342 |
| Credit card receivables | 50,380 | - | 50,380 | - |
| Other receivables | 30,726 | 1,799 | 28,927 | 1,799 |
| | P 566,302 | P 481,531 | P 123,434 | P 442,868 |

**The net exposure balance pertains to the unsecured personal and salary loans*

The table below sets out the gross carrying amounts of the exposures to credit risk on financial assets with low credit risk measured at amortized cost and debt securities at FVOCI as of December 31.

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Cash and cash equivalents | **P 250,108** | P 208,323 | **P 247,941** | P 206,320 |
| Debt securities: | | | | |
| At amortized cost | **236,688** | 252,545 | **235,803** | 251,399 |
| At FVOCI | **78,533** | 111,314 | **78,417** | 111,205 |
| | **P 565,329** | P 572,182 | **P 562,161** | P 568,924 |

Cash and cash equivalents include loans and advances to banks [i.e., Due from BSP, Due from Other Banks, Loans Arising from Repurchase Agreements, and Interbank Loans Receivables (see Note 9)]. Debt securities includes government and corporate bonds and bills. These are held with central bank, financial institutions and other counterparties that are reputable and with low credit risk; corresponding allowance for ECL is shown in the succeeding pages.

The information about the credit exposures on the above financial assets as well as on loan commitments by stages of impairment as of December 31, 2023 and 2022, shown at their gross carrying amounts with the corresponding allowance for ECL are shown in the succeeding pages. All instruments, which were not assessed by the Group for ECL based on individual credit risk rating were evaluated on a collective basis, applying applicable PD and LGD based on the segment of instrument.

The maximum exposure to credit risks for other financial assets is limited to their carrying values as of December 31, 2023 and 2022.

*a) Loans and receivables*

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired* | Total |
| **2023** | | | | | |
| ***Corporate Loans*** | | | | | |
| Pass | | | | | |
| AAA to BBB | P 16,339 | P 1 | P - | P - | P 16,340 |
| BBB- to B- | 351,474 | 32 | 4 | - | 351,510 |
| Watchlisted | 20,104 | 836 | 4 | - | 20,944 |
| Especially mentioned | - | 4,565 | 4,395 | - | 8,960 |
| Substandard | - | - | 9,032 | - | 9,032 |
| Defaulted | - | - | 518 | 20 | 538 |
| Unrated | 6,955 | 1 | 31 | - | 6,987 |
| | 394,872 | 5,435 | 13,984 | 20 | 414,311 |
| Allowance for ECL | ( 923) | ( 222) | ( 7,891) | ( 16) | ( 9,052) |
| Carrying Amount | **393,949** | **5,213** | **6,093** | **4** | **405,259** |
| ***Consumer loans*** | | | | | |
| Current | 111,978 | - | - | - | 111,978 |
| 1-30 dpd | 6,216 | - | - | - | 6,216 |
| 31-90 dpd | - | 3,686 | - | - | 3,686 |
| Defaulted | - | - | 6,987 | - | 6,987 |
| | 118,194 | 3,686 | 6,987 | - | 128,867 |
| Allowance for ECL | ( 558) | ( 280) | ( 1,187) | - | ( 2,025) |
| Carrying amount | **117,636** | **3,406** | **5,800** | **-** | **126,842** |
| ***Credit cards*** | | | | | |
| Current | 69,735 | 30 | - | - | 69,765 |
| 1-29 dpd | 1,129 | 13 | - | - | 1,142 |
| 30-59 dpd | - | 660 | - | - | 660 |
| 60-89 dpd | - | 544 | - | - | 544 |
| Defaulted | - | - | 2,556 | - | 2,556 |
| | 70,864 | 1,247 | 2,556 | - | 74,667 |
| Allowance for ECL | ( 886) | ( 747) | ( 2,018) | - | ( 3,651) |
| Carrying amount | **69,978** | **500** | **538** | **-** | **71,016** |
| ***Leasing and finance receivables**** | | | | | |
| AAA+ to B+ | 512 | - | - | - | 512 |
| B- | 136 | - | - | - | 136 |
| CCC below | - | 1,216 | 937 | - | 2,153 |
| | 648 | 1,216 | 937 | - | 2,801 |
| Allowance for ECL | ( 85) | ( 235) | ( 716) | - | ( 1,036) |
| Carrying amount | **563** | **981** | **221** | **-** | **1,765** |
| ***Micro and small business loans***** | | | | | |
| Unclassified | 994 | - | - | - | 994 |
| Especially Mentioned | - | 79 | - | - | 79 |
| Defaulted | - | - | 203 | - | 203 |
| | 994 | 79 | 203 | - | 1,276 |
| Allowance for ECL | ( 1) | ( 1) | ( 66) | - | ( 68) |
| Carrying amount | **993** | **78** | **137** | **-** | **1,208** |
| *Balance forwarded* | **P 583,119** | **P 10,178** | **P 12,789** | **P 4** | **P 606,090** |

| | Group | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Purchased credit-impaired*** | **Total** |
| *Balance carried forward* | **P 583,119** | **P 10,178** | **P 12,789** | **P 4** | **P 606,090** |
| ***Other receivables*** | | | | | |
| Current | 43,050 | - | 1 | - | 43,051 |
| Past due | - | 344 | 2,007 | - | 2,351 |
| | 43,050 | 344 | 2,008 | - | 45,402 |
| Allowance for ECL | ( 188) | ( 29) | ( 1,346 ) | - | ( 1,563) |
| Carrying amount | **42,862** | **315** | **662** | **-** | **43,839** |
| Total gross amount | 628,622 | 12,007 | 26,675 | 20 | 667,324 |
| Allowance for ECL | ( 2,641) | ( 1,514) | ( 13,224 ) | ( 16) | ( 17,395) |
| Carrying amount | **P 625,981** | **P 10,493** | **P 13,451** | **P 4** | **P 649,929** |

**Purchased credit-impaired financial assets pertain to the non-performing loans of RCBC JPL*
***Leasing and finance receivables are from RCBC LFC*
****Micro and small business loans are from Rizal Microbank*

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired* | Total |
| 2022 | | | | | |
| *Corporate Loans* | | | | | |
| Pass | | | | | |
| AAA to BBB | P 14,666 | P - | P 2 | P - | P 14,668 |
| BBB- to B- | 323,944 | 1 | 3 | - | 323,948 |
| Watchlisted | 15,794 | 205 | 125 | - | 16,124 |
| Especially mentioned | 3,845 | 3,620 | 400 | - | 7,865 |
| Substandard | - | - | 8,533 | - | 8,533 |
| Defaulted | - | - | 348 | 20 | 368 |
| Unrated | 9,164 | 11 | 41 | - | 9,216 |
| | 367,413 | 3,837 | 9,452 | 20 | 380,722 |
| Allowance for ECL | ( 1,607) | ( 1,200) | ( 5,818) | ( 18) | ( 8,643) |
| Carrying Amount | 365,806 | 2,637 | 3,634 | 2 | 372,079 |
| *Consumer loans* | | | | | |
| Current | 89,533 | 1,730 | - | - | 91,263 |
| 1-30 dpd | - | 4,465 | - | - | 4,465 |
| 31-90 dpd | - | 3,166 | - | - | 3,166 |
| Defaulted | - | - | 8,882 | - | 8,882 |
| | 89,533 | 9,361 | 8,882 | - | 107,776 |
| Allowance for ECL | ( 210) | ( 222) | ( 2,024) | - | ( 2,456) |
| Carrying amount | 89,323 | 9,139 | 6,858 | - | 105,320 |
| *Credit cards* | | | | | |
| Current | 46,988 | 30 | - | - | 47,018 |
| 1-29 dpd | 725 | 10 | - | - | 735 |
| 30-59 dpd | - | 386 | - | - | 386 |
| 60-89 dpd | - | 326 | - | - | 326 |
| Defaulted | - | - | 1,915 | - | 1,915 |
| | 47,713 | 752 | 1,915 | - | 50,380 |
| Allowance for ECL | ( 718) | ( 310) | ( 1,662) | - | ( 2,690) |
| Carrying amount | 46,995 | 442 | 253 | - | 47,690 |
| *Balance forwarded* | P 502,124 | P 12,218 | P 10,745 | P 2 | P 525,089 |

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired* | Total |
| *Balance carried forward* | P 502,124 | P 12,218 | P 10,745 | P 2 | P 525,089 |
| *Leasing and finance receivables*** | | | | | |
| AAA+ to B+ | 742 | - | - | - | 742 |
| B- | 399 | - | - | - | 399 |
| CCC below | - | 1,286 | 806 | - | 2,092 |
| | 1,141 | 1,286 | 806 | - | 3,233 |
| Allowance for ECL | ( 26 ) | ( 100) | ( 624 ) | - | ( 750) |
| Carrying amount | 1,115 | 1,186 | 182 | - | 2,483 |
| *Micro and small business loans**** | | | | | |
| Unclassified | 982 | - | - | - | 982 |
| Especially Mentioned | - | 67 | - | - | 67 |
| Defaulted | - | - | 186 | - | 186 |
| | 982 | 67 | 186 | - | 1,235 |
| Allowance for ECL | ( 1) | ( 2) | ( 65 ) | - | ( 68) |
| Carrying amount | 981 | 65 | 121 | - | 1,167 |
| *Other receivables* | | | | | |
| Current | 29,187 | - | - | - | 29,187 |
| Past due | - | 494 | 1,872 | - | 2,366 |
| | 29,187 | 494 | 1,872 | - | 31,553 |
| Allowance for ECL | ( 128 ) | ( 57) | ( 1,238 ) | - | ( 1,423) |
| Carrying amount | 29,059 | 437 | 634 | - | 30,130 |
| Total gross amount | 535,969 | 15,797 | 23,113 | 20 | 574,899 |
| Allowance for ECL | ( 2,690 ) | ( 1,891) | ( 11,431 ) | ( 18) | ( 16,030) |
| Carrying amount | P 533,279 | P 13,906 | P 11,682 | P 2 | P 558,869 |

**Purchased credit-impaired financial assets pertain to the non-performing loans of RCBC JPL*
***Leasing and finance receivables are from RCBC LFC*
****Micro and small business loans are from Rizal Microbank*

| | **Parent Company** | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Purchased credit-impaired** | **Total** |
| **2023** | | | | | |
| ***Corporate Loans*** | | | | | |
| Pass | | | | | |
| AAA to BBB | P 15,793 | P 1 | P - | P - | P 15,794 |
| BBB- to B- | 351,474 | 32 | 4 | - | 351,510 |
| Watchlisted | 19,761 | 295 | 4 | - | 20,060 |
| Especially mentioned | - | 4,294 | 4,395 | - | 8,689 |
| Substandard | - | - | 8,326 | - | 8,326 |
| Defaulted | - | - | 340 | - | 340 |
| Unrated | 6,955 | 1 | 31 | - | 6,987 |
| | 393,983 | 4,623 | 13,100 | - | 411,706 |
| Allowance for ECL | ( 923) | ( 222) | ( 7,890) | - | ( 9,035) |
| Carrying amount *(Balance forwarded)* | **P 393,060** | **P 4,401** | **P 5,210** | **P -** | **P 402,671** |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | **P 393,060** | **P 4,401** | **P 5,210** | **P -** | **P 402,671** |
| ***Consumer loans*** | | | | | |
| Current | 111,978 | - | - | - | 111,978 |
| 1-30 dpd | 6,216 | - | - | - | 6,216 |
| 31-90 dpd | - | 3,686 | - | - | 3,686 |
| Defaulted | - | - | 6,987 | - | 6,987 |
| | 118,194 | 3,686 | 6,987 | - | 128,867 |
| Allowance for ECL | ( 558) | ( 280) | ( 1,187) | - | ( 2,025) |
| Carrying amount | **117,636** | **3,406** | **5,800** | **-** | **126,842** |
| ***Credit cards*** | | | | | |
| Current | 69,735 | 30 | - | - | 69,765 |
| 1-29 dpd | 1,129 | 13 | - | - | 1,142 |
| 30-59 dpd | - | 660 | - | - | 660 |
| 60-89 dpd | - | 544 | - | - | 544 |
| Defaulted | - | - | 2,556 | - | 2,556 |
| | 70,864 | 1,247 | 2,556 | - | 74,667 |
| Allowance for ECL | ( 886) | ( 747) | ( 2,018) | - | ( 3,651) |
| Carrying amount | **69,978** | **500** | **538** | **-** | **71,016** |
| ***Other receivables*** | | | | | |
| Current | 42,401 | - | - | - | 42,401 |
| Past due | - | 344 | 1,717 | - | 2,061 |
| | 42,401 | 344 | 1,717 | - | 44,462 |
| Allowance for ECL | ( 187) | ( 29) | ( 1,094) | - | ( 1,310) |
| Carrying amount | **42,214** | **315** | **623** | **-** | **43,152** |
| Total gross amount | 625,442 | 9,900 | 24,360 | - | 659,702 |
| Allowance for ECL | ( 2,554) | ( 1,278) | ( 12,189) | - | ( 16,021) |
| Carrying amount | **P 622,888** | **P 8,622** | **P 12,171** | **P -** | **P 643,681** |
| 2022 | | | | | |
| *Corporate Loans* | | | | | |
| Pass | | | | | |
| AAA to BBB | P 14,666 | P - | P 2 | P - | P 14,668 |
| BBB- to B- | 323,944 | 1 | 3 | - | 323,948 |
| Watchlisted | 15,794 | 205 | 125 | - | 16,124 |
| Especially mentioned | 3,845 | 3,620 | 400 | - | 7,865 |
| Substandard | - | - | 8,533 | - | 8,533 |
| Defaulted | - | - | 348 | - | 348 |
| Unrated | 5,882 | 11 | 41 | - | 5,934 |
| | 364,131 | 3,837 | 9,452 | - | 377,420 |
| Allowance for ECL | ( 1,607) | ( 1,200) | ( 5,818) | - | ( 8,625) |
| Carrying amount | 362,524 | 2,637 | 3,634 | - | 368,795 |
| *Consumer loans* | | | | | |
| Current | 89,533 | 1,730 | - | - | 91,263 |
| 1-30 dpd | - | 4,465 | - | - | 4,465 |
| 31-90 dpd | - | 3,166 | - | - | 3,166 |
| Defaulted | - | - | 8,882 | - | 8,882 |
| | 89,533 | 9,361 | 8,882 | - | 107,776 |
| Allowance for ECL | ( 210) | ( 222) | ( 2,024) | - | ( 2,456) |
| Carrying amount | 89,323 | 9,139 | 6,858 | - | 105,320 |
| *Balance forwarded* | P 451,847 | P 11,776 | P 10,492 | P - | P 474,115 |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | P 451,847 | P 11,776 | P 10,492 | P - | P 474,115 |
| *Credit cards* | | | | | |
| Current | 46,988 | 30 | - | - | 47,018 |
| 1-29 dpd | 725 | 10 | - | - | 735 |
| 30-59 dpd | - | 386 | - | - | 386 |
| 60-89 dpd | - | 326 | - | - | 326 |
| Defaulted | - | - | 1,915 | - | 1,915 |
| | 47,713 | 752 | 1,915 | - | 50,380 |
| Allowance for ECL | ( 718) | ( 310) | ( 1,662) | - | ( 2,690) |
| Carrying amount | 46,995 | 442 | 253 | - | 47,690 |
| *Other receivables* | | | | | |
| Current | 28,589 | - | - | - | 28,589 |
| Past due | - | 461 | 1,676 | - | 2,137 |
| | 28,589 | 461 | 1,676 | - | 30,726 |
| Allowance for ECL | ( 76) | ( 52) | ( 1,189) | - | ( 1,317) |
| Carrying amount | 28,513 | 409 | 487 | - | 29,409 |
| Total gross amount | 529,966 | 14,411 | 21,925 | - | 566,302 |
| Allowance for ECL | ( 2,611) | ( 1,784) | ( 10,693) | - | ( 15,088) |
| Carrying amount | P 527,355 | P 12,627 | P 11,232 | P - | P 551,214 |

b) *Investments in debt securities at amortized cost and at FVOCI*

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **HTC** | **FVOCI** | **HTC** | **FVOCI** |
| **2023** | | | | |
| Government securities | | | | |
| AAA to A+ | P 16,991 | P 808 | P 16,991 | P 808 |
| BBB+ to BBB- | 194,460 | 65,154 | 193,575 | 65,154 |
| | 211,451 | 65,962 | 210,566 | 65,962 |
| Corporate debt securities | | | | |
| AAA | - | 515 | - | 515 |
| AA+ to A+ | - | - | - | - |
| A to A- | 1,243 | - | 1,243 | - |
| BBB+ to BBB- | 13,008 | 9,089 | 13,008 | 9,089 |
| BB+ to BB- | 10,823 | 2,967 | 10,823 | 2,851 |
| B+ and below | 163 | - | 163 | - |
| | 25,237 | 12,571 | 25,237 | 12,455 |
| Allowance for ECL | ( 161) | ( 13) | ( 71) | ( 13) |
| | 25,076 | 12,558 | 25,166 | 12,442 |
| | **P 236,527** | **P 78,520** | **P 235,732** | **P 78,404** |

| | Group | | Parent Company | |
|---|---|---|---|---|
| | HTC | FVOCI | HTC | FVOCI |
| 2022 | | | | |
| Government securities | | | | |
| AAA to A+ | P 28,000 | P 31,495 | P 28,000 | P 31,495 |
| BBB+ to BBB- | 190,163 | 21,997 | 189,017 | 21,997 |
| | 218,163 | 53,492 | 217,017 | 53,492 |
| Corporate debt securities | | | | |
| AAA | 8,685 | 32,552 | 8,685 | 32,552 |
| AA+ to A+ | 276 | 241 | 276 | 241 |
| A to A- | 695 | - | 695 | - |
| BBB+ to BBB- | 13,584 | 18,777 | 13,584 | 18,777 |
| BB+ to BB- | 10,979 | 6,252 | 10,979 | 6,143 |
| B+ and below | 163 | - | 163 | - |
| | 34,382 | 57,822 | 34,382 | 57,713 |
| Allowance for ECL | ( 163) | ( 13) | ( 71) | ( 13) |
| | 34,219 | 57,809 | 34,311 | 57,700 |
| | P 252,382 | P 111,301 | P 251,328 | P 111,192 |

Credit exposures for debt securities not held for trading are all classified as Stage 1.

*c) Loan Commitments*

The credit quality of the Group and Parent Company's irrevocable loan commitments with amounts determined after considering credit conversion factor, as of December 31 follows:

| | **Group and Parent Company** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **2023** | | | | |
| **Corporate loans** | | | | |
| Pass | | | | |
| AAA to BBB | P 474 | P - | P - | P 474 |
| BBB- to B- | 7,150 | - | - | 7,150 |
| Watchlisted | 59 | - | - | 59 |
| Especially mentioned | - | 3 | - | 3 |
| Unrated | 599 | - | - | 599 |
| | 8,282 | 3 | - | 8,285 |
| ECL provisions | ( 11) | - | - | ( 11) |
| | 8,271 | 3 | - | 8,274 |
| **Credit cards** | | | | |
| Current | 23,718 | - | - | 23,718 |
| ECL provisions | ( 293) | - | - | ( 293) |
| | 23,425 | - | - | 23,425 |
| | **P 31,696** | **P 3** | **P -** | **P 31,699** |

| | Group and Parent Company | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| 2022 | | | | |
| Corporate loans | | | | |
| Pass | | | | |
| AAA to BBB | P 132 | P - | P - | P 132 |
| BBB- to B- | 8,297 | - | - | 8,297 |
| Watchlisted | 13 | - | - | 13 |
| Unrated | 488 | - | - | 488 |
| | 8,930 | - | - | 8,930 |
| ECL provisions | ( 29) | - | - | ( 29) |
| | 8,901 | - | - | 8,901 |
| Credit cards | | | | |
| Current | 15,568 | - | - | 15,568 |
| ECL provisions | ( 185) | - | - | ( 185) |
| | 15,383 | - | - | 15,383 |
| | P 24,284 | P - | P - | P 24,284 |

### *4.4.8 Maximum Exposure to Credit Risk of Financial Instruments not Subject to Impairment*

The following table contains analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e., FVTPL).

| | **Group** | | **Parent Company** | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Government securities | **P 9,647** | P 3,883 | **P 9,615** | P 3,834 |
| Corporate debt securities | **28** | 38 | **19** | 38 |
| Derivative financial assets | **1,320** | 2,267 | **1,320** | 2,267 |
| | **P 10,995** | P 6,188 | **P 10,954** | P 6,139 |

### 4.4.9 Allowance for ECL

The following tables show the reconciliation of the loss allowance for ECL by class of significant financial instruments.

a) *Loans and receivables*

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| **2023** | | | | | |
| ***Corporate Loans*** | | | | | |
| Balance at beginning of year | P 1,607 | P 1,200 | P 5,818 | P 18 | P 8,643 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 127 ) | 127 | - | - | - |
| Stage 1 to Stage 3 | ( 40 ) | - | 40 | - | - |
| Stage 2 to Stage 1 | 81 | ( 81 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 1,089 ) | 1,089 | - | - |
| Stage 3 to Stage 1 | 52 | - | ( 52 ) | - | - |
| Stage 3 to Stage 2 | - | 147 | ( 147 ) | - | - |
| Assets derecognized or repaid | ( 1,254 ) | ( 126 ) | ( 270 ) | ( 2) | ( 1,652) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 604 | - | - | - | 604 |
| Moved to Stages 2 and 3 | - | 44 | 1,700 | - | 1,744 |
| Write-offs | - | - | ( 287) | - | ( 287) |
| | ( 684) | ( 978 ) | 2,073 | ( 2) | 409 |
| Balance at end of year | **923** | **222** | **7,891** | **16** | **9,052** |
| ***Consumer loans*** | | | | | |
| Balance at beginning of year | 210 | 222 | 2,024 | - | 2,456 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 31 ) | 31 | - | - | - |
| Stage 1 to Stage 3 | ( 13 ) | - | 13 | - | - |
| Stage 2 to Stage 1 | 73 | ( 73 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 33 ) | 33 | - | - |
| Stage 3 to Stage 1 | 31 | - | ( 31 ) | - | - |
| Stage 3 to Stage 2 | - | 11 | ( 11 ) | - | - |
| Assets derecognized or repaid | ( 54) | ( 160) | ( 990) | - | ( 1,204) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 342 | - | - | - | 342 |
| Moved to Stages 2 and 3 | - | 282 | 885 | - | 1,167 |
| Write-offs | - | - | ( 736) | - | ( 736) |
| | 348 | 58 | ( 837) | - | ( 431) |
| Balance at end of year | **558** | **280** | **1,187** | **-** | **2,025** |
| *Balance forwarded* | **P 1,481** | **P 502** | **P 9,078** | **P 16** | **P 11,077** |

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | **P 1,481** | **P 502** | **P 9,078** | **P 16** | **P 11,077** |
| ***Credit cards*** | | | | | |
| Balance at beginning of year | 718 | 310 | 1,662 | - | 2,690 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 34) | 34 | - | - | - |
| Stage 1 to Stage 3 | ( 68) | - | 68 | - | - |
| Stage 2 to Stage 3 | - | ( 75) | 75 | - | - |
| Stage 3 to Stage 2 | - | 40 | ( 40) | - | - |
| Stage 2 to Stage 1 | 60 | ( 60) | - | - | - |
| Stage 3 to Stage 1 | 53 | - | ( 53) | - | - |
| Assets derecognized or repaid | ( 1,401) | ( 316) | ( 398) | - | ( 2,115) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 1,558 | - | - | - | 1,558 |
| Moved to Stages 2 and 3 | - | 814 | 3,779 | - | 4,593 |
| Write-offs | - | - | ( 3,075) | - | ( 3,075) |
| | 168 | 437 | 356 | - | 961 |
| Balance at end of year | **886** | **747** | **2,018** | **-** | **3,651** |
| ***Leasing and finance receivables**** | | | | | |
| Balance at beginning of year | 26 | 100 | 624 | - | 750 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 34) | 34 | - | - | - |
| Stage 2 to Stage 1 | 1 | ( 1) | - | - | - |
| Stage 3 to Stage 1 | 5 | | ( 5) | - | - |
| Assets derecognized or repaid | ( 6) | ( 32) | ( 73) | - | ( 111) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 93 | - | - | - | 93 |
| Moved to Stages 2 and 3 | - | 134 | 242 | - | 376 |
| Write-offs | - | - | ( 72) | - | ( 72) |
| | 59 | 135 | 92 | - | 286 |
| Balance at end of year | **85** | **235** | **716** | **-** | **1,036** |
| ***Micro and small business loans**** | | | | | |
| Balance at beginning of year | 1 | 2 | 65 | - | 68 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 1) | 1 | - | - | - |
| Stage 1 to Stage 3 | ( 1) | - | 1 | - | - |
| Stage 2 to 1 | 2 | ( 2) | - | - | - |
| Stage 2 to 3 | - | ( 1) | 1 | - | - |
| Assets derecognized or repaid | - | - | ( 9) | - | ( 9) |
| New assets originated: | | | | | |
| Remained in Stage 1 | - | - | - | - | - |
| Moved to Stages 2 and 3 | - | 1 | 17 | - | 18 |
| Write-offs | - | - | ( 9) | - | ( 9) |
| | - | ( 1) | 1 | - | - |
| Balance at end of year | **1** | **1** | **66** | **-** | **68** |
| *Balance forwarded* | **P 2,453** | **P 1,485** | **P 11,878** | **P 16** | **P 15,832** |

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | **P 2,453** | **P 1,485** | **P 11,878** | **P 16** | **P 15,832** |
| ***Other receivables*** | | | | | |
| Balance at beginning of year | 128 | 57 | 1,238 | - | 1,423 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 7) | 7 | - | - | - |
| Stage 2 to Stage 1 | 2 | ( 2) | - | - | - |
| Stage 2 to Stage 3 | - | ( 19) | 19 | - | - |
| Assets derecognized or repaid | ( 3) | ( 32) | ( 293) | - | ( 328) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 68 | - | - | - | 68 |
| Moved to Stages 2 and 3 | - | 18 | 382 | - | 400 |
| | 60 | ( 28) | 108 | - | 140 |
| Balance at end of year | **188** | **29** | **1,346** | **-** | **1,563** |
| | **P 2,641** | **P 1,514** | **P 13,224** | **P 16** | **P 17,395** |
| 2022 | | | | | |
| *Corporate Loans* | | | | | |
| Balance at beginning of year | P 2,064 | P 29 | P 5,218 | P 40 | P 7,351 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 120) | 120 | - | - | - |
| Stage 1 to Stage 3 | ( 17) | - | 17 | - | - |
| Stage 2 to Stage 1 | 17 | ( 17) | - | - | - |
| Stage 2 to Stage 3 | - | ( 10) | 10 | - | - |
| Stage 3 to Stage 1 | 8 | - | ( 8) | - | - |
| Stage 3 to Stage 2 | - | 7 | ( 7) | - | - |
| Assets derecognized or repaid | ( 1,055) | ( 108) | ( 314) | ( 22) | ( 1,499) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 710 | - | - | - | 710 |
| Moved to Stages 2 and 3 | - | 1,179 | 902 | - | 2,081 |
| | ( 457) | 1,171 | 600 | ( 22) | 1,292 |
| Balance at end of year | 1,607 | 1,200 | 5,818 | 18 | 8,643 |
| *Consumer loans* | | | | | |
| Balance at beginning of year | 363 | 357 | 3,772 | - | 4,492 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 46) | 46 | - | - | - |
| Stage 1 to Stage 3 | ( 272) | - | 272 | - | - |
| Stage 2 to Stage 1 | 228 | ( 228) | - | - | - |
| Stage 2 to Stage 3 | - | ( 187) | 187 | - | - |
| Stage 3 to Stage 2 | - | 183 | ( 183) | - | - |
| Assets derecognized or repaid | ( 387) | ( 31) | ( 781) | - | ( 1,199) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 324 | - | - | - | 324 |
| Moved to Stages 2 and 3 | - | 82 | 455 | - | 537 |
| Write-offs | - | - | ( 1,698) | - | ( 1,698) |
| | ( 153) | ( 135) | ( 1,748) | - | ( 2,036) |
| Balance at end of year | 210 | 222 | 2,024 | - | 2,456 |
| *Balance forwarded* | P 1,817 | P 1,422 | P 7,842 | P 18 | P 11,099 |

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | P 1,817 | P 1,422 | P 7,842 | P 18 | P 11,099 |
| *Credit cards* | | | | | |
| Balance at beginning of year | 572 | 325 | 2,150 | - | 3,047 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 22) | 22 | - | - | - |
| Stage 1 to Stage 3 | ( 106) | - | 106 | - | - |
| Stage 2 to Stage 3 | - | ( 271) | 271 | - | - |
| Stage 3 to Stage 2 | - | 43 | ( 43) | - | - |
| Stage 2 to Stage 1 | 41 | ( 41) | - | - | - |
| Stage 3 to Stage 1 | 51 | - | ( 51) | - | - |
| Assets derecognized or repaid | ( 846) | ( 139) | ( 288) | - | ( 1,273) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 1,028 | - | - | - | 1,028 |
| Moved to Stages 2 and 3 | - | 371 | 2,993 | - | 3,364 |
| Write-offs | - | - | ( 3,476) | - | ( 3,476) |
| | 146 | ( 15) | ( 488) | - | ( 357) |
| Balance at end of year | 718 | 310 | 1,662 | - | 2,690 |
| *Leasing and finance receivables** | | | | | |
| Balance at beginning of year | 31 | 35 | 654 | - | 720 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 177) | 177 | - | - | - |
| Stage 1 to Stage 3 | ( 140) | - | 140 | - | - |
| Stage 2 to Stage 3 | - | ( 176) | 176 | - | - |
| Assets derecognized or repaid | ( 18) | ( 31) | ( 414) | - | ( 463) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 330 | - | - | - | 330 |
| Moved to Stages 2 and 3 | - | 95 | 68 | - | 163 |
| | ( 5) | 65 | ( 30) | - | 30 |
| Balance at end of year | 26 | 100 | 624 | - | 750 |
| *Micro and small business loans*** | | | | | |
| Balance at beginning of year | 49 | 16 | 66 | - | 131 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 1) | 1 | - | - | - |
| Stage 2 to Stage 3 | - | ( 11) | 11 | - | - |
| Assets derecognized or repaid | ( 19) | ( 5) | ( 6) | - | ( 30) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 6 | - | - | - | 6 |
| Moved to Stages 2 and 3 | - | 1 | 5 | - | 6 |
| Write-offs | ( 34) | - | ( 11) | - | ( 45) |
| | ( 48) | ( 14) | ( 1) | - | ( 63) |
| Balance at end of year | 1 | 2 | 65 | - | 68 |
| *Balance forwarded* | P 2,562 | P 1,834 | P 10,193 | P 18 | P 14,607 |

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | P 2,562 | P 1,834 | P 10,193 | P 18 | P 14,607 |
| *Other receivables* | | | | | |
| Balance at beginning of year | 140 | 16 | 2,367 | - | 2,523 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 35) | 35 | - | - | - |
| Stage 2 to Stage 3 | - | ( 31) | 31 | - | - |
| Stage 3 to Stage 1 | 17 | - | ( 17) | - | - |
| Assets derecognized or repaid | ( 152) | ( - 126) | ( 386) | - | ( 664) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 158 | - | - | - | 158 |
| Moved to Stages 2 and 3 | - | 163 | 336 | - | 499 |
| Write-offs | - | - | ( 1,093) | - | ( 1,093) |
| | ( 12) | 41 | ( 1,129) | - | ( 1,100) |
| Balance at end of year | 128 | 57 | 1,238 | - | 1,423 |
| | P 2,690 | P 1,891 | P 11,431 | P 18 | P 16,030 |

| | **Parent Company** | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Purchased credit-impaired** | **Total** |
| **2023** | | | | | |
| ***Corporate Loans*** | | | | | |
| Balance at beginning of year | P 1,607 | P 1,200 | P 5,818 | P - | P 8,625 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 127 ) | 127 | - | - | - |
| Stage 1 to Stage 3 | ( 40 ) | - | 40 | - | - |
| Stage 2 to Stage 1 | 80 | ( 80 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 1,089 ) | 1,089 | - | - |
| Stage 3 to Stage 1 | 47 | - | ( 47 ) | - | - |
| Stage 3 to Stage 2 | - | 147 | ( 147 ) | - | - |
| Assets derecognized or repaid | ( 1,244 ) | ( 117 ) | ( 322 ) | - | ( 1,683) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 600 | - | - | - | 600 |
| Moved to Stages 2 and 3 | - | 34 | 1,459 | - | 1,493 |
| | ( 684 ) | ( 978 ) | 2,072 | - | 410 |
| Balance at end of year *(Balance forwarded)* | **P 923** | **P 222** | **P 7,890** | **P -** | **P 9,035** |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | **P 923** | **P 222** | **P 7,890** | **P -** | **P 9,035** |
| ***Consumer loans*** | | | | | |
| Balance at beginning of year | 210 | 222 | 2,024 | - | 2,456 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 31 ) | 31 | - | - | - |
| Stage 1 to Stage 3 | ( 13 ) | - | 13 | - | - |
| Stage 2 to Stage 1 | 73 | ( 73 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 33 ) | 33 | - | - |
| Stage 3 to Stage 1 | 31 | - | ( 31 ) | - | - |
| Stage 3 to Stage 2 | - | 11 | ( 11 ) | - | - |
| Assets derecognized or repaid | ( 54 ) | ( 160 ) | ( 990 ) | - | ( 1,204 ) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 342 | - | - | - | 342 |
| Moved to Stages 2 and 3 | - | 282 | 885 | - | 1,167 |
| Write-offs | - | - | ( 736 ) | - | ( 736 ) |
| | 348 | 58 | ( 837 ) | - | ( 431 ) |
| Balance at end of year | **558** | **280** | **1,187** | **-** | **2,025** |
| ***Credit cards*** | | | | | |
| Balance at beginning of year | 718 | 310 | 1,662 | - | 2,690 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 34 ) | 34 | - | - | - |
| Stage 1 to Stage 3 | ( 68 ) | - | 68 | - | - |
| Stage 2 to Stage 3 | - | ( 75 ) | 75 | - | - |
| Stage 3 to Stage 2 | - | 40 | ( 40 ) | - | - |
| Stage 2 to Stage 1 | 60 | ( 60 ) | - | - | - |
| Stage 3 to Stage 1 | 53 | - | ( 53 ) | - | - |
| Assets derecognized or repaid | ( 1,401 ) | ( 316 ) | ( 398 ) | - | ( 2,115 ) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 1,558 | - | - | - | 1,558 |
| Moved to Stages 2 and 3 | - | 814 | 3,779 | - | 4,593 |
| Write-offs | - | - | ( 3,075 ) | - | ( 3,075 ) |
| | 168 | 437 | 356 | - | 961 |
| Balance at end of year | **886** | **747** | **2,018** | **-** | **3,651** |
| ***Other receivables*** | | | | | |
| Balance at beginning of year | 76 | 52 | 1,189 | - | 1,317 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 10 ) | 10 | - | - | - |
| Stage 1 to Stage 3 | ( 1 ) | - | 1 | - | - |
| Stage 2 to Stage 1 | 11 | ( 11 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 36 ) | 36 | - | - |
| Stage 3 to Stage 1 | 1 | - | ( 1 ) | - | - |
| Stage 3 to Stage 2 | - | 1 | ( 1 ) | - | - |
| Assets derecognized or repaid | ( 13 ) | ( 4 ) | ( 472 ) | - | ( 489 ) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 123 | - | - | - | 123 |
| Moved to Stages 2 and 3 | - | 17 | 342 | - | 359 |
| | 111 | ( 23 ) | ( 95 ) | - | ( 7 ) |
| Balance at end of year | **187** | **29** | **1,094** | **-** | **1,310** |
| | **P 2,554** | **P 1,278** | **P 12,189** | **P -** | **P 16,021** |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| 2022 | | | | | |
| *Corporate Loans* | | | | | |
| Balance at beginning of year | P 2,064 | P 29 | P 5,218 | P - | P 7,311 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 120 ) | 120 | - | - | - |
| Stage 1 to Stage 3 | ( 17 ) | - | 17 | - | - |
| Stage 2 to Stage 1 | 17 | ( 17 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 10 ) | 10 | - | - |
| Stage 3 to Stage 1 | 8 | - | ( 8 ) | - | - |
| Stage 3 to Stage 2 | - | 7 | ( 7 ) | - | - |
| Assets derecognized or repaid | ( 1,055 ) | ( 108 ) | ( 314 ) | - | ( 1,477) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 710 | - | - | - | 710 |
| Moved to Stages 2 and 3 | - | 1,179 | 902 | - | 2,081 |
| | ( 457 ) | 1,171 | 600 | - | 1,314 |
| Balance at end of year | 1,607 | 1,200 | 5,818 | - | 8,625 |
| *Consumer loans* | | | | | |
| Balance at beginning of year | 363 | 357 | 3,772 | - | 4,492 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 46 ) | 46 | - | - | - |
| Stage 1 to Stage 3 | ( 272 ) | - | 272 | - | - |
| Stage 2 to Stage 1 | 228 | ( 228 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 187 ) | 187 | - | - |
| Stage 3 to Stage 2 | - | 183 | ( 183 ) | - | - |
| Assets derecognized or repaid | ( 387 ) | ( 31 ) | ( 781 ) | - | ( 1,199) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 324 | - | - | - | 324 |
| Moved to Stages 2 and 3 | - | 82 | 455 | - | 537 |
| Write-offs | - | - | ( 1,698 ) | - | ( 1,698) |
| | ( 153 ) | ( 135 ) | ( 1,748 ) | - | ( 2,036 ) |
| Balance at end of year | 210 | 222 | 2,024 | - | 2,456 |
| *Credit cards* | | | | | |
| Balance at beginning of year | 572 | 325 | 2,150 | - | 3,047 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 22 ) | 22 | - | - | - |
| Stage 1 to Stage 3 | ( 106 ) | - | 106 | - | - |
| Stage 2 to Stage 3 | - | ( 271 ) | 271 | - | - |
| Stage 3 to Stage 2 | - | 43 | ( 43 ) | - | - |
| Stage 2 to Stage 1 | 41 | ( 41 ) | - | - | - |
| Stage 3 to Stage 1 | 51 | - | ( 51 ) | - | - |
| Assets derecognized or repaid | ( 846 ) | ( 139 ) | ( 288 ) | - | ( 1,273) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 1,028 | - | - | - | 1,028 |
| Moved to Stages 2 and 3 | - | 371 | 2,993 | - | 3,364 |
| Write-offs | - | - | ( 3,476 ) | - | ( 3,476) |
| | 146 | ( 15 ) | ( 488 ) | - | ( 357) |
| Balance at end of year | 718 | 310 | 1,662 | - | 2,690 |
| *Balance forwarded* | P 2,535 | P 1732 | P 9,504 | P - | P 13,771 |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | P 2,535 | P 1,732 | P 9,504 | P - | P 13,771 |
| *Other receivables* | | | | | |
| Balance at beginning of year | 132 | 16 | 2,341 | - | 2,489 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 7 ) | 7 | - | - | - |
| Stage 2 to Stage 3 | - | ( 19 ) | 19 | - | - |
| Stage 3 to Stage 1 | 17 | - | ( 17 ) | - | - |
| Assets derecognized or repaid | ( 247 ) | ( 112 ) | ( 397 ) | - | ( 756) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 181 | - | - | - | 181 |
| Moved to Stages 2 and 3 | - | 160 | 336 | - | 496 |
| Write-offs | - | - | ( 1,093 ) | - | ( 1,093) |
| | ( 56) | 36 | ( 1,152 ) | - | ( 1,172) |
| Balance at end of year | 76 | 52 | 1,189 | - | 1,317 |
| | P 2,611 | P 1,784 | P 10,693 | P - | P 15,088 |

Presented below are the composition of allowance for ECL as by loan portfolio (see Note 11):

| | **Group** | | **Parent Company** | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Corporate | **P 9,052** | P 8,643 | **P 9,035** | P 8,625 |
| Credit card receivables | **3,651** | 2,690 | **3,651** | 2,690 |
| Consumer | **2,025** | 2,456 | **2,025** | 2,456 |
| Leasing and finance | **1,036** | 750 | **-** | - |
| Microfinance and small business | **68** | 68 | **-** | - |
| Other receivables | **1,563** | 1,423 | **1,310** | 1,317 |
| | **P 17,395** | P 16,030 | **P 16,021** | P 15,088 |

*b) Investments in debt securities at amortized cost and at FVOCI*

| | **Group** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| ***HTC*** | | | | |
| **2023** | | | | |
| Balance at beginning of year | P 163 | P - | P - | P 163 |
| Net remeasurement of loss allowance | ( 2) | - | - | ( 2) |
| Balance at end of year | **P 161** | **P -** | **P -** | **P 161** |
| 2022 | | | | |
| Balance at beginning of year | P 147 | P - | P - | P 147 |
| Net remeasurement of loss allowance | 19 | - | - | 19 |
| Derecognition of financial assets | ( 3) | - | - | ( 3) |
| Balance at end of year | P 163 | P - | P - | P 163 |

| | Parent Company | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **2023** | | | | |
| Balance at beginning of year | P 71 | P - | P - | P 71 |
| Net remeasurement of loss allowance | - | - | - | - |
| Balance at end of year | **P 71** | **P -** | **P -** | **P 71** |
| 2022 | | | | |
| Balance at beginning of year | P 52 | P - | P - | P 52 |
| Net remeasurement of loss allowance | 19 | - | - | 19 |
| Balance at end of year | P 71 | P - | P - | P 71 |

| | Group and Parent Company | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| ***FVOCI*** | | | | |
| **2023** | | | | |
| Balance at beginning of year | P 13 | P - | P - | P 13 |
| Net remeasurement of loss allowance | - | - | - | - |
| Balance at end of year | **P 13** | **P -** | **P -** | **P 13** |
| 2022 | | | | |
| Balance at beginning of year | P 12 | P - | P - | P 12 |
| Net remeasurement of loss allowance | 1 | - | - | 1 |
| Balance at end of year | P 13 | P - | P - | P 13 |

*c) Loan commitments*

| | Group and Parent Company | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **2023** | | | | |
| ***Corporate Loans*** | | | | |
| Balance at beginning of year | P 29 | P - | P - | P 29 |
| Assets derecognized or repaid | ( 26) | - | - | ( 26) |
| New assets originated: Remained in Stage 1 | 8 | - | - | 8 |
| | ( 18) | - | - | ( 18) |
| Balance at end of year | **11** | **-** | **-** | **11** |
| ***Credit Cards*** | | | | |
| Balance at beginning of year | 185 | - | - | 185 |
| New assets originated: Remained in Stage 1 | 108 | - | - | 108 |
| | 108 | - | - | 108 |
| Balance at end of year | **293** | **-** | **-** | **293** |
| | **P 304** | **P -** | **P -** | **P 304** |

| | Group and Parent Company | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| 2022 | | | | |
| *Corporate Loans* | | | | |
| Balance at beginning of year | P 18 | P - | P 5 | P 23 |
| Transfers: | | | | |
| Stage 3 to 1 | 5 | - | ( 5) | - |
| New assets originated: | | | | |
| Remained in Stage 1 | 6 | - | - | 6 |
| | 11 | - | ( 5) | 6 |
| Balance at end of year | 29 | - | - | 29 |
| *Credit Cards* | | | | |
| Balance at beginning of year | 122 | - | - | 122 |
| New assets originated: | | | | |
| Remained in Stage 1 | 63 | - | - | 63 |
| | 63 | - | - | 63 |
| Balance at end of year | 185 | - | - | 185 |
| | P 214 | P - | P - | P 214 |

The information on how the significant changes in the gross carrying amount of the financial instruments contributed to the changes in the amount of allowance for ECL are presented in Note 4.4.10.

### *4.4.10 Significant Changes in Gross Carrying Amount Affecting Allowance for ECL*

The tables below and in the succeeding pages provides information how the significant changes in the gross carrying amount of financial instruments in 2023 and 2022 contributed to the changes in the allowance for ECL.

a) *Loans and receivables*

| | **Group** | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Purchased credit-impaired** | **Total** |
| **2023** | | | | | |
| ***Corporate Loans*** | | | | | |
| Balance at beginning of year | P 367,413 | P 3,837 | P 9,452 | P 20 | P 380,722 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 3,371 ) | 3,371 | - | - | - |
| Stage 1 to Stage 3 | ( 794 ) | - | 794 | - | - |
| Stage 2 to Stage 1 | 472 | ( 472 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 3,113 ) | 3,113 | - | - |
| Stage 3 to Stage 1 | 105 | - | ( 105) | - | - |
| Stage 3 to Stage 2 | - | 293 | ( 293) | - | - |
| Assets derecognized or repaid | ( 196,871 ) | ( 204 ) | ( 769) | - | ( 197,844) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 227,918 | - | - | - | 227,918 |
| Moved to Stages 2 and 3 | - | 1,723 | 2,079 | - | 3,802 |
| Write-offs | - | - | ( 287) | - | ( 287) |
| | 27,459 | 1,598 | 4,532 | - | 33,589 |
| Balance at end of year (*Balance forwarded*) | **P 394,872** | **P 5,435** | **P 13,984** | **P 20** | **P 414,311** |

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | **P 394,872** | **P 5,435** | **P 13,984** | **P 20** | **P 414,311** |
| ***Consumer loans*** | | | | | |
| Balance at beginning of year | 89,533 | 9,361 | 8,882 | - | 107,776 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 2,303 ) | 2,303 | - | - | - |
| Stage 1 to Stage 3 | ( 1,202 ) | - | 1,202 | - | - |
| Stage 2 to Stage 1 | 6,082 | ( 6,082 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 2,406 ) | 2,406 | - | - |
| Stage 3 to Stage 1 | 2,505 | - | ( 2,505) | - | - |
| Stage 3 to Stage 2 | - | 655 | ( 655) | - | - |
| Assets derecognized or repaid | ( 30,895 ) | ( 766 ) | ( 1,895) | - | ( 33,556 ) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 54,474 | - | - | - | 54,474 |
| Moved to Stages 2 and 3 | - | 621 | 288 | - | 909 |
| Write-offs | - | - | ( 736) | - | ( 736 ) |
| | 28,661 | ( 5,675 ) | ( 1,895) | - | 21,091 |
| Balance at end of year | **118,194** | **3,686** | **6,987** | **-** | **128,867** |
| ***Credit cards*** | | | | | |
| Balance at beginning of year | 47,713 | 752 | 1,915 | - | 50,380 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 901 ) | 901 | - | - | - |
| Stage 1 to Stage 3 | ( 1,472 ) | - | 1,472 | - | - |
| Stage 2 to Stage 1 | 115 | ( 115 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 125 ) | 125 | - | - |
| Stage 3 to Stage 1 | 69 | - | ( 69) | - | - |
| Stage 3 to Stage 2 | - | 46 | ( 46) | - | - |
| Assets derecognized or repaid | ( 122,151 ) | ( 600 ) | ( 547 ) | - | ( 123,298) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 147,491 | - | - | - | 147,491 |
| Moved to Stages 2 and 3 | - | 388 | 2,781 | - | 3,169 |
| Write-offs | - | - | ( 3,075 ) | - | ( 3,075 ) |
| | 23,151 | 495 | 641 | - | 24,287 |
| Balance at end of year | **70,864** | **1,247** | **2,556** | **-** | **74,667** |
| ***Leasing and finance receivables**** | | | | | |
| Balance at beginning of year | 1,141 | 1,286 | 806 | - | 3,233 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 472) | 472 | - | - | - |
| Stage 2 to Stage 1 | 14 | ( 14 ) | - | - | - |
| Stage 3 to Stage 1 | 12 | - | ( 12 ) | - | - |
| Assets derecognized or repaid | ( 696 ) | ( 934 ) | ( 241 ) | - | ( 1,871) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 649 | - | - | - | 649 |
| Moved to Stages 2 and 3 | - | 406 | 456 | - | 862 |
| Write-offs | - | - | ( 72 ) | - | ( 72 ) |
| | ( 493) | ( 70 ) | 131 | - | ( 432) |
| Balance at end of year | **648** | **1,216** | **937** | **-** | **2,801** |
| *Balance forwarded* | **P 584,578** | **P 11,584** | **P 24,464** | **P 20** | **P 620,646** |

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | **P 584,578** | **P 11,584** | **P 24,464** | **P 20** | **P 620,646** |
| ***Micro and small business loans***** | | | | | |
| Balance at beginning of year | 982 | 67 | 186 | - | 1,235 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | (29) | 29 | - | - | - |
| Stage 1 to Stage 3 | (29) | - | 29 | - | - |
| Stage 2 to Stage 1 | 5 | (5) | - | - | - |
| Stage 2 to Stage 3 | - | (2) | 2 | - | - |
| Stage 3 to Stage 1 | 1 | - | (1) | - | - |
| Stage 3 to Stage 2 | - | 8 | (8) | - | - |
| Assets derecognized or repaid | (671) | (46) | (38) | - | (755) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 735 | - | - | - | 735 |
| Moved to Stages 2 and 3 | - | 28 | 42 | - | 70 |
| Write-offs | - | - | (9) | - | (9) |
| | 12 | 12 | 17 | - | 41 |
| Balance at end of year | **994** | **79** | **203** | **-** | **1,276** |
| ***Other receivables*** | | | | | |
| Balance at beginning of year | 29,187 | 494 | 1,872 | - | 31,553 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | (84) | 84 | - | - | - |
| Stage 1 to Stage 3 | (80) | - | 80 | - | - |
| Stage 2 to Stage 1 | 68 | (68) | - | - | - |
| Stage 2 to Stage 3 | - | (246) | 246 | - | - |
| Stage 3 to Stage 2 | - | 21 | (21) | - | - |
| Assets derecognized or repaid | (2,186) | (232) | (693) | - | (3,111) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 16,145 | - | - | - | 16,145 |
| Moved to Stages 2 and 3 | - | 291 | 524 | - | 815 |
| | 13,863 | (150) | 136 | - | 13,849 |
| Balance at end of year | **43,050** | **344** | **2,008** | **-** | **45,402** |
| | **P 628,622** | **P 12,007** | **P 26,675** | **P 20** | **P 667,324** |

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| 2022 | | | | | |
| *Corporate Loans* | | | | | |
| Balance at beginning of year | P 352,089 | P 654 | P 10,720 | P 45 | P 363,508 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 2,910 ) | 2,910 | - | - | - |
| Stage 1 to Stage 3 | ( 2,392 ) | - | 2,392 | - | - |
| Stage 2 to Stage 1 | 293 | ( 293 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 130 ) | 130 | - | - |
| Stage 3 to Stage 1 | 51 | - | ( 51) | - | - |
| Stage 3 to Stage 2 | - | 21 | ( 21) | - | - |
| Assets derecognized or repaid | ( 170,111 ) | ( 3,585 ) | ( 5,221 ) | ( 25 ) | ( 178,942) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 190,393 | - | - | - | 190,393 |
| Moved to Stages 2 and 3 | - | 4,260 | 1,503 | - | 5,763 |
| | 15,324 | 3,183 | ( 1,268 ) | ( 25 ) | 17,214 |
| Balance at end of year | 367,413 | 3,837 | 9,452 | 20 | 380,722 |
| *Consumer loans* | | | | | |
| Balance at beginning of year | 81,363 | 12,513 | 16,118 | - | 109,994 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 4,551 ) | 4,551 | - | - | - |
| Stage 1 to Stage 3 | ( 1,070 ) | - | 1,070 | - | - |
| Stage 2 to Stage 1 | 5,962 | ( 5,962 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 2,061 ) | 2,061 | - | - |
| Stage 3 to Stage 1 | - | - | - | - | - |
| Stage 3 to Stage 2 | - | 2,085 | ( 2,085 ) | - | - |
| Assets derecognized or repaid | ( 4,225 ) | ( 2,389 ) | ( 6,708 ) | - | ( 13,322 ) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 12,054 | - | - | - | 12,054 |
| Moved to Stages 2 and 3 | - | 624 | 124 | - | 748 |
| Write-offs | - | - | ( 1,698 ) | - | ( 1,698 ) |
| | 8,170 | ( 3,152 ) | ( 7,236 ) | - | ( 2,218 ) |
| Balance at end of year | 89,533 | 9,361 | 8,882 | - | 107,776 |
| *Credit cards* | | | | | |
| Balance at beginning of year | 32,235 | 792 | 2,536 | - | 35,563 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 603 ) | 603 | - | - | - |
| Stage 1 to Stage 3 | ( 2,002 ) | - | 2,002 | - | - |
| Stage 2 to Stage 1 | 122 | ( 122 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 634 ) | 634 | - | - |
| Stage 3 to Stage 1 | 65 | - | ( 65) | - | - |
| Stage 3 to Stage 2 | - | 51 | ( 51) | - | - |
| Assets derecognized or repaid | ( 83,655 ) | ( 411 ) | ( 2,658 ) | - | ( 86,724) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 101,551 | - | - | - | 101,551 |
| Moved to Stages 2 and 3 | - | 473 | 2,993 | - | 3,466 |
| Write-offs | - | - | ( 3,476 ) | - | ( 3,476 ) |
| | 15,478 | ( 40 ) | ( 621 ) | - | 14,817 |
| Balance at end of year | 47,713 | 752 | 1,915 | - | 50,380 |
| *Balance forwarded* | P 504,659 | P 13,950 | P 20,249 | P 20 | P 538,878 |

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | P 504,659 | P 13,950 | P 20,249 | P 20 | P 538,878 |
| *Leasing and finance receivables** | | | | | |
| Balance at beginning of year | 1,101 | 755 | 737 | - | 2,593 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 1,641) | 1,641 | - | - | - |
| Stage 1 to Stage 3 | ( 446) | - | 446 | - | - |
| Stage 2 to Stage 1 | - | - | - | - | - |
| Stage 2 to Stage 3 | - | ( 325) | 325 | - | - |
| Stage 3 to Stage 1 | - | - | - | - | - |
| Stage 3 to Stage 2 | - | 2 | ( 2) | - | - |
| Assets derecognized or repaid | ( 496) | ( 1,072) | ( 898) | - | ( 2,466) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 2,623 | - | - | - | 2,623 |
| Moved to Stages 2 and 3 | - | 285 | 198 | - | 483 |
| | 40 | 531 | 69 | - | 640 |
| Balance at end of year | 1,141 | 1,286 | 806 | - | 3,233 |
| *Micro and small business loans*** | | | | | |
| Balance at beginning of year | 684 | 322 | 67 | - | 1,073 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 46) | 46 | - | - | - |
| Stage 1 to Stage 3 | - | - | - | - | - |
| Stage 2 to Stage 1 | - | - | - | - | - |
| Stage 2 to Stage 3 | - | ( 53) | 53 | - | - |
| Stage 3 to Stage 1 | - | - | - | - | - |
| Stage 3 to Stage 2 | - | 2 | ( 2) | - | - |
| Assets derecognized or repaid | ( 297) | ( 276) | ( 72) | - | ( 645) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 677 | - | - | - | 677 |
| Moved to Stages 2 and 3 | - | 26 | 149 | - | 175 |
| Write-offs | ( 36) | - | ( 9) | - | ( 45) |
| | 298 | ( 255) | 119 | - | 162 |
| Balance at end of year | 982 | 67 | 186 | - | 1,235 |
| *Other receivables* | | | | | |
| Balance at beginning of year | 39,996 | 327 | 3,512 | - | 43,835 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 84) | 84 | - | - | - |
| Stage 2 to Stage 3 | - | ( 313) | 313 | - | - |
| Stage 3 to Stage 1 | 114 | - | ( 114) | - | - |
| Assets derecognized or repaid | ( 11,783) | ( 252) | ( 1,082) | - | ( 13,117) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 944 | - | - | - | 944 |
| Moved to Stages 2 and 3 | - | 648 | 336 | - | 984 |
| Write-offs | - | - | ( 1,093) | - | ( 1,093) |
| | ( 10,809) | 167 | ( 1,640) | - | ( 12,282) |
| Balance at end of year | 29,187 | 494 | 1,872 | - | 31,553 |
| | P 535,969 | P 15,797 | P 23,113 | P 20 | P 574,899 |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| **2023** | **Stage 1** | **Stage 2** | **Stage 3** | **Purchased credit-impaired** | **Total** |
| ***Corporate Loans*** | | | | | |
| Balance at beginning of year | P 364,131 | P 3,837 | P 9,452 | P - | P 377,420 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 3,371 ) | 3,371 | - | - | - |
| Stage 1 to Stage 3 | ( 787 ) | - | 787 | - | - |
| Stage 2 to Stage 1 | 434 | ( 434 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 3,113 ) | 3,113 | - | - |
| Stage 3 to Stage 1 | 94 | - | ( 94 ) | - | - |
| Stage 3 to Stage 2 | - | 293 | ( 293 ) | - | - |
| Assets derecognized or repaid | ( 194,253 ) | ( 202 ) | ( 1,042 ) | - | ( 195,497 ) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 227,735 | - | - | - | 227,735 |
| Moved to Stages 2 and 3 | - | 871 | 1,177 | - | 2,048 |
| | 29,852 | 786 | 3,648 | - | 34,286 |
| Balance at end of year | **P 393,983** | **P 4,623** | **P 13,100** | **P -** | **P 411,706** |
| ***Consumer loans*** | | | | | |
| Balance at beginning of year | 89,533 | 9,361 | 8,882 | - | 107,776 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 2,303 ) | 2,303 | - | - | - |
| Stage 1 to Stage 3 | ( 1,202 ) | - | 1,202 | - | - |
| Stage 2 to Stage 1 | 6,082 | ( 6,082 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 2,406 ) | 2,406 | - | - |
| Stage 3 to Stage 1 | 2,505 | - | ( 2,505 ) | - | - |
| Stage 3 to Stage 2 | - | 655 | ( 655 ) | - | - |
| Assets derecognized or repaid | ( 30,895 ) | ( 766 ) | ( 1,895 ) | - | ( 33,556 ) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 54,474 | - | - | - | 54,474 |
| Moved to Stages 2 and 3 | - | 621 | 288 | - | 909 |
| Write-offs | - | - | ( 736 ) | - | ( 736 ) |
| | 28,661 | ( 5,675 ) | ( 1,895 ) | - | 21,091 |
| Balance at end of year | **118,194** | **3,686** | **6,987** | **-** | **128,867** |
| ***Credit cards*** | | | | | |
| Balance at beginning of year | 47,713 | 752 | 1,915 | - | 50,380 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 901 ) | 901 | - | - | - |
| Stage 1 to Stage 3 | ( 1,472 ) | - | 1,472 | - | - |
| Stage 2 to Stage 1 | 115 | ( 115 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 125 ) | 125 | - | - |
| Stage 3 to Stage 1 | 69 | - | ( 69) | - | - |
| Stage 3 to Stage 2 | - | 46 | ( 46) | - | - |
| Assets derecognized or repaid | ( 122,151 ) | ( 600 ) | ( 547 ) | - | ( 123,298 ) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 147,491 | - | - | - | 147,491 |
| Moved to Stages 2 and 3 | - | 388 | 2,781 | - | 3,169 |
| Write-offs | - | - | ( 3,075 ) | - | ( 3,075 ) |
| | 23,151 | 495 | 641 | - | 24,287 |
| Balance at end of year | **70,864** | **1,247** | **2,556** | **-** | **74,667** |
| *Balance forwarded* | **P 583,041** | **P 9,556** | **P 22,643** | **P -** | **P 615,240** |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | **P 583,041** | **P 9,556** | **P 22,643** | **P -** | **P 615,240** |
| ***Other receivables*** | | | | | |
| Balance at beginning of year | 28,589 | 461 | 1,676 | - | 30,726 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 126 ) | 126 | - | - | - |
| Stage 1 to Stage 3 | ( 92 ) | - | 92 | - | - |
| Stage 2 to Stage 1 | 96 | ( 96 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 293 ) | 293 | - | - |
| Stage 3 to Stage 1 | 3 | - | ( 3 ) | - | - |
| Stage 3 to Stage 2 | - | 168 | ( 168 ) | - | - |
| Assets derecognized or repaid | ( 2,573 ) | ( 232 ) | ( 825 ) | - | ( 3,630) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 16,504 | - | - | - | 16,504 |
| Moved to Stages 2 and 3 | - | 210 | 652 | - | 862 |
| | 13,812 | ( 117 ) | 41 | - | 13,736 |
| Balance at end of year | **42,401** | **344** | **1,717** | **-** | **44,462** |
| | **P 625,442** | **P 9,900** | **P 24,360** | **P -** | **P 659,702** |
| 2022 | | | | | |
| *Corporate Loans* | | | | | |
| Balance at beginning of year | P 348,002 | P 654 | P 10,720 | P - | P 359,376 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 2,910 ) | 2,910 | - | - | - |
| Stage 1 to Stage 3 | ( 2,392 ) | - | 2,392 | - | - |
| Stage 2 to Stage 1 | 293 | ( 293 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 130 ) | 130 | - | - |
| Stage 3 to Stage 1 | 51 | - | ( 51 ) | - | - |
| Stage 3 to Stage 2 | - | 21 | ( 21 ) | - | - |
| Assets derecognized or repaid | ( 169,306 ) | ( 3,585 ) | ( 5,221 ) | - | ( 178,112) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 190,393 | - | - | - | 190,393 |
| Moved to Stages 2 and 3 | - | 4,260 | 1,503 | - | 5,763 |
| | 16,129 | 3,183 | ( 1,268 ) | - | 18,044 |
| Balance at end of year *(Balance forwarded)* | P 364,131 | P 3,837 | P 9,452 | P - | P 377,420 |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | P 364,131 | P 3,837 | P 9,452 | P - | P 377,420 |
| *Consumer loans* | | | | | |
| Balance at beginning of year | P 81,363 | P 12,513 | P 16,118 | P - | P 109,994 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 4,551 ) | 4,551 | - | - | - |
| Stage 1 to Stage 3 | ( 1,070 ) | - | 1,070 | - | - |
| Stage 2 to Stage 1 | 5,962 | ( 5,962 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 2,061 ) | 2,061 | - | - |
| Stage 3 to Stage 1 | - | - | - | - | - |
| Stage 3 to Stage 2 | - | 2,085 | ( 2,085) | - | - |
| Assets derecognized or repaid | ( 4,225 ) | ( 2,389 ) | ( 6,708) | - | ( 13,322) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 12,054 | - | - | - | 12,054 |
| Moved to Stages 2 and 3 | - | 624 | 124 | - | 748 |
| Write-offs | - | - | ( 1,698) | - | ( 1,698) |
| | 8,170 | ( 3,152 ) | ( 7,236 ) | - | ( 2,218) |
| Balance at end of year | 89,533 | 9,361 | 8,882 | - | 107,776 |
| *Credit cards* | | | | | |
| Balance at beginning of year | 32,235 | 792 | 2,536 | - | 35,563 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 603 ) | 603 | - | - | - |
| Stage 1 to Stage 3 | ( 2,002 ) | - | 2,002 | - | - |
| Stage 2 to Stage 1 | 122 | ( 122 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 634 ) | 634 | - | - |
| Stage 3 to Stage 1 | 65 | - | ( 65) | - | - |
| Stage 3 to Stage 2 | - | 51 | ( 51) | - | - |
| Assets derecognized or repaid | ( 83,655 ) | ( 411 ) | ( 2,658) | - | ( 86,724) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 101,551 | - | - | - | 101,551 |
| Moved to Stages 2 and 3 | - | 473 | 2,993 | - | 3,466 |
| Write-offs | - | - | ( 3,476) | - | ( 3,476) |
| | 15,478 | ( 40 ) | ( 621 ) | - | 14,817 |
| Balance at end of year | 47,713 | 752 | 1,915 | - | 50,380 |
| *Other receivables* | | | | | |
| Balance at beginning of year | 39,249 | 312 | 3,309 | - | 42,870 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 28 ) | 28 | - | - | - |
| Stage 2 to Stage 3 | - | ( 284 ) | 284 | - | - |
| Stage 3 to Stage 1 | 114 | - | ( 114 ) | - | - |
| Assets derecognized or repaid | ( 11,727 ) | ( 224 ) | ( 1,046 ) | - | ( 12,997) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 981 | - | - | - | 981 |
| Moved to Stages 2 and 3 | - | 629 | 336 | - | 965 |
| Write-off | - | - | ( 1,093 ) | - | ( 1,093) |
| | ( 10,660) | 149 | ( 1,633 ) | - | ( 12,144) |
| Balance at end of year | 28,589 | 461 | 1,676 | - | 30,726 |
| | P 529,966 | P 14,411 | P 21,925 | P - | P 566,302 |

The amounts of "Transfers to" include the changes in the ECL on the exposures transferred from one stage to another during the year.

The Group's receivables arising from salary loans are generally fully recoverable as those are collected through salary deductions, except for those receivables from resigned employees which were provided with full ECL allowance.

b) *Investment in debt securities at amortized cost and at FVOCI*

| | Group | | Parent Company | |
|---|---|---|---|---|
| | HTC | FVOCI | HTC | FVOCI |
| **2023** | | | | |
| Balance at beginning of year | P 252,545 | P 111,314 | P 251,399 | P 111,205 |
| Assets purchased | 16,099 | 442,380 | 14,092 | 442,360 |
| Assets derecognized | ( 31,956) | ( 476,587) | ( 29,688) | ( 476,579) |
| Fair value gain | - | 1,426 | - | 1,431 |
| Balance at end of year | **P 236,688** | **P 78,533** | **P 235,803** | **P 78,417** |
| 2022 | | | | |
| Balance at beginning of year | P 163,758 | P 46,094 | P 162,951 | P 45,611 |
| Assets purchased | 149,832 | 131,018 | 148,342 | 130,903 |
| Assets derecognized | ( 61,045) | ( 60,578) | ( 59,894) | ( 59,863) |
| Fair value loss | - | ( 5,220) | - | ( 5,446) |
| Balance at end of year | P 252,545 | P 111,314 | P 251,399 | P 111,205 |

c) *Loan Commitments*

| | Group and Parent Company | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **2023** | | | | |
| ***Corporate Loans*** | | | | |
| Balance at beginning of year | P 8,930 | P - | P - | P 8,930 |
| Assets derecognized or repaid | ( 7,043) | - | - | ( 7,043) |
| New assets originated: | | | | |
| Remained in Stage 1 | 6,395 | - | - | 6,395 |
| Moved to Stage 2 | - | 3 | - | 3 |
| | ( 648) | 3 | - | ( 645) |
| Balance at end of year | **8,282** | **3** | **-** | **8,285** |
| ***Credit Cards*** | | | | |
| Balance at beginning of year | 9,607 | - | - | 9,607 |
| New assets originated: | | | | |
| Remained in Stage 1 | 14,111 | - | - | 14,111 |
| | 14,111 | - | - | 14,111 |
| Balance at end of year | **23,718** | **-** | **-** | **23,718** |
| | **P 32,000** | **P 3** | **P -** | **P 32,003** |

| | Group and Parent Company | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| 2022 | | | | |
| *Corporate Loans* | | | | |
| Balance at beginning of year | P 4,106 | P 4 | P 13 | P 4,123 |
| Transfers: | | | | |
| Stage 2 to 1 | 4 | ( 4) | - | - |
| Stage 3 to 1 | 13 | - | ( 13) | - |
| New assets originated: | | | | |
| Remained in Stage 1 | 4,807 | - | - | 4,807 |
| | 4,824 | ( 4) | ( 13) | 4,807 |
| Balance at end of year | 8,930 | - | - | 8,930 |
| *Credit Cards* | | | | |
| Balance at beginning of year | 9,607 | - | - | 9,607 |
| New assets originated: | | | | |
| Remained in Stage 1 | 5,961 | - | - | 5,961 |
| | 5,961 | - | - | 5,961 |
| Balance at end of year | 15,568 | - | - | 15,568 |
| | P 24,498 | P - | P - | P 24,498 |

### *4.4.11 Collateral Held as Security and Other Credit Enhancements*

The Group holds collateral against loans and advances to customers in the form of hold-out deposits, real estate mortgage, standby letters of credit or bank guaranty, government guaranty, chattel mortgage, assignment of receivables, pledge of equity securities, personal and corporate guaranty and other forms of security. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are generally updated annually.

Generally, collateral is not held over loans and advances to other banks, except when securities are held as part of reverse repurchase and securities borrowing arrangements. Collateral is not usually held against trading and investment securities, and no such collateral was held as of December 31, 2023 and 2022.

The estimated fair value of collateral and other security enhancements held against the loan portfolio as of December 31 are presented below.

| | **Group** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **2023** | | | | |
| Real properties | P 143,141 | P 4,320 | P 9,761 | P 157,222 |
| Chattel | 139,159 | 3,287 | 5,297 | 147,743 |
| Hold-out deposits | 6,890 | 9 | 10 | 6,909 |
| Equity securities | 6,121 | 9 | 248 | 6,378 |
| Others | 185,498 | 2,493 | 10,874 | 198,865 |
| | **P 480,809** | **P 10,118** | **P 26,190** | **P 517,117** |

| | Group | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| 2022 | | | | |
| Real properties | P 120,659 | P 9,862 | P 11,157 | P 141,678 |
| Chattel | 66,648 | 8,404 | 6,974 | 82,026 |
| Hold-out deposits | 10,993 | 1 | 7 | 11,001 |
| Equity securities | 15,681 | - | 247 | 15,928 |
| Others | 237,070 | 2,524 | 6,852 | 246,446 |
| | P 451,051 | P 20,791 | P 25,237 | P 497,079 |

| | **Parent Company** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **2023** | | | | |
| Real properties | P 137,841 | P 3,996 | P 9,471 | P 151,308 |
| Chattel | 136,681 | 2,903 | 3,700 | 143,284 |
| Hold-out deposits | 6,797 | 6 | 4 | 6,807 |
| Equity securities | 6,121 | 9 | 248 | 6,378 |
| Others | 182,520 | 2,324 | 9,887 | 194,731 |
| | **P 469,960** | **P 9,238** | **P 23,310** | **P 502,508** |
| 2022 | | | | |
| Real properties | P 117,894 | P 9,197 | P 10,842 | P 137,933 |
| Chattel | 64,833 | 6,049 | 5,606 | 76,488 |
| Hold-out deposits | 10,936 | - | 5 | 10,941 |
| Equity securities | 15,681 | - | 247 | 15,928 |
| Others | 233,118 | 1,136 | 5,987 | 240,241 |
| | P 442,462 | P 16,382 | P 22,687 | P 481,531 |

The Group and the Parent Company have recognized certain properties arising from foreclosures in settlement of loan account amounting to P675 and P614, respectively, in 2023 and P761 and P760, respectively, in 2022.

The Group and the Parent Company's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place. The Group and the Parent Company do not generally use the non-cash collateral for its own operations.

There were no changes in the Group and the Parent Company's collateral policies in 2023 and 2022.

### 4.4.12 Modifications of Financial Assets

*(a) Financial Reliefs Provided by the Group*

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

On top of the government reliefs, the Group has offered financial relief through its CARE Program, which was approved by the Executive Committee on May 4, 2020, in response to the COVID-19 situation. These relief measures were granted to eligible customers to allow them to get back into the habit of paying loans and included the following:

- payment relief including extension of contractual terms;
- principal and interest relief including lower amortization on extended term with interest payment only on the first year; and,
- extension of balloon repayment terms.

The outstanding balance of loans modified under the CARE Program in 2023 and 2022 amounted to P29,554 and P35,695, respectively, for the Group, and P27,473 and P33,086, respectively for the Parent Company.

The following tables provide a summary of the outstanding balance of modified loans resulting from the financial reliefs provided by the Group as of December 31:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| **Stage 1 (Performing)** | | | | |
| Corporate | **P 14,815** | P 21,121 | **P 14,815** | P 21,121 |
| Consumer | **4,016** | 2,956 | **4,016** | 2,956 |
| Credit card | **232** | 654 | **232** | 654 |
| Leasing and finance | **817** | 115 | **-** | - |
| Microfinance and small business | **20** | 47 | **-** | - |
| | **P 19,900** | P 24,893 | **P 19,063** | P 24,731 |
| **Stage 2 (Underperforming)** | | | | |
| Corporate | **P 3,016** | P 205 | **P 3,016** | P 205 |
| Consumer | **905** | 2,218 | **905** | 2,218 |
| Credit card | **61** | 120 | **61** | 120 |
| Leasing and finance | **427** | 1,738 | **-** | - |
| Microfinance and small business | **53** | 55 | **-** | - |
| | **P 4,462** | P 4,336 | **P 3,982** | P 2,543 |
| **Stage 3 (Nonperforming)** | | | | |
| Corporate | **P 2,492** | P 1,818 | **P 2,492** | P 1,818 |
| Consumer | **1,844** | 3,830 | **1,844** | 3,830 |
| Credit card | **92** | 164 | **92** | 164 |
| Leasing and finance | **640** | 554 | **-** | - |
| Microfinance and small business | **124** | 100 | **-** | - |
| | **P 5,192** | P 6,466 | **P 4,428** | P 5,812 |

*(b) Assessment of SICR*

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

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

The Group continues to monitor if there is a subsequent SICR in relation to such modified assets through the use of specific models for modified assets [see also Note 4.4.6(a)].

### *4.4.13 Write-offs*

The Group and the Parent Company write off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include: cessation of enforcement activity; and, where the Group and Parent Company's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of the financial assets to be written-off.

The Group and Parent Company may write off financial assets that are still subject to enforcement activity. The outstanding amounts of such assets written off in 2023 and 2022 amounted to P4,179 and P6,312, respectively, for the Group, and P3,811 and P6,267, respectively, for the Parent Company. The Group and the Parent Company still seek to recover amounts legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

### *4.4.14 Credit Risk Stress Test*

To enhance the assessment of credit risk, the Group adopted a credit risk stress testing framework using break-even sales and cash flow debt service to determine a borrower's vulnerability and ultimately impact to the Group's capital adequacy. The Parent Company adopted a portfolio credit risk testing framework that takes into consideration the causal relationships among industry sectors.

### *4.4.15 Sensitivity Analysis on ECL Measurement*

Set out below are the changes to the Group's ECL as of December 31, 2023 and 2022 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Group's economic variable assumptions:

| | Change in MEVs | | Impact on ECL | |
|---|---|---|---|---|
| | **Upside Scenario** | **Downside Scenario** | **Upside Scenario** | **Downside Scenario** |
| **2023** | | | | |
| Credit card receivables | | | (P 3,748) | P 4,372 |
| GDP | **+ 7.00%** | **- 6.50%** | | |
| CPI | **- P123.70** | **+ P124.30** | | |
| Unemployment rate | **- 2.00%** | **+ 4.00%** | | |
| Corporate loans | | | ( 234) | 197 |
| Inflation rate | **- 0.50%** | **+ 5.00%** | | |
| 91D TD bill | **- 0.50%** | **+ 5.00%** | | |
| Consumer loans: | | | | |
| *Salary loans* | | | ( 128) | 303 |
| Unemployment rate | **- 2.00%** | **+ 13.00%** | | |
| USD-Php exchange rate | **- P52.50** | **+ P66.00** | | |
| Inflation rate | **-3.60%** | **+ 9.10%** | | |
| Bank lending rate | **-5.70%** | **+ 11.20%** | | |
| *Housing loans* | | | ( 505) | 564 |
| GDP | **+ 6.50%** | **- 0.50%** | | |
| CPI | **- P124.30** | **+ P130.27** | | |
| Unemployment rate | **- 4.00%** | **+ 13.00%** | | |
| *Auto loans* | | | ( 971) | 1,164 |
| GDP | **+ 6.50%** | **- 0.50%** | | |
| CPI | **- P124.30** | **+ P130.27** | | |
| Unemployment rate | **- 4.00%** | **+ 13.00%** | | |
| *Personal loans* | | | ( 122) | 145 |
| GDP | **+ 7.00%** | **- 6.50%** | | |
| CPI | **- P123.70** | **+ P124.30** | | |
| Unemployment rate | **- 2.00%** | **+ 4.00%** | | |

| | Change in MEVs | | Impact on ECL | |
|---|---|---|---|---|
| | Upside Scenario | Downside Scenario | Upside Scenario | Downside Scenario |
| 2022 | | | | |
| Credit card receivables | | | (P 461) | P 1,477 |
| Unemployment rate | - 5.80% | + 5.20% | | |
| Inflation rate | - 0.20% | + 5.30% | | |
| Corporate loans | | | ( 99) | 871 |
| USD-Php exchange rate | - P3 | + P10.50 | | |
| Inflation rate | - 0.50% | + 5.00% | | |
| 91D TD bill | - 0.50% | + 5.00% | | |
| Consumer loans: | | | | |
| *Salary loans* | | | ( 11) | 20 |
| Unemployment rate | - 2.00% | + 9.00% | | |
| USD-Php exchange rate | - P3 | + P10.50 | | |
| Inflation rate | -0.50% | + 5.00% | | |
| Bank lending rate | -0.50% | + 5.00% | | |
| *Housing loans* | | | ( 5) | 45 |
| Unemployment rate | - 2.00% | + 9.00% | | |
| Inflation rate | - 0.50% | + 5.00% | | |
| Bank lending rate | - 0.50% | + 5.00% | | |
| *Auto loans* | | | ( 1) | 7 |
| GDP | + P26,008 | - P338,098 | | |
| USD-Php exchange rate | - P3 | + P10.50 | | |
| Bank lending rate | - 0.50% | + 5.00% | | |
| *Personal loans* | | | ( 6) | 37 |
| GDP | + P26,008 | - P338,098 | | |
| USD-Php exchange rate | - P3 | + P10.50 | | |
| Bank lending rate | - 0.50% | + 5.00% | | |

### *4.5 Operational Risk*

Operational risks are risks arising from the potential inadequate information systems and systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls, fraud, or unforeseen catastrophes that may result in unexpected loss. Operational risks include the risk of loss arising from various types of human or technical error, settlement or payments failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The Operational Risk Management Division (ORMD) assists management in meeting its responsibility to understand and manage operational risk exposures and to ensure consistent application of operational risk management tools across the Group.

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

- Each major business line has an embedded designated Deputy Operational Risk Officer (DORO) who acts as a point person for the implementation of various operational risk tools. The DOROs attend quarterly DORO forums conducted by the ORMD to keep them up-to-date with different operational risk issues, challenges and initiatives;

- With ORMD's bottom up Risk Control Self-Assessment (RCSA) process, which is conducted at least annually, material operational processes and controls are assessed and examined to the Bank's overall risks and controls. The result of said self-assessment exercise also serves as one of the inputs in identifying specific key risk indicators (KRIs) and Control Sample Tests (CSTs);

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

- CSTs is for the business units to self-assure against key process controls, effective implementation and execution of controls in its day-to-day activities. CSTs are conducted periodically to detect control failures and address any process weaknesses in a timely manner before control failures can be systemic.

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

- The ORMD reviews product and operating manuals, policies, procedures and circulars, thus allowing the embedding of desired operational risk management practices in all business units.

Operational Risk Management, as it relates to capital adequacy, is currently under Basic Indicator Approach (see Note 5.2).

The Group has an institutional Business Continuity Plan (BCP) based on several crisis severity levels which is tested at least annually and updated for any major changes in systems and procedures. Central to the Group's BCP is a disaster recovery plan to address the continued functioning of systems, recovery of critical data, and contingency processing requirements in the event of a disaster.

### *4.5.1 Reputation Risk*

Reputation risk is the risk to earnings, capital and liquidity arising from negative public opinion. This affects the Group's ability to establish new relationships or services, or to continue servicing existing relationships. This risk can expose the Group to litigation, financial loss, or damage to its reputation. Reputation risk arises whenever technology-based banking products, services, delivery channels, or processes may generate adverse public opinion such that it seriously affects the Group's earnings or impairs its capital. This risk is present in activities such as asset management and regulatory compliance.

The RCBC Group has very low tolerance for engaging in any business activity where foreseeable reputational risk or damage has not been considered and/or mitigated. The Group shall protect its reputation to ensure that there is no material damage to the Group. The management of reputational risk in the Bank is guided by its Reputational Risk Management Framework in accordance with BSP Circular 1114. The Bank's Reputational Risk Management Framework (RRMF) is in place in order to have an enterprise-wide approach and scope of implementation, beyond the assessment of reputational risk that is focused on customer complaints. While growth is projected to emanate from various drivers, the Bank recognizes that potential failure in the same ushers in a potential damage to reputation.

### 4.5.2 Legal Risk and Regulatory Risk Management

Changes in laws and regulations and fiscal policies could adversely affect the Group's operations and financial reporting. In addition, the Group faces legal risks in enforcing its rights under its loan agreements, such as foreclosing of collateral. Legal risk is higher in new areas of business where the law remains untested by the courts. The Group uses a legal review process as the primary control mechanism for legal risk. Such a legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions. In addition, the Group seeks to minimize its legal risk by using stringent legal documentation, imposing certain requirements designed to ensure that transactions are properly authorized, and consulting internal and external legal advisors.

Regulatory risk refers to the potential for the Group to suffer financial loss due to mid-stream changes in regulatory regime affecting current position and/or strategy. Compliance Risk is the risk of loss resulting from failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its banking activities.

The Group's Compliance Program, the design and implementation of which is overseen and coordinated by the Chief Compliance Officer, is the primary control process for regulatory and compliance risk issues. The Compliance Office is committed to safeguard the integrity of the Group by maintaining a high level of regulatory compliance. It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing periodic compliance testing an, and reporting compliance findings to the ACC and the BOD.

### 4.6 Anti-Money Laundering Controls

The AMLA or RA No. 9160 was passed in September 2001. It was subsequently amended by RA No. 9194, RA No. 10167, and RA No. 10365, R.A.11521 in March 2003, June 2012 and February 2021, respectively. Together with the Terrorism Financing Prevention and Suppression Act (TFPSA) which was passed in June 2012 by virtue of RA No. 10168, and Anti-Terrorism Act of 2020 or R.A. 11479 these laws provide the regulatory framework for the Philippine Anti-Money Laundering and Terrorist Financing Prevention regulations. The Anti-Money Laundering Council is the financial intelligence unit tasked to implement AMLA, as amended. It is also the government agency that issues implementing guidelines to the AMLA and the TFPSA.

RCBC, as a BSP-supervised covered person, is subject to the Anti-Money Laundering and Combatting the Financing of Terrorism Regulations under Part Nine of the Manual of Regulations for Banks (MORB). Recent amendments to the said regulations were covered by BSP Circular Nos. 950 and 1022.

RCBC's Anti-Money Laundering and Terrorism Financing Prevention Program (MTPP) is aligned with the foregoing laws, rules, and regulations, and follows a risk-based approach in identifying, assessing, and mitigating money laundering, terrorist financing, and proliferation financing risks. It includes the policies, procedures, and controls that are designed to prevent, detect, and deter money laundering and terrorist financing, proliferation financing, and other financial crimes. Some of these controls include the following:

- Delineation of the sales and the service functions of the first line of defense. The Sales function is focused on marketing and sales, relationship management, cross-selling, credit-related matters and documentation, and loan-related referrals and documentation; while the Service function is focused on BC operations such as: (a) customer servicing, which includes know your customer (KYC) and account opening, account maintenance and tellering, cash and vault management and ATM servicing, (b) BC administration, (c) customer experience management such as inquiries, feedback, and problem resolution, and (d) compliance and audit.

- The Group also created middle offices under the Branch Operations and Control Segment, comprised of Middle Office Support Division (MOSD) and Branch Control Division (BCD), tasked to review and validate KYC documents. The MOSD ensures the uniqueness of Customer Information Files and accuracy of information captured in the Credit Risk Mitigation (CRM). It also reviews the completeness of account opening documents. The BCD, on the other hand, ensures the proper implementation of KYC, the performance of independent enhanced due diligence based on customer risk profile, and monitoring adherence of BCs to standard operating procedures. It also acts as the additional control layer to track exceptions and decides on dispositions, recommends sanctions or additional trainings for BCs, and recommends process improvements. The key processes of the BCD are KYC, exceptions reporting, and quality assurance.

- Use of technology in automating compliance activities such as client risk profiling, watch list and sanctions screening, transaction monitoring, and regulatory reporting. The Bank has also initiated the use of proactive compliance analytics and investigation to gain more actionable insights and typologies. As recent updates, the Bank has enhanced its sanctions policy to ensure the prohibition of dealing with "designated" individuals or entities. Too, it has updated its policy regulating the onboarding and monitoring of transactions with Designated-Non Financial Businesses and Professions (DNFBPs) customers.

For the controls to remain effective, the RCBC Group assesses its key exposures to ML (money laundering)/TF (terrorist financing)/PF (proliferation financing) risks by performing an Institutional ML/TF/PF Risk Assessment (IRA) focusing on evaluating the inherent ML/TF/PF risks presented by the Bank's business activities and the controls in place to mitigate the inherent ML/TF/PF risks so as to determine the overall residual risks. The institutional risk assessment is conducted at least once every two (2) years, or as often as the Board or senior management may direct, depending on the level of risks identified in the previous risk assessment, or other relevant AML/Countering Financing of Terrorism developments that may have an impact on the covered person's operations.

### *4.7 Impact of London Interbank Offered Rate (LIBOR) Reform*

The Group currently has exposure to contracts which reference LIBOR and extend beyond 2021, including swaps which will transition under the International Swaps and Derivatives Association (ISDA) protocols.

In 2021, the Group established working team consisting of key personnel from treasury, finance, risk, IT, legal, compliance and lending groups to oversee the Group's transition plan. This working group put in place a transition project for those contracts which reference USD LIBOR to transition them to Secured Overnight Financing Rate (SOFR), with the aim of minimizing the disruption to business and mitigating operational risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications. Significant risk areas affected by the replacement of LIBOR include:

*(i)* updating systems and processes which capture USD LIBOR referenced contracts;
*(ii)* amending affected contracts, or existing fallback/transition clauses not operating as anticipated; and (iii) reviewing mismatches in timing of derivatives and loans transitioning from USD LIBOR and the resulting impact on economic risk management.

As confirmed by the United Kingdom's Financial Conduct Authority that LIBOR setting will either cease to be provided or no longer representative for:

- All Sterling, Euro, Swiss Franc and Japanese Yen settings and the 1-week and 2-month USD settings by December 31, 2021

- Remaining overnight, 1-month, 3-month and 12-month USD settings by June 30, 2023

The Group has decided to continue the use of USD LIBOR for its outstanding contracts until June 30, 2023. On the other hand, beginning January 1, 2022, the Group will use the Interbank Offered Rates (IBOR) Fallback Rates from Bloomberg for legacy deals while Overnight Index Swap (OIS) Rates as specified in the ISDA protocols will be used for normal Interest Rate Swaps upon cessation of LIBOR and other rates.

In 2022, the Group has initiated set-up of the required changes to systems and processes. Internal briefings were held across all lending units to disseminate the use of the new benchmark. The Group also sent notice to identified clients advising them of benchmark developments and the Group's adoption of CME Term SOFR for new loans beginning 2022. Loan documentations have also been reviewed for consistency with the new benchmark. As of July 2023, the necessary updates to internal systems and processes have been implemented.

The Group continues to engage with industry participants and the BSP, to ensure an orderly transition to SOFR and to minimize the risks associating from transition, and it will continue to identify and assess risks associated with the USD LIBOR replacement.

*(a) Risks Arising from the Interest Rate Benchmark Reform*

The following are the key risks for the Group arising from the transition:

- Liquidity Risk: There are fundamental differences between LIBOR and the alternative benchmark rate which the Group will be adopting. LIBOR are forward-looking term rates published for a period (e.g., 3 months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments which will require additional liquidity management. The Group's liquidity risk management policy has been updated to ensure sufficient liquid resources to accommodate unexpected increases in overnight rates.

- Accounting: If transition to alternative benchmark rates for certain contracts is finalized in a manner that does not permit the application of reliefs, this could lead to volatility in profit or loss if non-derivative financial instruments are modified or derecognized. In particular, the Group is not seeking to novate derivatives or close out derivatives and enter into new on-market derivatives where derivatives have been designated in hedging relationships.

- Operational Risk: The Group's current treasury management system will undergo upgrades to fully manage the transition to alternative benchmark rates and there is a risk that such upgrades are not fully functional in time, resulting in additional manual procedures which give rise to operational risks. The Group is working closely with its system provider to ensure the relevant updates are made in good time and the Group has plans in place for alternative manual procedures with relevant controls to address any potential delay.

- Litigation Risk: If no agreement is reached to implement the interest rate benchmark reform on prospective contracts, there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The Group is working closely with all counterparties to avoid this from occurring.

## 5. CAPITAL MANAGEMENT

### *5.1 Regulatory Capital*

The Group's lead regulator, the BSP, sets and monitors the capital requirements of the Group.

In implementing the current capital requirements, the BSP requires the Group to maintain a prescribed ratio of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk computed based on BSP-prescribed formula provided under its circulars.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. Circular No. 781 is effective on January 1, 2014.

The BSP has adopted the Basel III risk-based capital adequacy framework effective January 1, 2014, which requires the Group to maintain at all times the following:

*(a)* Common Equity Tier 1 (CET1) of at least 6.0% of risk-weighted assets;
*(b)* Tier 1 Capital of at least 7.5% of risk-weighted assets;
*(c)* Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets; and,
*(d)* Capital Conservation Buffer of 2.5% of risk-weighted assets, comprised of CET1 Capital.

Under the relevant provisions of the current BSP regulations, the required minimum capitalization for the Parent Company, Rizal Microbank, RCBC Capital and RCBC LFC is P20,000, P400, P300 and P300, respectively.

In computing for the capital adequacy ratio (CAR), the regulatory qualifying capital is analyzed into two tiers which are: (i) Tier 1 Capital comprised of CET1 and Additional Tier 1 (AT1) capital, and, (ii) Tier 2 Capital, defined as follows and are subject to deductions as defined in relevant regulations:

*(a)* CET1 Capital includes the following:

- *(i)* paid-up common stock;
- *(ii)* common stock dividends distributable;
- *(iii)* additional paid-in capital;
- *(iv)* deposit for common stock subscription;
- *(v)* retained earnings;
- *(vi)* undivided profits;
- *(vii)* other comprehensive income from net unrealized gains or losses on financial assets at FVOCI and cumulative foreign currency translation; and,
- *(viii)* minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

*(b)* AT1 Capital includes:

- *(i)* instruments that do not qualify as CET1, but meet the criteria set out in Annex B of BSP Circular No. 781;
- *(ii)* financial liabilities meeting loss absorbency requirements set out in Annex E of BSP Circular No. 781;
- *(iii)* financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular No. 781;
- *(iv)* additional paid-in capital resulting from issuance of AT1 capital;
- *(v)* deposit for subscription to AT1 instruments; and,
- *(vi)* minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

*(c)* Tier 2 Capital includes:

- *(i)* instruments issued that are not qualified as Tier 1 capital but meet the criteria set forth in Annex C of BSP Circular No. 781;
- *(ii)* financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular No. 781;
- *(iii)* deposit for subscription of Tier 2 capital;
- *(iv)* appraisal increment reserve on bank premises, as authorized by the Monetary Board (MB) of the BSP;
- *(v)* general loan loss provisions; and,
- *(vi)* minority interest in subsidiary banks that are less than wholly-owned, subject to regulatory conditions.

In the calculation of Risk-based CAR, the total Qualifying Capital is expressed as a percentage of Total Risk-Weighted Assets based on book exposures, where Risk Weighted Assets is composed of Credit Risk, Market Risk and Operational Risk, net of specific provisions and exposures covered by CRM.

Banking book exposures shall be risk-weighted based on third party credit assessment of the individual exposure given by eligible external credit institutions and the corresponding external credit assessment are mapped with the corresponding risk weights following the Standardized Credit Risk Weights table as provided under BSP Circular No. 538, *Revised Risk-Based Capital Adequacy Framework*.

BSP Circular No. 856, *Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks under Basel III*, covers the implementing guidelines on the framework for dealing with domestic systemically important banks (D-SIBs) in accordance with the Basel III standards. Banks identified as D-SIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and capital conservation buffer. Compliance with this requirement was phased-in starting January 1, 2017, with full compliance on January 1, 2019.

The Group and Parent Company's regulatory capital position based on the Basel III risk-based capital adequacy framework as reported to the BSP follows:

| | Group | Parent Company |
|---|---|---|
| **2023:** | | |
| Tier 1 Capital | | |
| CET 1 | **P 115,046** | **P 111,616** |
| AT1 | **14,466** | **14,466** |
| | **129,512** | **126,082** |
| Tier 2 Capital | **6,586** | **6,522** |
| Total Qualifying Capital | **P 136,098** | **P 132,604** |
| Total Risk – Weighted Assets | **P 783,300** | **P 771,479** |
| Capital ratios: | | |
| Total qualifying capital expressed as a percentage of total risk-weighted assets | **17.37%** | **17.19%** |
| Tier 1 Capital Ratio | **16.53%** | **16.34%** |
| Total CET 1 Ratio | **14.69%** | **14.47%** |
| 2022: | | |
| Tier 1 Capital | | |
| CET 1 | P 85,637 | P 81,242 |
| AT1 | 14,466 | 14,466 |
| | 100,103 | 95,708 |
| Tier 2 Capital | 6,081 | 6,025 |
| Total Qualifying Capital | P 106,184 | P 101,733 |
| Total Risk – Weighted Assets | P 694,421 | P 679,361 |
| Capital ratios: | | |
| Total qualifying capital expressed as a percentage of total risk-weighted assets | 15.29% | 14.97% |
| Tier 1 Capital Ratio | 14.42% | 14.09% |
| Total CET 1 Ratio | 12.33% | 11.96% |

### *5.2 Internal Capital Adequacy Assessment and Pillar 2 Risk-Weighted Assets*

In January 2009, the BSP issued Circular No. 639 on the ICAAP and Supervisory Review Process covering universal and commercial banks on a group-wide basis. As a supplement to BSP Circular No. 538 on the Risk-Based Capital Adequacy Framework, ICAAP sets out the following principles:

*(a)* Banks must have a process for assessing capital adequacy relative to their risk profile, operating environment, and strategic/business plans;

*(b)* The Bank's ICAAP is the responsibility of the BOD, must be properly documented and approved and with policies and methodologies integrated into banking operations;

*(c)* The Bank's ICAAP should address other material risks – Pillar 2 risks – in addition to those covered by Pillar 1, with risk measurement methodologies linked to the assessment of corresponding capital requirement both on a BAU and stressed scenario;

*(d)* The minimum CAR prescribed by the BSP after accounting for Pillar 1 and other risks is retained at 10%; and,

*(e)* The Bank's ICAAP document must be submitted to the BSP every March 31 of each year.

The Group identified the following Pillar 2 risks as material to its operations, and consequently set out methodologies to quantify the level of capital that it must hold.

*(a)* *Credit Risk Concentration* – The Group has so far limited its analysis to credit risk concentration arising from the uneven sector distribution of the Group's credit exposures. Aside from using a simplified application of the HHI, concentration is estimated using the CCI. The capital charge is estimated by calculating the change in the Economic Capital (EC) requirement of the credit portfolio as an effect of credit deterioration in the largest industry exposure.

*(b)* *IRRBB* – It is the current and prospective negative impact on earnings and capital arising from interest rate shifts. The Group IRRBB estimates as its NII-at-risk, and accordingly deducts the same from regulatory qualifying capital. Stressed IRRBB is calculated by applying the highest observed market volatilities over a determined timeframe.

*(c)* *Liquidity Risk* – The Group estimates its liquidity risk under BAU scenario using standard gap analysis. Stressed liquidity risk on the other hand assumes a repeat of a historical liquidity stress, and estimates the impact if the Group were to partially defend its deposits and partially pay-off by drawing from its reserve of liquid assets.

*(d)* *IT Risk* – It is the current and prospective negative impact to earnings arising from failure of IT systems and realization of cyber security threats. The Group treats this risk as forming part of Operational Risk.

*(e)* *Compliance Risk* – It is the current and prospective negative impact on earnings and capital arising from violation of laws, regulations, ethical standards, and the like. For BAU scenario, the Group estimates compliance risk charge from historical fines and penalties as the worst-case loss determined via a frequency-severity analysis of each penalty type. The resulting compliance risk charge calculation is likewise directly deducted from earnings.

(f) *Strategic Business Risk* – It is the current and prospective negative impact on earnings and capital arising from adverse business decisions, improper implementation, and failure to respond to industry changes. The Group treats strategic business risk as a catch-all risk, and expresses its estimate as a cap on additional risk-weighted assets given other risks and the desired level of capital adequacy. The Group maintains that the assessment of strategic risk is embedded in the budget of the Group. Its capital impact therefore on a BAU case is already expressed in the amount of risk projected to be taken on in the forecast years. However, the Group does recognize the need to set up processes that would enable to put a number to the risk incurred by going into specific strategies.

(g) *Reputation Risk* – From the adoption of a theoretical measure, the Group amended its approach to reputation risk in 2011 by adopting instead a reputation risk monitoring and reporting process, run primarily by its Marketing Committee. The measurement of reputation risk under stress is folded into the Group's assessment of stressed liquidity risk.

### 5.3 Basel III Leverage Ratio

BSP issued Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, which provides the implementing guidelines on the leverage ratio framework designed to act as a supplementary measure to the risk-based capital requirements. It sets out a minimum leverage ratio of 5.00% on a solo and consolidated basis and shall be complied with at all times. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018 per BSP Circular No. 990, *Amendments to the Basel III Leverage Ratio Framework*, issued on January 22, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

The Basel III leverage ratio intends to restrict the build-up of leverage 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. The Basel III leverage ratio is defined as the ratio of capital measure (Tier 1 Capital) and the exposure measure. Exposure measure includes: on-balance sheet exposures, securities financing transactions exposures and off-balance sheet.

The Group and Parent Company's Basel III leverage ratio as reported to the BSP are as follows:

| | Group | Parent Company |
|---|---|---|
| **2023:** | | |
| Tier 1 Capital | **P 129,512** | **P 126,082** |
| Exposure measure | **1,326,242** | **1,314,888** |
| | **9.77%** | **9.59%** |
| 2022: | | |
| Tier 1 Capital | P 100,102 | P 95,708 |
| Exposure measure | 1,198,389 | 1,184,364 |
| | 8.35% | 8.08% |

### *5.4 Liquidity Coverage Ratio and Net Stable Funding Ratio*

On March 10, 2016, the BSP issued Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio and Disclosure Standards*, which provides the implementing guidelines on liquidity coverage ratio (LCR) and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets to total net cash outflows, which should not be lower than 100.00%. Compliance with the LCR minimum requirement commenced on January 1, 2018 with the prescribed minimum ratio of 90.00% for 2018 and 100.00% effective January 1, 2019.

To promote the short-term resilience of the liquidity risk profile, the Bank maintains adequate stock of unencumbered high-quality liquid assets (HQLAs) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs under stressed conditions. The stock of liquid assets should enable the Bank to withstand significant liquidity shocks for at least 30 calendar days, which would give time for corrective actions to be taken by the Bank management and/or the BSP. Details of the Group's and Parent Company's LCR are summarized below.

| | Group | | Parent Company | |
|---|---|---|---|---|
| | Total Unweighted Value | Total Weighted Value | Total Unweighted Value | Total Weighted Value |
| **December 31, 2023** | | | | |
| Total stock of HQLA | **P 445,894** | **P 437,927** | **P 443,228** | **P 435,553** |
| Expected Net Cash Outflows* | **1,459,085** | **256,891** | **1,460,162** | **257,561** |
| Liquidity Coverage Ratio | | **170.47%** | | **169.11%** |
| December 31, 2022 | | | | |
| Total stock of HQLA | P 429,188 | P 420,715 | P 426,745 | P 418,521 |
| Expected Net Cash Outflows* | 1,258,367 | 259,722 | 1,257,964 | 258,974 |
| Liquidity Coverage Ratio | | 161.99% | | 161.61% |

**Includes Restricted Term Deposits and Deposits pledged as collateral or under hold-out arrangements*

Net Stable Funding Ratio (NSFR), as detailed in BSP Circular No. 1007, *Implementing Guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio*, measures the availability of medium and long-term stable funding to support illiquid assets and business activities on an on-going basis. It is an assessment of the level of sustainable funding required to reduce funding risk over a one-year time horizon. The NSFR complements the LCR, which promotes short-term resilience of the Group's liquidity profile.

To promote long-term resilience against liquidity risk, the Group maintains a stable funding profile in relation to the composition of its assets and off-balance sheet activities and seeks to meet this objective by limiting overreliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off-balance sheet accounts.

Details of the Group's and Parent Company's Basel III NSFR are summarized in the succeeding page.

| | Group | Parent Company |
|---|---|---|
| **December 31, 2023** | | |
| Available stable funding | **P 760,231** | **P 755,299** |
| Required stable funding | **633,006** | **634,968** |
| Basel III NSFR | **120.10%** | **118.95%** |
| December 31, 2022 | | |
| Available stable funding | P 694,870 | P 687,997 |
| Required stable funding | 553,443 | 554,141 |
| Basel III NSFR | 125.55% | 124.16% |

The Bank has complied with the daily minimum regulatory requirement of 100% for both ratios beginning in 2019.

## 6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### *6.1 Carrying Amounts and Fair Values by Category*

The following table summarizes the carrying amounts and corresponding fair values of financial assets and financial liabilities presented in the statements of financial position.

| | Group | | | |
|---|---|---|---|---|
| | 2023 | | 2022 | |
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| ***Financial Assets*** | | | | |
| At amortized cost: | | | | |
| Cash and cash equivalents | **P 250,108** | **P 250,108** | P 208,323 | P 208,323 |
| Investment securities - net | **236,527** | **213,708** | 252,382 | 220,523 |
| Loans and receivables - net | **622,149** | **640,850** | 539,848 | 555,018 |
| Other resources - net | **1,459** | **1,459** | 1,204 | 1,204 |
| | **1,110,243** | **1,106,125** | 1,001,757 | 985,068 |
| At fair value: | | | | |
| Investment securities at FVTPL | **11,778** | **11,778** | 7,037 | 7,037 |
| Investment securities at FVOCI | **82,437** | **82,437** | 114,946 | 114,946 |
| | **94,215** | **94,215** | 121,983 | 121,983 |
| | **P 1,204,458** | **P 1,200,340** | P 1,123,740 | P 1,107,051 |
| ***Financial Liabilities*** | | | | |
| At amortized cost: | | | | |
| Deposit liabilities | **P 956,712** | **P 929,590** | P 857,244 | P 857,299 |
| Bills payable | **50,858** | **50,858** | 66,660 | 66,660 |
| Bonds payable | **34,939** | **34,356** | 74,411 | 72,446 |
| Accrued interest and other expenses | **10,745** | **10,745** | 7,857 | 7,857 |
| Other liabilities | **26,990** | **26,990** | 25,333 | 25,333 |
| | **1,080,244** | **1,052,539** | 1,031,505 | 1,029,595 |
| At fair value – | | | | |
| Derivative financial liabilities | **1,690** | **1,690** | 2,116 | 2,116 |
| | **P 1,081,934** | **P 1,054,249** | P 1,033,621 | P 1,031,711 |

| | Parent Company | | | |
|---|---|---|---|---|
| | 2023 | | 2022 | |
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| ***Financial Assets*** | | | | |
| At amortized cost: | | | | |
| Cash and cash equivalents | **P 247,941** | **P 247,941** | P 206,320 | P 206,320 |
| Investment securities - net | **235,732** | **213,097** | 251,328 | 219,806 |
| Loans and receivables - net | **615,901** | **633,825** | 532,193 | 546,950 |
| Other resources - net | **1,457** | **1,457** | 1,202 | 1,202 |
| | **1,101,031** | **1,096,320** | 991,043 | 974,278 |
| At fair value: | | | | |
| Investment securities at FVTPL | **10,954** | **10,954** | 6,139 | 6,139 |
| Investment securities at FVOCI | **81,757** | **81,757** | 114,265 | 114,265 |
| | **92,711** | **92,711** | 120,404 | 120,404 |
| | **P 1,193,742** | **P 1,189,031** | P 1,111,447 | P 1,094,682 |
| ***Financial Liabilities*** | | | | |
| At amortized cost: | | | | |
| Deposit liabilities | **P 957,369** | **P 930,262** | P 857,639 | P 857,694 |
| Bills payable | **43,957** | **43,957** | 58,391 | 58,391 |
| Bonds payable | **34,939** | **34,356** | 74,411 | 72,446 |
| Accrued interest and other expenses | **10,475** | **10,475** | 7,663 | 7,663 |
| Other liabilities | **26,218** | **26,218** | 24,287 | 24,287 |
| | **1,072,958** | **1,045,268** | 1,022,391 | 1,020,481 |
| At fair value – | | | | |
| Derivative financial liabilities | **1,690** | **1,690** | 2,116 | 2,116 |
| | **P 1,074,648** | **P 1,046,958** | P 1,024,507 | P 1,022,597 |

Except for investment securities at amortized cost, deposit liabilities, loans and receivables, and bonds payable with fair value disclosed different from their carrying amounts, management considers that the carrying amounts of other financial assets and financial liabilities presented above which are measured at amortized cost, approximate the fair values either because those instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material. The fair value information disclosed for the Group and Parent Company's investment securities at amortized cost and other financial assets and liabilities measured at fair value on a recurring basis are determined based on the procedures and methodologies discussed in Note 7.3.

## *6.2 Offsetting Financial Assets and Financial Liabilities*

The following financial assets presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar arrangements:

| | | Group | | | |
|---|---|---|---|---|---|
| | | | Related amounts not set off in the statements of financial position | | |
| | Notes | Gross amounts recognized in the statements of financial position | Financial instruments | Collateral received | Net amount |
| **December 31, 2023** | | | | | |
| Loans and receivables – Receivable from customers | 11 | **P 621,922** | **(P 8,153 )** | **P -** | **P 613,769** |
| Trading and investment securities – Investment securities at amortized cost | 10 | **236,527** | **( 41,597 )** | **-** | **194,930** |
| Other resources – Margin deposits | 15 | **243** | **-** | **( 243 )** | **-** |
| December 31, 2022 | | | | | |
| Loans and receivables – Receivable from customers | 11 | P 543,346 | (P 11,001 ) | P - | P 532,345 |
| Trading and investment securities – Investment securities at amortized cost | 10 | 252,382 | ( 40,481 ) | - | 211,901 |
| Other resources – Margin deposits | 15 | 240 | - | ( 240 ) | - |

| | | Parent Company | | | |
|---|---|---|---|---|---|
| | | | Related amounts not set off in the statements of financial position | | |
| | Notes | Gross amounts recognized in the statements of financial position | Financial instruments | Collateral received | Net amount |
| **December 31, 2023** | | | | | |
| Loans and receivables – Receivable from customers | 11 | **P 615,240** | **( P 8,152 )** | **P -** | **P 607,088** |
| Trading and investment securities – Investment securities at amortized cost | 10 | **235,732** | **( 41,597 )** | **-** | **194,135** |
| Other resources – Margin deposits | 15 | **243** | **-** | **( 243 )** | **-** |
| December 31, 2022 | | | | | |
| Loans and receivables – Receivable from customers | 11 | P 535,576 | ( P 10,941 ) | P - | P 524,635 |
| Trading and investment securities – Investment securities at amortized cost | 10 | 251,328 | ( 40,481 ) | - | 210,847 |
| Other resources – Margin deposits | 15 | 240 | - | ( 240 ) | - |

The following financial liabilities presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar agreements:

| | Notes | Gross amounts recognized in the statements of financial position | Related amounts not set off in the statements of financial position: Financial instruments | Related amounts not set off in the statements of financial position: Collateral received | Net amount |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **December 31, 2023** | | | | | |
| Deposit liabilities | 17 | **P 956,712** | **( P 8,153 )** | **P -** | **P 948,559** |
| Bills payable | 18 | **50,858** | **( 41,597 )** | **-** | **9,261** |
| Other liabilities – Derivative financial liabilities | 21 | **1,690** | **-** | **( 243 )** | **1,447** |
| December 31, 2022 | | | | | |
| Deposit liabilities | 17 | P 857,244 | ( P 11,001 ) | P - | P 846,243 |
| Bills payable | 18 | 66,660 | ( 40,481 ) | - | 26,179 |
| Other liabilities – Derivative financial liabilities | 21 | 2,116 | - | ( 240 ) | 1,876 |

| | Notes | Gross amounts recognized in the statements of financial position | Related amounts not set off in the statements of financial position: Financial instruments | Related amounts not set off in the statements of financial position: Collateral received | Net amount |
|---|---|---|---|---|---|
| **Parent Company** | | | | | |
| **December 31, 2023** | | | | | |
| Deposit liabilities | 17 | **P 957,369** | **( P 8,152 )** | **P -** | **P 949,217** |
| Bills payable | 18 | **43,957** | **( 41,597 )** | **-** | **2,360** |
| Other liabilities – Derivative financial liabilities | 21 | **1,690** | **-** | **( 243 )** | **1,447** |
| December 31, 2022 | | | | | |
| Deposit liabilities | 17 | P 857,639 | ( P 10,941 ) | P - | P 846,698 |
| Bills payable | 18 | 58,391 | ( 40,481 ) | - | 17,910 |
| Other liabilities – Derivative financial liabilities | 21 | 2,116 | - | ( 240 ) | 1,876 |

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

For purposes of presenting the above information, the related amounts not set off in the statements of financial position pertains to: (a) hold-out deposits and equity securities which serve as the Group's collateral enhancement for certain loans and receivables; (b) collaterized bills payable under sale and repurchase agreements; and, (c) margin deposits which serve as security for outstanding financial market transactions and other liabilities. The financial instruments that can be set off are only disclosed to the extent of the amounts of the Group's obligations to counterparties.

## 7. FAIR VALUE MEASUREMENT AND DISCLOSURES

### *7.1 Fair Value Hierarchy*

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels:

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

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

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

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

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

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

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3. Changes in assumptions could also affect the reported fair value of the financial instruments. The Group uses judgment to select a variety of valuation techniques and to make assumptions that are mainly based on market conditions existing at the end of each reporting period.

### *7.2 Financial Instruments Measured at Fair Value*

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2023 and 2022.

| | Group | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **2023:** | | | | |
| Financial assets at FVTPL: | | | | |
| Government securities | **P 9,647** | **P -** | **P -** | **P 9,647** |
| Equity securities | **783** | **-** | **-** | **783** |
| Corporate debt securities | **28** | **-** | **-** | **28** |
| Derivative assets | **10** | **1,310** | **-** | **1,320** |
| | **10,468** | **1,310** | **-** | **11,778** |
| Financial assets at FVOCI: | | | | |
| Equity securities | **863** | **561** | **2,480** | **3,904** |
| Government securities | **65,962** | **-** | **-** | **65,962** |
| Corporate debt securities | **12,571** | **-** | **-** | **12,571** |
| | **79,396** | **561** | **2,480** | **82,437** |
| Total Resources at Fair Value | **P 89,864** | **P 1,871** | **P 2,480** | **P 94,215** |
| Derivative liabilities | **P -** | **P 1,690** | **P -** | **P 1,690** |
| 2022: | | | | |
| Financial assets at FVTPL: | | | | |
| Government securities | P 3,883 | P - | P - | P 3,883 |
| Corporate debt securities | 38 | - | - | 38 |
| Equity securities | 849 | - | - | 849 |
| Derivative assets | 20 | 2,247 | - | 2,267 |
| | 4,790 | 2,247 | - | 7,037 |
| Financial assets at FVOCI: | | | | |
| Equity securities | 515 | 1,005 | 2,112 | 3,632 |
| Government securities | 53,492 | - | - | 53,492 |
| Corporate debt securities | 57,822 | - | - | 57,822 |
| | 111,829 | 1,005 | 2,112 | 114,946 |
| Total Resources at Fair Value | P 116,619 | P 3,252 | P 2,112 | P 121,983 |
| Derivative liabilities | P 33 | P 2,083 | P - | P 2,116 |

| | Parent Company | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **2023:** | | | | |
| Financial assets at FVTPL: | | | | |
| Government securities | **P 9,615** | **P -** | **P -** | **P 9,615** |
| Corporate debt securities | **19** | **-** | **-** | **19** |
| Derivative assets | **10** | **1,310** | **-** | **1,320** |
| | **9,644** | **1,310** | **-** | **10,954** |
| Financial assets at FVOCI: | | | | |
| Equity securities | **381** | **557** | **2,402** | **3,340** |
| Government securities | **65,962** | **-** | **-** | **65,962** |
| Corporate debt securities | **12,455** | **-** | **-** | **12,455** |
| | **78,798** | **557** | **2,402** | **81,757** |
| Total Resources at Fair Value | **P 88,442** | **P 1,867** | **P 2,402** | **P 92,711** |
| Derivative liabilities | **P -** | **P 1,690** | **P -** | **P 1,690** |
| 2022: | | | | |
| Financial assets at FVTPL: | | | | |
| Government securities | P 3,834 | P - | P - | P 3,834 |
| Corporate debt securities | 38 | - | - | 38 |
| Equity securities | - | - | - | - |
| Derivative assets | 20 | 2,247 | - | 2,267 |
| | 3,892 | 2,247 | - | 6,139 |
| Financial assets at FVOCI: | | | | |
| Equity securities | 622 | 350 | 2,088 | 3,060 |
| Government securities | 53,492 | - | - | 53,492 |
| Corporate debt securities | 57,713 | - | - | 57,713 |
| | 111,827 | 350 | 2,088 | 114,265 |
| Total Resources at Fair Value | P 115,719 | P 2,597 | P 2,088 | P 120,404 |
| Derivative liabilities | P 33 | P 2,083 | P - | P 2,116 |

Described below and in the succeeding page are the information about how the fair values of the Group's classes of financial assets and financial liabilities were determined.

(a) *Government and Corporate Debt Securities*

The fair value of the Group's government and corporate debt securities are categorized within Level 1 of the fair value hierarchy.

Fair values of peso-denominated government debt securities issued by the Philippine government, are determined based on the reference price per Bloomberg which used BVAL. These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparables.

Fair values of actively traded corporate debt securities are determined based on their market prices quoted in the Philippine Dealing Holdings System or based on the direct reference price per Bloomberg at the end of each reporting period; hence, categorized within Level 1.

*(b) Equity Securities*

The fair values of certain equity securities classified as financial assets at FVTPL and at FVOCI as of December 31, 2023 and 2022 were valued based on their market prices quoted in the PSE at the end of each reporting period; hence, categorized within Level 1.

Level 2 category includes the Group's investments in proprietary club shares as their prices are not derived from a market considered as active due to lack of trading activities among market participants at the end of each reporting period.

For equity securities which are not traded in an active market and with fair value categorized within Level 3, their fair value is determined through valuation techniques such as net asset value method, dividend discounted model or market-based approach (price-to-book value method) using current market values of comparable listed entities.

The price-to-book value method used to value a certain equity security of the Parent Company uses the price-to-book ratio of comparable listed entities as multiple in determining the fair value adjusted by a certain valuation discount. The price-to-book ratio used in the fair value measurement as of December 31, 2023 and 2022 ranges from 0.25:1 to 3.72:1 and from 0.82:1 to 1.35:1, respectively. Increase or decrease in the price-to-book ratio and net asset value would result in higher or lower fair values, all else equal.

For a certain preferred equity security, the Group has used the discounted cash flow applying a discount rate of 7.4% and 9.2%, which is based on the latest available weighted cost of capital of the investee company, in 2023 and 2022, respectively, to determine the present value of future cash flows from dividends or redemption expected to be received from the instrument.

A reconciliation of the carrying amounts of Level 3 FVOCI equity securities at the beginning and end of 2023 and 2022 is shown below.

| | **Group** | | **Parent Company** | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Balance at beginning of year | **P 2,112** | P 1,815 | **P 2,088** | P 1,788 |
| Fair value gains - net | **368** | 297 | **314** | 300 |
| Balance at end of year | **P 2,480** | P 2,112 | **P 2,402** | P 2,088 |

There were neither transfers between the levels of the fair value hierarchy nor gains or losses recognized in the statements of profit or loss for Level 3 financial assets in 2023 and 2022.

*(c) Derivative Assets and Liabilities*

The fair value of the Group's derivative assets categorized within Level 1 is determined be the current mid-price based on the last trading transaction as defined by third-party market makers.

On the other hand, the fair values of certain derivative financial assets and liabilities categorized within Level 2 were determined through valuation techniques using net present value computation which makes use of the streams of cash flows related to the derivative financial instruments such as interest rate swaps and currency swaps.

### 7.3 Financial Instruments Measured at Amortized Cost for Which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Group and Parent Company's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

| | Group | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **2023:** | | | | |
| ***Financial Assets:*** | | | | |
| Cash and other cash items | **P 19,875** | **P -** | **P -** | **P 19,875** |
| Due from BSP | **151,762** | **-** | **-** | **151,762** |
| Due from other banks | **14,892** | **-** | **-** | **14,892** |
| Loans arising from reverse repurchase agreements | **35,799** | **-** | **-** | **35,799** |
| Interbank loans | **27,780** | **-** | **-** | **27,780** |
| Investment securities at amortized cost | **213,708** | **-** | **-** | **213,708** |
| Loans and receivables - net | **-** | **-** | **640,850** | **640,850** |
| Other resources - net | **-** | **-** | **1,459** | **1,459** |
| | **P 463,816** | **P -** | **P 642,309** | **P 1,106,125** |
| ***Financial Liabilities:*** | | | | |
| Deposit liabilities | **P -** | **P -** | **P 929,590** | **P 929,590** |
| Bills payable | **-** | **-** | **50,858** | **50,858** |
| Bonds payable | **-** | **34,356** | **-** | **34,356** |
| Accrued interest and other expenses | **-** | **-** | **10,745** | **10,745** |
| Other liabilities | **-** | **-** | **26,990** | **26,990** |
| | **P -** | **P 34,356** | **P 1,018,203** | **P 1,052,539** |
| 2022: | | | | |
| *Financial Assets:* | | | | |
| Cash and other cash items | P 18,078 | P - | P - | P 18,078 |
| Due from BSP | 156,664 | - | - | 156,664 |
| Due from other banks | 5,836 | - | - | 5,836 |
| Loans arising from reverse repurchase agreements | 8,724 | - | - | 8,724 |
| Interbank loans | 19,021 | - | - | 19,021 |
| Investment securities at amortized cost | 220,523 | - | - | 220,523 |
| Loans and receivables - net | - | - | 555,018 | 555,018 |
| Other resources - net | - | - | 1,204 | 1,204 |
| | P 428,846 | P - | P 556,222 | P 985,068 |
| *Financial Liabilities:* | | | | |
| Deposit liabilities | P - | P - | P 857,299 | P 857,299 |
| Bills payable | - | - | 66,660 | 66,660 |
| Bonds payable | - | 72,446 | - | 72,446 |
| Accrued interest and other expenses | - | - | 7,857 | 7,857 |
| Other liabilities | - | - | 25,333 | 25,333 |
| | P - | P 72,446 | P 957,149 | P 1,029,595 |

| | Parent Company | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **2023:** | | | | |
| ***Financial Assets:*** | | | | |
| Cash and other cash items | P 19,812 | P - | P - | P 19,812 |
| Due from BSP | 150,771 | - | - | 150,771 |
| Due from other banks | 14,630 | - | - | 14,630 |
| Loans arising from reverse repurchase agreements | 34,948 | - | - | 34,948 |
| Interbank loans | 27,780 | - | - | 27,780 |
| Investment securities at amortized cost | 213,097 | - | - | 213,097 |
| Loans and receivables - net | - | - | 633,825 | 633,825 |
| Other resources - net | - | - | 1,457 | 1,457 |
| | P 461,038 | P - | P 635,282 | P 1,096,320 |
| ***Financial Liabilities:*** | | | | |
| Deposit liabilities | P - | P - | P 930,262 | P 930,262 |
| Bills payable | - | - | 43,957 | 43,957 |
| Bonds payable | - | - | 34,356 | 34,356 |
| Accrued interest and other expenses | - | - | 10,475 | 10,475 |
| Other liabilities | - | - | 26,218 | 26,218 |
| | P - | P - | P 1,045,268 | P 1,045,268 |
| 2022: | | | | |
| *Financial Assets:* | | | | |
| Cash and other cash items | P 18,024 | P - | P - | P 18,024 |
| Due from BSP | 155,340 | - | - | 155,340 |
| Due from other banks | 5,383 | - | - | 5,383 |
| Loans arising from reverse repurchase agreements | 8,552 | - | - | 8,552 |
| Interbank loans | 19,021 | - | - | 19,021 |
| Investment securities at amortized cost | 219,806 | - | - | 219,806 |
| Loans and receivables - net | - | - | 546,950 | 546,950 |
| Other resources - net | - | - | 1,202 | 1,202 |
| | P 426,126 | P - | P 548,152 | P 974,278 |
| *Financial Liabilities:* | | | | |
| Deposit liabilities | P - | P - | P 857,694 | P 857,694 |
| Bills payable | - | - | 58,391 | 58,391 |
| Bonds payable | - | 72,446 | - | 72,446 |
| Accrued interest and other expenses | - | - | 7,663 | 7,663 |
| Other liabilities | - | - | 24,287 | 24,287 |
| | P - | P 72,446 | P 948,035 | P 1,020,481 |

The following are the methods used to determine the fair value of financial assets and financial liabilities not presented in the statements of financial position at their fair values:

*(a) Due from BSP and Other Banks, and Loans and Receivables Arising from Reverse Repurchase Agreements*

Due from BSP pertains to deposits made to the BSP for clearing and reserve requirements, overnight and term deposit facilities, while loans and receivables arising from reverse repurchase agreements pertain to loans and receivables from BSP arising from overnight lending from excess liquidity. Due from other banks includes items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on the discounted cash flows using prevailing money market interest rates for debt with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

*(b) Investment Securities at Amortized Cost*

The fair value of investment securities at amortized cost consisting of government securities and corporate debt securities is determined based on reference prices appearing in Bloomberg.

*(c) Deposits Liabilities and Borrowings*

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The Level 2 fair value of bonds payable and subordinated debt is determined based on the average of ask and bid prices as appearing on Bloomberg. For bills payable categorized within Level 3, fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values.

*(d) Other Resources and Other Liabilities*

Due to their short duration, the carrying amounts of other resources and liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

### *7.4 Fair Value Disclosures for Investment Properties Carried at Cost*

Details of Group's and Parent Bank's investment properties and the information about the fair value hierarchy as of December 31, 2023 and 2022 are shown in the succeeding page.

| | Group Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| **2023** | | | | | | | | |
| Land | P | - | P | - | P | 10 | P | 10 |
| Building and improvements | | - | | - | | 534 | | 534 |
| | **P** | **-** | **P** | **-** | **P** | **544** | **P** | **544** |
| 2022 | | | | | | | | |
| Land | P | - | P | - | P | 7,168 | P | 7,168 |
| Building and improvements | | - | | - | | 1,520 | | 1,520 |
| | P | - | P | - | P | 8,688 | P | 8,688 |

| | Parent Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| **2023** | | | | | | | | |
| Land | P | - | P | - | P | 9 | P | 9 |
| Building and improvements | | - | | - | | 534 | | 534 |
| | **P** | **-** | **P** | **-** | **P** | **543** | **P** | **543** |
| 2022 | | | | | | | | |
| Land | P | - | P | - | P | 6,843 | P | 6,843 |
| Building and improvements | | - | | - | | 1,416 | | 1,416 |
| | P | - | P | - | P | 8,259 | P | 8,259 |

The fair values of the Group and Parent Company's investment properties were determined based on the following approaches:

(a) *Fair Value Measurement for Land*

The Level 2 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations as determined by an independent or internal appraiser. Under this approach, when sales prices and/or actual sales transaction of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2.

On the other hand, if the observable and recent prices of the reference properties were adjusted for differences in key attributes such as property size, location and zoning, and accessibility, or any physical or legal restrictions on the use of the property, the fair value will be categorized as Level 3. The most significant input into this valuation approach is the price per square feet, hence, the higher the price per square feet, the higher the fair value.

(b) *Fair Value Measurement for Buildings and Improvements*

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

There has been no change in the valuation techniques for investment properties in both years.

## 8. SEGMENT INFORMATION

### *8.1 Business Segments*

The Group's operating businesses are managed separately according to the nature of services provided (primary segments) and the different geographical markets served (secondary segments) with a segment representing a strategic business unit. The Group's business segments follow:

*(a) Retail* – principally handles the BCs offering a wide range of consumer banking products and services. Products offered include individual customer's deposits, credit cards, home and mortgage loans, auto, personal and microfinance loans, overdraft facilities, payment remittances and foreign exchange transactions. It also upsells bank products [unit investment trust funds (UITFs), etc.] and cross-sells bancassurance products. The segment includes the net assets of the servicing entity, RBSC, and portfolios of Rizal Microbank.

*(b) Corporate* – principally handles distinct customer segments: (i) conglomerates; (ii) large corporations; (iii) emerging corporates, which focus on large middle accounts often referred to as the "Next 500 Corporations"; (iv) Japanese multinationals with a strong presence in the country; (v) Filipino-Chinese businesses; and, (vi) Korean businesses. This segment includes portfolio of RCBC LFC.

*(c) Small and Medium Enterprises (SME)* – principally handles the financial needs of the country's small businesses or the SMEs and the Commercial Middle Market segments. The SME Banking Group provides a holistic approach serving both the financial (e.g., loans, deposits, investments, insurance, etc.) and non-financial needs (e.g., networking, financial literacy trainings, etc.) of client to help them grow their business. Clients are the entrepreneurs located in different parts of the country and spread in various industry sectors such as manufacturing, wholesale and retail trade, construction, hotels, agriculture, and healthcare, among others.

*(d) Treasury* – principally provides 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.

*(e) Others* – consists of other subsidiaries except for RBSC and Rizal Microbank, which is presented as part of Retail, and RCBC LFC which is presented under Corporate.

These segments are the basis on which the Group reports its primary segment information. Other operations of the Group comprise the operations and financial control groups. Transactions between segments are conducted at estimated market rates on an arm's length basis.

Segment revenues and expenses that are directly attributable to primary business segment and the relevant portions of the Group's revenues and expenses that can be allocated to that business segment are accordingly reflected as revenues and expenses of that business segment.

For secondary segments, revenues and expenses are attributed to geographic areas based on the location of the resources producing the revenues, and in which location the expenses are incurred.

There were no changes in the Group's operating segments in 2023 and 2022.

## *8.2 Analysis of Primary Segment Information*

Primary segment information (by business segment) on a consolidated basis as of and for the years ended December 31, 2023, 2022 and 2021 follow:

| | Retail | Corporate | SME | Treasury | Others | Total |
|---|---|---|---|---|---|---|
| **2023:** | | | | | | |
| **Revenues** | | | | | | |
| From external customers | | | | | | |
| Interest income | **P 61,183** | **P 47,375** | **P 10,457** | **P 20,894** | **P 138** | **P 140,047** |
| Interest expense | **( 35,960)** | **( 25,639)** | **( 9,867)** | **( 16,450)** | **( 9)** | **( 87,925)** |
| Net interest income | **25,223** | **21,736** | **590** | **4,444** | **129** | **52,122** |
| Non-interest income | **9,859** | **5,647** | **284** | **933** | **1,092** | **17,815** |
| | **35,082** | **27,383** | **874** | **5,377** | **1,221** | **69,937** |
| Intersegment revenues | | | | | | |
| Interest income | **-** | **4** | **4,386** | **-** | **28** | **4,418** |
| Non-interest income | **742** | **-** | **-** | **-** | **-** | **742** |
| | **742** | **4** | **4,386** | **-** | **28** | **5,160** |
| Total net revenues | **35,824** | **27,387** | **5,260** | **5,377** | **1,249** | **75,097** |
| **Expenses** | | | | | | |
| Operating expenses excluding impairment, depreciation and amortization | **18,000** | **4,167** | **1,362** | **1,493** | **300** | **25,322** |
| Impairment losses – net | **5,015** | **1,022** | **692** | **11** | **( 1)** | **6,739** |
| Depreciation and amortization | **1,685** | **800** | **76** | **23** | **24** | **2,608** |
| | **24,700** | **5,989** | **2,130** | **1,527** | **323** | **34,669** |
| **Segment operating income** | **P 11,124** | **P 21,398** | **P 3,130** | **P 3,850** | **P 926** | **P 40,428** |
| **Total resources** | **P 229,909** | **P 315,840** | **P 104,513** | **P 468,411** | **P 3,973** | **P 1,122,646** |
| **Total liabilities** | **P 701,541** | **P 500,825** | **P 128,867** | **P 90,495** | **P 558** | **P 1,422,286** |
| 2022: | | | | | | |
| Revenues | | | | | | |
| From external customers | | | | | | |
| Interest income | P 33,539 | P 27,865 | P 6,325 | P 12,615 | P 100 | P 80,444 |
| Interest expense | ( 14,272) | ( 14,491) | ( 4,258) | ( 7,674) | ( 7) | ( 40,702) |
| Net interest income | 19,267 | 13,374 | 2,067 | 4,941 | 93 | 39,742 |
| Non-interest income | 8,152 | 6,671 | 240 | 673 | 1,075 | 16,811 |
| | 27,419 | 20,045 | 2,307 | 5,614 | 1,168 | 56,553 |
| Intersegment revenues | | | | | | |
| Interest income | - | 5 | 2,372 | - | 13 | 2,390 |
| Non-interest income | 650 | - | - | - | - | 650 |
| | 650 | 5 | 2,372 | - | 13 | 3,040 |
| Total net revenues | 28,069 | 20,050 | 4,679 | 5,614 | 1,181 | 59,593 |
| Expenses | | | | | | |
| Operating expenses excluding impairment, depreciation and amortization | 15,436 | 2,763 | 1,507 | 1,053 | 59 | 20,818 |
| Impairment losses -net | 3,529 | 1,544 | 400 | 19 | 214 | 5,706 |
| Depreciation and amortization | 1,239 | 880 | 27 | 23 | 23 | 2,192 |
| | 20,204 | 5,187 | 1,934 | 1,095 | 296 | 28,716 |
| Segment operating income | P 7,865 | P 14,863 | P 2,745 | P 4,519 | P 885 | P 30,877 |
| Total resources | P 163,956 | P 307,379 | P 88,807 | P 357,684 | P 4,224 | P 922,050 |
| Total liabilities | P 570,994 | P 417,070 | P 107,165 | P 43,284 | P 571 | P 1,139,084 |
| 2021: | | | | | | |
| Revenues | | | | | | |
| From external customers | | | | | | |
| Interest income | P 22,901 | P 21,285 | P 5,164 | P 5,613 | P 91 | P 55,054 |
| Interest expense | ( 7,648) | ( 10,564) | ( 2,273) | ( 2,193) | ( 10) | ( 22,688) |
| Net interest income | 15,253 | 10,721 | 2,891 | 3,420 | 81 | 32,366 |
| Non-interest income | 6,188 | 2,257 | 162 | 1,524 | 1,163 | 11,294 |
| | 21,441 | 12,978 | 3,053 | 4,944 | 1,244 | 43,660 |
| Intersegment revenues | | | | | | |
| Interest income | - | 8 | 1,271 | - | 11 | 1,290 |
| Non-interest income | 564 | - | - | - | - | 564 |
| | 564 | 8 | 1,271 | - | 11 | 1,854 |
| Total net revenues *(Balance forwarded)* | 22,005 | 12,986 | 4,324 | 4,944 | 1,255 | 45,514 |

| | Retail | Corporate | SME | Treasury | Others | Total |
|---|---|---|---|---|---|---|
| *Balance carried forward* | 22,005 | 12,986 | 4,324 | 4,944 | 1,255 | 45,514 |
| Expenses | | | | | | |
| Operating expenses excluding impairment, depreciation and amortization | 14,404 | 2,286 | 352 | 777 | 604 | 18,423 |
| Impairment losses -net | 4,718 | 954 | 256 | 14 | 106 | 6,048 |
| Depreciation and amortization | 1,200 | 694 | 27 | 51 | 24 | 1,996 |
| | 20,322 | 3,934 | 635 | 842 | 734 | 26,467 |
| 2021: | | | | | | |
| Segment operating income | P 1,683 | P 9,052 | P 3,689 | P 4,102 | P 521 | P 19,047 |
| Total resources | P 155,373 | P 295,922 | P 76,409 | P 236,958 | P 4,944 | P 769,606 |
| Total liabilities | P 450,053 | P 352,807 | P 88,464 | P 23,076 | P 1,395 | P 915,795 |

## *8.3 Reconciliation*

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its consolidated financial statements.

| | **2023** | 2022 | 2021 |
|---|---|---|---|
| **Revenues** | | | |
| Total segment revenues | **P 75,097** | P 59,593 | P 45,514 |
| Elimination of intersegment revenues | **( 25,100 )** | ( 15,139 ) | ( 9,120 ) |
| Net revenues as reported in profit or loss | **P 49,997** | P 44,454 | P 36,394 |
| **Profit or loss** | | | |
| Total segment operating income | **P 40,428** | P 30,877 | P 19,047 |
| Elimination of intersegment profit | **( 28,211 )** | ( 18,797 ) | ( 11,964 ) |
| Group net profit as reported in profit or loss | **P 12,217** | P 12,080 | P 7,083 |
| **Resources** | | | |
| Total segment resources | **P 1,122,646** | P 922,050 | P 769,606 |
| Unallocated resources (elimination of intersegment liabilities) | **115,686** | 232,058 | 189,527 |
| Total resources | **P 1,238,332** | P 1,154,108 | P 959,133 |
| **Liabilities** | | | |
| Total segment liabilities | **P 1,422,286** | P 1,139,084 | P 915,795 |
| Unallocated liabilities (elimination of intersegment liabilities) | **( 336,229 )** | ( 101,337 ) | ( 67,742 ) |
| Total liabilities | **P 1,086,057** | P 1,037,747 | P 848,053 |

## *8.4 Analysis of Secondary Segment Information*

Secondary information (by geographical locations) as of and for the years ended December 31, 2023, 2022 and 2021 follow:

| | Philippines | Asia and Europe | Total |
|---|---|---|---|
| **2023:** | | | |
| **Statement of profit or loss** | | | |
| Total income | **P 82,643** | **P 14** | **P 82,657** |
| Total expenses | **70,418** | **22** | **70,440** |
| Net profit (loss) | **P 12,225** | **(P 8)** | **P 12,217** |
| **Statement of financial position** | | | |
| Total resources | **P 1,238,229** | **P 103** | **P 1,238,332** |
| Total liabilities | **P 1,086,053** | **P 4** | **P 1,086,057** |
| **Other segment information** | | | |
| Depreciation and amortization | **P 3,365** | **P -** | **P 3,365** |
| 2022: | | | |
| Statement of profit or loss | | | |
| Total income | P 59,057 | P 16 | P 59,073 |
| Total expenses | 46,971 | 22 | 46,993 |
| Net profit (loss) | P 12,086 | (P 6) | P 12,080 |
| Statement of financial position | | | |
| Total resources | P 1,153,994 | P 114 | P 1,154,108 |
| Total liabilities | P 1,037,741 | P 6 | P 1,037,747 |
| Other segment information | | | |
| Depreciation and amortization | P 3,037 | P - | P 3,037 |
| 2021: | | | |
| Statement of profit or loss | | | |
| Total income | P 44,660 | P 14 | P 44,674 |
| Total expenses | 37,569 | 22 | 37,591 |
| Net profit (loss) | P 7,091 | (P 8) | P 7,083 |
| Statement of financial position | | | |
| Total resources | P 959,022 | P 111 | P 959,133 |
| Total liabilities | P 848,048 | P 5 | P 848,053 |
| Other segment information | | | |
| Depreciation and amortization | P 3,020 | P - | P 3,020 |

## 9. CASH AND CASH EQUIVALENTS

The components of Cash and Cash Equivalents follow:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Cash and other cash items | **P 19,875** | P 18,078 | **P 19,812** | P 18,024 |
| Due from BSP | **151,762** | 156,664 | **150,771** | 155,340 |
| Due from other banks | **14,892** | 5,836 | **14,630** | 5,383 |
| Loans arising from reverse repurchase agreements | **35,799** | 8,724 | **34,948** | 8,552 |
| Interbank loans receivables (see Note 11) | **27,780** | 19,021 | **27,780** | 19,021 |
| | **P 250,108** | P 208,323 | **P 247,941** | P 206,320 |

Cash consists primarily of funds in the form of Philippine currency notes and coins, and includes foreign currencies acceptable to form part of the international reserves in the Group's vault and those in the possession of tellers, including ATMs. Other cash items include cash items other than currency and coins on hand, such as checks drawn on other banks or other branches after the clearing cut-off time until the close of the regular banking hours.

Due from BSP represents the aggregate balance of deposit accounts maintained with the BSP primarily to meet reserve requirements (see Note 17), to serve as clearing account for interbank claims and to comply with existing trust regulations.

Loans arising from repurchase agreements, which normally mature within 30 days, represent overnight placements with private entities where the underlying securities cannot be sold or repledged to parties other than the contracting party.

Due from BSP includes:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Demand deposit and secured settlement accounts | **P 83,701** | P 76,582 | **P 82,771** | P 75,340 |
| Term deposit | **68,000** | 72,050 | **68,000** | 72,000 |
| Overnight deposit | **61** | 8,032 | **-** | 8,000 |
| | **P 151,762** | P 156,664 | **P 150,771** | P 155,340 |

The balance of Due from other banks account represents regular deposits with the following:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Foreign banks | **P 13,626** | P 4,689 | **P 13,593** | P 4,681 |
| Local banks | **1,266** | 1,147 | **1,037** | 702 |
| | **P 14,892** | P 5,836 | **P 14,630** | P 5,383 |

Interest on placements with BSP and other banks, which is presented as Interest Income on Due from BSP and other banks in the statements of profit or loss, consist of:

| | Group | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| BSP | **P 3,256** | P 1,037 | P 755 |
| Other banks | **387** | 73 | 8 |
| | **P 3,643** | P 1,110 | P 763 |

| | Parent Company | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| BSP | **P 3,248** | P 1,033 | P 752 |
| Other banks | **296** | 44 | 3 |
| | **P 3,544** | P 1,077 | P 755 |

The Group's deposits in other banks and in BSP other than mandatory reserves earn annual interest of 0.00% to 6.68% and 0.00% to 6.30% in 2023, 0.00% to 1.60% and 1.50% to 4.80% in 2022, and 2.00% and 1.50% to 2.50% in 2021, respectively.

## 10. TRADING AND INVESTMENT SECURITIES

This account is comprised of:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Financial assets at FVTPL | **P 11,778** | P 7,037 | **P 10,954** | P 6,139 |
| Financial assets at FVOCI | **82,437** | 114,946 | **81,757** | 114,265 |
| Investment securities at amortized cost | **236,527** | 252,382 | **235,732** | 251,328 |
| | **P 330,742** | P 374,365 | **P 328,443** | P 371,732 |

### *10.1 Financial Assets at Fair Value Through Profit or Loss*

Financial assets at FVTPL is composed of the following:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Government securities | **P 9,647** | P 3,883 | **P 9,615** | P 3,834 |
| Derivative financial assets | **1,320** | 2,267 | **1,320** | 2,267 |
| Equity securities | **783** | 849 | **-** | - |
| Corporate debt securities | **28** | 38 | **19** | 38 |
| | **P 11,778** | P 7,037 | **P 10,954** | P 6,139 |

The carrying amounts of financial assets at FVTPL are classified as follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Held-for-trading | **P 10,458** | P 4,770 | **P 9,634** | P 3,872 |
| Derivative financial assets | **1,320** | 2,267 | **1,320** | 2,267 |
| | **P 11,778** | P 7,037 | **P 10,954** | P 6,139 |

Equity securities are composed of listed shares of stock traded at the PSE. Dividend income earned on these equity securities amounted to P19 in 2023, P18 in 2022, and P22 in 2021 for the Group which are included as part of Miscellaneous income under the Other Operating Income account in the statements of profit or loss (see Note 24.1). There were no similar transactions for the Parent Company.

Treasury bills and other debt securities issued by the government and other private corporations earn annual interest as follows:

| | **2023** | 2022 | 2021 |
|---|---|---|---|
| Peso denominated | **0.00% - 12.38%** | 1.41% - 12.38% | 1.37% - 8.12% |
| Foreign currency denominated | **0.00% - 9.63%** | 0.28% - 9.63% | 1.37% - 10.62% |

Derivative instruments used by the Group include foreign currency short-term forwards, cross-currency swaps, debt warrants and options. Foreign currency forwards represent commitments to purchase/sell on a future date at a specific exchange rate. Foreign currency short-term swaps are simultaneous foreign currency spot and forward deals with tenor of one year.

Debt warrants attached to the bonds and other debt securities allows the Group to purchase additional debt securities from the same contracting issuer at the same price and yield as the initial purchased security. Option is a derivative financial instrument that specifies a contract between two parties for a future transaction on an asset at a reference price.

The aggregate contractual or notional amount of derivative financial instruments and the aggregative fair values of derivative financial assets and financial liabilities as of December 31 both in the Group and Parent Company's financial statements are shown below.

| | Notional | Fair Values | |
|---|---|---|---|
| | Amount | Assets | Liabilities |
| **2023:** | | | |
| Currency swaps and forwards | **P 213,972** | **P 1,217** | **P 1,447** |
| Interest rate swaps and futures | **5,199** | **79** | **59** |
| Debt warrants | **5,824** | **10** | **-** |
| Options | **560** | **14** | **-** |
| Credit default swap | **1,827** | **-** | **184** |
| | **P 227,382** | **P 1,320** | **P 1,690** |
| 2022: | | | |
| Currency swaps and forwards | P 156,832 | P 2,053 | P 1,949 |
| Interest rate swaps and futures | 16,067 | 203 | 130 |
| Debt warrants | 5,864 | 9 | - |
| Options | 1,320 | 2 | 4 |
| Credit default swap | 613 | - | 33 |
| | P 180,696 | P 2,267 | P 2,116 |

Derivative liabilities are shown as Derivative financial liabilities as part of Other Liabilities account in the statements of financial position (see Note 21). The significant portion of such derivative liabilities have maturity periods of less than a year.

Other information about the fair value measurement of the Group and Parent Company's financial assets at FVTPL are presented in Note 7.2.

### *10.2 Financial Assets at Fair Value Through Other Comprehensive Income*

Financial assets at FVOCI as of December 31 consist of:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Quoted equity securities | **P 1,423** | P 1,520 | **P 937** | P 972 |
| Unquoted equity securities | **2,481** | 2,112 | **2,403** | 2,088 |
| Government debt securities | **65,962** | 53,492 | **65,962** | 53,492 |
| Corporate debt securities | **12,571** | 57,822 | **12,455** | 57,713 |
| | **P 82,437** | P 114,946 | **P 81,757** | P 114,265 |

The reconciliation of the carrying amounts of these financial assets are as follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Balance at the beginning | **P 114,946** | P 49,761 | **P 114,265** | P 48,399 |
| Additions | **442,380** | 131,018 | **442,360** | 130,903 |
| Disposals | **( 476,584)** | ( 60,578) | **( 476,576)** | ( 59,863) |
| Fair value gains (losses) – net | **1,695** | ( 5,255) | **1,708** | ( 5,174) |
| Balance at end of year | **P 82,437** | P 114,946 | **P 81,757** | P 114,265 |

Unquoted equity securities include investments in non-marketable equity securities of private companies. The fair value of the Group's unquoted equity securities as of December 31, 2023 and 2022 is determined using the net asset value method, dividend discounted model, or a market-based approach (price-to-book value method); hence, categorized under Level 3 of the fair value hierarchy (see Note 7.2).

In 2023, 2022 and 2021, dividends recognized on equity securities amounting to P299, P293 and P83 by the Group and, P252, P227 and P39 by the Parent Company, respectively, which are included as part of Miscellaneous income under the Other Operating Income account in the statements of profit or loss (see Note 24.1).

### *10.3 Investment Securities at Amortized Cost*

Investment securities at amortized cost as of December 31 consist of:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Government securities | **P 211,451** | P 218,163 | **P 210,566** | P 217,017 |
| Corporate debt securities | **25,237** | 34,382 | **25,237** | 34,382 |
| | **236,688** | 252,545 | **235,803** | 251,399 |
| Allowance for impairment | **( 161)** | ( 163) | **( 71)** | ( 71) |
| | **P 236,527** | P 252,382 | **P 235,732** | P 251,328 |

Interest rates per annum on government securities and corporate debt securities range from the following:

| | **2023** | 2022 | 2021 |
|---|---|---|---|
| Peso denominated securities | **2.63% - 8.75%** | 2.90% - 6.87% | 2.63% - 5.26% |
| Foreign currency-denominated securities | **0.28% - 10.63%** | 0.28% - 7.65% | 0.18% - 7.65% |

There is no disposal of HTC investment in 2023 and 2022. The decrease in the HTC portfolio is attributable to maturities in both years.

Certain government securities are deposited with the BSP as security for the Group's faithful compliance with its fiduciary obligations in connection with its trust operations (see Note 26).

As of December 31, 2023 and 2022, certain investment securities of both the Group and Parent Company were pledged as collateral for bills payable under repurchase agreements (see Note 18).

### *10.4 Interest Income from Trading and Investment Securities*

Interest income from trading and investment securities recognized by the Group and Parent Company in 2023, 2022 and 2021 are shown below and in the succeeding page.

| | Group | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Financial assets at FVTPL | **P 227** | P 150 | P 96 |
| Debt securities at FVOCI | **4,375** | 2,094 | 1,343 |
| Investment securities at amortized cost | **8,637** | 7,511 | 3,009 |
| | **P 13,239** | P 9,755 | P 4,448 |

| | Parent | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Financial assets at FVTPL | **P 227** | P 150 | P 92 |
| Debt securities at FVOCI | **4,369** | 2,074 | 1,320 |
| Investment securities at amortized cost | **8,575** | 7,459 | 2,967 |
| | **P 13,171** | P 9,683 | P 4,379 |

### *10.5 Trading and Securities Gains (Losses)*

The Group and the Parent Company recognized trading and securities gains (losses) in its trading or disposals of investment securities, including their fair value changes, in 2023, 2022, and 2021 are as follows:

| | Group | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| **Profit or loss:** | | | |
| Financial assets at FVTPL | **P 306** | (P 42) | P 309 |
| Debt securities at FVOCI | **138** | 5 | 554 |
| | **P 444** | (P 37) | P 863 |
| **Other comprehensive income (loss):** | | | |
| Equity securities at FVOCI | **P 263** | P 191 | P 548 |
| Debt securities at FVOCI | **1,432** | ( 5,446) | ( 823) |
| | **P 1,695** | (P 5,255) | (P 275) |

| | Parent | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| **Profit or loss:** | | | |
| Financial assets at FVTPL | **P 306** | P 34 | P 314 |
| Debt securities at FVOCI | **123** | ( 12) | 542 |
| | **P 429** | P 22 | P 856 |
| **Other comprehensive income (loss):** | | | |
| Equity securities at FVOCI | **P 276** | P 272 | P 490 |
| Debt securities at FVOCI | **1,432** | ( 5,446) | ( 823) |
| | **P 1,708** | (P 5,174) | (P 333) |

## 11. LOANS AND RECEIVABLES

This account consists of the following:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Receivables from customers: | | | | |
| Loans and discounts | **P 525,041** | P 465,160 | **P 520,581** | P 459,956 |
| Credit card receivables | **74,667** | 50,380 | **74,667** | 50,380 |
| Customers' liabilities on acceptances, import bills and trust receipts | **16,345** | 22,587 | **16,345** | 22,587 |
| Bills purchased | **3,894** | 2,888 | **3,894** | 2,888 |
| Lease contract receivables | **2,710** | 3,084 | **-** | - |
| Receivables financed | **91** | 149 | **-** | - |
| | **622,748** | 544,248 | **615,487** | 535,811 |
| Unearned discount | **( 826)** | ( 902) | **( 247)** | ( 235) |
| | **621,922** | 543,346 | **615,240** | 535,576 |
| Other receivables: | | | | |
| Interbank loans receivables (see Note 9) | **27,780** | 19,021 | **27,780** | 19,021 |
| Accrued interest receivables | **9,519** | 7,828 | **9,306** | 7,669 |
| Accounts receivables [see Note 27.7(b)] | **5,425** | 4,015 | **4,748** | 3,479 |
| Sales contract receivables | **2,678** | 689 | **2,628** | 557 |
| | **45,402** | 31,553 | **44,462** | 30,726 |
| | **667,324** | 574,899 | **659,702** | 566,302 |
| Allowance for impairment (see Notes 4.4.9 and 16) | **( 17,395)** | ( 16,030) | **( 16,021)** | ( 15,088) |
| | **P 649,929** | P 558,869 | **P 643,681** | P 551,214 |

Receivables from customers' portfolio earn average annual interest or range of interest as follows:

| | **2023** | 2022 | 2021 |
|---|---|---|---|
| Loans and discounts: | | | |
| Philippine peso | **8.35%** | 6.12% | 7.37% |
| Foreign currencies | **6.25%** | 4.92% | 4.37% |
| Credit card receivables | **16.10% - 21.15%** | 16.21% - 18.12% | 14.23% - 18.87% |
| Lease contract receivables | **8.00% - 26.00%** | 7.25% - 26.00% | 8.00% - 26.00% |
| Receivables financed | **11.00% - 16.00%** | 10.00% - 22.00% | 11.00% - 22.00% |

Effective November 3, 2020, interest rates and cash advance fees charged by the Parent Company to its credit card holders were updated to comply with BSP Circular No. 1098, *Ceiling on Interest of Finance Charges of Credit Card Receivables.* Interest or finance charges on all credit card transactions are not to exceed an annual interest rate of 24%, except credit card installment loans which shall be subject to monthly add-on rate not exceeding 1%. In addition, the maximum amount that can be charged for Cash Advances is capped at P200 (absolute amount) per transaction.

In January 2023, the BSP issued Circular No. 1165, *Amendments to the Ceiling on Interest or Finance Charges for Credit Card Receivables*, amending the cap on interest rate for credit cards back to an annual interest rate of 36%. The Parent Company updated its interest rates and cash advance fees accordingly.

In 2022, the Parent Company wrote off a 10-year UDSCL amounting to P989 bearing 6.44% interest per annum pertaining to an agreement entered into in June 2017 with a third party for the sale of various foreclosed real properties. Write-off amounting to P108 is included as part of Impairment losses in 2022 statement of profit or loss (see Note 16).

Also included in the Parent Company's accounts receivables is the amount due from RCBC JPL which was acquired from Rizal Microbank in 2015 amounting to P222. As of December 31, 2023 and 2022, the outstanding balance amounted to P92 and P127, respectively. The receivable amount is unsecured, noninterest-bearing and payable in cash on demand (see Note 27.2). The receivable has been appropriately provided with allowance for ECL.

Interest income earned by the Bank from its loans and other receivables is broken down as follows:

| | **Group** | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Loans and discounts | **P 35,088** | P 27,068 | P 25,827 |
| Credit card receivables | **11,072** | 6,289 | 4,890 |
| Finance lease receivables | **323** | 202 | 319 |
| Others | **2,924** | 1,411 | 864 |
| | **P 49,407** | P 34,970 | P 31,900 |

| | **Parent Company** | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Loans and discounts | **P 34,861** | P 26,889 | P 25,924 |
| Credit card receivables | **11,072** | 6,289 | 4,890 |
| Others | **2,636** | 1,189 | 281 |
| | **P 48,569** | P 34,367 | P 31,095 |

The breakdown of the receivables from customers' portfolio as to secured and unsecured follows:

| | **Group** | | **Parent Company** | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Secured: | | | | |
| Real estate mortgage | **P 184,910** | P 169,253 | **P 183,828** | P 168,045 |
| Chattel mortgage | **51,280** | 44,003 | **49,214** | 41,542 |
| Hold-out deposits | **8,153** | 11,001 | **8,152** | 10,941 |
| Other securities | **11,119** | 11,286 | **8,034** | 7,938 |
| | **255,462** | 235,543 | **249,228** | 228,466 |
| Unsecured | **366,460** | 307,803 | **366,012** | 307,110 |
| | **P 621,922** | P 543,346 | **P 615,240** | P 535,576 |

A reconciliation of the allowance for impairment on loans and receivables at the beginning and end of 2023 and 2022 is shown below (see Note 16).

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Balance at beginning of year | **P 16,030** | P 18,264 | **P 15,088** | P 17,339 |
| Impairment losses during the year | **6,574** | 5,259 | **5,759** | 5,043 |
| Accounts written off and others | **( 5,209)** | ( 7,493) | **( 4,826)** | ( 7,294) |
| Balance at end of year | **P 17,395** | P 16,030 | **P 16,021** | P 15,088 |

## 12. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

The components of the carrying values of investments in and advances to subsidiaries and associates are as follows (refer to Note 1.2 for the effective percentage of ownership, line of business, and country of incorporation of subsidiaries and associates):

| | Note | Group and Parent Company | |
|---|---|---|---|
| | | **2023** | 2022 |
| Acquisition costs of associates: | | | |
| HCPI | | **P 91** | P 91 |
| LIPC | | **57** | 57 |
| RTC | 1.1 | **40** | - |
| YCS | | **4** | 4 |
| | | **192** | 152 |
| Accumulated equity in changes in net assets: | | | |
| Balance at beginning of year | | **227** | 192 |
| Share in net earnings for the year | | **92** | 32 |
| Share in actuarial gains on defined benefit plan | | **16** | 4 |
| Others | | **( 18)** | ( 1) |
| Balance at end of year | | **317** | 227 |
| | | **P 509** | P 379 |

| | Parent Company | |
|---|---|---|
| | **2023** | 2022 |
| Acquisition costs of subsidiaries: | | |
| RCBC Capital | **P 2,231** | P 2,231 |
| Rizal Microbank | **1,253** | 1,253 |
| RCBC LFC | **1,987** | 1,987 |
| RCBC JPL | **403** | 403 |
| RCBC Forex | **150** | 150 |
| RCBC Telemoney | **72** | 72 |
| RCBC IFL | **58** | 58 |
| NPHI | **-** | 609 |
| Cajel | **-** | 51 |
| Total acquisition costs *(balance forwarded)* | **P 6,154** | P 6,814 |

| | Parent Company | |
|---|---|---|
| | **2023** | 2022 |
| Total acquisition costs *(balance carried forward)* | **P 6,154** | P 6,814 |
| Accumulated equity in changes in net assets: | | |
| Balance at beginning of year | **( 158)** | ( 120) |
| Share in net earnings (losses) for the year | **( 249)** | 122 |
| Disposal of subsidiaries | **285** | - |
| Share in actuarial gains on defined benefit plan | **( 42)** | - |
| Share in fair value loss on financial assets at FVOCI | **( 13)** | ( 81) |
| Cash dividends | **( 92)** | ( 71) |
| Others | **7** | ( 8) |
| Balance at end of year | **( 262)** | ( 158) |
| Investments in subsidiaries | **5,892** | 6,656 |
| Investments in associates | **509** | 379 |
| | **P 6,401** | P 7,035 |

On March 27, 2023, the Bank's BOD approved the proposed sale and transfer to FLI of its ownership interest in NPHI and Cajel, subject to completion of FLI's due diligence and compliance with conditions to be agreed by the parties. NPHI and Cajel, as owners of certain parcels of land located in Bacoor, Cavite have joint development agreements with FLI, wherein FLI undertook to develop the land properties into an exclusive residential subdivision, now known as Princeton Heights.

On July 14, 2023, the Bank and FLI executed a Deed of Absolute Sale for the sale and transfer of the Bank's 100% ownership in NPHI and Cajel to FLI. The total consideration for the shares amounted to P544 for NPHI and P89 for Cajel. The sale resulted in a gain amounting to P243 presented as Gain on disposal of subsidiaries under Other Operating Income in the 2023 statement of profit or loss.

At the end of each reporting period, the Group has no material interest in unconsolidated structured entities.

Also, the Parent Company and its subsidiaries did not enter in any contractual arrangements to provide financial support to any entities under the Group.

The Parent Company earned dividends from its subsidiaries amounting to P92 and P71 in 2023 and 2022, respectively. No dividends were earned from associates for 2023 and 2022. Dividends receivable as of December 31, 2023 and 2022 both amounted to nil.

### *12.1 Information About Investments in Associates*

The Parent Company, under a shareholder's agreement, agreed with another stockholder of HCPI to commit and undertake to vote, as a unit, the shares of stock thereof, which they proportionately own and hold, and to regulate the conduct of the voting and the relationship between them with respect to their exercise of their voting rights. As a result of this agreement, the Parent Company is able to exercise significant influence over the operating and financial policies of HCPI. Thus, HCPI has been considered by the Parent Company as an associate despite holding only 12.88% ownership interest.

The investments in LIPC and YCS have an aggregate carrying value of P11 as of December 31, 2023 and 2022, respectively, which are insignificant to the Group.

The table below presents the summary of the unaudited financial information of HCPI as of and for the years ended December 31, 2023 and 2022. HCPI uses a fiscal year ending March 31 as its reporting period.

| | | 2023 | | 2022 |
|---|---|---|---|---|
| **Financial position**: | | | | |
| Current assets | **P** | **10,066** | P | 4,832 |
| Noncurrent assets | | **788** | | 1,101 |
| Current liabilities | | **6,822** | | 2,604 |
| Noncurrent liabilities | | **384** | | 403 |
| **Financial performance:** | | | | |
| Revenues | | **19,920** | | 13,508 |
| Gross income | | **1,913** | | 952 |
| Operating income | | **835** | | 152 |
| Net income | | **690** | | 203 |
| Other comprehensive loss | | **-** | | - |
| Total comprehensive income | | **690** | | 203 |
| **Cash flows:** | | | | |
| Net cash from: | | | | |
| Operating activities | | **207*** | | 55 |
| Investing activities | | **150*** | | 731 |
| Cash at the beginning | | **774*** | | 679 |
| Cash at the end | | **1,009*** | | 1,465 |

**Based on the audited financial statements of HCPI for the fiscal year ended March 31, 2023*

The table presented below summarized the reconciliation of equity interest to HCPI as of December 31, 2023 and 2022.

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Net asset of HCPI | **P** | **3,648** | P | 2,926 |
| Proportion of interest | | **12.88%** | | 12.88% |
| | | **470** | | 377 |
| Nominal goodwill in equity ownership | | **2** | | 2 |
| Carrying amount of investment | **P** | **472** | P | 379 |

## 13. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

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

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Land | Buildings | Furniture, Fixtures and Equipment | Leasehold Rights and Improvements | Right-of-use Asset | Total |
| **December 31, 2023** | | | | | | |
| Cost | P - | P - | P 12,948 | P 2,381 | P 11,399 | P 26,728 |
| Accumulated depreciation and amortization | - | - | ( 9,407) | ( 1,209 ) | ( 6,983) | ( 17,599) |
| Net carrying amount | **P -** | **P -** | **P 3,541** | **P 1,172** | **P 4,416** | **P 9,129** |
| December 31, 2022 | | | | | | |
| Cost | P 918 | P 2,385 | P 12,537 | P 1,900 | P 9,842 | P 27,582 |
| Accumulated depreciation and amortization | - | ( 1,435) | ( 8,431) | ( 899 ) | ( 5,553) | ( 16,318) |
| Net carrying amount | P 918 | P 950 | P 4,106 | P 1,001 | P 4,289 | P 11,264 |
| January 1, 2022 | | | | | | |
| Cost | P 1,267 | P 3,822 | P 11,470 | P 1,509 | P 6,967 | P 25,035 |
| Accumulated depreciation and amortization | - | ( 1,742) | ( 6,697) | ( 595 ) | ( 3,341) | ( 12,375) |
| Net carrying amount | P 1,267 | P 2,080 | P 4,773 | P 914 | P 3,626 | P 12,660 |

| | Parent Company | | | | | |
|---|---|---|---|---|---|---|
| | Land | Buildings | Furniture, Fixtures and Equipment | Leasehold Rights and Improvements | Right-of-use Asset | Total |
| **December 31, 2023** | | | | | | |
| Cost | P - | P - | P 7,997 | P 2,212 | P 11,437 | P 21,646 |
| Accumulated depreciation and amortization | - | - | ( 6,107) | ( 1,073 ) | ( 6,661) | ( 13,841) |
| Net carrying amount | **P -** | **P -** | **P 1,890** | **P 1,139** | **P 4,776** | **P 7,805** |
| December 31, 2022 | | | | | | |
| Cost | P 917 | P 2,385 | P 7,538 | P 1,737 | P 9,831 | P 22,408 |
| Accumulated depreciation and amortization | - | ( 1,436) | ( 5,526) | ( 772 ) | ( 5,128) | ( 12,862) |
| Net carrying amount | P 917 | P 949 | P 2,012 | P 965 | P 4,703 | P 9,546 |
| January 1, 2022 | | | | | | |
| Cost | P 1,222 | P 3,788 | P 8,828 | P 1,411 | P 7,134 | P 22,383 |
| Accumulated depreciation and amortization | - | ( 1,720) | ( 6,577) | ( 531) | ( 2,984) | ( 11,812) |
| Net carrying amount | P 1,222 | P 2,068 | P 2,251 | P 880 | P 4,150 | P 10,571 |

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

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Land | Buildings | Furniture, Fixtures and Equipment | Leasehold Rights and Improvements | Right-of-Use Asset | Total |
| Balance at January 1, 2023, net of accumulated depreciation and amortization | P 918 | P 950 | P 4,106 | P 1,001 | P 4,289 | P 11,264 |
| Additions | - | 1,551 | 1,532 | 633 | 1,557 | 5,273 |
| Disposals | ( 918) | ( 2,488) | ( 1,095) | ( 152) | - | ( 4,653) |
| Depreciation and amortization charges for the period | - | ( 13) | ( 1,002) | ( 310) | ( 1,430) | ( 2,755) |
| Balance at December 31, 2023, net of accumulated depreciation and amortization | **P -** | **P -** | **P 3,541** | **P 1,172** | **P 4,416** | **P 9,129** |
| Balance at January 1, 2022, net of accumulated depreciation and amortization | P 1,267 | P 2,080 | P 4,773 | P 914 | P 3,626 | P 12,660 |
| Additions | 1 | 389 | 605 | 632 | 2,023 | 3,650 |
| Disposals | ( 350) | ( 1,306) | ( 479) | ( 241) | - | ( 2,376) |
| Depreciation and amortization charges for the period | - | ( 213) | ( 793) | ( 304) | ( 1,360) | ( 2,670) |
| Balance at December 31, 2022, net of accumulated depreciation and amortization | P 918 | P 950 | P 4,106 | P 1,001 | P 4,289 | P 11,264 |

| | Parent Company | | | | | |
|---|---|---|---|---|---|---|
| | Land | Buildings | Furniture, Fixtures and Equipment | Leasehold Rights and Improvements | Right-of-use Asset | Total |
| Balance at January 1, 2023, net of accumulated depreciation and amortization | P 917 | P 949 | P 2,012 | P 965 | P 4,703 | P 9,546 |
| Additions | - | 103 | 704 | 625 | 1,606 | 3,038 |
| Disposals | ( 917) | ( 1,039) | ( 248) | ( 150) | - | ( 2,354) |
| Depreciation and amortization charges for the period | - | ( 13) | ( 578) | ( 301) | ( 1,533) | ( 2,425) |
| Balance at December 31, 2023, net of accumulated depreciation and amortization | **P -** | **P -** | **P 1,890** | **P 1,139** | **P 4,776** | **P 7,805** |

| | Parent Company | | | | | |
|---|---|---|---|---|---|---|
| | Land | Buildings | Furniture, Fixtures and Equipment | Leasehold Rights and Improvements | Right-of-use Asset | Total |
| Balance at January 1, 2022, net of accumulated depreciation and amortization | P 1,222 | P 2,068 | P 2,251 | P 880 | P 4,150 | P 10,571 |
| Additions | 1 | 291 | 577 | 382 | 1,845 | 3,096 |
| Disposals | ( 306) | ( 1,306) | ( 271) | ( 56) | - | ( 1,939) |
| Depreciation and amortization charges for the period | - | ( 104) | ( 545) | ( 241) | ( 1,292) | ( 2,182) |
| Balance at December 31, 2022, net of accumulated depreciation and amortization | P 917 | P 949 | P 2,012 | P 965 | P 4,703 | P 9,546 |

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of the respective unimpaired capital of the Parent Company and its bank subsidiaries. As of December 31, 2023 and 2022, the Parent Company and its bank subsidiary have satisfactorily complied with this BSP requirement.

The cost of the Group and the Parent Company's fully depreciated bank premises, furniture, fixtures and equipment that are still in use in operations is P7,095 and P7,090, respectively, as of December 31, 2023, and P8,740 and P7,905, respectively, as of December 31, 2022. Moreover, no impairment losses were recognized for the Group and the Parent Company's Bank Premises, Furniture, Fixtures and Equipment in 2023, 2022 and 2021, respectively.

As part of strengthening the Parent Company's capital position, on September 30, 2022, the Parent Company sold and immediately leased back for five years a portion of its bank premises and investment properties pertaining to AT Yuchengco Centre (ATYC), with carrying amount of P1,501 and P1,361, respectively [see Notes 14 and 27.5(a)]. The sale qualified as a sale and leaseback and accounted under the applicable financial reporting standard (see Note 2.9). The total selling price amounted to P6,065, of which P2,426 is still outstanding as part of Loans and discounts under Loans and Receivables – net in the statements of financial position. The loan receivable from ATYCI is secured, bears 6.04% interest and payable in 3 years. The impairment loss recognized on this loan receivable under the Parent Company's ECL model amounted to P9 and P10 in 2023 and 2022, respectively. [see Notes 11 and 27.7(a)].

The gain on sale recognized over the aforementioned sale and leaseback transaction amounted to P2,352 and is reported as part of the Gain on assets sold – net under Other Operating Income in the 2022 statement of profit or loss. Right-of-use asset and lease liability recognized amounted to P760 and P1,611, respectively (see Note 21).

On March 16, 2023, the Bank transferred and leased back certain real estate properties with total net book value of P1,796 to Frame Properties, Inc. in exchange for 100% ownership in the latter, which was subsequently transferred to the post-employment defined benefit plan as contribution to the plan assets (Notes 23.2 and 27.5). The total fair value of shares received amounted to P6,208 resulting in a gain of P3,051 presented as part of Gain on assets sold – net under Other Operating Income in the 2023 statement of profit or loss. The sale qualified as a sale and leaseback and was accounted under the applicable financial reporting standard. Right-of-use asset and lease liability recognized amounted to P554 and P1,915, respectively.

The Group has leases for certain offices and branches. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected as a right-of-use asset and a lease liability as part of Bank Premises, Furniture, Fixtures and Equipment and Other Liabilities, respectively. The total short-term leases and leases of low-value entered into contract by the Parent Company amounted to P39 and P39 in 2023 and 2022, respectively. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The table below describes the nature of the Company's leasing activities at December 31, 2023 and 2022:

| | Number of right-of-use Assets leased | | Range of remaining lease terms (in years) | | Average remaining lease terms (in years) | |
|---|---|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 |
| Buildings | **10** | 7 | **2 to 4** | 1 to 5 | **2** | 2 |
| Warehouses | **11** | 6 | **1 to 2** | 1 to 3 | **3** | 1 |
| ATM batches | **21** | 18 | **1 to 5** | 3 to 5 | **3** | 4 |
| Branches | **433** | 334 | **1 to 11** | 1 to 11 | **4** | 4 |

The lease liabilities are secured by the related underlying assets and are presented as part of Other Liabilities in the statements of financial position (see Note 21). The undiscounted maturity analysis of lease liabilities at December 31, 2023 and 2022 are as follows:

| | **Within 1 Year** | **Within 2 Years** | **Within 3 Years** | **Within 4 Years** | **Within 5 Years** | **More than 5 Years** | **Total** |
|---|---|---|---|---|---|---|---|
| **2023:** | | | | | | | |
| **Group** | | | | | | | |
| Lease payments | P 2,107 | P 2,064 | P 1,470 | P 1,158 | P 228 | P 499 | P 7,526 |
| Finance charges | ( 316 ) | ( 228 ) | ( 143 ) | ( 69 ) | ( 30 ) | ( 53 ) | ( 839 ) |
| Net present value | **P 1,791** | **P 1,836** | **P 1,327** | **P 1,089** | **P 198** | **P 446** | **P 6,687** |
| **Parent Company** | | | | | | | |
| Lease payments | P 2,217 | P 2,174 | P 1,563 | P 1,215 | P 238 | P 422 | P 7,829 |
| Finance charges | ( 303 ) | ( 218 ) | ( 136 ) | ( 64 ) | ( 28 ) | ( 51 ) | ( 800 ) |
| Net present value | **P 1,914** | **P 1,956** | **P 1,427** | **P 1,151** | **P 210** | **P 371** | **P 7,029** |

| | Within 1 Year | Within 2 Years | Within 3 Years | Within 4 Years | Within 5 Years | More than 5 Years | Total |
|---|---|---|---|---|---|---|---|
| 2022: | | | | | | | |
| Group | | | | | | | |
| Lease payments | P 1,458 | P 1,296 | P 1,096 | P 895 | P 610 | P 884 | P 6,239 |
| Finance charges | ( 222 ) | ( 171 ) | ( 125 ) | ( 85 ) | ( 53 ) | ( 83 ) | ( 739 ) |
| Net present value | P 1,236 | P 1,125 | P 971 | P 810 | P 557 | P 801 | P 5,500 |
| Parent Company | | | | | | | |
| Lease payments | P 1,495 | P 1,328 | P 1,156 | P 980 | P 698 | P 973 | P 6,630 |
| Finance charges | ( 215 ) | ( 165 ) | ( 122 ) | ( 83 ) | ( 51 ) | ( 81 ) | ( 717 ) |
| Net present value | P 1,280 | P 1,163 | P 1,034 | P 897 | P 647 | P 892 | P 5,913 |

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over branches and offices, the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must ensure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying lease asset outright at the end of the lease, or to extend the lease for a further term. The use of extension and termination options gives the Group added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the Group's regional markets strategy and the economic benefits of exercising the option exceeds the expected overall cost.

On January 1, 2021, the Parent Company and RCBC Realty Corporation renewed the terms for the lease of RCBC Plaza's several floors. The amendments in the terms include a new rental rate and extended term of five years based on the mutual agreement of both parties. In addition, the Parent Company has also entered a five-year lease agreement with ATYCI in October 2022 which is effective until September 30, 2027.

The total cash outflow in respect of leases in 2023, 2022 and 2021 amounted to P2,131, P2,265 and P1,360, respectively, for the Group, and P2,044, P2,189 and P1,205, respectively, for the Parent Company. Interest expense in relation to lease liabilities in 2023, 2022 and 2021 amounted to P335, P189 and P170, respectively, for the Group, and P362, P218 and P185, respectively, for the Parent Company and is presented as part of Interest Expense in the statements of profit or loss.

## 14. INVESTMENT PROPERTIES

Investment properties pertain to land, buildings or condominium units acquired by the Group, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment and properties which are held for rental.

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

| | Group | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | **Land** | **Buildings** | **Total** | **Land** | **Buildings** | **Total** |
| **December 31, 2023** | | | | | | |
| Cost | P 13 | P 828 | P 841 | P 12 | P 828 | P 840 |
| Accumulated depreciation | - | ( 294) | ( 294) | - | ( 294) | ( 294) |
| Accumulated impairment (see Note 16) | ( 4) | - | ( 4) | ( 3) | - | ( 3) |
| Net carrying amount | **P 9** | **P 534** | **P 543** | **P 9** | **P 534** | **P 543** |
| December 31, 2022 | | | | | | |
| Cost | P 1,781 | P 1,784 | P 3,565 | P 1,643 | P 1,763 | P 3,406 |
| Accumulated depreciation | - | ( 675) | ( 675) | - | ( 665) | ( 665) |
| Accumulated impairment (see Note 16) | ( 22) | ( 252) | ( 274) | ( 1) | ( 252) | ( 253) |
| Net carrying amount | P 1,759 | P 857 | P 2,616 | P 1,642 | P 846 | P 2,488 |
| January 1, 2022 | | | | | | |
| Cost | P 1,658 | P 3,096 | P 4,754 | P 1,518 | P 3,070 | P 4,588 |
| Accumulated depreciation | - | ( 905) | ( 905) | - | ( 892) | ( 892) |
| Accumulated impairment (see Note 16) | ( 17) | ( 260) | ( 277) | ( 1) | ( 260) | ( 261) |
| Net carrying amount | P 1,641 | P 1,931 | P 3,572 | P 1,517 | P 1,918 | P 3,435 |

The reconciliations of the carrying amounts of investment properties at the beginning and end of 2023 and 2022 follow:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Balance at January 1, net of accumulated depreciation and impairment | **P 2,616** | P 3,572 | **P 2,488** | P 3,435 |
| Additions | **689** | 784 | **677** | 767 |
| Disposals | **( 316)** | ( 1,672) | **( 293)** | ( 1,648 ) |
| Reclassification (see Note 15.1) | **( 2,341)** | ( 10) | **( 2,225)** | ( 10 ) |
| Depreciation charges for the year | **( 104)** | ( 57) | **( 103)** | ( 56 ) |
| Impairment losses | **( 1)** | ( 1) | **( 1)** | - |
| Balance at December 31, net of accumulated depreciation and impairment | **P 543** | P 2,616 | **P 543** | P 2,488 |

As of December 31, 2023 and 2022, there is no restriction on the realizability of investment properties or the remittance of income and proceeds of disposal therefrom.

### 14.1 Additions, Disposals and Reclassification of Investment Properties

The Group and the Parent Company foreclosed real and other properties totaling P689 and P677, respectively, in 2023, and P784 and P767, respectively, in 2022, in settlement of certain loan accounts.

As of December 31, 2023, and 2022, foreclosed investment properties still subject to redemption period by the borrowers amounted to P634 and P918, respectively, for the Group and P602 and P894, respectively, for the Parent Company.

The total gain recognized by the Group and the Parent Company from disposals of investment properties amounted to P604 and P660, respectively, in 2023, and P510 and P502, respectively, in 2022, and P30 and P18, respectively, in 2021, which is presented as part of Gain on assets sold – net under Other Operating Income account in the statements of profit or loss.

### 14.2 Income and Expenses from Investment Properties Held for Rental

The Group and Parent Company earned rental income from investment properties amounting to P12 in 2023, P199 in 2022 and P229 in 2021, and are presented as part of Rentals under Miscellaneous Income account in the statements of profit or loss [see Notes 24.1 and 27.7(b)]. Expenses incurred by the Group and Parent Company in relation to the investment properties include taxes and licenses amounting to P98 in 2023, P48 in 2022 and P16 and P13, respectively, in 2021.

## 15. OTHER RESOURCES

Other resources consist of the following:

| | | Group | | Parent Company | |
|---|---|---|---|---|---|
| | Notes | **2023** | 2022 | **2023** | 2022 |
| Assets held-for-sale and disposal group | 15.1 | **P 4,503** | P 3,440 | **P 4,027** | P 2,665 |
| Creditable withholding taxes | | **4,280** | 3,257 | **4,262** | 3,211 |
| Net defined benefit asset | 23.2, 27.5 | **2,665** | - | **2,665** | - |
| Prepaid expenses | 15.2 | **1,645** | 1,795 | **1,417** | 1,573 |
| Software – net | 15.3 | **1,237** | 1,362 | **1,235** | 1,359 |
| Branch licenses | 15.4 | **1,000** | 1,000 | **1,000** | 1,000 |
| Refundable and other deposits | | **955** | 803 | **953** | 801 |
| Deferred charges | | **660** | 547 | **657** | 529 |
| Unused stationery and supplies | | **618** | 559 | **609** | 545 |
| Goodwill | 15.5 | **426** | 426 | **269** | 269 |
| Margin deposits | 15.6 | **243** | 240 | **243** | 240 |
| Returned checks and other cash items | | **221** | 80 | **221** | 80 |
| Miscellaneous | 15.7 | **1,992** | 1,287 | **1,837** | 721 |
| | | **20,445** | 14,796 | **19,395** | 12,993 |
| Allowance for impairment | 15.1, 15.5 | **( 1,068)** | ( 1,223) | **( 890)** | ( 1,066) |
| | | **P 19,377** | P 13,573 | **P 18,505** | P 11,927 |

### *15.1 Assets Held-for-Sale and Disposal Group*

Assets held-for-sale represents assets that are approved by management to be immediately sold in its present condition and management believes that the sale is highly probable at the time of reclassification. Asset held-for-sale and disposal group consists of the following:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Equity securities | **P 1,809** | P 1,894 | **P 1,809** | P 1,889 |
| Foreclosed automobiles | **713** | 918 | **380** | 546 |
| Foreclosed real properties | **1,981** | 628 | **1,838** | 230 |
| | **4,503** | 3,440 | **4,027** | 2,665 |
| Allowance for impairment | **( 881)** | ( 1,048) | **( 861)** | ( 1,048) |
| Balance at end of year | **P 3,622** | P 2,392 | **P 3,166** | P 1,617 |

On May 29, 2023, the Bank's BOD approved the sale of its consolidated ROPA, recognized as part of Investment properties. The program consists of three phases of execution, namely; (a) the sale of high-end properties; (b) the sale of a property in Tarlac, and (c) the sale of consolidated ROPA nationwide, which includes properties of both the Bank and its subsidiaries. The carrying values of these investment properties which were reclassified to assets held for sale amounted to P831, while the related appraised values amounted to P5,131. Further reclassification of investment properties with carrying value of P1,394 and appraised value of P3,103 was made during the last quarter of 2023 as part of the commitment of the Bank to dispose of the properties to comply with the constitutional requirements on land ownership of the Bank after additional investment of SMBC (see Notes 1.1 and 22.5).

During 2023, the Bank partially disposed of aforementioned properties with a total carrying value of P427 for a gross consideration of P3,236, resulting in a gain amounting to P2,809, which was presented as part of Gain on assets sold – net under Other Operating Income in the 2023 statement of profit or loss.

The Bank targets to dispose of the remaining properties during the first half of the year 2024. Disposal of the assets on a business as usual basis via auctions and negotiated sales are still underway. The Parent Bank is also negotiating for a possible bulk purchase of the assets. The viability and acceptability of these options are still being studied.

Recovery on assets held for sale for Group and Parent amounted to nil and P135 in 2023 and 2022, respectively, and are presented as part of the Impairment losses – net on non-financial asset (see Note 16).

#### *15.1.1 HHIC Equity Securities*

In May 2019, RCBC, together with other local banks, entered into a Detailed Implementing Agreement with Hanjin Heavy Industries and Construction Philippines, Inc. (HHIC-Phil), a subsidiary of Hanjin Heavy Industry Co., Ltd. (HHIC-Korea), a Korean shipbuilding company, to convert a part of the former's debt into a 20% stake in HHIC-Korea (see Note 28.2). Accordingly, in June 2019, the Bank received 7,100,129 common shares representing 8.53% ownership in HHIC-Korea in settlement of HHIC-Phil's gross outstanding loan amounting to USD63.5 million or P3,286. In 2023 and 2022, the Parent Company recognized impairment of the HHIC-Korea equity securities amounting to P160 and P516, respectively, which are included as part of Impairment Losses – net in the statements of profit or loss (see Note 16). There is no similar transaction in 2021.

As of December 31, 2023, with the Bank's BOD approval, the Bank commits to sell the HHIC-Korea shares through an active disposal plan which the Bank estimates that it will take more than a year to complete the sale, but nothing will preclude the Bank from selling it sooner given the availability of a buyer. This is covered by the exception in PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, which states that an extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset. As a result, the carrying amount of the investment is measured at the lower of their carrying amount, immediately prior to its classification as held-for-sale and its fair value less costs to sell.

### *15.2 Prepaid Expenses*

Prepaid expenses include prepayments for insurance, taxes and licenses, and software maintenance.

### *15.3 Software*

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

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Balance at beginning of year | **P 1,362** | P 1,338 | **P 1,359** | P 1,332 |
| Additions | **381** | 334 | **362** | 333 |
| Amortization | **( 506)** | ( 310) | **( 486)** | ( 306) |
| Balance at end of year | **P 1,237** | P 1,362 | **P 1,235** | P 1,359 |

Amortization charges for software are included as part of Depreciation and Amortization account in the statements of profit or loss.

### *15.4 Branch Licenses*

Branch licenses represent the rights granted by the BSP to the Parent Company in 2015 to establish a certain number of branches in the restricted areas in the country. Branch licenses are annually tested for impairment either individually or at the CGU level, as appropriate when circumstances indicate that the intangible asset may be impaired.

Branch licenses is subject to annual impairment testing and whenever is an indication of impairment. The recoverable amount used to determine impairment on the branch licenses was based on Value-in-Use (VIU) calculation computed through discounting the five-year cash flow projections from financial budgets approved by the Parent Company's senior management covering a five-year period. The recoverable amount was computed by determining the excess of the projected interest income from the projected interest expense. The Group also considered key assumptions in determining cash flow projections which includes discount rates and growth rates. Future cash flows and growth rates were based on experience, strategies developed, and prospects. The discount rate applied to cash flow projections is 9.52% and 10.91% in 2023 and 2022, respectively, while the growth rate used to extrapolate cash flows covering a five-year period is 5.64% and 5.67%, in 2023 and 2022, respectively.

### *15.5 Goodwill*

The Parent Company recognized goodwill amounting to P269 which arose from its acquisition of the net assets of another bank in 1998 from which it had expected future economic benefits and synergies that will result from combining the operations of the acquired bank.

Goodwill is subject to annual impairment testing and whenever there is an indication of impairment. In 2023 and 2022, the Parent Company engaged a third party consultant to perform an independent impairment testing of goodwill. The recoverable amount of the CGU has been based on VIU calculation using the cash flow projections from financial budgets approved by the Parent Company's senior management covering a five-year period. The Group also considered key assumptions in determining cash flow projections which includes discount rates and growth rates. Future cash flows and growth rates were based on experience, strategies developed, and prospects.

The discount rate used for the computation of the net present value is the cost of equity and was determined by reference to comparable entities within the industry. In 2023 and 2022, the discount rate applied to cash flow projections is 11.05% and 13.86%, respectively, while the growth rate used to extrapolate cash flows beyond five-year period is 6.18% and 5.67% for 2023 and 2022, respectively. On the basis of the report of the third-party consultant dated February 1, 2024 and January 18, 2023 with valuation date as of the end of 2023 and 2022, respectively, the Group has assessed that the recoverable amount of the goodwill is higher than its carrying value. Accordingly, no impairment loss is required to be recognized in the statements of profit or loss in both years.

In addition, the goodwill pertaining to the acquisition of Rizal Microbank amounting to P157 was fully provided with impairment in 2011.

### *15.6 Margin Deposits*

Margin deposits serve as security for outstanding financial market transactions and other liabilities. These are designed to provide additional credit risk protection for counterparty exposures.

### *15.7 Miscellaneous*

Miscellaneous account includes various deposits, advance rentals, service provider fund, trading right and other assets.

## 16. ALLOWANCE FOR EXPECTED CREDIT LOSS AND IMPAIRMENT

Changes in the amounts of allowance for impairment are summarized below.

| | | Group | | Parent Company | |
|---|---|---|---|---|---|
| | Notes | 2023 | 2022 | 2023 | 2022 |
| Balance at beginning of year | | | | | |
| Loans and receivables | 11 | P 16,030 | P 18,264 | P 15,088 | P 17,339 |
| Investment securities at amortized cost | 10.3 | 163 | 147 | 71 | 52 |
| Loan commitments | 21 | 214 | 145 | 214 | 145 |
| Investment properties | 14 | 274 | 277 | 253 | 261 |
| Other resources - net | 15 | 1,223 | 1,268 | 1,066 | 1,135 |
| | | 17,904 | 20,101 | 16,692 | 18,932 |
| Impairment losses – net: | | | | | |
| Loans and receivables | 11 | 6,574 | 5,259 | 5,759 | 5,043 |
| Investment securities at amortized cost | 10.3 | ( 2) | 19 | - | 19 |
| Loan commitments | 4.4 | 105 | 69 | 105 | 69 |
| Investment properties | 14 | 1 | 1 | 1 | - |
| Other resources - net | 15 | 210 | 358 | 209 | 358 |
| | | 6,888 | 5,706 | 6,074 | 5,489 |
| Charge-offs and other adjustments during the year | | ( 5,860) | ( 7,903) | ( 5,477) | ( 7,729) |
| Balance at end of year | | | | | |
| Loans and receivables | 11 | 17,395 | 16,030 | 16,021 | 15,088 |
| Investment securities at at amortized cost | 10.3 | 161 | 163 | 71 | 71 |
| Loan commitments | 21 | 304 | 214 | 304 | 214 |
| Investment properties | 14 | 4 | 274 | 3 | 253 |
| Other resources - net | 15 | 1,068 | 1,223 | 890 | 1,066 |
| | | P 18,932 | P 17,904 | P 17,289 | P 16,692 |

## 17. DEPOSIT LIABILITIES

The following is the breakdown of deposit liabilities (see also Note 27.3):

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Demand | P 214,395 | P 174,563 | P 215,284 | P 175,230 |
| Savings | 287,738 | 246,242 | 287,776 | 246,524 |
| Time | 450,999 | 430,357 | 450,729 | 429,803 |
| Long-term Negotiable Certificate of Deposits (LTNCD) | 3,580 | 6,082 | 3,580 | 6,082 |
| | P 956,712 | P 857,244 | P 957,369 | P 857,639 |

The Parent Company's LTNCD as of December 31, 2023 and 2022 are as follows:

| Issuance Date | Maturity Date | Coupon Interest | 2023 | 2022 |
|---|---|---|---|---|
| September 28, 2018 | March 28, 2024 | 5.50% | **P 3,580** | P 3,580 |
| August 11, 2017 | February 11, 2023 | 5.50% | **-** | 2,502 |
| | | | **P 3,580** | P 6,082 |

The Parent Company's LTNCD were used in the expansion of its term deposit base to support long-term asset growth and for other general funding purposes.

The Group's deposit liabilities bear annual interest as follows:

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Demand, Savings and Time deposits | **0.10% - 6.50%** | 0.07% - 6.13% | 0.10% - 6.00% |

The total interest expense incurred by the Group and the Parent Company on deposit liabilities are as follows:

| | Group | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Time | **P 22,389** | P 7,995 | P 2,639 |
| Savings | **3,388** | 894 | 597 |
| Demand | **2,044** | 868 | 524 |
| LTNCD | **214** | 300 | 299 |
| | **P 28,035** | P 10,057 | P 4,059 |

| | Parent Company | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Time | **P 22,402** | P 7,987 | P 2,632 |
| Savings | **3,392** | 895 | 597 |
| Demand | **2,048** | 873 | 528 |
| LTNCD | **214** | 300 | 299 |
| | **P 28,056** | P 10,055 | P 4,056 |

Non-FCDU deposit liabilities, including tax exempt LTNCDs, of the Parent Company And Rizal Microbank is subject to reserve requirement of 14% and 4%, respectively, based on BSP regulations effective July 31, 2020. In 2023, BSP reduced the reserve requirements for both the Parent Company and Rizal Microbank effective June 30 by 250 basis points and 100 basis points, respectively. The reserve requirement ratio for the Parent Company and Rizal Microbank is at 9.5% and 2%, and 12% and 3% in 2023 and 2022, respectively.

Peso-denominated LTNCDs of the Parent Company are subject to reserve requirement equivalent of 4% in both years. As of December 31, 2023 and 2022, the Group is in compliance with such regulatory reserve requirements.

Under BSP Circular No. 1063, *Reduction in Reserve Requirements*, cash in vault and regular reserve deposit accounts with BSP are excluded as eligible forms of compliance for the reserve requirements. The required reserve shall only be kept in the form of demand deposit accounts with the BSP. Available reserves consist of Due from BSP amounting to P83,701, P76,582, and P65,074 for the Group and P82,771, P75,340, and P63,931 for the Parent Company as of December 31, 2023, 2022 and 2021, respectively (see Note 9).

## 18. BILLS PAYABLE

This account consists of borrowings from:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Foreign banks | **P 36,653** | P 40,482 | **P 36,653** | P 40,482 |
| Local banks | **14,165** | 26,178 | **7,304** | 17,909 |
| Others | **40** | - | **-** | - |
| | **P 50,858** | P 66,660 | **P 43,957** | P 58,391 |

Borrowings from foreign and local banks are subject to annual fixed interest rates as follows:

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| **Group** | | | |
| Peso denominated | **3.00% - 8.00%** | 4.66% - 8.00% | 4.15% - 7.50% |
| Foreign currency denominated | **2.50% - 6.42%** | 0.0001% - 0.725% | 0.0001% - 0.725% |
| **Parent Company** | | | |
| Peso denominated | **-** | 4.66% - 4.96% | 4.66% - 4.96% |
| Foreign currency denominated | **2.50% - 6.42%** | 0.0001% - 0.725% | 0.0001% - 0.725% |

The total interest expense incurred by the Group on the bills payable amounted to P2,449 in 2023, P824 in 2022, and P420 in 2021. The total interest expense incurred by the Parent Company on the bills payable amounted to P2,042 in 2023, P420 in 2022, and P22 in 2021.

As of December 31, 2023 and 2022, bills payable availed under repurchase agreements amounting to P29,797 and P58,391, respectively, are secured by the Group and Parent Company's investment securities (see Note 10.3). Investment securities used as collateral to the bills payable are government securities and corporate debt securities that are measured at amortized cost. The average interest rate is 2.80% in 2023, 4.05% in 2022, and 8.60% in 2021 for government securities, and 3.70% in 2022 and 3.10% in 2021 for corporate debt securities. Average remaining terms before maturity of these investment securities as of 2023, 2022, and 2021 is 13 years, 3 years, and 4 years, respectively, for government securities, and 7 years, and 12 years for corporate debt securities in 2022 and 2021, respectively. There are no corporate debt securities collaterals in 2023.

## 19. BONDS PAYABLE

The composition of this account for the Group and the Parent Company follows:

| Issuance Date | Maturity Date | Coupon Interest | | Face Value (in millions) | Outstanding Balance 2023 | | Outstanding Balance 2022 | |
|---|---|---|---|---|---|---|---|---|
| February 21, 2022 | May 21, 2024 | 3.00% | P | 14,756 | P | **14,756** | P | 14,756 |
| March 31, 2021 | September 30, 2023 | 3.20% | P | 13,743 | | **-** | | 13,743 |
| March 31, 2021 | June 30, 2026 | 4.18% | P | 4,130 | | **4,130** | | 4,130 |
| September 11, 2019 | September 11, 2024 | 3.05% | $ | 300 | | **16,053** | | 16,727 |
| March 15, 2018 | March 16, 2023 | 4.13% | $ | 450 | | **-** | | 25,055 |
| | | | | | **P** | **34,939** | P | 74,411 |

On February 21, 2022, the Parent Company issued unsecured Peso-denominated Senior Notes with principal amount and outstanding balance as of December 31, 2022 of P14,756 bearing an interest of 3.00% per annum. The senior notes will mature on May 21, 2024.

On March 31, 2021, the Parent Company issued unsecured Peso-denominated Senior Notes with outstanding balance as of December 31, 2022 of P13,743 and P4,130 bearing an interest of 3.20% and 4.18% per annum, respectively, payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. The P13,743 senior notes matured last September 30, 2023, while the remaining note will mature on June 30, 2026.

In September 2019, the Parent Company issued unsecured US$-denominated Senior Notes with principal amount of US$300 bearing an interest of 3.05% per annum, payable semi-annually in arrears every March 11 and September 1 of each year. The senior notes, unless redeemed, will mature on September 11, 2024. As of December 31, 2023 and 2022, the peso equivalent of this outstanding bond issue amounted to P16,053 and P16,727, respectively.

In March 2018, the Parent Company issued unsecured US$-denominated Senior Notes with principal amount of US$450 bearing an interest of 4.13% per annum, payable semi-annually in arrears every March 16 and September 16 of each year. The senior notes, matured last March 16, 2023.

The debt issue cost incurred in 2023 and 2022 is nil and P111, respectively. The unamortized debt issue cost as of December 31, 2023 and 2022 amounted to P43 and P150, respectively. The related amortization of unamortized debt issue cost is recorded as part of Interest Expense in the statements of profit or loss.

The interest expense incurred on these bonds payable amounted to P1,768 in 2023, P3,397 in 2022, and P3,503 in 2021. The Group and Parent Company recognized foreign currency exchange losses related to these bonds payable amounting to P450, and P2,312 in 2023 and 2021, respectively, while P567 foreign currency exchange gains in 2022. Foreign currency exchange losses are netted against foreign exchange gains presented under Other Operating Income account in the statements of profit or loss.

## 20. ACCRUED INTEREST, TAXES AND OTHER EXPENSES

The composition of this account follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Accrued expenses | **P 5,550** | P 4,492 | **P 5,286** | P 4,302 |
| Accrued interest | **5,195** | 3,365 | **5,187** | 3,361 |
| Taxes payable | **1,337** | 571 | **1,313** | 529 |
| | **P 12,082** | P 8,428 | **P 11,786** | P 8,192 |

Accrued expenses represent mainly the accruals for utilities, employee benefits and other operating expenses. Accrued interest primarily includes unpaid interest on deposit liabilities, bills payable and bonds payable at the end of each reporting period.

## 21. OTHER LIABILITIES

Other liabilities consist of the following:

| | | Group | | Parent Company | |
|---|---|---|---|---|---|
| | Notes | **2023** | 2022 | **2023** | 2022 |
| Accounts payable | 27.7(c) | **P 10,197** | P 7,756 | **P 9,769** | P 7,041 |
| Lease liabilities | 13 | **6,687** | 5,500 | **7,029** | 5,913 |
| Bills purchased – contra | | **2,673** | 2,113 | **2,673** | 2,113 |
| Manager's checks | | **1,878** | 1,680 | **1,878** | 1,680 |
| Derivative financial liabilities | 10.1 | **1,690** | 2,116 | **1,690** | 2,116 |
| Outstanding acceptances payable | | **1,467** | 4,587 | **1,467** | 4,587 |
| Unclaimed balances-deposit | | **1,398** | 1,128 | **1,320** | 1,128 |
| Withholding taxes payable | | **1,108** | 714 | **1,101** | 708 |
| Unearned income | | **824** | 602 | **819** | 589 |
| Deposit on lease contracts | | **796** | 776 | **18** | 33 |
| Other credits | | **381** | 432 | **381** | 432 |
| ECL provisions on loan commitments | 4.4.9(c) | **304** | 214 | **304** | 214 |
| Sundry credits | | **269** | 355 | **268** | 357 |
| Payment orders payable | | **147** | 241 | **147** | 241 |
| Due to BSP | | **108** | 66 | **108** | 66 |
| Post-employment defined benefit obligation | 23.2 | **40** | 1,986 | **-** | 1,972 |
| Guaranty deposits | | **6** | 66 | **6** | 66 |
| Advance rentals | | **1** | 10 | **1** | 10 |
| Miscellaneous | | **1,492** | 662 | **1,594** | 566 |
| | | **P 31,466** | P 31,004 | **P 30,573** | P 29,832 |

Accounts payable is mainly composed of prepaid card balances of customers, settlement billing from credit card operations and the Group's expenditure purchases which are to be settled within the next reporting period.

Miscellaneous liabilities include due to treasury, government-related contributions, and other miscellaneous liabilities.

Interest expense incurred on other liabilities for 2023, 2022 and 2021 amounted to P80, P11 and P15 for the Group, and P80, P11 and P15 for the Parent Company, respectively.

## 22. EQUITY

### *22.1 Capital Stock*

Preferred and common stock represent the nominal value of shares of stock that have been issued (see Notes 22.2 and 22.3).

Capital paid in excess of par includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares of stock are deducted from capital paid in excess of par, net of any related income tax benefits (see Note 22.2).

The movements in the outstanding capital stock of the Parent Company are as follows:

| | Number of Shares | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Preferred stock – voting, non-cumulative non-redeemable, participating, convertible into common stock – P10 par value | | | |
| Authorized – 200,000,000 shares | | | |
| Issued and outstanding | | | |
| Balance at beginning and end of year | **267,410** | 267,410 | 267,410 |
| Common stock – P10 par value | | | |
| Authorized: | | | |
| Balance at beginning and end of year | **2,600,000,000** | 2,600,000,000 | 2,600,000,000 |
| Issued and outstanding: | | | |
| Balance at beginning of year | **2,037,478,896** | 2,037,478,896 | 1,935,628,896 |
| Issuance of new shares | **168,619,976** | - | - |
| Reissuance of shares during the year | **213,437,248** | - | 101,850,000 |
| Balance at end of year | **2,419,536,120** | 2,037,478,896 | 2,037,478,896 |

As of December 31, 2023, and 2022, there are 746 and 748 holders of the Parent Company's listed shares holding an equivalent of 93.00% of the Parent Company's total issued and outstanding shares, respectively. Such listed shares closed at P23.00 and P23.70 per share for years December 31, 2023 and 2022, respectively.

In 1986, the Parent Company listed its common shares with the PSE. The historical information on the Parent Company's issuance of common shares arising from the initial and subsequent public offerings, including private placements is presented in the succeeding page.

| Issuance | Subscriber | Issuance Date | Number of Shares Issued |
|---|---|---|---|
| Initial public offering | Various | November 1986 | 1,410,579 |
| Stock rights offering | Various | April 1997 | 44,492,908 |
| Stock rights offering | Various | July 1997 | 5,308,721 |
| Stock rights offering | Various | August 1997 | 830,345 |
| Stock rights offering | Various | January 2002 | 167,035,982 |
| Stock rights offering | Various | June 2002 | 32,964,018 |
| Follow-on offering | Various | March 2007 | 210,000,000 |
| Private placement | International Finance Corporation (IFC) | March 2011 | 73,448,275 |
| Private placement | Hexagon Investments B.V. | September 2011 | 126,551,725 |
| Private placement | PMMIC | March 2013 | 63,650,000 |
| Private placement | IFC Capitalization Fund | April 2013 | 71,151,505 |
| Private placement | Cathay | April 2015 | 124,242,272 |
| Stock rights offering | Various | July 2018 | 535,710,378 |
| Private placement | SMBC | July 2021 | 101,850,000 |
| Private placement | SMBC | July 2023 | 382,057,224 |

On May 29, 2006, the Parent Company's stockholders approved the issuance of up to 200,000,000 convertible preferred shares with a par value of P10 per share, subject to the approval, among others, by the PSE. The purpose of the issuance of the convertible preferred shares is to raise the Tier 1 capital pursuant to BSP regulations, thereby strengthening the capital base of the Parent Company and allowing it to expand its operations. On February 13, 2007, the PSE approved the listing application of the underlying common shares for the 105,000 convertible preferred shares, subject to the compliance of certain conditions of the PSE.

Preferred shares have the following features:

*(a)* Entitled to dividends at floating rate equivalent to the three-month LIBOR plus a spread of 2.0% per annum, calculated quarterly;

*(b)* Convertible to common shares at any time after the issue date at the option of the Parent Company at a conversion price using the adjusted net book value per share of the Parent Company based on the latest available financial statements prepared in accordance with PFRS, adjusted by local regulations;

*(c)* Non-redeemable; and,

*(d)* Participating as to dividends on a pro rata basis with the common stockholders in the surplus of the Parent Company after dividend payments had been made to the preferred shareholders.

On June 28, 2010, the Parent Company's stockholders owning or representing more than two-thirds of the outstanding capital stock confirmed and ratified the approval by the majority of the BOD on their Executive Session held on May 21, 2010, the proposed increase in Parent Company's authorized capital stock and removal of pre-emptive rights from holders of capital stock, whether common or preferred, to subscribe for or to purchase any shares of stock of any class, by amending the Parent Company's Articles of Incorporation.

The proposed P16,000 authorized capital stock is divided into the following classes of stocks:

*(a)* 1,400,000,000 common shares with a par value of ten pesos (P10.00) per share.

*(b)* 200,000,000 preferred shares with a par value of ten pesos (P10.00) per share.

The removal of pre-emptive rights was approved by the BSP and SEC on October 20, 2010 and November 4, 2010, respectively. On the other hand, the increase in authorized capital stock of the Parent Company was approved by the BSP and SEC on August 24, 2011 and September 16, 2011, respectively.

On June 27, 2022, the Bank amended its AOI to delete Articles four and seven of the AOI stating the term of existence of the Bank and transfer of voting stocks to foreign nationals, respectively to allow foreign ownership of the bank to exceed 40% and to be consistent with R.A. No. 11232, which grants perpetual corporate terms. The amendment of AOI was approved by BSP and SEC on August 26, 2022 and September 30, 2022, respectively (see Note 1.1).

On November 2, 2022, the Bank's BOD approved the increase in shareholding of SMBC, an existing shareholder of 4.99% of the total outstanding common stock of the Bank, to 20% through the combined sale of subscription of an aggregate of 382 common stock to SMBC, partly coming from the reissuance of treasury shares and issuance of new common stock, at the price of P71 per share for a total consideration amounting to P27,125. The additional capital infusion was made on July 31, 2023 [see Notes 22.2 and 27.7(d)].

### *22.2 Issuance of Common Shares*

The capital infusion from SMBC on July 31, 2023 involved issuance of common shares amounting to P1,686 and reissuance of the treasury at cost amounting to P9,287 [see Notes 22.3 and Note 27.7(d)]. This resulted in a net increase of the additional paid in capital account of the Bank amounting to P15,735, coming from the excess of the consideration received over the par value of common stock and cost of treasury shares amounting to P16,152 and directly attributable transaction costs amounting to P417.

On July 22, 2019, the effective date of merger, the Parent Company issued 315,287,248 common shares in exchange of the transfer of net assets of RSB at carrying value. The Parent Company recognized P10,507 as additional paid-in capital, which pertains to the difference between the par value of the shares issued and the carrying value of the net assets of RSB.

On November 27, 2017, the BOD of the Parent Company approved the increase in the Parent Company's authorized capital through the increase in the authorized common stock from 1,400,000,000 shares to 2,600,000,000 shares at P10 par value per share or for a total capital stock of P14,000 to P26,000. The BOD also approved the amendment of the Parent Company's Articles of Incorporation for the principal purpose of reflecting the said increase in authorized capital. These resolutions were approved by the Parent Company's stockholders representing at least two-thirds of its outstanding capital stock in a special meeting held on January 29, 2018. In the same meeting, the Parent Company's BOD approved the stock rights offering (Rights Offer) to be subscribed out of the increase in the authorized capital. The increase in authorized capital stock and the Rights Offer were approved by the BSP and SEC on June 29, 2018 and July 4, 2018, respectively. The offering of the stock rights representing 535,710,378 common shares (with equivalent amount of P5,357) occurred from June 25 to June 29, 2018 and the shares were listed at the PSE on July 16, 2018. The Rights Offer and issuance generated P15,000 proceeds, reduced by P217 issue costs; hence, resulting in P9,426 excess of consideration received over par value recognized in Capital Paid in Excess of Par account.

In 2015, the Parent Company issued common shares to Cathay at P64 per share for a total issue price of P7,951. This issuance resulted in the recognition of Capital Paid in Excess of Par amounting to P6,709 reduced by the total issuance cost of P222. The acquisition involves Cathay: (i) acquiring from Hexagon Investments B.V., an entity controlled by funds managed by CVC Asia Pacific Limited, 118,935,590 secondary shares at P64 per share, pursuant to a Sale and Purchase Agreement; (ii) acquiring 36,724,138 secondary common shares from IFC Capitalization Fund also at P64 per share, pursuant to a Sale and Purchase Agreement; and, (iii) entering into a shareholders agreement with PMMIC and the Parent Company.

In 2013, the Parent Company issued common shares to PMMIC and IFC Capitalization Fund at P64 and P58 per share for a total issue price of P4,074 and P4,127, respectively. These issuances resulted in the recognition of Capital Paid in Excess of Par amounting to P3,437 and P3,415, respectively, reduced by total issuance costs of P101.

### *22.3 Treasury Shares*

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Parent Company's equity holder until the shares are cancelled, reissued or disposed of.

On July 31, 2023, as a result of the capital infusion of SMBC, the Bank reissued 213,437,248 treasury shares at cost of P43.51 per share or P9,287 (see Notes 22.1 and 22.2).

On July 23, 2021, the Parent Company sold 101,850,000 shares to SMBC at P44.00 per share. This came from the treasury shares resulting from the merger of Parent Company and RSB. The sale of shares held by the Parent Company in treasury is equivalent to 4.999% of the total outstanding Common Stock. The issuance resulted in a recognition of additional Capital Paid in Excess of Par amounting to P50. In 2021, the Parent Company incurred expenses related to the issuance amounting to P113 which was charged to equity resulting in a P63 net decrease in the Capital Paid in Excess of Par. In 2022, the Parent Company incurred additional expenses amounting to P12 in relation to this treasury shares reissuance and this was charged against the 2022 Capital Paid in Excess of Par account.

In 2019, subsequent to the effective date of the merger, the Parent Company acquired the 315,287,248 common shares issued in exchange of the net assets of RSB equal to the Parent Company's investment in RSB as at December 31, 2018.

On September 23, 2011, the Parent Company issued 5,821,548 common shares (equivalent of 18,082,311 preferred shares and with total par value of P58) from the treasury account reissuance (with total cost of P182) and an additional 120,730,177 common stock (with total par value of P1,207) from unissued portion of the increase in authorized capital stock on September 23, 2011 to Hexagon Investments B.V. that is equivalent to approximately 15.00% of the outstanding common shares. The issuance resulted in the recognition of additional Capital Paid in Excess of Par amounting to P2,264.

On March 17, 2011, the Parent Company issued 73,448,275 common shares, comprising of 50,427,931 treasury shares reissuance (with total cost of P771) and 23,020,344 unissued stock (with total par value of P230), to IFC Capitalization Fund for a total consideration of P2,130 representing 7.20% ownership interest. The issuance resulted in the recognition of additional Capital Paid in Excess of Par amounting to P1,078.

### 22.4 Hybrid Perpetual Securities

Hybrid perpetual securities are non-cumulative, unsecured, subordinated capital securities which qualify as AT1 capital under Basel III standards.

In August 27, 2020, the Parent Company issued US$300 non-cumulative, unsecured, subordinated capital securities which qualify as AT1 capital under Basel III standards. As of December 31, 2023 and 2022, the hybrid perpetual securities amounted to P14,463, net of issuance costs.

The capital securities are perpetual in respect of which there is no fixed redemption date. The Parent Company may redeem the capital securities only in certain circumstances as described in the conditions of the securities and with prior written consent of BSP. Distributions are non-cumulative and payable semi-annually in arrear at a rate of 6.5%. Certain conditions provide for circumstances under which the Parent Company will not be obliged to pay any distribution on the applicable payment date.

The proceeds of the hybrid perpetual securities are used to support and finance medium-term to long-term asset growth, loans to customers, other general corporate purposes and to maintain sufficient buffers above the minimum capital thresholds required by BSP.

### 22.5 Surplus and Dividend Declarations

The details of the cash dividend distributions follow:

| Date Declared | Dividend Per Share | Dividend Total Amount | Record Date | Date Approved by BOD | Date Paid/Payable |
|---|---|---|---|---|---|
| February 22, 2021 | 0.0560 | 0.01 | March 21, 2021 | February 22, 2021 | March 31, 2021 |
| February 22, 2021* | - | 472.40 | February 26, 2021 | February 22, 2021 | February 26, 2021 |
| April 26, 2021 | 0.4850 | 938.78 | May 10, 2021 | April 26, 2021 | May 25, 2021 |
| April 26, 2021 | 0.4850 | 0.13 | May 10, 2021 | April 26, 2021 | May 25, 2021 |
| May 31, 2021 | 0.0559 | 0.01 | June 21, 2021 | May 31, 2021 | June 25, 2021 |
| July 26, 2021* | - | 486.04 | August 26, 2021 | July 26, 2021 | August 26, 2021 |
| August 31, 2021 | 0.0545 | 0.01 | September 21, 2021 | August 31, 2021 | September 24, 2021 |
| November 29, 2021 | 0.0537 | 0.01 | December 21, 2021 | November 29, 2021 | December 24, 2021 |
| January 31, 2022* | - | 500.57 | February 28, 2022 | January 31, 2022 | February 28, 2022 |
| February 28, 2022 | 0.0553 | 0.01 | March 21, 2022 | February 28, 2022 | March 23, 2022 |
| March 28, 2022 | 0.6180 | 1,259.16 | April 11, 2022 | March 28, 2022 | April 27, 2022 |
| March 28, 2022 | 0.6180 | 0.17 | April 11, 2022 | March 28, 2022 | April 27, 2022 |
| May 30, 2022 | 0.0748 | 0.02 | June 21, 2022 | May 30, 2022 | June 23, 2022 |
| July 25, 2022* | - | 547.59 | August 26, 2022 | July 25, 2022 | August 26, 2022 |
| August 30, 2022 | 0.1047 | 0.03 | September 21, 2022 | August 30, 2022 | September 22, 2022 |
| November 28, 2022 | 0.1407 | 0.04 | December 21, 2022 | November 28, 2022 | December 27, 2022 |
| January 30, 2023* | - | 534.98 | February 27, 2023 | January 30, 2023 | February 27, 2023 |
| February 27, 2023 | 0.1685 | 0.05 | March 21, 2023 | February 27, 2023 | March 23, 2023 |
| March 27, 2023 | 1.0800 | 2,200.48 | April 13, 2023 | March 27, 2023 | April 27, 2023 |
| March 27, 2023 | 1.0800 | 0.29 | April 13, 2023 | March 27, 2023 | April 27, 2023 |
| May 29, 2023 | 0.1789 | 0.05 | June 21, 2023 | May 29, 2023 | June 26, 2023 |
| July 31, 2023* | - | 553.41 | August 27, 2023 | July 31, 2023 | August 27, 2023 |
| August 29, 2023 | 0.1920 | 0.05 | September 21, 2023 | August 29, 2023 | September 25, 2023 |
| November 29, 2023 | 0.1870 | 0.05 | December 21, 2023 | November 29, 2023 | December 29, 2023 |

**Dividends for Hybrid Perpetual Securities*

In 2015, the BSP, through the MB, approved the liberalized rules for banks and quasi-banks on dividend declaration. The policy requires that dividend declaration be immediately recognized as a liability upon the approval of the BOD and that it be disclosed in the statement of changes in equity.

A portion of the Parent Company's surplus corresponding to the equity in net earnings of certain subsidiaries and associates amounted to P5,727 and P5,885 as of December 31, 2023 and 2022, respectively, and treasury shares of the Parent Company amounting to nil and P9,287 as of December 31, 2023 and 2022, respectively.

### *22.6 Revaluation Reserves*

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

| | Revaluation of Financial Assets at FVOCI | Accumulated Translation Adjustments on Foreign Operations | Actuarial Gains (Losses) on Defined Benefit Plan | Total |
|---|---|---|---|---|
| Balance as of January 1, 2023 | (P 4,866 ) | P 54 | (P 1,580) | (P 6,392 ) |
| Actuarial gains on defined benefit plan | - | - | ( 1,350) | ( 1,350 ) |
| Fair value gain on financial assets at FVOCI | 1,695 | - | - | 1,695 |
| Other comprehensive income (loss) | 1,695 | - | ( 1,350) | 345 |
| Transfers of fair value gain on financial assets at FVOCI to surplus | 3 | - | - | 3 |
| Balance as of December 31, 2023 | **(P 3,168)** | **P 54** | **(P 2,930)** | **(P 6,044 )** |
| Balance as of January 1, 2022 | P 389 | P 54 | (P 2,366) | (P 1,923 ) |
| Actuarial gains on defined benefit plan | - | - | 786 | 786 |
| Fair value loss on financial assets at FVOCI | ( 5,255) | - | - | ( 5,255 ) |
| Other comprehensive income (loss) | ( 5,255) | - | 786 | ( 4,469 ) |
| Balance as of December 31, 2022 | (P 4,866) | P 54 | (P 1,580) | (P 6,392 ) |
| Balance as of January 1, 2021 | P 664 | P 54 | (P 2,788) | (P 2,070 ) |
| Actuarial gains on defined benefit plan | - | - | 422 | 422 |
| Fair value loss on financial assets at FVOCI | ( 275) | - | - | ( 275 ) |
| Other comprehensive income (loss) | ( 275) | - | 422 | 147 |
| Balance as of December 31, 2021 | P 389 | P 54 | (P 2,366) | (P 1,923 ) |

### *22.7 Appropriation for General Loan Loss Reserves*

Pursuant to the requirements of the BSP under Circular No. 1011, the Group shall recognize general loan loss provisions equivalent to one percent of all outstanding loans as of the end of the reporting period, except for accounts considered as credit risk-free under the existing BSP regulations. In cases when the computed allowance for ECL on those exposures is less than one percent of the general loan loss provisions required, the deficiency is recognized through appropriation from the Group's available Surplus. Such appropriation is considered as Tier 2 capital subject to the limit provided under the CAR framework. The outstanding balance of appropriation for General Loan Loss Reserves as of December 31, 2023 and 2022 amounted to P4,599 and P3,824 for the Group, and P4,589 and P3,823 for the Parent Company, respectively. The additional appropriation made in 2023 amounted to P775 and P766 respectively, for the Group and Parent Company.

### *22.8 Reserve for Trust Business*

Reserve for trust business representing the accumulated amount set aside by the Group under existing regulations requiring the Parent Company to appropriate and transfer to surplus 10% of its net profits accruing from their trust business until the surplus shall amount to 20% of the regulatory capital. The reserve shall not be paid out in dividends, but losses accruing in the course of the trust business may be charged against this account.

### *22.9 Other Reserves*

Other reserves refer to the amount attributable to the Parent Company arising from the changes in the ownership of the Non-controlling Interest (NCI) in the Group.

As of December 31, 2023 and 2022, this account consists of reserves arising from the acquisition of RCBC LFC amounting to P86 for both years.

In 2022, the Parent Company has acquired remaining interest to Rizal Microbank making it a wholly-owned subsidiary of the Parent Company (see Note 1.2). This acquisition resulted in the reduction of Other Reserves and NCI accounts amounting to P11 and P10, respectively. There is no similar transaction in 2023.

## 23. EMPLOYEE BENEFITS

### *23.1 Short-Term Employee Benefits*

Expenses recognized for salaries and other employee benefits are shown below.

| | **Group** | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Short-term employee benefits | **P 6,732** | P 6,100 | P 5,888 |
| Post-employment defined benefits | **418** | 463 | 483 |
| | **P 7,150** | P 6,563 | P 6,371 |

| | **Parent Company** | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Short-term employee benefits | **P 5,938** | P 5,368 | P 5,247 |
| Post-employment defined benefits | **383** | 426 | 439 |
| | **P 6,321** | P 5,794 | P 5,686 |

### *23.2 Post-employment Defined Benefit Plan*

*(a) Characteristics of the Defined Benefit Plan*

The Parent Company and certain subsidiaries maintain a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by the Parent Company's Trust and Investment Group (TIG), covering all regular full-time employees. The Parent Company's TIG manages the fund in coordination with the Parent Company's Retirement Plan Committee (RPC), Trust Committee and the respective committees of the subsidiaries which act in the best interest of the plan assets and are responsible for setting the investment policies.

The normal retirement age of the Group's employees ranges between 55 to 60 but the plan also provides for an early retirement at age 50 to 55 with a minimum of 10 to 20 years of credited service. The maximum retirement benefit is the lump sum equivalent to two months pay per year of continuous employment based on the employees' salary at retirement. Any fraction of a year shall be computed proportionately.

*(b) Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation reports obtained from independent actuaries in 2023 and 2022.

The amounts of post-employment benefit obligation (asset) recognized in the financial statements are determined as follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Present value of the obligation | **P 5,932** | P 5,130 | **P 5,603** | P 4,857 |
| Fair value of plan assets | **( 9,697)** | ( 3,145) | **( 9,407)** | ( 2,885 ) |
| Effect of asset ceiling test | **1,140** | 1 | **1,139** | - |
| Deficiency (excess) of plan assets | **(P 2,625)** | P 1,986 | **(P 2,665)** | P 1,972 |

The Group and Parent Company's post-employment defined benefit plan is included under Other Resources and Other Liabilities as of December 31, 2023. The post-employment defined benefit plan is included under Other Liabilities as of December 31, 2022 (see Notes 15 and 21).

The movements in the present value of the defined benefit obligation follow:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Balance at beginning of year | **P 5,130** | P 5,604 | **P 4,857** | P 5,309 |
| Current and past service cost | **418** | 463 | **383** | 426 |
| Interest expense | **382** | 280 | **361** | 266 |
| Business combinations | **-** | ( 11) | **-** | - |
| Remeasurements – actuarial gains arising from changes in: | | | | |
| – financial assumptions | **301** | ( 730) | **271** | ( 700) |
| – experience adjustments | **201** | ( 44) | **207** | ( 57) |
| – demographic assumptions | **( 1)** | ( 1) | **-** | - |
| Benefits paid by the plan | **( 499)** | ( 431) | **( 476)** | ( 387) |
| Balance at end of year | **P 5,932** | P 5,130 | **P 5,603** | P 4,857 |

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

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Balance at beginning of year | **P 3,145** | P 3,104 | **P 2,885** | P 2,822 |
| Interest income | **451** | 152 | **430** | 139 |
| Gains on plan assets (excluding amounts included in net interest) | **275** | 7 | **293** | 25 |
| Contributions paid into the plan | **6,326** | 313 | **6,275** | 286 |
| Business combination | **( 1)** | - | **-** | - |
| Benefits paid by the plan | **( 499)** | ( 431) | **( 476)** | ( 387) |
| Balance at end of year | **P 9,697** | P 3,145 | **P 9,407** | P 2,885 |

On March 16, 2023, the Bank transferred and leased back certain real estate properties to Frame Properties, Inc. for a 100% ownership in the latter, which was subsequently transferred to the post-employment defined benefit plan as contribution to the plan assets (see Notes 13 and 27.5). There are no similar transactions in 2022.

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

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Cash and cash equivalents | **P 701** | P 556 | **P 644** | P 506 |
| Debt securities: | | | | |
| Government bonds | **243** | 105 | **230** | - |
| Corporate debt securities | **208** | 337 | **62** | 300 |
| Equity securities: | | | | |
| Transportation and communication | **514** | 185 | **514** | 185 |
| Financial intermediaries | **420** | 1,256 | **418** | 1,256 |
| Diversified holding companies | **201** | 89 | **200** | 89 |
| Electricity, gas and water | **138** | 133 | **137** | 133 |
| Quoted equity securities | **23** | 30 | **-** | - |
| Others | **50** | 56 | | 11 |
| Unquoted long-term equity investments | **6,929** | 139 | **6,927** | 139 |
| UITF | **260** | 256 | **260** | 256 |
| Investment properties | **7** | 7 | **7** | 7 |
| Loans and receivables | **8** | 4 | **8** | 3 |
| Others | **( 5)** | ( 8) | **-** | - |
| | **P 9,697** | P 3,145 | **P 9,407** | P 2,885 |

The fair values of the above debt securities and quoted equity securities are determined based on market prices in active markets. Long-term equity investments represent investment in corporations not listed in active and organized markets. Fair values are determined based on the book value per share based on latest audited financial statements of the investee company. The fair value of the UITF is determined based on the net asset value per unit of investment held in the fund.

The fair value of the plan assets is at Level 1 in the fair value hierarchy except for UITF which are at Level 2 and unquoted long-term equity investments, loans and receivables, investment properties and other investments which are at Level 3.

The net gains on plan assets are as follows:

| | Group 2023 | Group 2022 | Parent Company 2023 | Parent Company 2022 |
|---|---|---|---|---|
| Interest income | **P 451** | P 152 | **P 430** | P 139 |
| Fair value gains - net | **275** | 7 | **293** | 25 |
| Actual gains - net | **P 726** | P 159 | **P 723** | P 164 |

The amounts of post-employment benefit expense recognized in the profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are determined below as follows:

| | Group 2023 | Group 2022 | Group 2021 |
|---|---|---|---|
| *Reported in profit or loss:* | | | |
| Current and past service cost | **P 418** | P 463 | P 483 |
| Net interest expense | **( 69)** | 141 | 113 |
| | **P 349** | P 604 | P 596 |
| *Reported in other comprehensive income:* | | | |
| Actuarial gains (losses) arising from changes in: | | | |
| – Financial assumptions | **(P 301)** | P 730 | P 80 |
| – Experience adjustments | **( 201)** | 44 | 254 |
| – Demographic assumptions | **1** | 1 | 1 |
| Effect of asset ceiling test | **( 1,140)** | - | ( 1) |
| Gains on plan assets (excluding amounts included in net interest) | **275** | 7 | 91 |
| | **(P 1,366)** | P 782 | P 425 |

| | Parent Company 2023 | Parent Company 2022 | Parent Company 2021 |
|---|---|---|---|
| *Reported in profit or loss:* | | | |
| Current service costs | **P 383** | P 426 | P 439 |
| Net interest expense | **( 69)** | 127 | 112 |
| | **P 314** | P 553 | P 551 |
| *Reported in other comprehensive income:* | | | |
| Actuarial gains (losses) arising from changes in: | | | |
| – Financial assumptions | **(P 271)** | P 700 | P 28 |
| – Experience adjustments | **( 207)** | 57 | 248 |
| – Demographic assumptions | **-** | - | 1 |
| Changes in effect of asset ceiling | **( 1,139)** | - | - |
| Gains on plan assets (excluding amounts included in net interest) | **293** | 25 | 98 |
| | **(P 1,324)** | P 782 | P 375 |

Current service costs, including the effect of curtailment and past service cost, form part of Employee Benefits under the Other Operating Expenses account, while net interest expense or income is presented as part of Interest Expense on Bills payable and other borrowings in the statements of profit or loss.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

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

| | **2023** | 2022 | 2021 |
|---|---|---|---|
| **Group** | | | |
| Discount rates | **6.28% - 7.00%** | 7.22% - 7.56% | 4.98% - 5.09% |
| Expected rate of salary increases | **4.00% - 8.00%** | 5.00% - 8.00% | 3.50% - 8.00% |
| **Parent Company** | | | |
| Discount rates | **6.88%** | 7.44% | 5.01% |
| Expected rate of salary increases | **5.00%** | 5.00% | 4.00% |

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at the Group's normal retiring age of 60 is based on the 2017 Philippine Intercompany Mortality table. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

*(c) Risks Associated with the Retirement Plan*

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

*(i) Investment and Interest Rate Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

Currently, the plan assets of the Group and Parent Company are significantly invested in equity and debt securities, while the Group and Parent Company also invests in cash and cash equivalents and other investments. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group and Parent Company's long-term strategy to manage the plan efficiently.

*(ii) Longevity and Salary Risks*

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

*(d) Other Information*

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

*(i) Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2023 and 2022:

| | Group | | |
|---|---|---|---|
| | Impact on Post-employment Defined Benefit Obligation | | |
| | Change in Assumption | Increase in Assumption | Decrease in Assumption |
| **2023:** | | | |
| Discount rate | +/-1 % | **(P 462)** | **P 537** |
| Salary growth rate | +/-1 % | **565** | **( 495)** |
| 2022: | | | |
| Discount rate | +/-1 % | (P 437) | P 506 |
| Salary growth rate | +/-1 % | 513 | ( 449) |

| | Parent Company | | |
|---|---|---|---|
| | Impact on Post-employment Defined Benefit Obligation | | |
| | Change in Assumption | Increase in Assumption | Decrease in Assumption |
| **2023:** | | | |
| Discount rate | +/- 1% | **(P 469)** | **P 543** |
| Salary growth rate | +/- 1% | **548** | **( 481)** |
| 2022: | | | |
| Discount rate | +/- 1% | (P 413) | P 477 |
| Salary growth rate | +/- 1% | 484 | ( 425) |

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

*(ii) Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Parent Company through its RPC in coordination with the Parent Company's TIG, ensures that the investment positions are managed considering the computed retirement obligations under the retirement plan. This strategy aims to match the plan assets to the retirement obligations due by investing in assets that are easy to liquidate (i.e., government securities, corporate bonds, equities with high value turnover).

As the Group's retirement obligations are in Philippine peso, all assets are invested in the same currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations. In view of this, various investments are made in a portfolio that may be liquidated within a reasonable period of time.

A large portion of the plan assets as of December 31, 2023 and 2022 consists of equity securities with the balance invested in fixed income securities and cash and cash equivalents. The Group believes that equity securities offer the best returns over the long term with an acceptable level of risk.

*(iii) Funding Arrangements and Expected Contributions*

The plan is currently overfunded by P1,560 and P1,615 in 2023 for the Group and Parent Company, respectively, based on the latest funding actuarial valuations in 2023.

The maturity profile of undiscounted expected benefit payments from the end of each reporting period follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Less than one year | **P 416** | P 264 | **P 405** | P 240 |
| More than one year to five years | **1,966** | 1,608 | **1,850** | 1,560 |
| More than five years to ten years | **4,906** | 4,139 | **4,683** | 4,047 |
| More than ten to fifteen years | **23** | 24 | **-** | - |
| More than fifteen years | **22** | 20 | **-** | - |
| | **P 7,333** | P 6,055 | **P 6,938** | P 5,847 |

The Group and Parent Company expect to contribute P60 and nil, respectively, to the plan in 2024.

## 24. MISCELLANEOUS INCOME AND EXPENSES

These accounts consist of the following:

### *24.1 Miscellaneous Income*

| | | Group | | |
|---|---|---|---|---|
| | Notes | **2023** | 2022 | 2021 |
| Recoveries from written off assets | | **P 600** | P 486 | P 223 |
| Rentals | 14.2 | **424** | 872 | 926 |
| Gain on extinguishment of loan | | **390** | 890 | - |
| Dividend income | 10.1, 10.2 | **318** | 311 | 105 |
| Others | | **77** | 145 | 211 |
| | | **P 1,809** | P 2,704 | P 1,465 |

| | | Parent Company | | |
|---|---|---|---|---|
| | Notes | **2023** | 2022 | 2021 |
| Recoveries from written off assets | | **P 600** | P 486 | P 223 |
| Gain on extinguishment of loan | | **390** | 890 | - |
| Dividend income | 10.2 | **252** | 227 | 39 |
| Rentals | 14.2, 27.7(b) | **57** | 261 | 287 |
| Others | | **74** | 148 | 26 |
| | | **P 1,373** | P 2,012 | P 575 |

In 2022, the Parent Company received the full payment of its outstanding receivables from HHIC-Phil. The excess of the settlement amount over the carrying value of loans receivable amounting to P890 was recognized as Gain on extinguishment of loan. This amount is net of Asset Purchase Agreement-related taxes and fees amounting to P390. In 2023, the Bank recovered the amount from HHIC-Phil and was recognized as Gain on extinguishment of loan under Miscellaneous income in the statement of profit or loss.

Miscellaneous income classified as Others includes rebates, penalty charges and other income items that cannot be appropriately classified under any of the foregoing income accounts.

### *24.2 Miscellaneous Expenses*

| | Group | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Insurance | **P 1,821** | P 1,543 | P 1,215 |
| Credit card-related expenses | **1,756** | 1,302 | 1,114 |
| Service and processing fees | **845** | 776 | 540 |
| Litigation/assets acquired expenses | **823** | 600 | 739 |
| Communication and information services | **631** | 582 | 604 |
| Management and other professional fees | **539** | 505 | 514 |
| Advertising and publicity | **501** | 322 | 324 |
| Banking fees | **417** | 376 | 319 |
| Employee activities | **302** | 315 | 308 |
| Stationery and office supplies | **208** | 140 | 118 |
| Information services | **204** | 111 | 122 |
| Donation and charitable contribution | **182** | 107 | 79 |
| Transportation and travel | **167** | 225 | 133 |
| Other outside services | **132** | 122 | 135 |
| Representation and entertainment | **51** | 55 | 15 |
| Fines and penalties | **33** | 137 | 178 |
| Membership fees | **22** | 21 | 17 |
| Christmas expenses | **14** | 13 | 6 |
| Others | **635** | 695 | 369 |
| | **P 9,283** | P 7,947 | P 6,849 |

| | Parent Company | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Insurance | **P 1,819** | P 1,541 | P 1,213 |
| Credit card-related expenses | **1,744** | 1,279 | 1,655 |
| Service and processing fees | **1,581** | 1,418 | 540 |
| Litigation/assets acquired expense | **818** | 589 | 729 |
| Communication and information services | **604** | 552 | 572 |
| Advertising and publicity | **499** | 318 | 321 |
| Management and other professional fees | **495** | 465 | 438 |
| Banking fees | **412** | 370 | 316 |
| Employee activities | **300** | 314 | 306 |
| Stationery and office supplies | **204** | 135 | 115 |
| Information services | **204** | 110 | 121 |
| Transportation and travel | **151** | 213 | 126 |
| Other outside services | **132** | 122 | 135 |
| Donations and charitable contributions | **108** | 106 | 79 |
| Representation and entertainment | **42** | 48 | 11 |
| Fines and penalties | **31** | 136 | 173 |
| Membership fees | **20** | 19 | 16 |
| Christmas expenses | **14** | 13 | 6 |
| Others | **613** | 660 | 324 |
| | **P 9,791** | P 8,408 | P 7,196 |

The Group's other expenses are composed of freight, various processing fees, fines and penalties, and seasonal giveaways. The Group and Parent Company's other expenses also include fees for records, facilities and management services to a related party under common control amounting to P387, P362, and P298 in 2023, 2022 and 2021, respectively (see Note 27).

## 25. INCOME AND OTHER TAXES

Under Philippine tax laws, the regular banking unit (RBU) of the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the statements of profit or loss), as well as income taxes. Percentage and other taxes paid consist principally of the gross receipts tax (GRT) and documentary stamp tax (DST).

RA No. 9238, which was enacted on February 10, 2004, provides for the reimposition of GRT on banks and non-bank financial intermediaries performing quasi-banking functions and other non-bank financial intermediaries beginning January 1, 2004.

The recognition of liability of the Parent Company and certain subsidiaries for GRT is based on the related regulations issued by the tax authorities.

Income taxes include the regular corporate income tax (RCIT), and final tax paid at the rate of 20%, which represents the final withholding tax on gross interest income from government securities and other deposit substitutes.

Interest allowed as a deductible expense is reduced by an amount equivalent to certain percentage of interest income subjected to final tax. Minimum corporate income tax (MCIT) of 1% or 2% on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against regular income tax liability in the next three consecutive years. In addition, ordinarily, the Group's net operating loss carry over (NOLCO) is allowed as a deduction from taxable income in the next three consecutive years.

However, pursuant to Section 4 (bbb) of Bayanihan to Recover as One (BARO) Act and as implemented under Revenue Regulation 25-2020, the net operating losses of a business or enterprise incurred for taxable years 2021 and 2022 can be carried over as a deduction from gross income for the next five consecutive taxable years following the year of such loss.

Effective May 2004, RA No. 9294 restored the tax exemption of FCDUs and offshore banking units (OBUs). Under such law, the income derived by the FCDU from foreign currency 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% gross income tax.

Interest income on deposits with other FCDUs and offshore banking units is subject to 15.0% final tax effective January 1, 2018.

In 2023, 2022 and 2021, the Group opted to continue claiming itemized deductions for income tax purposes.

The Parent Company's foreign subsidiaries are subject to income and other taxes based on the enacted tax laws of the countries and/or jurisdictions where they operate.

### *25.1 Current and Deferred Taxes*

On March 26, 2021, R.A. No. 11534, *Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*, as amended, was signed into law and shall be effective beginning July 1, 2020. The following are the major changes brought about by the CREATE Act that are relevant to and considered by the Company.

- RCIT was reduced from 30% to 25% starting July 1, 2020;
- MCIT was reduced from 2% to 1% starting July 1, 2020 until June 30, 2023; and,
- The allowable deduction for interest expense is reduced from 33% to 20% of the interest income subjected to final tax.

Starting July 1, 2023, corporations, excluding non-profit proprietary educational institutions and hospitals, and non-resident foreign corporations, will be subject to the original 2% MCIT rate based on their gross income.

As a result of the application of the lower RCIT rate of 25% starting July 1, 2020, the current income tax expense and income tax payable, as presented in the 2020 annual income tax return of the Parent Company, would be lower by P165 and P151, respectively, than the amount presented in the 2020 financial statements and such amount was charged to 2021 profit or loss.

In 2021, the recognized net deferred tax assets as of December 31, 2020 was remeasured using the 25% tax rate. This resulted in a decline in the recognized deferred tax asset as of December 31, 2020 by P508 and P460 for the Group and Parent, respectively, and such was recognized in the 2021 profit or loss. There are no similar transactions in 2022 and 2023.

The tax expense as reported in the statements of profit or loss consists of:

| | Group | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Current tax expense: | | | |
| Final tax | **P 2,659** | P 1,564 | P 635 |
| Excess MCIT over RCIT | **452** | 252 | 228 |
| RCIT at 25% | **222** | 286 | 192 |
| Adjustment in 2020 income taxes due to change in income tax rate | **-** | - | ( 165) |
| | **3,333** | 2,102 | 890 |
| Deferred tax income arising from: | | | |
| Origination and reversal of temporary differences | **( 2,035)** | ( 534) | ( 670) |
| Effect of change in income tax rate | **-** | - | 508 |
| | **( 2,035)** | ( 534) | ( 162) |
| | **P 1,298** | P 1,568 | P 728 |

| | Parent Company | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Current tax expense: | | | |
| Final tax | **P 2,578** | P 1,553 | P 618 |
| Excess MCIT over RCIT | **431** | 251 | 226 |
| RCIT at 25% | **117** | 209 | 80 |
| Adjustment in 2020 income taxes due to change in income tax rate | **-** | - | ( 151) |
| | **3,126** | 2,013 | 773 |
| Deferred tax income arising from: | | | |
| Origination and reversal of temporary differences | **( 1,843)** | ( 495) | ( 708) |
| Effect of change in income tax rate | **-** | - | 460 |
| | **( 1,843)** | ( 495) | ( 248) |
| | **P 1,283** | P 1,518 | P 525 |

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in profit or loss is as follows:

| | Group | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Tax on pretax profit at at 25% | **P 3,379** | P 3,412 | P 1,952 |
| Adjustments for income subjected to lower income tax rates | **( 2,702)** | ( 399) | ( 108) |
| Adjustment in 2020 income taxes due to change in income tax rate | **-** | - | 343 |
| Tax effects of: | | | |
| Non-deductible expenses | **1,268** | 504 | 406 |
| Non-taxable income | **( 699)** | ( 562) | ( 680) |
| Unrecognized temporary differences | **( 692)** | ( 852) | ( 396) |
| Excess MCIT over RCIT | **431** | 252 | 228 |
| FCDU income | **296** | ( 780) | ( 402) |
| Recognition of previously unrecognized deferred tax asset | **-** | - | ( 614) |
| Others | **17** | ( 7) | ( 1) |
| | **P 1,298** | P 1,568 | P 728 |

| | Parent Company | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Tax on pretax profit at at 25% | **P 3,375** | P 3,399 | P 1,902 |
| Adjustments for income subjected to lower income tax rates | **( 2,757)** | ( 397) | ( 104) |
| Adjustment in 2020 income taxes due to change in income tax rate | **-** | - | 309 |
| Tax effects of: | | | |
| Non-deductible expenses | **1,227** | 481 | 239 |
| Unrecognized temporary differences | **( 684)** | ( 925) | ( 404) |
| Non-taxable income | **( 605)** | ( 511) | ( 627) |
| Excess MCIT over RCIT | **431** | 251 | 226 |
| FCDU income | **296** | ( 780) | ( 402) |
| Recognition of previously unrecognized deferred tax asset | **-** | - | ( 614) |
| | **P 1,283** | P 1,518 | P 525 |

The deferred tax assets of the Group recognized in the consolidated statements of financial position as of December 31, 2023 and 2022 relate to the operations of the Parent Company and certain subsidiaries as shown in the succeeding page.

| | Statements of Financial Position | | Statements of Profit or Loss | | |
|---|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 | 2021 |
| Allowance for impairment | **P 3,360** | P 2,925 | **P 435** | P 140 | (P 49) |
| Post-employment benefit obligation | **1,387** | 83 | **1,304** | ( 19) | ( 36) |
| Excess MCIT over RCIT | **990** | 538 | **452** | 252 | 281 |
| NOLCO | **38** | 194 | **( 156)** | 161 | ( 34) |
| Deferred tax assets – net | **P 5,775** | P 3,740 | | | |
| Deferred tax income – net | | | **P 2,035** | P 534 | P 162 |

The deferred tax assets of the Parent Company recognized in its statements of financial position as of December 31, 2023 and 2022 is shown below.

| | Statement of Financial Position | | Statements of Profit of Loss | | |
|---|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 | 2021 |
| Allowance for impairment | **P 3,018** | P 2,747 | **P 271** | P 99 | (P 33) |
| Post-employment benefit obligation | **1,387** | 91 | **1,296** | ( 15) | 22 |
| Excess MCIT over RCIT | **908** | 477 | **431** | 251 | 226 |
| NOLCO | **38** | 193 | **( 155)** | 160 | 33 |
| Deferred tax assets | **P 5,351** | P 3,508 | | | |
| Deferred tax income – net | | | **P 1,843** | P 495 | P 248 |

The Parent Company and certain subsidiaries have not recognized deferred tax assets on certain temporary differences since management believes that the Parent Company and certain subsidiaries may not be able to generate sufficient taxable profit in the future against which the tax benefits arising from those deductible temporary differences, NOLCO and other tax credits can be utilized.

The unrecognized deferred tax assets relate to the following:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Allowance for impairment | **P 1,551** | P 1,551 | **P 759** | P 1,190 |
| Post-employment benefit obligation | **406** | 406 | **-** | 402 |
| NOLCO | **221** | 221 | **-** | - |
| Excess MCIT over RCIT | **33** | 33 | **-** | - |
| | **P 2,211** | P 2,211 | **P 759** | P 1,592 |

Consequently, deferred tax liabilities were also not recognized on certain taxable temporary differences as the settlement of those can be offset by the available deductible temporary differences in the future.

In addition, deferred tax liabilities on accumulated translation adjustments, relating to its foreign subsidiaries were not recognized since their reversal can be led, and it is probable that the temporary difference will not reverse in the foreseeable future.

NOLCO can be claimed as deduction from future taxable income within three and five years from the year the taxable loss was incurred. In accordance with BARO Act, NOLCO incurred in 2020 and 2021 can be claimed as a deduction from the gross income until 2025 and 2026, respectively. The details of the Group's NOLCO are shown in the succeeding page.

| Inception Year | Amount | Utilized | Expired | Balance | Expiry Year |
|---|---|---|---|---|---|
| 2023 | P 209 | P - | P - | P 209 | 2026 |
| 2022 | 749 | 490 | - | 259 | 2025 |
| 2021 | 416 | 316 | - | 100 | 2026 |
| 2020 | 25 | - | - | 25 | 2025 |
| | **P 1,399** | **P 806** | **P -** | **P 593** | |

The details of the Parent Company's NOLCO are shown below:

| Inception Year | Amount | Utilized | Expired | Balance | Expiry Year |
|---|---|---|---|---|---|
| 2022 | P 640 | P 490 | P - | P 150 | 2025 |
| 2021 | 132 | 132 | - | - | 2026 |
| | **P 772** | **P 622** | **P -** | **P 150** | |

The breakdown of the Group's excess MCIT over RCIT with the corresponding validity periods follows:

| Inception Year | Amount | Utilized | Expired | Balance | Expiry Year |
|---|---|---|---|---|---|
| 2023 | P 438 | P - | P - | P 438 | 2026 |
| 2022 | 264 | - | - | 264 | 2025 |
| 2021 | 230 | - | - | 230 | 2024 |
| 2020 | 8 | - | 8 | - | 2023 |
| | **P 940** | **P -** | **P 8** | **P 932** | |

The breakdown of the Parent Company's excess MCIT over RCIT with the corresponding validity periods follows:

| Inception Year | Amount | Utilized | Expired | Balance | Expiry Year |
|---|---|---|---|---|---|
| 2023 | P 431 | P - | P - | P 431 | 2026 |
| 2022 | 251 | - | - | 251 | 2025 |
| 2021 | 226 | - | - | 226 | 2024 |
| | **P 908** | **P -** | **P -** | **P 908** | |

### *25.2 Supplementary Information Required Under Revenue Regulation No. 15-2010*

The Bureau of Internal Revenue (BIR) issued RR 15-2010 on November 25, 2010 which require certain tax information to be disclosed as part of the notes to financial statements. Such supplementary information is, however, not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the SEC rules and regulations covering form and content of financial statements under the Revised Securities Regulation Code Rule 68.

The Parent Company presented this tax information required by the BIR as a supplemental schedule filed separately from the basic financial statements.

## 26. TRUST OPERATIONS

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The resources, liabilities and income or loss arising thereon are excluded from these financial statements, as these are neither resources nor income of the Group.

Securities and properties (other than deposits) held by the Parent Company in fiduciary or agency capacity for its customers are not included in the financial statements, since these are not resources of the Parent Company. The Group and Parent Company's total trust resources amounted to P155,705 and P143,170 as of December 31, 2023 and 2022, respectively (see Note 33).

Investment in government securities which are shown as part of Investment securities at amortized cost (see Note 10.3) with a total face value of P1,324 and P1,489 as of December 31, 2023 and 2022, respectively, for both the Group and the Parent Company are deposited with the BSP as security for faithful compliance with fiduciary obligations.

Income from trust operations, shown as Trust fees under Other Operating Income account, amounted to P423, P415 and P392 in 2023, 2022 and 2021, respectively, in the Group and Parent Company's statements of profit or loss.

On November 28, 2022, the Parent Company's BOD approved the spin-off of the Bank's Trust operations into a separate corporate entity, which materialized on March 27, 2023 when RTC was incorporated to become a separate trust corporation, which commenced operations in January 2, 2024 (see Note 1.1).

## 27. RELATED PARTY TRANSACTIONS

The Group and Parent Company's related parties include its ultimate parent company, subsidiaries, associates, entities under common ownership, key management personnel and others.

The RPT Committee, which meet monthly and as necessary, review proposed RPT within the materiality threshold to determine whether or not the transaction is on terms no less favorable to the Group than terms available to any unconnected third party under the same or similar circumstances. On favorable review, the RPT Committee endorse transactions to the BOD for approval.

All material related party transactions shall be approved by at least two-thirds vote of the BOD, with at least a majority of the independent directors voting to approve the material related party transactions. In case that a majority of the independent directors' is not secured, the material related party transaction may be ratified by the vote of the stockholders representing at least two-thirds of the outstanding capital stock. Transactions amounting to 10% or more of the consolidated total resources based on the latest audited consolidated financial statements entered into with related parties are considered material

A summary of the Group and Parent Company's transactions and outstanding balances of such transactions with related parties as of and for the years ended December 31, 2023, 2022 and 2021 is presented below.

| | | Group | | | | | |
|---|---|---|---|---|---|---|---|
| | | **2023** | | 2022 | | 2021 | |
| | Notes | **Amount of Transaction** | **Outstanding Balance** | Amount of Transaction | Outstanding Balance | Amount of Transaction | Outstanding Balance |
| **Stockholders** | | | | | | | |
| Due from other banks | 27.1 | **P 1,860** | **P 1,896** | (P 2,299) | P 36 | (P 5) | P 2,335 |
| Loans and receivables | 27.2 | **-** | **-** | ( 96) | - | ( 55) | 96 |
| Deposit liabilities | 27.3 | **840** | **3,510** | 670 | 2,670 | 745 | 2,000 |
| Bills payable | 27.6 | **14,160** | **14,160** | - | - | - | - |
| Interest expense on deposits | 27.3 | **60** | **-** | 46 | - | 15 | - |
| Cash received from issuance of shares of stock | 22.3 | **9,287** | **-** | - | - | 4,369 | - |
| Interest income from loans and receivables | 27.2 | **-** | **-** | - | - | 9 | - |
| **Associates** | | | | | | | |
| Loans and receivables | 27.2 | **104** | **104** | - | - | ( 203) | - |
| Deposit liabilities | 27.3 | **553** | **669** | 33 | 116 | ( 984) | 83 |
| Interest expense on deposits | 27.3 | **12** | **-** | 2 | - | 1 | - |
| Sale of investment securities | 27.4 | **4,410** | **-** | - | - | - | - |
| Purchase of investment securities | 27.4 | **1,414** | **-** | - | - | - | - |
| **Related Parties Under Common Ownership** | | | | | | | |
| Loans and receivables | 27.2 | **( 424)** | **3,173** | 2,782 | 3,597 | ( 2,818) | 815 |
| Deposit liabilities | 27.3 | **6,204** | **13,229** | 4,009 | 7,025 | 397 | 3,016 |
| Interest income from loans and receivables | 27.2 | **176** | **-** | 98 | - | 37 | - |
| Interest expense on deposits | 27.3 | **105** | **-** | 56 | - | 24 | - |
| Gain on assets sold | 27.7(a) | **3,106** | **-** | 2,352 | - | - | - |
| Occupancy and equipment-related expenses | 27.7(b) | **1,436** | **-** | 6,997 | 2,426 | 967 | - |
| Miscellaneous expenses – others | 24.2 | **387** | **-** | 362 | - | 298 | - |

| | | **Group** | | | | | |
|---|---|---|---|---|---|---|---|
| | | **2023** | | 2022 | | 2021 | |
| | Notes | **Amount of Transaction** | **Outstanding Balance** | Amount of Transaction | Outstanding Balance | Amount of Transaction | Outstanding Balance |
| **Key Management Personnel** | | | | | | | |
| Loans and receivables | 27.2 | **P 7** | **P 41** | P 14 | P 34 | (P 8) | P 20 |
| Deposit liabilities | 27.3 | **337** | **762** | 106 | 425 | 75 | 319 |
| Interest expense on deposits | 27.3 | **7** | **-** | 4 | - | 2 | - |
| Salaries and employee benefits | 27.7(g) | **582** | **-** | 565 | - | 538 | - |
| **Other Related Interests** | | | | | | | |
| Loans and receivables | 27.2 | **2,506** | **23,421** | 1,903 | 20,915 | 10,466 | 19,012 |
| Deposit liabilities | 27.3 | **( 54)** | **13,752** | 8,372 | 13,806 | 914 | 5,434 |
| Interest income from loans and receivables | 27.2 | **855** | **-** | 824 | - | 716 | - |
| Interest expense on deposits | 27.3 | **133** | **-** | 137 | - | 33 | - |
| Occupancy and equipment-related expenses | 27.7(b) | **434** | **-** | - | - | - | - |
| Other resources – net | 15.1 | **2,673** | **2,139** | - | - | - | - |

| | | **Parent Company** | | | | | |
|---|---|---|---|---|---|---|---|
| | | **2023** | | 2022 | | 2021 | |
| | Notes | **Amount of Transaction** | **Outstanding Balance** | Amount of Transaction | Outstanding Balance | Amount of Transaction | Outstanding Balance |
| **Stockholders** | | | | | | | |
| Due from other banks | 27.1 | **P 1,860** | **P 1,896** | (P 2,299) | P 36 | (P 5) | P 2,335 |
| Loans and receivables | 27.2 | **-** | **-** | ( 96) | - | ( 55) | 96 |
| Deposit liabilities | 27.3 | **840** | **3,510** | 670 | 2,670 | 745 | 2,000 |
| Bills payable | 27.6 | **14,160** | **14,160** | - | - | | - |
| Interest expense on deposits | 27.3 | **60** | **-** | 46 | - | 15 | - |
| Cash received from reissuance of treasury shares | 22.3 | **9,287** | **-** | - | - | 4,269 | - |
| Interest income from loans and receivables | 27.2 | **-** | **-** | - | - | 9 | - |

| | | Parent Company | | | | | |
|---|---|---|---|---|---|---|---|
| | | **2023** | | 2022 | | 2021 | |
| | Notes | **Amount of Transaction** | **Outstanding Balance** | Amount of Transaction | Outstanding Balance | Amount of Transaction | Outstanding Balance |
| **Subsidiaries** | | | | | | | |
| Loans and receivables | 27.2 | **40** | **40** | - | - | - | - |
| Deposit liabilities | 27.3 | **426** | **1,919** | (1,159) | 1,493 | 2,211 | 2,652 |
| Interest expense on deposits | 27.3 | **8** | **-** | 6 | - | 6 | - |
| Dividend | 12 | **92** | **-** | 71 | - | 524 | - |
| Rental income | 27.7(a) | **68** | **-** | 62 | - | 60 | - |
| Occupancy and equipment-related expenses | 27.7(a) | **473** | **-** | 436 | - | 420 | - |
| Service and processing fees | 27.7(b) | **744** | **-** | 650 | - | 564 | - |
| Sale of investment securities | 27.4 | **828** | **-** | 1,780 | - | 1,034 | - |
| Purchase of investment securities | 27.4 | **2** | **-** | 620 | - | 497 | - |
| Assignment of receivables | 11 | **(22)** | **105** | - | 127 | (20) | 127 |
| **Associates** | | | | | | | |
| Loans and receivables | 27.2 | **104** | **104** | - | - | (203) | - |
| Deposit liabilities | 27.3 | **553** | **669** | 15 | 116 | (984) | 101 |
| Interest expense on deposits | 27.3 | **12** | **-** | 2 | - | 1 | - |
| Sale of investment securities | 27.4 | **4,410** | **-** | - | - | - | - |
| Purchase of investment securities | 27.4 | **1,414** | **-** | - | - | - | - |
| **Related Parties Under Common Ownership** | | | | | | | |
| Loans and receivables | 27.2 | **(424)** | **3,173** | 2,782 | 3,597 | (2,818) | 815 |
| Deposit liabilities | 27.3 | **6,204** | **13,229** | 2,112 | 7,025 | (1,483) | 4,913 |
| Interest income from loans and receivables | 27.2 | **176** | **-** | 98 | - | 37 | - |
| Interest expense on deposits | 27.3 | **105** | **-** | 56 | - | 24 | - |
| Gain on assets sold | 27.7(a) | **3,106** | **-** | 2,352 | - | - | - |
| Occupancy and equipment-related expenses | 27.7(b) | **1,433** | **-** | 6,985 | 2,426 | 961 | - |
| Miscellaneous expenses – others | 24.2 | **387** | **-** | 362 | - | 298 | - |

| | Notes | Parent Company 2023 Amount of Transaction | Parent Company 2023 Outstanding Balance | 2022 Amount of Transaction | 2022 Outstanding Balance | 2021 Amount of Transaction | 2021 Outstanding Balance |
|---|---|---|---|---|---|---|---|
| **Key Management Personnel** | | | | | | | |
| Loans and receivables | 27.2 | **P 4** | **P 30** | P 11 | P 26 | P 14 | P 15 |
| Deposit liabilities | 27.3 | **345** | **758** | 107 | 413 | 62 | 306 |
| Interest expense on deposits | 27.3 | **7** | **-** | 4 | - | 2 | - |
| Salaries and employee benefits | 27.7(g) | **395** | **-** | 334 | - | 335 | - |
| **Other Related Interests** | | | | | | | |
| Loans and receivables | 27.2 | **2,501** | **23,399** | 1,886 | 20,898 | 10,466 | 19,012 |
| Deposit liabilities | 27.3 | **( 49)** | **13,749** | 5,794 | 13,798 | 3,484 | 8,004 |
| Interest income from loans and receivables | 27.2 | **854** | **-** | 823 | - | 716 | - |
| Interest expense on deposits | 27.3 | **133** | **-** | 137 | - | 33 | - |
| Occupancy and equipment-related expenses | 27.7(b) | **432** | **-** | - | - | - | - |
| Other resources – net | 15.1 | **2,673** | **2,139** | - | - | - | - |

### *27.1 Due from Other Banks*

The outstanding balances for due from other banks with certain Directors, Officers, Stockholders and Related Interests (DOSRIs) as of and for the periods ended December 31, 2023, 2022 and 2021 amounted to P1,896, P36, and P2,335, respectively.

### *27.2 Loans and Receivables*

The summary of the Group and Parent Company's significant transactions and the related outstanding balances for loans and receivables with its related parties as of and for the years ended December 31, 2023, 2022 and 2021 are as follows:

| | Group | | | |
|---|---|---|---|---|
| **Related Party Category** | **Issuances** | **Repayments** | **Interest Income** | **Loans Outstanding** |
| **2023:** | | | | |
| Stockholders | P - | P - | P - | P - |
| Associates | 104 | - | - | 104 |
| Related parties under common ownership | 700 | 1,124 | 176 | 3,173 |
| Key management personnel | 21 | 14 | - | 41 |
| Other related interests | 7,820 | 5,314 | 855 | 23,421 |
| | **P 8,645** | **P 6,452** | **P 1,031** | **P 26,739** |
| 2022: | | | | |
| Stockholders | P - | P 96 | P - | P - |
| Related parties under common ownership | 5,360 | 2,578 | 98 | 3,597 |
| Key management personnel | 16 | 2 | - | 34 |
| Other related interests | 4,276 | 2,373 | 824 | 20,915 |
| | P 9,652 | P 5,049 | P 922 | P 24,546 |
| 2021: | | | | |
| Stockholders | P - | P 55 | P 9 | P 96 |
| Associates | - | 203 | - | - |
| Related parties under common ownership | 360 | 3,178 | 37 | 815 |
| Key management personnel | 2 | 10 | - | 20 |
| Other related interests | 12,827 | 2,361 | 716 | 19,012 |
| | P 13,189 | P 5,807 | P 762 | P 19,943 |

| | Parent Company | | | |
|---|---|---|---|---|
| **Related Party Category** | **Issuances** | **Repayments** | **Interest Income** | **Loans Outstanding** |
| **2023:** | | | | |
| Stockholders | P - | P - | P - | P - |
| Subsidiaries | 40 | - | - | 40 |
| Associates | 104 | - | - | 104 |
| Related parties under common ownership | 700 | 1,124 | 176 | 3,173 |
| Key management personnel | 4 | - | - | 30 |
| Other related interests | 7,797 | 5,296 | 854 | 23,399 |
| | **P 8,645** | **P 6,420** | **P 1,030** | **P 26,746** |

| Related Party Category | Parent Company Issuances | Repayments | Interest Income | Loans Outstanding |
|---|---|---|---|---|
| 2022: | | | | |
| Stockholders | P - | P 96 | P - | P - |
| Related parties under common ownership | 5,360 | 2,578 | 98 | 3,597 |
| Key management personnel | 12 | 1 | - | 26 |
| Other related interests | 4,247 | 2,361 | 823 | 20,898 |
| | P 9,619 | P 5,036 | P 921 | P 24,521 |
| 2021: | | | | |
| Stockholders | P - | P 55 | P 9 | P 96 |
| Associates | - | 203 | - | - |
| Related parties under common ownership | 360 | 3,178 | 37 | 815 |
| Key management personnel | 15 | 1 | - | 15 |
| Other related interests | 12,827 | 2,361 | 716 | 19,012 |
| | P 13,202 | P 5,798 | P 762 | P 19,938 |

In the ordinary course of business, the Group has loan transactions with each other, their other affiliates, and with certain DOSRIs. Under existing policies of the Group, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

As of December 31, 2023, 2022 and 2021, the Group and Parent Company is in compliance with these regulatory requirements.

As of December 31, 2023, 2022 and 2021, the Group has not recognized impairment loss on loans and receivables from DOSRI.

### *27.3 Deposit Liabilities*

The summary of the Group and Parent Company's significant transactions and the related outstanding balances for deposit liabilities with its related parties as of and for the years ended December 31, 2023, 2022 and 2021 are as follows (see Note 17):

| **Related Party Category** | **Group Deposits** | **Withdrawals** | **Interest Expense** | **Outstanding Balance** |
|---|---|---|---|---|
| **2023:** | | | | |
| Stockholders | P 10,505 | P 9,665 | P 60 | P 3,510 |
| Associates | 49,646 | 49,093 | 12 | 669 |
| Related parties under common ownership | 200,946 | 194,742 | 105 | 13,229 |
| Key management personnel | 862 | 525 | 7 | 762 |
| Other related interests | 192,634 | 192,688 | 133 | 13,752 |
| | **P 454,593** | **P 446,713** | **P 317** | **P 31,922** |

| Related Party Category | Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Deposits | | Withdrawals | | Interest Expense | | Outstanding Balance | |
| 2022: | | | | | | | | |
| Stockholders | P | 10,299 | P | 9,629 | P | 46 | P | 2,670 |
| Associates | | 48,691 | | 48,658 | | 2 | | 116 |
| Related parties under common ownership | | 198,903 | | 194,894 | | 56 | | 7,025 |
| Key management personnel | | 844 | | 738 | | 4 | | 425 |
| Other related interests | | 191,435 | | 183,063 | | 137 | | 13,806 |
| | P | 450,172 | P | 436,982 | P | 245 | P | 24,042 |
| 2021: | | | | | | | | |
| Stockholders | P | 10,349 | P | 9,604 | P | 15 | P | 2,000 |
| Associates | | 50,457 | | 51,459 | | 1 | | 83 |
| Related parties under common ownership | | 199,399 | | 200,899 | | 24 | | 3,016 |
| Key management personnel | | 840 | | 765 | | 2 | | 319 |
| Other related interests | | 186,805 | | 185,891 | | 33 | | 5,434 |
| | P | 447,850 | P | 448,618 | P | 75 | P | 10,852 |

| **Related Party Category** | **Parent Company** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Deposits** | | **Withdrawals** | | **Interest Expense** | | **Outstanding Balance** | |
| **2023:** | | | | | | | | |
| Stockholders | P | 10,505 | P | 9,665 | P | 60 | P | 3,510 |
| Subsidiaries | | 144,725 | | 144,299 | | 8 | | 1,919 |
| Associates | | 49,646 | | 49,093 | | 12 | | 669 |
| Related parties under common ownership | | 200,946 | | 194,742 | | 105 | | 13,229 |
| Key management personnel | | 862 | | 517 | | 7 | | 758 |
| Other related interests | | 192,634 | | 192,683 | | 133 | | 13,749 |
| | **P** | **599,318** | **P** | **590,999** | **P** | **325** | **P** | **33,834** |
| 2022: | | | | | | | | |
| Stockholders | P | 10,299 | P | 9,629 | P | 46 | P | 2,670 |
| Subsidiaries | | 141,887 | | 143,046 | | 6 | | 1,493 |
| Associates | | 48,673 | | 48,658 | | 2 | | 116 |
| Related parties under common ownership | | 197,006 | | 194,894 | | 56 | | 7,025 |
| Key management personnel | | 845 | | 738 | | 4 | | 413 |
| Other related interests | | 188,857 | | 183,063 | | 137 | | 13,798 |
| | P | 587,567 | P | 580,028 | P | 251 | P | 25,515 |
| 2021: | | | | | | | | |
| Stockholders | P | 10,349 | P | 9,604 | P | 15 | P | 2,000 |
| Subsidiaries | | 143,387 | | 141,176 | | 6 | | 2,652 |
| Associates | | 48,173 | | 49,157 | | 1 | | 101 |
| Related parties under common ownership | | 195,506 | | 196,989 | | 24 | | 4,913 |
| Key management personnel | | 825 | | 763 | | 2 | | 306 |
| Other related interests | | 187,707 | | 184,223 | | 33 | | 8,004 |
| | P | 585,947 | P | 581,912 | P | 81 | P | 17,976 |

Deposit liabilities transactions with related parties have similar terms with third party depositors.

### *27.4 Sale and Purchase of Securities*

The Parent Company and certain subsidiaries engage in the trading of investment securities as counterparties to the transaction. These transactions are priced similar to transactions with other counterparties outside the Group and there are no unsettled transactions as of the end of each reporting period.

### *27.5 Retirement Fund*

The Parent Company and certain subsidiaries' retirement funds covered under their post-employment plan maintained for qualified employees are administered and managed by the Parent Company's TIG in accordance with the respective trust agreements covering the plan.

The retirement funds have transactions with the Group and Parent Company as of December 31, 2023, 2022 and 2021 as follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| **Nature of Transactions** | **Net Amount of Transaction** | **Outstanding Balance** | **Net Amount of Transaction** | **Outstanding Balance** |
| **2023:** | | | | |
| Investment in common shares of Parent Company | **(P 862)** | **P 393** | **(P 862)** | **P 387** |
| Investments in corporate debt securities of Parent Company | **( 2)** | **-** | **-** | **-** |
| Deposits with the Parent Company | **4** | **38** | **( 4)** | **-** |
| Fair value gains | **( 12)** | **-** | **( 12)** | **-** |
| Interest income | **2** | **-** | **-** | **-** |
| Post-employment benefit asset | **3,127** | **2,665** | **3,127** | **2,665** |
| 2022: | | | | |
| Investment in common shares of Parent Company | P 215 | P 1,255 | P 214 | P 1,249 |
| Investments in corporate debt securities of Parent Company | ( 2) | 2 | - | - |
| Deposits with the Parent Company | ( 49) | 34 | ( 49) | 4 |
| Fair value gains | 1 | - | 191 | - |
| Interest income | 1 | - | - | - |
| 2021: | | | | |
| Investment in common shares of Parent Company | P 23 | P 1,040 | P 58 | P 1,035 |
| Investments in corporate debt securities of Parent Company | ( 558) | 4 | ( 498) | - |
| Deposits with the Parent Company | 46 | 83 | 30 | 53 |
| Fair value gains | 58 | - | 58 | - |

On March 16, 2023, the Bank transferred and leased back certain real estate properties to Frame Properties, Inc. for a 100% ownership in the latter, which was subsequently transferred to the post-employment defined benefit plan as contribution to the plan assets (see Notes 13 and 23.2). The sale qualified as a sale and leaseback and was accounted under PFRS 16. Right-of-use asset and lease liability recognized amounted to P554 and P1,915, respectively. Lease payments made on the lease amounted to P321 during 2023.

The carrying amount and the composition of the plan assets as of December 31, 2023, 2022 and 2021 are disclosed in Note 23.2. Investments in corporate debt securities include LTNCD issued by the Parent Company.

The information on the Group and Parent Company's contributions to the retirement fund and benefit payments through the fund are disclosed in Note 23.2.

The retirement fund neither provides any guarantee or surety for any obligation of the Group nor its investments in its own shares of stock covered by any restriction and liens.

### *27.6 Bills Payable*

The outstanding balances for bills payable with its related parties as of and for the periods ended December 31, 2023 amounted to P14,160. There are no similar transactions as of December 31, 2022 and 2021.

### *27.7 Other Related Party Transactions*

*(a) Sale of ATYC to ATYCI*

In 2022, the Parent Company sold to ATYCI and immediately leased back from the later a portion of its bank premises and investment properties pertaining to ATYC (see Notes 13 and 14).

*(b) Lease Contracts with ATYCI and RRC and Sublease Agreement with Subsidiaries*

The Parent Company and certain subsidiaries occupy several floors of RCBC Plaza as leaseholders of RRC [see Note 28.3(b)]. In October 2022, the Parent Company entered into a five-year lease agreement with ATYCI [see Notes 13 and 27.5 (a)]. Amortization of right-of-use of asset amounted to P719 and P400 for the years ended December 31, 2023 and 2022, respectively, and are presented as part of Depreciation and Amortization account in the statements of profit or loss. The Parent Company's lease contract with RRC and ATYCI is effective until December 31, 2025 and September 30, 2027, respectively.

The Parent Company entered into sublease agreements with certain subsidiaries which occupy several floors of RCBC Plaza. Rental income by Parent Company related to these sublease arrangements is included as part of Rentals under the Miscellaneous income account in the statements of profit or loss (see Notes 14.2 and 24.1). The outstanding receivable on the lease contracts, if any, is presented as part of Accounts receivable under Loans and Receivables account in the statements of financial position (see Note 11). The related outstanding receivable is unsecured, noninterest-bearing and payable in cash on demand. Management believes that the receivables on the sublease agreements are fully recoverable.

*(c) Service Agreement with RBSC*

The Parent Company has Service Agreement (the Agreement) with RBSC, wherein RBSC shall provide the Parent Company with marketing, distribution, technical, collection and selling assistance and processing services in connection with the operation of the Parent Company's credit card, and personal and salary loans business. The total service processing fees incurred by the Parent Company is recognized as part of the Service and processing fees under the Miscellaneous expenses account in the statements of profit or loss (see Note 24.2). The outstanding payable related to the service agreement is presented as part of Accounts payable under Other Liabilities account in the statements of financial position (see Note 21). The related outstanding payable is unsecured, noninterest-bearing and payable in cash on demand.

*(d) Increase in Shareholding of SMBC*

On November 2, 2022, the Bank's BOD approved the increase in shareholding of SMBC, an existing shareholder of 4.99% of the total outstanding common stock of the Bank, to 20% through the combined sale of subscription of an aggregate of 382 common stock to SMBC, partly coming from the reissuance of treasury shares and issuance of new common stock, at the price of P71 per share. The additional capital infusion was made on July 31, 2023 (see Notes 22.1 and 22.2).

*(e) Donation of Properties from NPHI to RCBC*

On July 7, 2023, NPHI executed a deed of donation transferring to the Parent Bank certain real estate properties with a carrying amount of P2. On November 6, 2023, these properties were subsequently sold by the Parent Bank to PMMIC for a total consideration amounting to P57.

*(f) Sale of Tarlac Property to a Subsidiary of HOI*

On December 29, 2023, the Parent Company sold a property located in Tarlac with a selling price of P2,673 and a carrying amount of P385 resulting to a P2,288 gain, presented as part of Gain on assets sold – net under Other Operating Income in the 2023 statement of profit or loss (see Note 15.1).

*(g) Key Management Personnel Compensation*

The breakdown of key management personnel compensation follows:

| | Group | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Short-term employee benefits | **P 566** | P 555 | P 526 |
| Post-employment defined benefits | **16** | 10 | 12 |
| | **P 582** | P 565 | P 538 |

| | Parent Company | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Short-term employee benefits | **P 395** | P 334 | P 335 |

## 28. COMMITMENTS AND CONTINGENCIES

In the normal course of operations of the Group and Parent Company, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, tax assessments, claims from customers and third parties, etc., with amounts not reflected in the financial statements. Management does not anticipate losses from these transactions that will adversely affect the Group's and Parent Company's operations.

In the opinion of management, the suits and claims arising from the normal course of operations of the Group and Parent Company that remain unsettled, if decided adversely, will not involve sums that would have material effect on the Group's and Parent Company's financial position or operating results.

### *28.1 Alleged Unauthorized Transfer of Funds – Bank of Bangladesh*

In February 2016, four (4) allegedly unauthorized fund transfers were made into four (4) accounts with the Bank from Bangladesh Bank's account with the Federal Reserve Bank of New York (NY Fed), before being further dispersed to other banks and casinos. In August 2016, the MB imposed a P1 billion fine upon the Bank, which it paid in full, without any effect on its ability to perform its existing obligations or its operations.

#### *28.1.1 U.S. Litigation relating to the Bangladesh Bank Incident*

Failing to prosecute the Bank under the Federal Racketeer Influence and Corrupt Organizations Act, Bangladesh Bank initiated a second complaint before the New York State Court (NY State Court) on May 27, 2020. The Bank has since sought the dismissal of this second case, citing (a) New York's lack of personal jurisdiction over it; (b) the impropriety of New York as a forum, given the ongoing related proceedings in the Philippines and the location of material witnesses/evidence; and (c) the untenable nature of the fraud charge against the Bank due to the lack of any fiduciary duty to Bangladesh Bank.

In a Decision/Order dated January 13, 2023, the NY State Court denied the Bank's Motion to Dismiss, ruling, among others, that (a) it has jurisdiction over the case, as the Bank's mere act of maintaining correspondent accounts in New York is purportedly tantamount to conducting business in the said jurisdiction; (b) it is irrelevant that the Bank was not the entity which initiated the transfer of funds; (c) the NY State Court will properly focus on the theft which occurred in New York and not the laundering of the funds stolen; and (c) the location of the witnesses/documents favor New York.

The Bank timely filed its Answer within the extension period granted by the NY State Court. The Bank likewise participated in the May 16, 2023 court-mandated mediation; which, however, failed and was terminated. The parties are currently availing of the different modes of discovery as directed by the NY State Court.

#### *28.1.2 U.S. Appellate Litigation at the Supreme Court of the State of New York Appellate Division, First Judicial Department (the NY Appellate Division, First Judicial Department) relating to the Bangladesh Bank Incident*

The Bank filed its appeal on the aforecited January 13, 2023 Decision/Order of the NY State Court, and timely filed its Appellant's Brief on July 19, 2023. The Bank argued that, in denying its Motion to Dismiss, the NY State Court practically reversed its earlier Decision/rulings on the very same issues which had resulted in the dismissal of the case against the Philippine casinos.

The Bank further pointed out that (a) the NY Appellate Division, First Judicial Department in Bangladesh Bank v. Rizal Commercial Banking Corp. 216 AD 3d590 (the Bloomberry case) has affirmed (1) the correctness of the aforesaid dismissal, as with the NY State Court's ruling that New York does not have a substantial nexus to the action; and (2) that the Philippines is a viable alternate forum; and (b) given the lack of material distinction between the facts/circumstances of the now-final Decision in the Bloomberry case and the Bank's case, the assailed NY State Court's Decision/Order dated January 13, 2023 violates the said judicial precedent and must be set aside.

Bangladesh Bank, on the other hand, (a) made it appear that the NY Fed was the target of the supposed conspirators when (1) its Complaint states otherwise; and (2) the NY Fed, in the Bloomberry case, stated that there was no evidence of any attempt to actually penetrate the Federal Reserve System or that the same was compromised; (b) now claimed that it is a quasi in rem resident of New York via its ownership of a bank account in New York with hundreds of millions of dollars; and (c) tried to downplay the significance of the Bloomberry case Decision, claiming that the Philippine casinos were involved in money laundering while the Bank was involved in the conspiracy and theft of funds.

### *28.1.3 Philippine Litigation Relating to the Bangladesh Bank Incident*

After initially issuing differing rulings on whether Bangladesh Bank was properly served with summons and even dismissing the case, the Makati Trial Court, in its Resolution dated May 31, 2023, (a) reinstated the same; and (b) deputized Bangladesh Bank's Philippine counsel to serve summons upon its client, citing Sec. 13, Rule 14 of the 2019 Amendments to the 1997 Rules of Civil Procedure. The Makati Trial Court reiterated this ruling in its Resolution dated October 11, 2023, which denied Bangladesh Bank's Motion for Reconsideration.

Except for the above-mentioned proceedings, the Bank is not aware of any suits and claims by or against it or its subsidiaries, which if decided adversely, would have a material effect on its financial position or operating results.

### *28.2 HHIC-Phil Rehabilitation Proceedings*

On January 9, 2019, HHIC-Phil filed a Petition for corporate rehabilitation under R.A. No. 10142, the *Financial Rehabilitation and Insolvency Act of 2010*, which was given due course by the Regional Trial Court, Branch 72, Olongapo City (the "Rehabilitation Court").

After negotiating with HHIC-Phil/HHIC-Korea, which resulted in the creditors or Rehabilitation Court-approved Modified Rehabilitation Plan with Clarifications ("MRP-C"), the Bank and four (4) other creditor banks successfully negotiated the sale of the Subic Shipyard/certain other assets to third-party buyers, as called for by the MRP-C. In the Order dated December 6, 2021, the Rehabilitation Court approved the Asset Purchase Agreement ("APA") dated October 5, 2021.

In April 2022, the outstanding loan obligation of HHIC-Phil to the Bank has been fully settled.

Except for the above-mentioned proceedings, the Bank is not aware of any suits and claims by or against it or its subsidiaries, which if decided adversely, would have a material effect on its financial position or operating results.

### 28.3 Lease Commitments – Group as a Lessor

*a. Finance Lease*

The Group, as a lessor, enters into finance leases covering various equipment and vehicles with lease term ranging one to more than five years. To manage its risks over these finance leases, the Group retains its legal title over the underlying assets and are used as securities over the finance lease receivables. The Group's future minimum lease payments receivable (MLPR) under this finance lease together with the present value of net minimum lease payments receivable (NMLPR) are shown below:

| | **2023** | | 2022 | |
|---|---|---|---|---|
| | **Future MLPR** | **PV of NMLPR** | Future MLPR | PV of NMLPR |
| Within one year | **P 244** | **P 233** | P 923 | P 867 |
| After one year but not more than two years | **521** | **474** | 571 | 503 |
| After two years but not more than three years | **622** | **531** | 252 | 209 |
| After three years but not more than four years | **143** | **117** | 69 | 54 |
| After four years but not more than five years | **289** | **222** | 25 | 18 |
| More than five years | **13** | **10** | 3 | 2 |
| Total MLPR | **1,832** | **1,587** | 1,843 | 1,653 |
| Unearned lease income | **( 245)** | **-** | ( 190) | - |
| Present value of MLPR | **P 1,587** | **P 1,587** | P 1,653 | P 1,653 |

The only change in the carrying amount of the net investment in finance leases during the year is the amortization of finance income. The net investment relating to this finance lease is presented as Lease contract receivables under Loans and Receivables account in the statements of financial position (see Note 11). The interest income from the finance leases amount to P323, P202, and P319 in 2023, 2022 and 2021, respectively and is presented as part of is recognized as part of Interest Income in the statements of profit or loss (see Note 11).

*b. Operating Lease*

Prior to the sale of the ATYC, the Group and Parent Company has entered into various lease contracts related to this property, with lease terms ranging from one to five years and with monthly rent depending on market price with 6% escalation rate every year. Moreover, RRC entered into several lease agreements for lease of machineries and equipment for a period of one to more than five years. Total rent income earned from these leases amounted to P424, P872, and P926 in 2023, 2022, and 2021, respectively, which are presented as Rentals under the Miscellaneous Income account in the statements of profit or loss (see Note 24.1).

The Group is subject to risk incidental to the leasing operations which include, among others, changes in the market rental rates, inability to renew leases upon lease expiration and inability to collect rent from lessees due to bankruptcy or insolvency of lessees. To mitigate these risks, lessees pay guarantee deposit ranging from 10% to 20% of the value of the leased assets, which is forfeited in case a lessee pre-terminates without prior notice or before the expiry of lease terminate without cause.

There are no variable lease rentals as of December 31, 2023, 2022, and 2021.

The Group's and Parent Company's future minimum rental receivables under this non-cancellable operating lease arrangement are as follows:

| | Group | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Within one year | **P 338** | P 598 | P 1,347 |
| After one year but not more than two years | **312** | 444 | 959 |
| After two years but not more three five years | **126** | 392 | 718 |
| After three years but not more than four years | **31** | 173 | 583 |
| After four years but not more than five years | **7** | 13 | 257 |
| More than five years | **-** | - | 45 |
| | **P 814** | P 1,620 | P 3,909 |

| | Parent Company | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Within one year | **P -** | P - | P 498 |
| After one year but not more than two years | **-** | - | 421 |
| After two years but not more three five years | **-** | - | 269 |
| After three years but not more than four years | **-** | - | 182 |
| After four years but not more than five years | **-** | - | 72 |
| More than five years | **-** | - | 13 |
| | **P -** | P - | P 1,455 |

### *28.4 Capital Commitments*

As of December 31, 2023 and 2022, the Group and Parent bank has no contractual commitment for the acquisition of Bank premises, furniture, fixtures and equipment, Intangible assets, and Investment properties (see Notes 13, 14 and 15).

## 29. EARNINGS PER SHARE

The following shows the Group's profit and per share data used in the basic and diluted EPS computations for the three years presented:

| | **2023** | 2022 | 2021 |
|---|---|---|---|
| Net profit attributable to Parent Company's shareholders | **P 12,218** | P 12,080 | P 7,082 |
| Dividends paid to preferred shareholders and distributions allocated to holders of hybrid perpetual securities | **( 1,068 )** | ( 1,037 ) | ( 964 ) |
| | **11,150** | 11,043 | 6,118 |
| Weighted average number of outstanding common shares of stock | **2,198** | 2,037 | 1,979 |
| Basic and diluted EPS | **P 5.07** | P 5.42 | P 3.09 |

The convertible preferred shares did not have a significant impact on the EPS for each of the periods presented. The Group and the Parent Company has no potential dilutive shares as of the end of each reporting period.

## 30. SUPPLEMENTARY INFORMATION TO STATEMENTS OF CASH FLOWS

Significant non-cash transaction of the Group and the Parent Company includes additional leases under PFRS 16 as discussed in Notes 13 and 27; disposals of bank premises and investment properties as discussed in Notes 13 and 14; sale and leaseback of properties to Frame Properties, Inc. for a 100% ownership which was subsequently transferred to retirement fund as discussed in Notes 13 and 27.4; reclassifications between investment properties to NCAHS as discussed in Notes 14 and 15; additions of real properties, chattel properties and other assets through foreclosures, dacion in payment and repossessions as discussed in Notes 14.1 and 15; and, partial settlement of certain loan in exchange of equity securities as discussed in Note 15.

In 2023, the Parent Company sold a property located in Tarlac with a total selling price of P2,673, which is paid partly in cash and through issuance of sales contract receivables [see Notes 14, 15 and 27.7 (f)]. In 2022, the Parent Company disposed of a portion of its bank premises and investment properties with total selling price P6,065, which is paid partly in cash and through issuance of notes receivables [see Notes 11, 13, 14 and 27.7(a)].

On July 14, 2023, the Parent Company sold NPHI and Cajel to FLI for a total consideration price of P544, broken down into cash amounting to P190 and loans receivable amounting to P364 (see Note 12).

Presented below is the reconciliation of the Group and Parent Company's liabilities arising from financing activities, which includes both cash and non-cash changes.

| | Group | | | | |
|---|---|---|---|---|---|
| | Bills Payable (see Note 18) | Bonds Payable (see Note 19) | Lease Liabilities (see Note 21) | Hybrid Perpetual Securities (see Note 22.4) | Total Financing Activities |
| Balance at January 1, 2023 | P 66,660 | P 74,411 | P 5,500 | P 14,463 | P 161,034 |
| Cash flow from financing activities: | | | | | |
| Availments/proceeds from issuance | 15,333 | - | - | - | 15,333 |
| Payments/redemption | ( 29,767) | ( 39,041) | ( 2,131) | - | ( 70,939) |
| Non-cash financing activities: | | | | | |
| Additional lease liabilities | - | - | 2,983 | - | 2,983 |
| Foreign exchange (losses) | ( 1,368) | ( 450) | - | - | ( 1,818) |
| Amortization of discount and interest | - | 19 | 335 | - | 354 |
| **Balance at December 31, 2023** | **P 50,858** | **P 34,939** | **P 6,687** | **P 14,463** | **P 106,947** |
| Balance at January 1, 2022 | P 55,904 | P 87,215 | P 4,050 | P 14,463 | P 161,632 |
| Cash flow from financing activities: | | | | | |
| Availments/proceeds from issuance | 62,142 | 14,756 | - | - | 76,898 |
| Payments/redemption | ( 52,865) | ( 31,170) | ( 2,265) | - | ( 86,300) |
| Non-cash financing activities: | | | | | |
| Additional lease liabilities | - | - | 3,526 | - | 3,526 |
| Foreign exchange gains | 1,479 | 3,567 | - | - | 5,046 |
| Amortization of discount and interest | - | 43 | 189 | - | 241 |
| Balance at December 31, 2022 | P 66,660 | P 74,411 | P 5,500 | P 14,463 | P 161,034 |

| | Group | | | | |
|---|---|---|---|---|---|
| | Bills Payable (see Note 18) | Bonds Payable (see Note 19) | Lease Liabilities (see Note 21) | Hybrid Perpetual Securities (see Note 22) | Total Financing Activities |
| Balance at January 1, 2021 | P 13,167 | P 90,439 | P 4,385 | P 14,463 | P 122,454 |
| Cash flow from financing activities: | | | | | |
| Availments/proceeds from issuance | 148,820 | 17,873 | - | - | 166,693 |
| Payments/redemption | ( 104,018) | ( 18,810) | ( 1,360) | - | ( 124,188) |
| Non-cash financing activities: | | | | | |
| Additional lease liabilities | - | - | 855 | - | 855 |
| Foreign exchange gains | ( 2,065) | ( 2,312) | - | - | ( 4,377) |
| Amortization of discount and interest | - | 25 | 170 | - | 195 |
| Balance at December 31, 2021 | P 55,904 | P 87,215 | P 4,050 | P 14,463 | P 161,632 |

| | **Parent Company** | | | | |
|---|---|---|---|---|---|
| | **Bills Payable (see Note 18)** | **Bonds Payable (see Note 19)** | **Lease Liabilities (see Note 21)** | **Hybrid Perpetual Securities (see Note 22.4)** | **Total Financing Activities** |
| Balance at January 1, 2023 | P 58,391 | P 74,411 | P 5,913 | P 14,463 | P 153,178 |
| Cash flow from financing activities: | | | | | |
| Availments/proceeds from issuance | 15,333 | - | - | - | 15,333 |
| Payments/redemption | ( 28,399) | ( 39,491) | ( 2,044) | - | ( 69,934) |
| Non-cash financing activities: | | | | | |
| Additional lease liabilities | - | - | 2,976 | - | 2,976 |
| Lease termination | - | - | ( 178) | - | ( 178) |
| Foreign exchange losses | ( 1,368) | ( 450) | - | - | ( 1,818) |
| Amortization of discount and interest | - | 19 | 362 | - | 381 |
| **Balance at December 31, 2023** | **P 43,957** | **P 34,489** | **P 7,029** | **P 14,463** | **P 99,938** |
| Balance at January 1, 2022 | P 46,399 | P 87,215 | P 4,479 | P 14,463 | P 152,556 |
| Cash flow from financing activities: | | | | | |
| Availments/proceeds from issuance | 55,380 | 14,756 | - | - | 70,136 |
| Payments/redemption | ( 44,867) | ( 31,170) | ( 2,189) | - | ( 78,226) |
| Non-cash financing activities: | | | | | |
| Additional lease liabilities | - | - | 3,551 | - | 3,551 |
| Foreign exchange gains | 1,479 | 3,567 | - | - | 5,046 |
| Amortization of discount and interest | - | 43 | 72 | - | 115 |
| Balance at December 31, 2022 | P 58,391 | P 74,411 | P 5,913 | P 14,463 | P 153,178 |
| Balance at January 1, 2021 | P 4,200 | P 90,439 | P 4,319 | P 14,463 | P 113,421 |
| Cash flow from financing activities: | | | | | |
| Availments/proceeds from issuance | 142,675 | 17,873 | - | - | 160,548 |
| Payments/redemption | ( 98,411) | ( 18,810) | ( 1,205) | - | ( 118,426) |
| Non-cash financing activities: | | | | | |
| Additional lease liabilities | - | - | 1,180 | - | 1,180 |
| Foreign exchange losses | ( 2,065) | ( 2,312) | - | - | ( 4,377) |
| Amortization of discount and interest | - | 25 | 185 | - | 210 |
| Balance at December 31, 2021 | P 46,399 | P 87,215 | P 4,479 | P 14,463 | P 152,556 |

## 31. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled:

| | 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Group | | | Parent Company | | |
| | Within One Year | Beyond One Year | Total | Within One Year | Beyond One Year | Total |
| ***Financial Assets*** | | | | | | |
| Cash and other cash items | P 19,875 | P - | P 19,875 | P 19,812 | P - | P 19,812 |
| Due from BSP | 94,369 | 57,393 | 151,762 | 93,714 | 57,057 | 150,771 |
| Due from other banks | 14,526 | 366 | 14,892 | 14,630 | - | 14,630 |
| Loans and receivables arising from reverse repurchase agreements | 35,799 | - | 35,799 | 34,948 | - | 34,948 |
| Interbank loans receivables | 27,780 | - | 27,780 | 27,780 | - | 27,780 |
| Financial assets at FVTPL | 7,166 | 4,612 | 11,778 | 6,342 | 4,612 | 10,954 |
| Financial assets at FVOCI - net | 2,256 | 80,181 | 82,437 | 3,814 | 77,943 | 81,757 |
| Investments at amortized cost - net | 4,385 | 232,142 | 236,527 | 386 | 235,346 | 235,732 |
| Loans and other receivables - net | 68,481 | 553,668 | 622,149 | 67,251 | 548,650 | 615,901 |
| Other resources - net | 1,459 | - | 1,459 | 1,457 | - | 1,457 |
| | 276,096 | 928,362 | 1,204,458 | 270,134 | 923,608 | 1,193,742 |
| ***Non Financial Assets*** | | | | | | |
| Investment in subsidiaries and associates - net | - | 509 | 509 | - | 6,401 | 6,401 |
| Bank premises, furnitures, fixtures and equipment - net | - | 9,129 | 9,129 | - | 7,805 | 7,805 |
| Investment properties - net | - | 543 | 543 | - | 543 | 543 |
| Deferred tax asset - net | - | 5,775 | 5,775 | - | 5,351 | 5,351 |
| Other resources - net | 12,764 | 5,154 | 17,918 | 12,523 | 4,525 | 17,048 |
| | 12,764 | 21,110 | 33,874 | 12,523 | 24,625 | 37,148 |
| | **P 288,860** | **P 949,472** | **P 1,238,332** | **P 282,657** | **P 948,233** | **P 1,230,890** |
| ***Financial Liabilities*** | | | | | | |
| Deposit liabilities | P 199,862 | P 756,850 | P 956,712 | P 199,179 | P 758,190 | P 957,369 |
| Bills payable | 44,991 | 5,867 | 50,858 | 42,314 | 1,643 | 43,957 |
| Bonds payable | 30,809 | 4,130 | 34,939 | 30,809 | 4,130 | 34,939 |
| Accrued interest and other expenses | 5,985 | 4,760 | 10,745 | 5,695 | 4,780 | 10,475 |
| Other liabilities | 19,252 | 9,428 | 28,680 | 18,665 | 9,243 | 27,908 |
| | 300,899 | 781,035 | 1,081,934 | 296,662 | 777,986 | 1,074,648 |
| ***Non Financial Liabilities*** | | | | | | |
| Accrued interest and other expenses | 1,337 | - | 1,337 | 1,311 | - | 1,311 |
| Other liabilities | 2,747 | 39 | 2,786 | 2,665 | - | 2,665 |
| | 4,084 | 39 | 4,123 | 3,976 | - | 3,976 |
| | **P 304,983** | **P 781,074** | **P 1,086,057** | **P 300,638** | **P 777,986** | **P 1,078,624** |

| | 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Group | | | Parent Company | | |
| | Within One Year | Beyond One Year | Total | Within One Year | Beyond One Year | Total |
| *Financial Assets* | | | | | | |
| Cash and other cash items | P 18,078 | P - | P 18,078 | P 18,024 | P - | P 18,024 |
| Due from BSP | 112,871 | 43,793 | 156,664 | 111,089 | 44,251 | 155,340 |
| Due from other banks | 5,080 | 756 | 5,836 | 5,383 | - | 5,383 |
| Loans and receivables arising from reverse repurchase agreements | 8,724 | - | 8,724 | 8,552 | - | 8,552 |
| Interbank loans receivables | 19,021 | - | 19,021 | 19,021 | - | 19,021 |
| Financial assets at FVTPL | 5,568 | 1,469 | 7,037 | 4,670 | 1,469 | 6,139 |
| Financial assets at FVOCI - net | 74,914 | 40,032 | 114,946 | 74,914 | 39,351 | 114,265 |
| Investments at amortized cost - net | 30,482 | 221,900 | 252,382 | 29,508 | 221,820 | 251,328 |
| Loans and other receivables - net | 54,815 | 485,033 | 539,848 | 53,294 | 478,899 | 532,193 |
| Other resources - net | 1,204 | - | 1,204 | 1,202 | - | 1,202 |
| | 330,757 | 792,983 | 1,123,740 | 325,657 | 785,790 | 1,111,447 |
| *Non Financial Assets* | | | | | | |
| Investment in subsidiaries and associates - net | - | 379 | 379 | - | 7,035 | 7,035 |
| Bank premises, furnitures, fixtures and equipment - net | - | 11,264 | 11,264 | - | 9,546 | 9,546 |
| Investment properties - net | - | 2,616 | 2,616 | - | 2,488 | 2,488 |
| Deferred tax asset-net | - | 3,740 | 3,740 | - | 3,508 | 3,508 |
| Other resources - net | 7,155 | 5,214 | 12,369 | 7,033 | 3,692 | 10,725 |
| | 7,155 | 23,213 | 30,368 | 7,033 | 26,269 | 33,302 |
| | P 337,912 | P 816,196 | P 1,154,108 | P 332,690 | P 812,059 | P 1,144,749 |
| *Financial Liabilities* | | | | | | |
| Deposit liabilities | P 206,160 | P 651,084 | P 857,244 | P 205,432 | P 652,207 | P 857,639 |
| Bills payable | 59,419 | 7,241 | 66,660 | 57,137 | 1,254 | 58,391 |
| Bonds payable | 38,823 | 35,588 | 74,411 | 38,824 | 35,587 | 74,411 |
| Accrued interest and other expenses | 3,365 | 4,492 | 7,857 | 3,361 | 4,302 | 7,663 |
| Other liabilities | 14,919 | 10,414 | 25,333 | 14,303 | 9,984 | 24,287 |
| | 322,686 | 708,819 | 1,031,505 | 319,057 | 703,334 | 1,022,391 |
| *Non Financial Liabilities* | | | | | | |
| Accrued interest and other expenses | 571 | - | 571 | 529 | - | 529 |
| Other liabilities | 1,997 | 3,674 | 5,671 | 1,904 | 3,641 | 5,545 |
| | 2,568 | 3,674 | 6,242 | 2,433 | 3,641 | 6,074 |
| | P 325,254 | P 712,493 | P 1,037,747 | P 321,490 | P 706,975 | P 1,028,465 |

## 32. OTHER MATTERS

### *32.1 Impact of Global Conflicts*

The ongoing Russia-Ukraine war since February 24, 2022 led to higher global crude oil and other commodity prices in 2022 which partly bloated the Philippines' imports and trade deficit to record levels. This resulted in elevated inflation worldwide which triggered aggressive Federal rate hikes that supported a strong U.S. dollar earlier in 2022.

This event prompted BSP to implement local policy rate hikes totaling 350 basis points in 2022 and another 50 bps this February 2023 to temper the high domestic inflation and be in sync with US Federal hikes to help manage the peso exchange rate. Further, the BSP also made a surprise 25 basis points off-cycle rate hike effective October 27, 2023, after the Israel-Hamas war started on October 7, 2023; for a total of rate hikes of 450 basis points since May 2022.

The increase in BSP policy rates resulted in higher cost of deposits. It has also led to unrealized mark-to-market losses in FVOCI portfolio which fluctuates according to market condition; unless sold, these losses are recorded as part of the other comprehensive income or loss under Statement of comprehensive income.

The Group has implemented strategies to mitigate the increase in cost by issuances of loans with higher rates and growing low-cost deposits. BSP policy rates are also seen to come down in the second half of 2024 as inflation decelerates.

### *32.2 Issuance of Sustainability Bonds*

On January 10, 2024, the Group priced a US$400 5-year Senior Unsecured Fixed Rate Sustainability Bonds via a drawdown under its US$3,000 Medium Term Note Program.

The net proceeds from the issue of the Notes will be applied by the Group to support and finance its loans to customers or its own operating activities in eligible green and social categories as defined in the Group's Sustainable Finance Framework.

### *32.3 Dividend Declaration on Hybrid Perpetual Securities*

On January 29, 2024, the BOD approved the dividend declaration amounting to US$9.75 payable on February 27, 2024. This dividend declaration is relative to the Bank's US$300 non-cumulative hybrid perpetual securities payable on a semi-annual basis.

## 33. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

Presented below are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP MORB to be disclosed as part of the notes to financial statements based on BSP Circular No. 1074, *Amendments to Regulations on Financial Audit of Banks*.

*(a) Selected Financial Performance Indicators*

The following basic ratios measure the financial performance of the Group and the Parent Company:

| | Group | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Return on average equity | | | |
| Net profit / Average total equity | **9.53%** | 11.24% | 6.71% |
| Return on average resources | | | |
| Net profit / Average total resources | **1.06%** | 1.20% | 0.84% |
| Net interest margin | | | |
| Net interest income / Average interest earning resources | **3.43%** | 3.70% | 4.07% |

| | Parent Company | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| Return on average equity | | | |
| Net profit / Average total equity | **9.52%** | 11.24% | 6.72% |
| Return on average resources | | | |
| Net profit / Average total resources | **1.07%** | 1.21% | 0.85% |
| Net interest margin | | | |
| Net interest income / Average interest earning resources | **3.39%** | 3.70% | 4.06% |

*(b) Capital Instruments Issued*

*(i) Common Stock*

As of December 31, 2023, the Parent Company's common stock amounted to P24,195 representing 2,419,536,120 issued common shares as compared to December 31, 2022 common stock amounted to P22,509 representing 2,250,916,144 common shares.

On July 31, 2023, the Bank received a total consideration amount of P27,125 as a capital infusion coming from SMBC which involved issuance of common shares amounting to P1,686 and reissuance of the treasury at cost amounting to P9,287 (see Note 22.3). The investment of SMBC resulted in a net increase of the additional paid in capital account of the Bank amounting to P15,735, coming from the excess of the consideration received over the par value of common stock and cost of treasury shares amounting to P16,152 and directly attributable transaction costs amounting to P417.

*(ii) Preferred Stock*

As of December 31, 2023 and 2022, the Parent Company's issued and outstanding preferred stock amounted to P3 representing 267,410 preferred shares. These preferred shares are voting, non-cumulative, non-redeemable, participating and convertible into common stock.

*(iii) Hybrid Perpetual Securities*

In August 27, 2020, the Parent Company issued US$300 non-cumulative, unsecured, subordinated AT1 capital securities. The capital securities are perpetual in respect of which there is no fixed redemption date. The Parent Company may redeem the capital securities only in certain circumstances as described in the conditions of the securities and with prior written consent of BSP. Distributions are non-cumulative and payable semi-annually in arrear at a rate of 6.5%. Certain conditions provide for circumstances under which the Parent Company will not be obliged to pay any distribution on the applicable payment date.

*(c) Significant Credit Exposures for Loans*

The Group and Bank's concentration of credit as to industry for its receivables from customers gross of allowance for ECL follows:

| | Group | | | |
|---|---|---|---|---|
| | **2023** | | 2022 | |
| | **Amount** | **Share** | Amount | Share |
| Consumer | **P 201,949** | **32%** | P 158,481 | 29% |
| Real estate, renting and other related activities | **100,918** | **16%** | 80,276 | 15% |
| Electricity, gas and water | **70,407** | **11%** | 73,970 | 14% |
| Wholesale and retail trade | **63,963** | **10%** | 69,080 | 13% |
| Manufacturing (various industries) | **58,061** | **9%** | 50,441 | 9% |
| Transportation and communication | **53,146** | **9%** | 49,605 | 9% |
| Financial intermediaries | **49,479** | **8%** | 39,878 | 7% |
| Agriculture, fishing, and forestry | **5,076** | **1%** | 5,285 | 1% |
| Hotels and restaurants | **4,079** | **1%** | 4,616 | 1% |
| Other community, social and personal activities | **2,847** | **1%** | 2,817 | 1% |
| Mining and quarrying | **2,243** | **-** | 1,193 | - |
| Others | **9,754** | **2%** | 7,704 | 1% |
| | **P 621,922** | **100%** | P 543,346 | 100% |

| | Parent Company | | | |
|---|---|---|---|---|
| | **2023** | | 2022 | |
| | **Amount** | **Share** | Amount | Share |
| Consumer | **P 201,860** | **33%** | P 158,475 | 30% |
| Real estate, renting and other related activities | **99,982** | **16%** | 79,139 | 15% |
| Wholesale and retail trade | **69,363** | **11%** | 67,985 | 13% |
| Electricity, gas and water | **63,905** | **10%** | 73,856 | 14% |
| Manufacturing (various industries) | **56,972** | **9%** | 49,240 | 9% |
| Transportation and communication | **50,524** | **8%** | 46,436 | 9% |
| Financial intermediaries | **49,477** | **8%** | 39,872 | 7% |
| Agriculture, fishing, and forestry | **4,726** | **1%** | 4,940 | 1% |
| Hotels and restaurants | **3,997** | **1%** | 4,514 | 1% |
| Other community, social and personal activities | **2,838** | **1%** | 2,734 | - |
| Mining and quarrying | **2,077** | **-** | 988 | - |
| Others | **9,519** | **2%** | 7,397 | 1% |
| | **P 615,240** | **100%** | P 535,576 | 100% |

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable or 10% of Tier 1 capital.

As of December 31, 2023, 10% of Tier 1 capital of the Group and Parent Company amounted to P12,951 and P12,608, respectively. As of December 31, 2022, 10% of Tier 1 capital of the Group and Parent Company amounted to P10,010 and P9,571, respectively. The table below show the industry groups exceeding this level (amounts in millions).

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | **Group** | **Parent** | Group | Parent |
| Consumer | **P 203,890** | **P 203,802** | P 158,481 | P 158,475 |
| Real estate, renting and other related activities | **98,976** | **98,041** | 80,276 | 79,139 |
| Electricity, gas and water | **70,407** | **63,905** | 73,970 | 73,856 |
| Wholesale and retail trade | **63,963** | **69,363** | 69,080 | 67,985 |
| Manufacturing (various industries) | **58,061** | **56,972** | 50,441 | 49,240 |
| Transportation and communication | **53,146** | **50,524** | 49,605 | 46,436 |
| Financial intermediaries | **49,479** | **49,477** | 39,878 | 39,872 |

*(d) Credit Status of Loans*

The breakdown of receivable from customers as to status is shown below.

**Group**

| | **2023** | | |
|---|---|---|---|
| | **Performing** | **Non-performing** | **Total Loan Portfolio** |
| Gross carrying amount: | | | |
| Corporate | P 404,158 | P 12,954 | P 417,112 |
| Consumer | 194,878 | 9,932 | 204,810 |
| | 599,036 | 22,886 | 621,922 |
| Allowance for ECL | ( 3,856) | ( 11,976) | ( 15,832) |
| Net carrying amount | **P 595,180** | **P 10,910** | **P 606,090** |

| | 2022 | | |
|---|---|---|---|
| | Performing | Non-performing | Total Loan Portfolio |
| Gross carrying amount: | | | |
| Corporate | P 373,172 | P 10,475 | P 383,647 |
| Consumer | 148,777 | 10,922 | 159,699 |
| | 521,949 | 21,397 | 543,346 |
| Allowance for ECL | ( 4,642) | ( 9,965) | ( 14,607) |
| Net carrying amount | P 517,307 | P 11,432 | P 528,739 |

**Parent Company**

| | 2023 | | |
|---|---|---|---|
| | **Performing** | **Non-performing** | **Total Loan Portfolio** |
| Gross carrying amount: | | | |
| Corporate | P 399,965 | P 11,741 | P 411,706 |
| Consumer | 193,949 | 9,585 | 203,534 |
| | 593,914 | 21,326 | 615,240 |
| Allowance for ECL | ( 3,687) | ( 11,024) | ( 14,711) |
| Net carrying amount | **P 590,227** | **P 10,302** | **P 600,529** |

| | 2022 | | |
|---|---|---|---|
| | Performing | Non-performing | Total Loan Portfolio |
| Gross carrying amount: | | | |
| Corporate | P 368,535 | P 8,885 | P 377,420 |
| Consumer | 147,235 | 10,921 | 158,156 |
| | 515,770 | 19,806 | 535,576 |
| Allowance for ECL | ( 4,538) | ( 9,232) | ( 13,770) |
| Net carrying amount | P 511,232 | P 10,574 | P 521,806 |

NPLs included in the total loan portfolio of the Group and the Parent Company as of December 31 as reported to the BSP are presented below.

| | **Group** | | **Parent Company** | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Gross NPLs | **P 22,886** | P 21,397 | **P 21,326** | P 19,806 |
| Allowance for impairment | **( 11,976)** | ( 9,965) | **( 11,024)** | ( 9,232) |
| | **P 10,910** | P 11,432 | **P 10,302** | P 10,574 |

Under banking regulations, loan accounts shall be considered non-performing, even without any missed contractual payments, when they are considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal or 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.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Moreover, NPLs shall 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 6 months; or (b) written-off. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after they have become past due.

As of December 31, 2023, gross and net NPL ratios of the Group and the Parent Company as reported to BSP were 3.34% and 1.59%, and 3.15% and 1.52%, respectively. As of December 31, 2022, gross and net NPL ratios of the Group and the Parent Company as reported to BSP were 3.75% and 2.00%, and 3.52% and 1.88%, respectively. Most of the NPLs are secured by real estate or chattel mortgages.

The breakdown of restructured receivables from customers follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Loans and discounts | **P 4,786** | P 3,833 | **P 2,383** | P 1,021 |
| Credit card receivables | **-** | 1 | **-** | 1 |
| | **P 4,786** | P 3,834 | **P 2,383** | P 1,022 |

Interest income from restructured receivables from customers amounted P112, P18, and P10 in 2023, 2022, 2021, respectively, for both the Group and the Parent Company.

*(e) Analysis of Loan Portfolio as to Type of Security*

The breakdown of the receivables from customers' portfolio as to secured and unsecured follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Secured: | | | | |
| Real estate mortgage | **P 184,910** | P 169,253 | **P 183,828** | P 168,045 |
| Chattel mortgage | **51,280** | 44,003 | **49,214** | 41,542 |
| Hold-out deposits | **8,153** | 11,001 | **8,152** | 10,941 |
| Other securities | **11,119** | 11,286 | **8,034** | 7,938 |
| | **255,462** | 235,543 | **249,228** | 228,466 |
| Unsecured | **366,460** | 307,803 | **366,012** | 307,110 |
| | **P 621,922** | P 543,346 | **P 615,240** | P 535,576 |

*(f) Information on Related Party Loans*

In the ordinary course of business, the Bank has loan transactions with each other, their other affiliates, and with certain DOSRI. Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Under the current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of the encumbered deposit and book value of the investment in the Bank and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Bank. However, non-risk loans are excluded in both individual and aggregate ceiling computation.

The following table shows the information relating to the loans, credit accommodations and guarantees to DOSRI, excluding loans granted as fringe benefits to officers which are excluded from the individual ceiling as of December 31 in accordance with BSP reporting guidelines:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Total outstanding DOSRI loans | **P -** | P - | **P -** | P - |
| Unsecured DOSRI | **-** | - | **-** | - |
| Past due DOSRI | **-** | - | **-** | - |
| Non-accruing DOSRI | **-** | - | **-** | - |
| Percent of DOSRI loans to total loan portfolio | **0.00%** | 0.00% | **0.00%** | 0.00% |
| Percent of unsecured DOSRI loans to total DOSRI loans | **0.00%** | 0.00% | **0.00%** | 0.00% |
| Percent of past due DOSRI Loans to total DOSRI | **0.00%** | 0.00% | **0.00%** | 0.00% |
| Percent of non-accruing DOSRI loans to total DOSRI loans | **0.00%** | 0.00% | **0.00%** | 0.00% |

The following table shows the other information relating to the loans, other credit accommodations and guarantees granted to related parties (inclusive of DOSRI) as of December 31 as reported to the BSP:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| Total outstanding Related Party loans | **P 26,739** | P 24,546 | **P 26,746** | P 24,521 |
| Unsecured Related Party | **19,268** | 16,765 | **19,257** | 16,763 |
| Past due Related Party | **1** | 1 | **1** | 1 |
| Percent of Related Party loans to total loan portfolio | **4.30%** | 4.52% | **4.35%** | 4.58% |
| Percent of unsecured Related Party loans to total Related Party loans | **72.06%** | 68.30% | **72.00%** | 68.36% |
| Percent of past due Related Party loans to total Related Party loans | **0.00%** | 0.00% | **0.00%** | 0.00% |
| Percent of non-accruing Related Party loans to total Related Party loans | **0.00%** | 0.00% | **0.00%** | 0.00% |

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 10.0% of the Group's net worth, the unsecured portion of which shall not exceed 5.0% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.0% of the net worth of the Parent Company.

As of December 31, 2023, 2022 and 2021, the Group and Parent Company is in compliance with these regulatory requirements.

As of December 31, 2023, 2022 and 2021, the Group has not recognized impairment loss on loans and receivables from DOSRI.

*(g) Secured Liabilities and Assets Pledged as Security*

Assets pledged as security for liabilities of the Group and Parent Company are shown below.

| | | **2023** | | 2022 |
|---|---|---|---|---|
| Aggregate amount of secured liabilities | **P** | **29,797** | P | 58,391 |
| Aggregate amount of resources pledged as security | **P** | **41,597** | P | 73,160 |

*(h) Contingencies and Commitments Arising from Off-balance Sheet Items*

The following is a summary of contingencies and commitments arising from transactions not given recognition in the statement of financial position, expressed at their equivalent peso contractual amounts as of December 31, 2023 and 2022:

| | | **2023** | | 2022 |
|---|---|---|---|---|
| Outstanding guarantees issued | **P** | **205,268** | P | 127,837 |
| Trust Investment Group accounts | | **155,705** | | 143,170 |
| Derivative assets | | **142,921** | | 111,212 |
| Derivative liabilities | | **84,461** | | 69,485 |
| Unused commercial letters of credit | | **25,079** | | 17,242 |
| Spot exchange sold | | **16,985** | | 6,493 |
| Spot exchange bought | | **16,980** | | 6,497 |
| Inward bills for collection | | **8,061** | | 18,451 |
| Late deposits/payments received | | **872** | | 642 |
| Outward bills for collection | | **1** | | 27 |
| Others | | **64** | | 64 |

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 8988 2288

# Report of Independent Auditors

**The Board of Directors and the Stockholders**
**Rizal Commercial Banking Corporation**
Yuchengco Tower, RCBC Plaza
6819 Ayala Avenue cor. Sen. Gil Puyat Avenue
Makati City

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the financial statements of Rizal Commercial Banking Corporation and subsidiaries (together hereinafter referred to as the Group) and of Rizal Commercial Banking Corporation (the Parent Company), which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2022, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group and of 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 (PFRS).

### *Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The following are the key audit matters identified in our audit of the financial statements of the Group and of the Parent Company:

### *(a) Expected Credit Loss (ECL) Model for Loans and Receivables*

*Description of the Matter*

As at December 31, 2022, the Group's and the Parent Company's expected credit loss (ECL) allowance for loans and receivables amounted to P16,030 million and P15,088 million, respectively, while the carrying amount of loans and receivables amounted to P558,869 million and P551,214 million, respectively (see Note 11). We have identified the Group's and the Parent Company's ECL model significant to our audit as this:

- requires significant management judgment on the interpretation and implementation of the requirements of PFRS 9, *Financial Instruments*, in assessing impairment of loans and receivables based on an ECL model that involves segmenting credit risk exposures, defining when does default occur and what constitutes a significant increase in credit risk (SICR) of different exposures;

- involves high degree of estimation uncertainty related to management's use of various inputs and assumptions applied in the ECL model such as credit risk rating and probability of default for corporate loans, flow rates for consumer loans, expected amount and timing of cash flows, including recovery of collaterals for defaulted accounts, and forward-looking macroeconomic information which may be affected by management estimation bias; and,

- requires complex estimation process that entails implementation of internal controls and use of information system in ensuring the completeness and accuracy of data used in the ECL calculation and in the preparation of required disclosures in the financial statements.

These judgments and estimates remained to be significant due to the continuing impact of COVID-19 pandemic to the Group's and Parent Company's loans and receivables. With the changes in the current economic condition and granular behavior analysis of customers, the management has enhanced its existing ECL model in 2022 to reflect the continuing impact of the COVID-19 pandemic and the Group's and Parent Company's financial support program to its customers on a reasonable and supportable basis. Furthermore, the Group and Parent Company have already incorporated the post-model adjustments to the enhanced ECL model by re-segmentation of loan portfolios for probability of default and estimation of adjustments on loss given default based on bimodal behavior of defaulted accounts. The revised ECL model considers the impact of COVID-19 in its business as-usual calculation.

The summary of significant accounting policies, the significant judgments, including estimation applied by the management, and those related to the credit risk assessment process of the Group and the Parent Company are disclosed in Notes 2, 3 and 4 to the financial statements, respectively.

*How the Matter was Addressed in the Audit*

We obtained an understanding of the Group's and the Parent Company's accounting policies and methodologies applied and evaluated whether those: (a) are established and implemented consistent with the underlying principles of PFRS 9; (b) are appropriate in the context of the Group's lending activities and asset portfolio that takes into consideration the different segments of credit exposures and the relevant regulatory framework; and, (c) are supported by pertinent processes and controls, including documentations of the accounting policies that capture in sufficient detail the judgment, including estimation applied in the development of the Group's enhanced ECL model.

With respect to the use of significant judgments, including those involving estimation of inputs and assumptions used in the enhanced ECL model, we performed the following:

- reviewed the changes on the Group's enhanced ECL model and engaged our Firm specialist to assist in evaluating the appropriateness of methodologies and assumptions used in the ECL calculation;

- assessed the Group's and the Parent Company's segmentation and re-segmentation of its credit risk exposures based on homogeneity of credit risk characteristics and past due determination based on portfolio flow rates, and evaluated the appropriateness of the specific model applied for each loan portfolio;

- evaluated both the quantitative and qualitative criteria applied in the definition of default against historical analysis for each segment of loan portfolio and in accordance with credit risk management practices, and tested the criteria in the determination of the SICR, including assignment of a loan or group of loans into different stages of impairment;

- further evaluated additional qualitative factors considered that would elevate COVID-19 related changes to SICR;

- tested the Group's and the Parent Company's application of internal credit risk rating system for selected items of loans, and verified the mapping of the ratings to the ECL calculation;

- tested loss given default information across various types of loan by inspecting records of historical recoveries and relevant costs, including valuation and cash flows from collateral, and write-offs;

- reconciled and tested exposure at default for all outstanding loans against the relevant loan databases, including review of the potential exposures from undrawn commitments against historical drawdown and impact of loan modifications; and,

- assessed the appropriateness of the identification of forward-looking information (overlays) used in the ECL model and validated their reasonableness against publicly available information and our understanding of the Group's and Parent Company's loan portfolios and industry where the Group operates.

As part of our audit of the ECL methodology, we reviewed the completeness and accuracy of the data used in the ECL model through reconciliation of loan data subjected to the ECL calculations, which were prepared by management outside its general ledger system, against the relevant financial reporting applications and other accounting records. Moreover, we tested the stratification of loan data that were disaggregated into various portfolio segments for purposes of ECL calculations. Furthermore, we verified the mathematical formula and the computation logics applied in the calculation of the different inputs in the ECL model and the estimation of the credit losses for all loans and receivables subjected to impairment assessment.

We evaluated the completeness and appropriateness of the disclosures in the financial statements against the requirements of the relevant financial reporting standards.

***(b) Accounting for Loan Modification***

*Description of the Matter*

The Group and the Parent Company offered a comprehensive financial support program for customers significantly affected by COVID-19 pandemic and natural calamities to allow them to get back in the habit of paying loans and receivables. As at December 31, 2022, the total outstanding balance of loans and receivables modified under the Group's and Parent Company's financial support program amounted to P35,695 million and P33,086 million, respectively (see Note 4).

Management has assessed that these modifications were to provide temporary relief to customers and the net economic value of the loans and receivables is not significantly affected, therefore, accounted for as non-substantial modification. The assessment to determine whether the loan modifications are substantial, that would result in the derecognition of the financial asset, or not, is consistent with the Group's and Parent Company's own accounting policies as there is no explicit guidance in PFRS 9 for when a modification should result in derecognition. The disclosures in relation to this matter are included in Notes 2 and 4 to the financial statements. Accordingly, we have assessed the accounting for loan modification as a key audit matter.

*How the Matter was Addressed in the Audit*

We obtained an understanding of the Group's and Parent Company's accounting policies and procedures for loan modification and we evaluated whether those: (a) are established and implemented consistently; (b) are appropriate in the context of the Group's and Parent Company's comprehensive financial support measures; and, (c) are supported by pertinent processes and controls, including modification documentations that capture correct information of the loan modification, as introduced and agreed with customers.

We also performed the following audit procedures to address this key audit matter:

- verified the completeness of the loan modification database used by validating and comparing the listing of all modified loans and receivables, which were prepared by management outside its loan management system, against relevant financial reporting applications and other accounting records;

- verified the accuracy of the underlying loan modification database by agreeing a representative sample of modified loans to the related documentation made and agreed with customers or other supporting information, and reviewed the integrity and mathematical accuracy of the calculations through recalculation of the expected loan modification adjustments;

- assessed whether determination of loan modification as non-substantial is appropriate and verified the amount of any gain or loss from loan modification; and,
- evaluated whether the disclosures within the financial statements are appropriate and complete based on of the requirements of the relevant standards.

***(c) Fair Value Measurement of Unquoted Equity Securities***

*Description of the Matter*

The Group and the Parent Company have significant investments in unquoted equity securities measured at fair value through other comprehensive income amounting to P2,112 million and P2,088 million, respectively, as of December 31, 2022 (see Note 10). The valuation of these financial instruments involves complex valuation techniques (i.e., price-to-book value method and discounted cash flow method) and significant estimation which are highly dependent on underlying assumptions and inputs such as price-to-book ratios of selected comparable listed entities, application of a certain haircut rate, and appropriate discount rate in computing the present value of future cash flows expected from dividend or redemption payments. These inputs are considered Level 3 unobservable inputs in the fair value hierarchy under PFRS 13, *Fair Value Measurement*, as discussed in Notes 3 and 7 to the financial statements. Accordingly, we assessed the valuation of the unquoted equity securities as a key audit matter.

*How the Matter was Addressed in the Audit*

We evaluated the appropriateness of management's valuation methodology in accordance with PFRS 13. For equity security valued using the price-to-book value method, we engaged our Firm valuation specialist to assess and challenge the valuation assumptions used, including the identification and selection of comparable listed entities and the related financial information such as net book value per share and quoted prices of those listed entities. In testing the reasonableness of the haircut rate used, we reviewed available non-financial information relevant to the assessment of the potential marketability of the subject security, and the consistency of the application of the haircut rate used in prior period in light of the current industry and economic circumstances. With respect to the equity security measured using the net asset value method, we involved our Firm valuation specialist to evaluate the appropriateness of the valuation method and reasonableness of the fair value of the net assets of the counterparties. We also verified the mathematical accuracy of the calculation for both valuation techniques used by management.

***(d) Impairment Assessment of Goodwill and Branch Licenses***

*Description of the Matter*

The Group and the Parent Company has goodwill of P426 and P269 million, respectively, and branch licenses with indefinite useful lives amounting to P1,000 million as of December 31, 2022. These are reported as part of Other Resources in the 2022 statement of financial position of the Group and Parent Company.

Under PFRS, the Group and the Parent Company are required to annually test the amount of goodwill and branch license with indefinite useful lives for impairment. This annual impairment testing of goodwill and branch licenses with indefinite useful lives for impairment is considered to be a key audit matter because of the complexity of the management's process in assessing the recoverability of the intangible assets. In addition, the assumptions used in determining the cash generating units (CGUs) where the goodwill and branch licenses with indefinite useful lives are allocated and estimating the recoverable amount involves significant judgment. The recoverable amount of the CGUs has been computed using discounted cash flows method. This valuation method uses several key assumptions, including estimates for forecasted statements of financial position and income of CGUs, terminal value growth rates and discount rates. Hence, we assessed this as a key audit matter.

The Group and the Parent Company's disclosures about goodwill and branch licenses are included in Notes 2, 3 and 15 to the financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to impairment of goodwill and branch licenses with indefinite useful lives included, among others, evaluating the appropriateness of valuation methodologies and related assumptions used by the management, in particular, those relating to the forecasted statements of financial position and statement of income as well as the discount and growth rates used. We have engaged our Firm valuation specialist to assist in evaluating the appropriateness of the valuation method and assumptions used in estimating the recoverable amount of CGUs. In addition, our audit of the financial statements of the Group and the Parent Company as of and for the year ended December 31, 2022 did not identify events or conditions that may indicate impairment of the Group's and the Parent Company's goodwill and branch licenses and our recalculation is not materially different with the Group's computation.

***Other Information***

Management is responsible for the other information. The other information comprises the information included in the Group's and the Parent Company's Securities and Exchange Commission (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 financial statements and our auditors' report thereon. The SEC Form 20-IS, 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 auditors' report.

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, 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 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.

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, 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 PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the 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 and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group 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 auditors' 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 Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 25 to the financial statements, the Parent Company presented the supplementary information required by the Bureau of Internal Revenue (BIR) under Revenue Regulations (RR) 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR 15-2010 requires the supplementary information to be presented in the notes to financial statements. The supplementary information for the year ended December 31, 2022, 2021 and 2020 required by the Bangko Sentral ng Pilipinas (BSP) as disclosed in Note 33 to the financial statements is presented for purposes of additional analysis. Such supplementary information required by the BIR and BSP are the responsibility of management and are not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the Revised Securities Regulation Code Rule 68 of the SEC. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner on the audits resulting in this independent auditors' report is Maria Isabel E. Comedia.

**PUNONGBAYAN & ARAULLO**

**By: Maria Isabel E. Comedia**
Partner

CPA Reg. No. 0092966
TIN 189-477-563
PTR No. 9566629, January 3, 2023, Makati City
SEC Group A Accreditation
Partner - No. 92966-SEC (until financial period 2022)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-021-2022 (until Oct. 13, 2025)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 27, 2023

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**
**STATEMENTS OF FINANCIAL POSITION**
**DECEMBER 31, 2022 AND 2021**
***(Amounts in Millions of Philippine Pesos)***

| | Notes | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|---|
| | | **2022** | 2021 | **2022** | 2021 |
| **RESOURCES** | | | | | |
| **CASH AND OTHER CASH ITEMS** | 9 | **P 18,078** | P 14,691 | **P 18,024** | P 14,663 |
| **DUE FROM BANGKO SENTRAL NG PILIPINAS** | 9 | **156,664** | 130,170 | **155,340** | 128,931 |
| **DUE FROM OTHER BANKS** | 9 | **5,836** | 12,162 | **5,383** | 11,860 |
| **LOANS ARISING FROM REVERSE REPURCHASE AGREEMENTS** | 9 | **8,724** | 11,691 | **8,552** | 11,656 |
| **TRADING AND INVESTMENT SECURITIES** - Net | 10 | **374,365** | 219,235 | **371,732** | 216,177 |
| **LOANS AND RECEIVABLES** - Net | 11 | **558,869** | 538,302 | **551,214** | 530,464 |
| **INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES** - Net | 12 | **379** | 344 | **7,035** | 7,027 |
| **BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT** - Net | 13 | **11,264** | 12,660 | **9,546** | 10,571 |
| **INVESTMENT PROPERTIES** - Net | 14 | **2,616** | 3,572 | **2,488** | 3,435 |
| **DEFERRED TAX ASSETS** - Net | 25 | **3,740** | 3,206 | **3,508** | 3,013 |
| **OTHER RESOURCES** - Net | 15 | **13,573** | 13,100 | **11,927** | 12,497 |
| **TOTAL RESOURCES** | | **P 1,154,108** | P 959,133 | **P 1,144,749** | P 950,294 |

***See Notes to Financial Statements.***

| | Notes | GROUP 2022 | GROUP 2021 | PARENT COMPANY 2022 | PARENT COMPANY 2021 |
|---|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | | |
| **DEPOSIT LIABILITIES** | 17 | **P 857,244** | P 672,459 | **P 857,639** | P 674,414 |
| **BILLS PAYABLE** | 18 | **66,660** | 55,904 | **58,391** | 46,399 |
| **BONDS PAYABLE** | 19 | **74,411** | 87,215 | **74,411** | 87,215 |
| **ACCRUED INTEREST, TAXES AND OTHER EXPENSES** | 20 | **8,428** | 6,097 | **8,192** | 5,880 |
| **OTHER LIABILITIES** | 21 | **31,004** | 26,378 | **29,832** | 25,393 |
| Total Liabilities | | **1,037,747** | 848,053 | **1,028,465** | 839,301 |
| **EQUITY** | 22 | | | | |
| Attributable to: | | | | | |
| Parent Company's Shareholders | | **116,353** | 111,062 | **116,284** | 110,993 |
| Non-controlling Interests | | **8** | 18 | **-** | - |
| | | **116,361** | 111,080 | **116,284** | 110,993 |
| **TOTAL LIABILITIES AND EQUITY** | | **P 1,154,108** | P 959,133 | **P 1,144,749** | P 950,294 |

***See Notes to Financial Statements.***

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**
**STATEMENTS OF PROFIT OR LOSS**
**FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020**
***(Amounts in Millions of Philippine Pesos, Except Per Share Data)***

| | Notes | GROUP 2022 | GROUP 2021 | GROUP 2020 | PARENT COMPANY 2022 | PARENT COMPANY 2021 | PARENT COMPANY 2020 |
|---|---|---|---|---|---|---|---|
| **INTEREST INCOME** | | | | | | | |
| Loans and receivables | 11 | **P 34,970** | P 31,900 | P 33,909 | **P 34,367** | P 31,095 | P 33,031 |
| Trading and investment securities | 10 | **9,755** | 4,448 | 2,079 | **9,683** | 4,379 | 1,991 |
| Due from BSP and other banks | 9 | **1,110** | 763 | 964 | **1,077** | 755 | 945 |
| | | **45,835** | 37,111 | 36,952 | **45,127** | 36,229 | 35,967 |
| **INTEREST EXPENSE** | | | | | | | |
| Deposit liabilities | 17 | **10,057** | 4,059 | 5,288 | **10,055** | 4,056 | 5,265 |
| Bills payable and other borrowings | 18, 19, 21, 23 | **4,562** | 4,221 | 5,383 | **4,173** | 3,837 | 4,877 |
| | | **14,619** | 8,280 | 10,671 | **14,228** | 7,893 | 10,142 |
| **NET INTEREST INCOME** | | **31,216** | 28,831 | 26,281 | **30,899** | 28,336 | 25,825 |
| **IMPAIRMENT LOSSES** - Net | 16 | | | | | | |
| Financial assets | 4, 10, 11 | **5,347** | 5,013 | 9,108 | **5,131** | 4,912 | 8,686 |
| Non-financial assets | 14, 15 | **359** | 1,035 | 267 | **358** | 1,021 | 265 |
| | | **5,706** | 6,048 | 9,375 | **5,489** | 5,933 | 8,951 |
| **NET INTEREST INCOME AFTER IMPAIRMENT LOSSES** | | **25,510** | 22,783 | 16,906 | **25,410** | 22,403 | 16,874 |
| **OTHER OPERATING INCOME** | | | | | | | |
| Service fees and commissions | 2 | **5,469** | 4,549 | 3,506 | **5,112** | 4,047 | 3,320 |
| Gain on assets sold - net | 13, 14 | **3,088** | 101 | 36 | **2,985** | 196 | 7 |
| Foreign exchange gains - net | 19 | **1,567** | 181 | 574 | **1,555** | 171 | 558 |
| Trust fees | 26 | **415** | 392 | 323 | **415** | 392 | 323 |
| Trading and securities gains (losses) - net | 10 | **( 37 )** | 863 | 6,084 | **22** | 856 | 6,040 |
| Share in net earnings (losses) of subsidiaries and associates | 12 | **32** | 12 | ( 94 ) | **154** | 477 | ( 70 ) |
| Miscellaneous - net | 24 | **2,704** | 1,465 | 1,203 | **2,012** | 575 | 506 |
| | | **13,238** | 7,563 | 11,632 | **12,255** | 6,714 | 10,684 |
| **TOTAL OPERATING INCOME** *(Forward)* | | **P 38,748** | P 30,346 | P 28,538 | **P 37,665** | P 29,117 | P 27,558 |

***See Notes to Financial Statements.***

| | Notes | GROUP 2022 | GROUP 2021 | GROUP 2020 | PARENT COMPANY 2022 | PARENT COMPANY 2021 | PARENT COMPANY 2020 |
|---|---|---|---|---|---|---|---|
| **TOTAL OPERATING INCOME** | | **P 38,748** | P 30,346 | P 28,538 | **P 37,665** | P 29,117 | P 27,558 |
| **OTHER OPERATING EXPENSES** | | | | | | | |
| Employee benefits | 23 | **6,563** | 6,371 | 6,626 | **5,794** | 5,686 | 5,896 |
| Taxes and licenses | 25 | **4,645** | 3,475 | 3,184 | **4,508** | 3,341 | 3,062 |
| Depreciation and amortization | 13, 14, 15 | **3,037** | 3,020 | 2,924 | **2,544** | 2,524 | 2,491 |
| Occupancy and equipment-related | 27, 28 | **2,908** | 2,820 | 2,819 | **2,813** | 2,763 | 2,777 |
| Miscellaneous | 24 | **7,947** | 6,849 | 6,492 | **8,408** | 7,196 | 6,875 |
| | | **25,100** | 22,535 | 22,045 | **24,067** | 21,510 | 21,101 |
| **PROFIT BEFORE TAX** | | **13,648** | 7,811 | 6,493 | **13,598** | 7,607 | 6,457 |
| **TAX EXPENSE** | 25 | **1,568** | 728 | 1,475 | **1,518** | 525 | 1,437 |
| **NET PROFIT** | | **P 12,080** | P 7,083 | P 5,018 | **P 12,080** | P 7,082 | P 5,020 |
| **ATTRIBUTABLE TO:** | | | | | | | |
| **PARENT COMPANY'S SHAREHOLDERS** | | **P 12,080** | P 7,082 | P 5,020 | | | |
| **NON-CONTROLLING INTERESTS** | | **-** | 1 | ( 2) | | | |
| | | **P 12,080** | P 7,083 | P 5,018 | | | |
| **Earnings Per Share** | | | | | | | |
| Basic and diluted | 29 | **P 5.42** | P 3.09 | P 2.43 | | | |

***See Notes to Financial Statements.***

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**
**STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020**
***(Amounts in Millions of Philippine Pesos)***

| | | GROUP | | | PARENT COMPANY | | |
|---|---|---|---|---|---|---|---|
| | Notes | **2022** | 2021 | 2020 | **2022** | 2021 | 2020 |
| **NET PROFIT** | | **P 12,080** | P 7,083 | P 5,018 | **P 12,080** | P 7,082 | P 5,020 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | | | | | |
| Actuarial gains on defined benefit plan | 23 | **782** | 425 | 361 | **782** | 375 | 361 |
| Fair value gains (losses) on equity securities at fair value through other comprehensive income (FVOCI) | 10, 22 | **191** | 548 | ( 570 ) | **272** | 490 | ( 591 ) |
| Share in other comprehensive income (losses) of the subsidiaries and associates: | | | | | | | |
| Actuarial gains (losses) on defined benefit plan | 12 | **4** | ( 3 ) | ( 8 ) | **4** | 47 | ( 8 ) |
| Fair value gains (losses) on equity securities at FVOCI | 12, 22 | **-** | - | - | **( 81 )** | 58 | 21 |
| | | **977** | 970 | ( 217 ) | **977** | 970 | ( 217 ) |
| **Items that will be reclassified subsequently to profit or loss** | | | | | | | |
| Fair value gains (losses) on debt securities at FVOCI | 10, 22 | **( 5,446 )** | ( 823 ) | 339 | **( 5,446 )** | ( 823 ) | 339 |
| Translation adjustments on foreign operations | 22 | **-** | - | 1 | **-** | - | 1 |
| | | **( 5,446 )** | ( 823 ) | 340 | **( 5,446 )** | ( 823 ) | 340 |
| **Total Other Comprehensive Income (Loss)** | 22 | **( 4,469 )** | 147 | 123 | **( 4,469 )** | 147 | 123 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **P 7,611** | P 7,230 | P 5,141 | **P 7,611** | P 7,229 | P 5,143 |
| **ATTRIBUTABLE TO:** | | | | | | | |
| **PARENT COMPANY'S SHAREHOLDERS** | | **P 7,611** | P 7,229 | P 5,143 | | | |
| **NON-CONTROLLING INTERESTS** | | **-** | 1 | ( 2 ) | | | |
| | | **P 7,611** | P 7,230 | P 5,141 | | | |

***See Notes to Financial Statements.***

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**
**STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020**
***(Amounts in Millions of Philippine Pesos)***

| | Notes | GROUP | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | ATTRIBUTABLE TO PARENT COMPANY'S SHAREHOLDERS | | | | | | | | | | | | |
| | | COMMON STOCK | PREFERRED STOCK | CAPITAL PAID IN EXCESS OF PAR | HYBRID PERPETUAL SECURITIES | REVALUATION RESERVES | TREASURY SHARES | RESERVE FOR TRUST BUSINESS | OTHER RESERVES | GENERAL LOAN LOSS RESERVE | SURPLUS | TOTAL | NON-CONTROLLING INTERESTS | TOTAL EQUITY |
| Balance at January 1, 2022 | | P 22,509 | P 3 | P 42,505 | P 14,463 | (P 1,923) | (P 9,287) | P 508 | (P 97) | P 3,617 | P 38,764 | P 111,062 | P 18 | P 111,080 |
| Transactions with owners: | | | | | | | | | | | | | | |
| Reissuance of treasury shares | 22 | - | - | (12) | - | - | - | - | - | - | - | (12) | - | (12) |
| Cash dividends | 22 | - | - | - | - | - | - | - | - | - | (2,308) | (2,308) | - | (2,308) |
| | | - | - | (12) | - | - | - | - | - | - | (2,308) | (2,320) | - | (2,320) |
| Net profit for the year | | - | - | - | - | - | - | - | - | - | 12,080 | 12,080 | - | 12,080 |
| Other comprehensive loss | | - | - | - | - | (4,469) | - | - | - | - | - | (4,469) | - | (4,469) |
| General loan loss appropriation | 22 | - | - | - | - | - | - | - | - | 207 | (207) | - | - | - |
| Changes in ownership interest of a subsidiary | 22 | - | - | - | - | - | - | - | 11 | - | (11) | - | (10) | (10) |
| Transfer from surplus to reserve for trust business | 26 | - | - | - | - | - | - | 24 | - | - | (24) | - | - | - |
| | | - | - | - | - | (4,469) | - | 24 | 11 | 207 | 11,838 | 7,611 | (10) | 7,601 |
| **Balance at December 31, 2022** | | **P 22,509** | **P 3** | **P 42,493** | **P 14,463** | **(P 6,392)** | **(P 9,287)** | **P 532** | **(P 86)** | **P 3,824** | **P 48,294** | **P 116,353** | **P 8** | **P 116,361** |
| Balance at January 1, 2021 | | P 22,509 | P 3 | P 42,568 | P 14,463 | (P 2,070) | (P 13,719) | P 499 | (P 97) | P 3,451 | P 33,754 | P 101,361 | P 17 | P 101,378 |
| Transactions with owners: | | | | | | | | | | | | | | |
| Reissuance of treasury shares | 22 | - | - | (63) | - | - | 4,432 | - | - | - | - | 4,369 | - | 4,369 |
| Cash dividends | 22 | - | - | - | - | - | - | - | - | - | (1,897) | (1,897) | - | (1,897) |
| | | - | - | (63) | - | - | 4,432 | - | - | - | (1,897) | 2,472 | - | 2,472 |
| Net profit for the year | | - | - | - | - | - | - | - | - | - | 7,082 | 7,082 | 1 | 7,083 |
| Other comprehensive income | | - | - | - | - | 147 | - | - | - | - | - | 147 | - | 147 |
| General loan loss appropriation | 22 | - | - | - | - | - | - | - | - | 166 | (166) | - | - | - |
| Transfer from surplus to reserve for trust business | 26 | - | - | - | - | - | - | 9 | - | - | (9) | - | - | - |
| | | - | - | - | - | 147 | - | 9 | - | 166 | 6,907 | 7,229 | 1 | 7,230 |
| Balance at December 31, 2021 | | P 22,509 | P 3 | P 42,505 | P 14,463 | (P 1,923) | (P 9,287) | P 508 | (P 97) | P 3,617 | P 38,764 | P 111,062 | P 18 | P 111,080 |
| Balance at January 1, 2020 | | P 22,509 | P 3 | P 42,568 | P - | (P 2,193) | (P 13,719) | P 485 | (P 97) | P 3,132 | P 30,143 | P 82,831 | P 19 | P 82,850 |
| Transactions with owners: | | | | | | | | | | | | | | |
| Issuance of hybrid perpetual securities | 22 | - | - | - | 14,463 | - | - | - | - | - | - | 14,463 | - | 14,463 |
| Cash dividends | 22 | - | - | - | - | - | - | - | - | - | (1,076) | (1,076) | - | (1,076) |
| | | - | - | - | 14,463 | - | - | - | - | - | (1,076) | 13,387 | - | 13,387 |
| Net profit for the year | | - | - | - | - | - | - | - | - | - | 5,020 | 5,020 | (2) | 5,018 |
| Other comprehensive income | | - | - | - | - | 123 | - | - | - | - | - | 123 | - | 123 |
| General loan loss appropriation | 22 | - | - | - | - | - | - | - | - | 319 | (319) | - | - | - |
| Transfer from surplus to reserve for trust business | 26 | - | - | - | - | - | - | 14 | - | - | (14) | - | - | - |
| | | - | - | - | - | 123 | - | 14 | - | 319 | 4,687 | 5,143 | (2) | 5,141 |
| Balance at December 31, 2020 | | P 22,509 | P 3 | P 42,568 | P 14,463 | (P 2,070) | (P 13,719) | P 499 | (P 97) | P 3,451 | P 33,754 | P 101,361 | P 17 | P 101,378 |

***See Notes to Financial Statements.***

| | Notes | COMMON STOCK | PREFERRED STOCK | CAPITAL PAID IN EXCESS OF PAR | HYBRID PERPETUAL SECURITIES | REVALUATION RESERVES | TREASURY SHARES | RESERVE FOR TRUST BUSINESS | GENERAL LOAN LOSS RESERVE | SURPLUS | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | PARENT COMPANY | | | | | | | | | |
| Balance at January 1, 2022 | | P 22,509 | P 3 | P 42,505 | P 14,463 | (P 1,923) | (P 9,287) | P 508 | P 3,616 | P 38,599 | P 110,993 |
| Transactions with owners: | | | | | | | | | | | |
| Reissuance of treasury shares | 22 | - | - | (12) | - | - | - | - | - | - | (12) |
| Cash dividends | 22 | - | - | - | - | - | - | - | - | (2,308) | (2,308) |
| | | - | - | (12) | - | - | - | - | - | (2,308) | (2,320) |
| Net profit for the year | | - | - | - | - | - | - | - | - | 12,080 | 12,080 |
| Other comprehensive income | | - | - | - | - | (4,469) | - | - | - | - | (4,469) |
| General loan loss appropriation | 22 | - | - | - | - | - | - | - | 207 | (207) | - |
| Transfer from surplus to reserve for trust business | 26 | - | - | - | - | - | - | 24 | - | (24) | - |
| | | - | - | - | - | (4,469) | - | 24 | 207 | 11,849 | 7,611 |
| **Balance at December 31, 2022** | | **P 22,509** | **P 3** | **P 42,493** | **P 14,463** | **(P 6,392)** | **(P 9,287)** | **P 532** | **P 3,823** | **P 48,140** | **P 116,284** |
| Balance at January 1, 2021 | | P 22,509 | P 3 | P 42,568 | P 14,463 | (P 2,070) | (P 13,719) | P 499 | P 3,440 | P 33,599 | P 101,292 |
| Transactions with owners: | | | | | | | | | | | |
| Reissuance of treasury shares | 22 | - | - | (63) | - | - | 4,432 | - | - | - | 4,369 |
| Cash dividends | 22 | - | - | - | - | - | - | - | - | (1,897) | (1,897) |
| | | - | - | (63) | - | - | 4,432 | - | - | (1,897) | 2,472 |
| Net profit for the year | | - | - | - | - | - | - | - | - | 7,082 | 7,082 |
| Other comprehensive income | | - | - | - | - | 147 | - | - | - | - | 147 |
| General loan loss appropriation | 22 | - | - | - | - | - | - | - | 176 | (176) | - |
| Transfer from surplus to reserve for trust business | 26 | - | - | - | - | - | - | 9 | - | (9) | - |
| | | - | - | - | - | 147 | - | 9 | 176 | 6,897 | 7,229 |
| Balance at December 31, 2021 | | P 22,509 | P 3 | P 42,505 | P 14,463 | (P 1,923) | (P 9,287) | P 508 | P 3,616 | P 38,599 | P 110,993 |
| Balance at January 1, 2020 | | P 22,509 | P 3 | P 42,568 | P - | (P 2,193) | (P 13,719) | P 485 | P 3,130 | P 29,979 | P 82,762 |
| Transactions with owners: | | | | | | | | | | | |
| Issuance of hybrid perpetual securities | 22 | - | - | - | 14,463 | - | - | - | - | - | 14,463 |
| Cash dividends | 22 | - | - | - | - | - | - | - | - | (1,076) | (1,076) |
| | | - | - | - | 14,463 | - | - | - | - | (1,076) | 13,387 |
| Net profit for the year | | - | - | - | - | - | - | - | - | 5,020 | 5,020 |
| Other comprehensive loss | 22 | - | - | - | - | 123 | - | - | - | - | 123 |
| General loan loss appropriation | | - | - | - | - | - | - | - | 310 | (310) | - |
| Transfer from surplus to reserve for trust business | | - | - | - | - | - | - | 14 | - | (14) | - |
| | | - | - | - | - | 123 | - | 14 | 310 | 4,696 | 5,143 |
| Balance at December 31, 2020 | | P 22,509 | P 3 | P 42,568 | P 14,463 | (P 2,070) | (P 13,719) | P 499 | P 3,440 | P 33,599 | P 101,292 |

***See Notes to Financial Statements.***

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**
**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020**
***(Amounts in Millions of Philippine Pesos)***

| | Notes | GROUP 2022 | GROUP 2021 | GROUP 2020 | PARENT COMPANY 2022 | PARENT COMPANY 2021 | PARENT COMPANY 2020 |
|---|---|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | | | |
| Profit before tax | | P 13,648 | P 7,811 | P 6,493 | P 13,598 | P 7,607 | P 6,457 |
| Adjustments for: | | | | | | | |
| Interest income | 9, 10, 11 | (45,835) | (37,111) | (36,952) | (45,127) | (36,229) | (35,967) |
| Interest received | | 45,379 | 35,416 | 35,607 | 44,516 | 34,676 | 34,780 |
| Interest expense | 17, 18, 19, 21, 23 | 14,619 | 8,280 | 10,671 | 14,228 | 7,893 | 10,142 |
| Interest paid | | (12,577) | (8,244) | (11,669) | (12,145) | (7,892) | (11,142) |
| Impairment losses - net | 16 | 5,706 | 6,048 | 9,375 | 5,489 | 5,933 | 8,951 |
| Gain on assets sold - net | 13, 14 | (3,088) | (101) | (37) | (2,985) | (65) | (11) |
| Depreciation and amortization | 13, 14, 15 | 3,037 | 3,020 | 2,924 | 2,544 | 2,524 | 2,491 |
| Recoveries from written-off assets | 24 | (486) | (223) | (102) | (486) | (223) | (99) |
| Dividend income | 24 | (293) | (105) | (78) | (227) | (39) | (16) |
| Share in net losses (earnings) of subsidiaries and associates | 12 | (32) | (12) | 94 | (154) | (477) | 70 |
| Gain on sale of financial assets at amortized cost -net | 10 | - | - | (2,695) | - | - | (2,678) |
| Operating profit before working capital changes | | 20,078 | 14,779 | 13,631 | 19,251 | 13,708 | 12,978 |
| Decrease (increase) in financial assets at fair value through profit and loss | | (1,174) | (975) | 660 | (1,260) | (1,064) | 985 |
| Increase in loans and receivables | | (35,643) | (62,435) | (25,935) | (35,452) | (62,076) | (25,969) |
| Decrease (increase) in investment properties | | 2,093 | (359) | 4 | 2,009 | (363) | 38 |
| Decrease (increase) in other resources | | 180 | (2,636) | (3,320) | 725 | (1,937) | (3,703) |
| Increase in deposit liabilities | | 184,785 | 136,671 | 79,207 | 183,225 | 137,666 | 80,155 |
| Increase in accrued interest, taxes and other expenses | | 256 | 130 | 326 | 189 | 194 | 394 |
| Increase (decrease) in other liabilities | | 13,716 | (1,628) | (31) | 14,091 | (2,729) | (454) |
| Cash generated from operations | | 184,291 | 83,547 | 64,542 | 182,778 | 83,399 | 64,424 |
| Income taxes paid | | (2,069) | (859) | (2,009) | (1,973) | (773) | (1,921) |
| Net Cash From Operating Activities | | 182,222 | 82,688 | 62,533 | 180,805 | 82,626 | 62,503 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | | | |
| Additional investments in securities at amortized cost | 11 | (149,832) | (230,816) | (174,920) | (148,342) | (230,816) | (174,920) |
| Acquistion of securities at at fair value through other comprehensive income (FVOCI) | 10 | (131,018) | (127,044) | (201,531) | (130,903) | (126,809) | (201,351) |
| Proceeds from redemption and maturity of securities at amoritzed cost | 11 | 61,045 | 110,217 | 235,515 | 59,894 | 110,418 | 235,304 |
| Disposal of securities at FVOCI | 10 | 60,578 | 117,158 | 215,395 | 59,863 | 116,890 | 214,711 |
| Acquisitions of bank premises, furniture, fixtures, and equipment | 13 | (1,627) | (1,333) | (1,764) | (1,251) | (995) | (773) |
| Proceeds from disposals of bank premises, furniture, fixtures and equipment | 13 | 2,487 | 88 | 92 | 2,032 | 95 | 39 |
| Acquisitions of software | 15 | (334) | (494) | (591) | (333) | (493) | (575) |
| Cash dividends received | 12, 25 | 293 | 105 | 78 | 798 | 663 | 659 |
| Net Cash From (Used in) Investing Activities *(Forward)* | | (P 158,408) | (P 132,119) | P 72,274 | (P 158,242) | (P 131,047) | P 73,094 |

***See Notes to Financial Statements.***

| | Notes | GROUP 2022 | GROUP 2021 | GROUP 2020 | PARENT COMPANY 2022 | PARENT COMPANY 2021 | PARENT COMPANY 2020 |
|---|---|---|---|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | | | |
| Proceeds from availments of bills payable | 18, 30 | **P 62,142** | P 148,820 | P 284,718 | **P 55,380** | P 142,675 | P 276,859 |
| Payments of bills payable | 18, 30 | **( 52,865 )** | ( 104,018 ) | ( 371,858 ) | **( 44,867 )** | ( 98,411 ) | ( 365,298 ) |
| Maturity of bonds payable | 19, 30 | **( 31,170 )** | ( 18,810 ) | ( 27,371 ) | **( 31,170 )** | ( 18,810 ) | ( 27,371 ) |
| Issuance of bonds payable | 19, 30 | **14,756** | 17,873 | 23,670 | **14,756** | 17,873 | 23,670 |
| Payment of lease liabilities | 21 | **( 5,311 )** | ( 1,360 ) | ( 1,173 ) | **( 5,695 )** | ( 1,205 ) | ( 1,113 ) |
| Dividends paid | 22 | **( 2,308 )** | ( 1,897 ) | ( 1,076 ) | **( 2,308 )** | ( 1,897 ) | ( 1,076 ) |
| Reissuance of treasury shares | 22 | **( 12 )** | 4,369 | - | **( 12 )** | 4,369 | - |
| Net proceeds from issuance of hybrid perpetual securities | 22 | **-** | - | 14,463 | **-** | - | 14,463 |
| Net Cash From (Used in) Financing Activities | | **( 14,768 )** | 44,977 | ( 78,627 ) | **( 13,916 )** | 44,594 | ( 79,866 ) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **9,046** | ( 4,454 ) | 56,180 | **8,647** | ( 3,827 ) | 55,731 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | | | | | | |
| Cash and other cash items | 9 | **14,691** | 16,520 | 16,907 | **14,663** | 16,464 | 16,808 |
| Due from Bangko Sentral ng Pilipinas | 9 | **130,170** | 115,467 | 87,255 | **128,931** | 113,949 | 85,453 |
| Due from other banks | 9 | **12,162** | 15,707 | 18,818 | **11,860** | 15,214 | 18,468 |
| Loans arising from reverse repurchase agreements | 9 | **11,691** | 13,356 | 5,768 | **11,656** | 13,226 | 5,629 |
| Interbank loans receivable | 9, 11 | **30,563** | 42,681 | 18,803 | **30,563** | 42,647 | 19,411 |
| | | **199,277** | 203,731 | 147,551 | **197,673** | 201,500 | 145,769 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | | | | | | |
| Cash and other cash items | 9 | **18,078** | 14,691 | 16,520 | **18,024** | 14,663 | 16,464 |
| Due from Bangko Sentral ng Pilipinas | 9 | **156,664** | 130,170 | 115,467 | **155,340** | 128,931 | 113,949 |
| Due from other banks | 9 | **5,836** | 12,162 | 15,707 | **5,383** | 11,860 | 15,214 |
| Loans arising from reverse repurchase agreements | 9 | **8,724** | 11,691 | 13,356 | **8,552** | 11,656 | 13,226 |
| Interbank loans receivable | 9, 11 | **19,021** | 30,563 | 42,681 | **19,021** | 30,563 | 42,647 |
| | | **P 208,323** | P 199,277 | P 203,731 | **P 206,320** | P 197,673 | P 201,500 |

***See Notes to Financial Statements.***

*(Amounts in Millions of Philippine Pesos, Except Share and Per Share Data or As Indicated)*

# 1. CORPORATE MATTERS

## *1.1 Incorporation and Operations*

Rizal Commercial Banking Corporation (the Parent Company, the Bank or RCBC), a universal bank engaged in all aspects of banking, was originally incorporated on September 23, 1960. The Bank renewed its corporate existence on December 10, 2009. It provides products and services related to traditional loans and deposits, trade finance, domestic and foreign fund transfers or remittance, cash management, treasury, and trust and custodianship services. Under relevant authority granted by the Bangko Sentral ng Pilipinas (BSP), the Bank is also licensed to deal in different types of derivative products such as, but not limited, to foreign currency forwards, interest rate swaps and cross currency swaps. The Parent Company and its subsidiaries (together hereinafter referred to as the Group) are engaged in all aspects of traditional banking, investment banking, retail financing (credit cards, auto loans, mortgage/housing and microfinance loans), remittance, leasing and stock brokering.

As a banking institution, the Group's operations are regulated and supervised by the BSP. As such, the Group is required to comply with banking rules and regulations such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Group's activities are subject to the provisions of Republic Act (RA) No. 8791, the *General Banking Law of 2000*, and other related banking laws.

The Parent Company's common shares are listed in the Philippine Stock Exchange (PSE).

The Group and the Parent Company's banking network within and outside the Philippines as of December 31 follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Automated teller machines (ATMs) | **1,352** | 1,245 | **1,352** | 1,245 |
| Branches | **456** | 428 | **440** | 412 |
| Extension offices | **6** | 6 | **4** | 4 |

RCBC is a 39.64%-owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC or Ultimate Parent), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies (YGC), with registered business address at 48th Floor, Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City. As of December 31, 2022 and 2021, Cathay Life Insurance Corporation (Cathay) also owns 22.19% interest in RCBC.

The Parent Company's registered address, which is also its principal office, is at Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City.

### *1.2 Subsidiaries and Associates*

The Parent Company holds ownership interests in the following subsidiaries and associates at the end of 2022 and 2021:

| Subsidiaries and Associates | Line of Business | Explanatory Notes | Effective Percentage of Ownership 2022 | 2021 |
|---|---|---|---|---|
| **Subsidiaries:** | | | | |
| RCBC Forex Brokers Corporation (RCBC Forex) | Foreign exchange dealing | | **100.00** | 100.00 |
| RCBC Telemoney Europe (RCBC Telemoney) | Remittance | | **100.00** | 100.00 |
| RCBC International Finance Limited (RCBC IFL) | Remittance | | **100.00** | 100.00 |
| RCBC Investment Ltd. | Remittance | (a) | **100.00** | 100.00 |
| RCBC Capital Corporation (RCBC Capital) | Investment house | | **99.96** | 99.96 |
| RCBC Securities, Inc. (RSI or RCBC Securities) | Securities brokerage and dealing | (b) | **99.96** | 99.96 |
| RCBC Bankard Services Corporation (RBSC) | Credit card management | (b) | **99.96** | 99.96 |
| RCBC-JPL Holding Company, Inc. (RCBC JPL) | Property holding | | **99.41** | 99.41 |
| Rizal Microbank, Inc. (Rizal Microbank) | Thrift banking and microfinance | | **100.00** | 98.03 |
| RCBC Leasing and Finance Corporation (RCBC LFC) | Financial leasing | | **99.67** | 99.67 |
| RCBC Rental Corporation (RRC) | Property leasing | (c) | **99.67** | 99.67 |
| Special Purpose Companies (SPCs): | Real estate buying and selling | (d) | | |
| Cajel Realty Corporation (Cajel) | | | **100.00** | 100.00 |
| Niyog Property Holdings, Inc. (NPHI) | | | **100.00** | 100.00 |
| **Associates:** | | | | |
| YGC Corporate Services, Inc. (YCS) | Support services for YGC | | **40.00** | 40.00 |
| Luisita Industrial Park Co. (LIPC) | Real estate buying, developing, selling and rental | | **35.00** | 35.00 |
| Honda Cars Phils., Inc. (HCPI) | Sale of motor vehicles | | **12.88** | 12.88 |

Except for RCBC Telemoney (Italy), RCBC IFL (Hongkong) and RCBC Investment Ltd. (Hongkong), all other subsidiaries and associates are incorporated and conducting their businesses in the Philippines. RCBC Telemoney was operational only until March 1, 2016 and is currently in the process of liquidation.

Explanatory Notes:

(a) A wholly-owned subsidiary of RCBC IFL.
(b) Wholly-owned subsidiaries of RCBC Capital.
(c) A wholly-owned subsidiary of RCBC LFC.
(d) In 2019, SPCs other than NPHI and Cajel were liquidated pursuant to BSP recommendation and upon receipt of necessary regulatory clearance (see Note 15.1).

### *1.3 Approval of Financial Statements*

The consolidated financial statements of RCBC and subsidiaries and the separate financial statements of RCBC as of and for the year ended December 31, 2022 (including the comparative financial statements as of December 31, 2021 and for the years ended December 31, 2021 and 2020) were approved and authorized for issue by the Board of Directors (BOD) of the Parent Company on February 27, 2023.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The accounting policies have been consistently applied to all the years presented, except when otherwise indicated.

### *2.1 Basis of Preparation of Financial Statements*

*(a) Statement of Compliance with Philippine Financial Reporting Standards*

The consolidated financial statements of the Group and the separate financial statements of the Parent Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by Philippine Board of Accountancy.

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

*(b) Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements.* The Group presents all items of income and expenses in two statements: a "statement of profit or loss" and a "statement of comprehensive income".

The Group presents a third statement of financial position as of the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that have a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

*(c) Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Group's functional and presentation currency (see Note 2.16). All amounts are in millions, except share and per share data or when otherwise indicated.

Items included in the financial statements of the Group are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Group operates. The financial statements of the Group's foreign currency deposit unit (FCDU), which is reported in United States (US) dollar, are translated to Philippine peso based on Philippine Dealing System (PDS) closing rates at the end of reporting period for the statement of financial position accounts and at the average PDS rate for the period for the profit and loss.

## 2.2 Adoption of Amended PFRS

*(a) Effective in 2022 that are Relevant to the Group*

The Company adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2022:

| | | |
|---|---|---|
| PAS 16 (Amendments) | : | Property, Plant and Equipment – Proceeds Before Intended Use |
| PAS 37 (Amendments) | : | Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract |
| PFRS 3 (Amendments) | : | Business Combinations – Reference to the Conceptual Framework |
| Annual Improvements to PFRS (2018-2020 Cycle) | | |
| PFRS 9 (Amendments) | : | Financial Instruments – Fees in the 10 per cent' Test for Derecognition of Liabilities |
| PFRS 16 (Amendments) | : | Leases – Lease Incentives |

Discussed below are the relevant information about these pronouncements.

(i) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use.* The amendments prohibit deducting 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, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The application of these amendments had no significant impact on the Group's financial statements as there were no sales of such items produced by property, plant and equipment made before being available for use on or after the beginning of the earliest period presented.

(ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract.* The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services. Costs that relate directly to a contract include both incremental costs of fulfilling that contract (e.g., direct labor and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g., the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments resulted in a revision in the Group's policy to include both incremental costs and an allocation of other costs when determining whether a contract was onerous. The amendments apply prospectively to contracts existing at the date when the amendments are first applied. Management assessed that there is no significant impact on the Group's financial statements as a result of the change since none of the existing contracts as of January 1, 2022 would be identified as onerous after applying the amendments.

(iii) PFRS 3 (Amendments), *Business Combinations – Reference to the Conceptual Framework*. The amendments are responses to feedback received from the post-implementation review of IFRS 3. The amendment clarify the minimum attributes that the acquired set of activities and assets must have to be considered a business. To meet the definition of a business, the acquired set of activities and assets must have inputs and substantive processes that can collectively significantly contribute to the creation of outputs. The amendments removed the assessment of whether market participants are able to replace missing inputs or processes and continue to produce outputs. The amendments introduced an optional test ('the concentration test') that allows the acquirer to carry out a simple assessment to determine whether the acquired set of activities and assets is not a business. The entity can choose whether to apply the concentration test for each transaction it makes. These amendments have no significant impact to the Group's financial statements.

(iv) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments which do not have significant impact and which are effective from January 1, 2022, are relevant to the Group's financial statements:

- PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 percent' Test for Derecognition of Liabilities.* The amendments clarify 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.

- Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives.* The amendments remove potential for confusion regarding lease incentives by deleting from Illustrative Example 13 the reimbursement relating to leasehold improvements as it had not been explained clearly enough as to whether the reimbursement would meet the definition of a lease incentive in accordance with PFRS 16.

*(b) Effective in 2022 that is not Relevant to the Group*

Among the amendments to PFRS which are mandatorily effective for annual periods beginning on or after January 1, 2022, the following annual improvements to PFRS 2018-2020 cycles are not relevant to the Group's financial statements:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Subsidiary as a First-time Adopter*

- PAS 41, *Agriculture – Taxation in Fair Value Measurements*

*(c) Effective Subsequent to 2022 but Not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2022, which are adopted by the FRSC. Management will adopt the following relevant pronouncements below in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's financial statements:

(i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023)

(ii) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely)

### 2.3 Basis of Consolidation and Accounting for Investments in Subsidiaries and Associates in the Separate Financial Statements

The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries as enumerated in Note 1.2, after the elimination of material intercompany transactions. All intercompany resources and liabilities, equity, income, expenses and cash flows relating to transactions with subsidiaries are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of the subsidiaries are prepared in the same reporting period as the Parent Company, using consistent accounting policies.

The Parent Company accounts for its investments in subsidiaries, associates, interests in jointly controlled operations and non-controlling interests as follows:

*(a) Investments in Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when it has the power over the entity; it is exposed, or has rights to, variable returns from its involvement with the entity; and, it has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Group obtains control.

The Parent Company's investments in subsidiaries are initially recognized at cost and subsequently accounted for in its separate financial statements using the equity method. Under the equity method, all subsequent changes to the ownership interest in the equity of the subsidiaries are recognized in the Parent Company's carrying amount of the investments. Changes resulting from the profit or loss generated by the subsidiaries are credited or charged against the Share in Net Earnings (Losses) of Subsidiaries and Associates account in the statement of profit or loss.

These changes include subsequent depreciation, amortization, impairment and fair value adjustments of assets and liabilities. Dividends received are accounted for as reduction in the carrying value of the investment.

Changes resulting from items of other comprehensive income of the subsidiaries or items that have been directly recognized in the subsidiaries' equity are recognized in other comprehensive income or equity, respectively, of the Parent Company.

However, when the Parent Company's share in losses of subsidiaries equals or exceeds its interest in the subsidiary, including any other unsecured receivables, the Parent Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the subsidiary. If the subsidiary subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has not been recognized previously.

Unrealized gains on transactions between the Parent Company and its subsidiaries are eliminated to the extent of the Parent Company's interest in the subsidiaries. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the assets that were transferred. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Parent Company.

The Parent Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls. Accordingly, entities are deconsolidated from the date that control ceases.

Acquired subsidiaries are subject to either of the following relevant policies:

*(i)* *Purchase method* – involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of a subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of a subsidiary prior to acquisition. On initial recognition, the assets and liabilities of a subsidiary are included in the consolidated statement of financial position at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. On the other hand, negative goodwill represents the excess of the Group's share in the fair value of identifiable net assets of the subsidiary at the date of acquisition over acquisition cost and is recognized directly in profit or loss.

*(ii)* *Pooling of interest method* – is applicable for business combinations involving entities under common control. On initial recognition, the assets and liabilities of a subsidiary are included in the consolidated statement of financial position at their book values. Adjustments, if any, are recorded to achieve uniform accounting policies. The combining entities' results and financial positions are presented in the consolidated financial statements as if they had always been combined.

No goodwill or negative goodwill is recognized. Any difference between the cost of the investment and the subsidiary's identifiable net assets is recognized on consolidation in Capital Paid in Excess of Par account in equity.

*(b)* *Investments in Associates*

Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor interests in joint venture. In the consolidated and separate financial statements, investments in associates are initially recognized at cost and subsequently accounted for using the equity method. Under the equity method, the Group recognizes in profit or loss its share in the net earnings or losses of the associates. The cost of the investment is increased or decreased by the Group's equity in net earnings or losses of the associates since the date of acquisition. Dividends received are accounted for as reduction in the carrying value of the investment.

Acquired investments in associates are subject to purchase method of accounting as described in Note 2.3(a)(i). However, any goodwill that represents the excess of identifiable net assets of the acquiree at the date of acquisition or fair value adjustment attributable to the Group's share in the associate is included in the amount recognized as investments in associates. All subsequent changes to the ownership of interest in the equity of the associate are recognized in the Group's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are credited against Share in Net Earnings (Losses) of Subsidiaries and Associates account in the statement of profit or loss. These changes include subsequent depreciation, amortization, impairment, and fair value adjustments of assets and liabilities.

Changes resulting from items of other comprehensive income of the associate or items that have been directly recognized in the associate's equity are recognized in other comprehensive income or equity, respectively, of the Group. However, when the Group's share in losses of an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has not been recognized previously.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the assets that were transferred. Where necessary, accounting policies of associates are changed to ensure consistency with the policies adopted by the Group.

The Group reassesses whether or not an entity qualifies as an associate in the occurrence of changes to facts and circumstances surrounding its ability to exert significant influence.

*(c) Interest in Jointly Controlled Operations*

For interests in jointly controlled operations, the Group recognizes in its financial statements the assets that it controls, the liabilities and the expenses that it incurs and its share in the income from the sale of goods or services by the joint venture. The amounts of these related accounts are presented as part of the regular asset and liability accounts and income and expense accounts of the Group.

No adjustment or other consolidation procedures are required for the assets, liabilities, income and expenses of the joint venture that are recognized in the separate financial statements of the venturers.

*(d) Transactions with Non-controlling Interests*

Non-controlling interests (NCI) represent the portion of the net assets and profit or loss not attributable to the Group. The Group applies a policy of treating transactions with NCI as transactions with parties external to the Group. Disposals to NCI result in gains and losses for the Group that are recorded in profit or loss. Purchases of equity shares from NCI may result in goodwill, being the difference between any consideration paid and the relevant share acquired in the carrying value of the net assets of a subsidiary.

In the consolidated financial statements, the NCI component is shown as part of the Equity account in the consolidated statement of changes in equity.

In the Parent Company's financial statements, impairment loss is provided when there is objective evidence that the investments in subsidiaries and associates will not be recovered (see Note 2.17).

### *2.4 Segment Reporting*

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a segment engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The Group's operations are structured according to the nature of the services provided (primary segment) and different geographical markets served (secondary segment). Financial information on business segments is presented in Note 8.

### *2.5 Current versus Non-current Classification*

The Group presents assets and liabilities in the statement of financial position based on liquidity, while current or noncurrent classification is presented in Note 31. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or,
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after the reporting period; or,
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

### *2.6 Financial Instruments*

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

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss (FVTPL), transaction costs that are incremental or directly attributable to the acquisition or issue of the financial asset or liability, such as fees and commissions.

Transactions costs of financial assets or financial liabilities carried at FVTPL are expensed in profit or loss.

*(a) Financial Assets*

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the Group commits to purchase or sell the asset). Deposits, amounts due to banks and customers, and loans are recognized when cash is received by the Group or advanced to the borrowers.

*(i) Classification and Measurement of Financial Assets*

The classification and measurement of financial assets is driven by the Group's business models for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Group's classification and measurement of financial assets are described below and in the succeeding pages.

*Financial Assets at Amortized Cost*

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

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

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

Financial assets meeting these criteria are measured initially at fair value and are subsequently measured at amortized cost using the effective interest method, less any allowance for expected credit loss (ECL).

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

The Group's financial assets measured at amortized cost include those presented in the statements of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans Arising from Reverse Repurchase Agreements, Investment securities at amortized cost under Trading and Investment Securities, Loans and Receivables and certain Other Resources accounts.

For purposes of cash flows reporting and presentation, cash equivalents comprise of accounts with original maturities of three months or less, including non-restricted balances of Due from BSP, Due from Other Banks, Loans Arising from Reverse Repurchase Agreements, and Interbank loans receivables (part of Loans and Receivables). Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash comprises cash and other cash items and demand deposits.

The Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2022 and 2021, the Group has not made such designation.

*Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)*

Financial asset is classified and measured at FVOCI if both of the following conditions are met:

- the financial asset is held under a business model whose objective is achieved by both collecting contractual cash flows and selling ("hold to collect and sell"); and,

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

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Group for trading or a contingent consideration recognized arising from a business combination. The Group has made irrevocable designation of equity instruments not held for trading into this category.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, financial assets at FVOCI are subsequently measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation Reserves account in equity. Upon disposal, the cumulative fair value gains or losses on equity investments previously recognized in the Revaluation Reserves account is not reclassified to profit or loss, but is reclassified directly to Surplus account, while the cumulative fair value gains or losses for debt securities are reclassified to profit or loss.

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

*Financial Assets at Fair Value Through Profit or Loss*

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, or those that do not qualify under the FVOCI or "hold to collect and sell" business model, are measured at FVTPL. Equity investments are classified as financial assets at FVTPL, unless the Group designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Group's financial assets at FVTPL include government securities, corporate debt securities, equity securities and derivative instruments, which are held for trading purposes or designated as at FVTPL.

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;

- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or,

- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Financial assets at FVTPL are initially measured at fair value and transaction costs are expensed in profit or loss. Unrealized gains and losses arising from changes (mark-to-market) in the fair value of the financial assets at FVTPL category and realized gains or losses arising from disposals of these instruments are included in Trading and Securities Gains (Losses) under Other Operating Income account in the statement of profit or loss.

Interest earned on these investments is reported in profit or loss under Interest Income account while dividend income is reported in profit or loss under Miscellaneous included in Other Operating Income account when the right of payment has been established.

*(ii) Effective Interest Rate Method and Interest Income*

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

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

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

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

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

*(iii) Reclassification of Financial Assets*

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

A change in the objective of the Group's business model will be effected only at the beginning of the next reporting period following the change in the business model.

*(iv) Impairment of Financial Assets*

The Group recognizes a loss allowance for ECL on all financial assets that are measured at amortized cost and debt instruments classified as at FVOCI, as well as financial guarantee and loan commitments. Equity securities, either measured as at FVTPL or designated as at FVOCI, are not subject to impairment.

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

The amount of allowance for ECL is updated at the end of each reporting period to reflect the changes in credit risk of the financial asset since initial recognition. The Group recognizes lifetime ECL when there has been a significant increase in credit risk (SICR) since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the end of the reporting period.

The Group's ECL model follows a three-stage impairment approach, which guide in the determination of the loss allowance to be recognized in the financial statements. The staging of financial assets and definition of default for purposes of determining ECL are further discussed in Note 4.4.

ECL is a function of the probability of default (PD), loss-given default (LGD), and exposure-at-default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgement. These elements are discussed more fully in Note 4.4.

The Group calculates ECL either on an individual or a collective basis. For modelling ECL parameters which were carried out on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics, such as but not limited to instrument type, credit risk rating, collateral type, product type, historical net charge-offs, industry type, and geographical locations of the borrowers or counterparties.

The Group applies a simplified ECL approach for its accounts receivables and other risk assets wherein the Group uses a provision matrix that considers historical changes in the behavior of the portfolio of credit exposures based on internally collected data to predict conditions over the span of a given observation period. These receivables include claims from various counterparties, which are not originated through the Group's lending activities. For these instruments, the Group measures the loss allowance at an amount equal to lifetime ECL.

The Group recognizes an impairment loss in profit or loss for all financial instruments subjected to ECL impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account.

With respect to investments in debt securities that are measured at FVOCI, the related loss allowance account is recognized in other comprehensive income and accumulated in the Revaluation Reserves account, and does not reduce the carrying amount of the financial asset in the statement of financial position.

For loan commitments, the loss allowance is recognized as provisions (presented and included as part of Other Liabilities account in the statement of financial position). Where a financial instrument includes a drawn and undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn commitment; the Group presents a combined allowance for ECL for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as provisions.

*(v) Derecognition of Financial Assets*

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

*(i) Modification of Loans*

When the Group renegotiates or otherwise modifies the contractual cash flows of loans to customers, the Group assesses whether or not the new terms are substantially different to the original terms of the instrument.

In making such assessment, the Group considers, among others:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced that will affect the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; and/or,
- Insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

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

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

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

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

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

As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

*(ii) Derecognition of Financial Assets Other than Modification*

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

*(b) Financial Liabilities at Amortized Cost*

Financial liabilities including deposit liabilities, bills payable, bonds payable, accrued interest and other expenses, and other liabilities (except derivatives with negative fair value, tax-related payables, post-employment defined benefit obligation and deferred income) are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method, for those with maturities beyond one year, less settlement payments. All interest-related charges incurred on financial liabilities are recognized as an expense in the statement of profit or loss under the caption Interest Expense.

Deposit liabilities are stated at amounts in which they are to be paid. Interest is accrued periodically and recognized in a separate liability account before recognizing as part of deposit liabilities.

Bills payable and bonds payable are recognized initially at fair value, which is the issue proceeds (fair value of consideration received), net of direct issue costs. These are subsequently measured at amortized cost; any difference between the proceeds net of transaction costs and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are declared by the Group.

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

(c) *Financial Guarantees and Undrawn Loan Commitments*

The Group issues financial guarantees and loan commitments. Financial guarantees are those issued by the Group to creditors as allowed under existing rules and regulations whereby it guarantees third party obligations by signing as guarantor in the contract or agreement. Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the 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 reflected in the statement of financial position. These contracts are in the scope of the ECL requirements where the Group estimates the expected portion of the irrevocable undrawn loan commitments that will be drawn over their expected life based on the Group's historical observations of actual drawdowns and forward-looking forecasts. The ECL related to financial guarantees and loan commitments without outstanding drawn amounts is recognized under Other Liabilities account in the statement of financial position.

(d) *Derivative Financial Instruments and Hedge Accounting*

The Group is a party to various foreign currency forward contracts, cross currency swaps, futures, interest rate swaps, debt warrants, options and credit default swap. These contracts are entered into as a service to customers and as a means of reducing or managing the Group's foreign exchange and interest rate exposures as well as for trading purposes. Amounts contracted are recorded as contingent accounts and are not included in the statement of financial position.

Derivatives are carried as assets when fair value is positive (recognized as part of Investment securities at FVPL under the Trading and Investment Securities account) and as liabilities (recognized under the Accrued Expenses and Other Liabilities account) when fair value is negative. Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair value. Fair values are obtained from active markets for listed or traded securities or determined using valuation techniques if quoted prices are not available, including discounted cash flow models and option pricing models, as appropriate. The change in fair value of derivative financial instruments is recognized in profit or loss, except when their effects qualify as a hedging instrument.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognizes a gain or loss at initial recognition.

(e) *Offsetting Financial Instruments*

Financial assets and liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments.

### *2.7 Bank Premises, Furniture, Fixtures and Equipment*

Land is stated at cost less impairment losses, if any. Since no finite useful life for land can be determined, the related carrying amounts are not depreciated. All other bank premises, furniture, fixtures and equipment are carried at cost less accumulated depreciation, amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized, while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets as follows:

| | |
|---|---|
| Buildings | 20-50 years |
| Furniture, fixtures and equipment | 3-15 years |

Leasehold rights and improvements are amortized over the term of the lease or the estimated useful lives of the improvements of 1 to 12 years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.17). The residual values, estimated useful lives, and method of depreciation and amortization of bank premises, furniture, fixtures and equipment (except land) are reviewed and adjusted if appropriate, at the end of each reporting period.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and any impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

### *2.8 Investment Properties*

Investment properties pertain to land, buildings or condominium units acquired by the Group, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment, which are either held by the Group for sale in the next 12 months or being used in the rendering of services or for administrative purposes. This also includes properties held for rental.

Investment properties are stated at cost, less accumulated depreciation and any impairment losses (see Note 2.17). The cost of an investment property comprises its purchases price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

Transfers from other accounts (such as bank premises, furniture, fixtures and equipment) are made to investment properties when and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party or holding the property for capital appreciation, while transfers from investment properties are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use.

Investment properties, except land, are depreciated on a straight-line basis over a period of 20 to 50 years.

Direct operating expenses related to investment properties, such as repairs and maintenance, and real estate taxes are normally charged against current operations in the period in which these costs are incurred.

Investment properties, including the related accumulated depreciation and any impairment losses, are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in Miscellaneous income (expenses) under the Other Operating Income (Expenses) account in the statement of profit or loss, in the year of retirement or disposal.

### *2.9 Assets Held-for-Sale and Disposal Group*

Assets held-for-sale and disposal group, which are presented as part of Other Resources account, include shares of stock and real and other properties acquired through repossession, foreclosure, exchange or purchase that the Group intends to sell within one year from the date of classification as held-for-sale and for which the Group is committed to immediately dispose through an active marketing plan. The Group classifies an asset (or disposal group) as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held-for-sale if the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset.

Assets classified as held-for-sale are measured at the lower of their carrying amounts, immediately prior to their classification as held-for-sale and their fair value less costs to sell. Assets classified as held-for-sale are not subject to depreciation or amortization. Asset that ceases to be classified as held-for-sale is measured at the lower of: (a) its carrying amount before the asset was classified as held-for-sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held-for-sale; and, (b) its recoverable amount at the date of the subsequent decision not to sell. Any adjustment to the carrying amount of an asset that ceases to be classified as held-for-sale resulting in either a gain or loss, is recognized in profit or loss. The Group recognizes an impairment loss for any initial or subsequent write-down of the assets held-for-sale to fair value less cost to sell, to the extent that it has not been previously recognized in profit or loss.

On the other hand, any gain from any subsequent increase in fair value less costs to sell of an asset up to the extent of the cumulative impairment loss that has been previously recognized is recognized in profit or loss.

The gains or losses arising from the sale or remeasurement of assets held-for-sale is recognized in Miscellaneous income (expenses) under the Other Operating Income (Expenses) account in the statement of profit or loss.

### *2.10 Intangible Assets*

Intangible assets include goodwill, branch licenses, trading right, and computer software licenses which are accounted for under cost model and are reported under Other Resources account in the statement of financial position. The cost of the asset is the amount of cash and cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of acquisition.

Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net assets acquired at the date of acquisition (see Note 2.3).

Branch licenses represent the rights given by the BSP to the Group to establish a certain number of branches in various areas in the country.

Goodwill and branch licenses are classified as intangible assets with indefinite useful life and, thus, not subject to amortization but are tested annually for impairment (see Note 2.17). After initial recognition, goodwill and branch licenses are subsequently carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those generating units is represented by each primary reporting segment.

Trading right, included as part of Miscellaneous under Other Resources account, represents the right given to RSI, a subsidiary engaged in stock brokerage, to preserve its access to the trading facilities and to transact business at the PSE. Trading right is assessed as having an indefinite useful life. It is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less allowance for impairment, if any. The trading right is tested annually for any impairment in value (see Note 2.17).

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight line basis over the expected useful lives of the software of three to ten years.

Costs associated with developing or maintaining computer software programs are recognized as expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include employee costs incurred on software development and an appropriate portion of relevant overhead costs.

Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives (not exceeding ten years).

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

### *2.11 Other Resources*

Other resources (excluding items classified as intangible assets and assets held-for-sale and disposal group) pertain to other assets controlled by the Group as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the Group and the asset has a cost or value that can be measured reliably.

### *2.12 Provisions and Contingencies*

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in provision due to passage of time is recognized as interest expense.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases, where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

### *2.13 Equity*

Preferred and common stock represent the nominal value of shares of stock that have been issued.

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

Hybrid perpetual securities are non-cumulative, unsecured, subordinated capital securities which qualify as Additional Tier 1 (AT1) capital under Basel III standards. The capital securities are perpetual in respect of which there is no fixed redemption date. The Parent Company may redeem the capital securities only in certain circumstances as described in the conditions of the securities and with prior written consent of BSP. The capital securities confer a right to receive distributions on the principal amount from, and including, the issue date at the applicable distribution rate. Any distribution may only be paid out of distributable reserves. Distributions are non-cumulative and payable semi-annually in arrear at a rate of 6.5%. Certain conditions provide for circumstances under which the Parent Company will not be obliged to pay any distribution on the applicable payment date.

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled, reissued or disposed of.

Revaluation reserves consist of:

*(a)* Net unrealized fair value gains or losses arising from remeasurements of financial assets at FVOCI;

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

*(c)* Accumulated translation adjustments related to the cumulative gains from the translation of the financial statements of foreign subsidiaries whose functional currency is different from that of the Parent Company; and,

*(d)* Share in other comprehensive income or loss of subsidiaries and associates.

Reserve for trust business representing the accumulated amount set aside by the Group under existing regulations requiring the Parent Company to appropriate and transfer to surplus 10% of its net profits accruing from their trust business until the surplus shall amount to 20% of the regulatory capital. The reserve shall not be paid out in dividends, but losses accruing in the course of the trust business may be charged against this account.

General loan loss reserve pertains to the accumulated amount of appropriation from Surplus made by the Group arising from the excess of the one-percent general loan loss provisions for outstanding loans as required by the BSP under Circular No. 1011, *Guidelines on the Adoption of PFRS 9* (Circular No. 1011) over the computed allowance for ECL.

Other reserves refer to the amount attributable to the Parent Company arising from the changes in the ownership of the NCI in the Group.

Surplus represents all current and prior period results of operations as disclosed in the statement of profit or loss, reduced by the amount of dividends declared.

NCI represents the portion of the net assets and profit or loss not attributable to the Group and are presented separately in the consolidated statement of profit or loss and consolidated statement of comprehensive income and within equity in the consolidated statement of financial position and consolidated statement of changes in equity.

### *2.14 Other Income and Expense Recognition*

Revenue is recognized when (or as) the Group satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Group's financial statements may partially be within the scope of PFRS 9 and partially within the scope of PFRS 15, *Revenue from Contracts from Customers*. In such case, the Group first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Costs and expenses, if any, are recognized in profit or loss upon utilization of the assets and/or services or at the date those are incurred. All finance costs are reported in profit or loss on accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset, if any (see Note 2.19).

The Group assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or agent. The Group concluded that it is acting as a principal in all its revenue arrangements except for certain brokerage transactions.

For revenues arising from various services which are to be accounted for under PFRS 15, the following provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

(a) *Charges, Fees and Commissions*

The following charges, fees and commissions are recognized as follows:

(i) *Commissions and fees* – these income arising from loans, deposits, and other banking and brokerage transactions are recognized as income based on agreed terms and conditions with customers, which are generally when the services have been performed.

(ii) *Annual membership fees* – pertains to annual fees charged to credit cardholders. Revenues from membership fees are recognized over time from the date of renewal of the credit card until the validity date covered by the said renewal, usually termed as the expiry date of the issued cards. The credit card's validity period is deemed to be the servicing period.

(iii) *Interchange fees, net of interchange costs* – are recognized as income upon presentation by member establishments of charges arising from RBSC and non-RBSC (associated with MasterCard, JCB, VISA and China UnionPay labels) credit card availments passing through the Point of Sale (POS) terminals of the Parent Company. These discounts are computed based on agreed rates and are deducted from the amounts remitted to member establishments. Interchange costs pertain to the other credit card companies' share in RBSC's merchant discounts whenever their issued credit cards transact in the Parent Company's POS terminals.

The Parent Company has a rewards program related to its deposit, loans and credit card operations, which allows its cardholders to accumulate award credits or loyalty points that can be redeemed for free products. The loyalty points give rise to a separate performance obligation as they provide a material right to the cardholder. Accordingly, the Parent Company allocates a portion of the interchange fee billed to participating merchants to the loyalty points granted to cardholders based on relative stand-alone selling price and recognizes liability equivalent to the estimated loyalty points until these are redeemed. Revenue is recognized upon actual redemption by the cardholder.

(iv) *Loan syndication fees* – are recognized as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

(v) *Underwriting and arrangers fees* – are fees arising from negotiating, or participating in the negotiation of a transaction for a third party such as arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized at the completion of the underlying transaction and where there are no further obligations to perform under the agreement.

(b) *Trust Fees*

These are service fees calculated in reference to the net asset value of the funds managed and deducted from the customer's account balance on a monthly basis which are recognized over time as the asset management services are provided. These are also applicable for wealth management and asset custody services that are continuously provided over an extended period of time.

For other income outside the scope of PFRS 15, the following provides information about the nature and the related revenue recognition policies:

*(a) Trading and Securities Gains (Losses)*

These are recognized when the ownership of the securities is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the securities disposed of. These also include trading gains and losses as a result of the mark-to-market valuation of investment securities classified as FVTPL.

*(b) Gain on Assets Sold*

Gain on assets sold arise from the disposals of bank premises, furniture, fixtures and equipment, investment properties, real estate properties for sale, and assets held-for-sale. The Group recognizes the gain on sale at the time the control of the assets is transferred to the buyer, when the Group does not retain either continuing managerial involvement to the degree usually associated with ownership, or effective control over the assets sold, and when the collectability of the entire sales price is reasonably assured. Gain on assets sold are included as part of Other Operating Income account in the statement of profit or loss.

*(c) Dividend Income*

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

*(a) Recoveries from Assets Written Off*

These are income recognized from the increase in carrying amount of assets previously written off. The amount of reversal does not exceed the amount of impairment loss previously recognized for the related asset.

Collections from accounts, which did not qualify for revenue recognition are treated as customers' deposit included as part of Accounts payable under Other Liabilities account in the statement of financial position.

### *2.15 Leases*

The Group accounts for its leases as follows:

*(a) Group as Lessee*

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

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

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

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

At lease commencement date, the Group recognizes a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, estimates of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

Subsequently, the Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.17).

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or to profit and loss if the right-of-use asset is already reduced to zero.

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

On the statement of financial position, Right-of-use assets and Lease liabilities have been included as part of Bank Premises, Furniture, Fixtures and Equipment, and Other Liabilities, respectively in the statement of financial position.

*(b)* *Group as Lessor*

Leases which transfer to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented 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, and is included as part of Interest Income on loans and receivables.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term. These are recognized as part of Miscellaneous income under Other Operating Income account in the statement of profit or loss.

*(c) Sale and Leaseback Transaction*

As a seller-lessee, the Group measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Group. Accordingly, the Group recognizes only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

### *2.16 Foreign Currency Transactions and Translations*

The Group's transactions in foreign currencies are accounted for as follows:

*(a) Transactions and Balances*

Except for the foreign subsidiaries and accounts of the Group's foreign currency deposit unit (FCDU), the accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing at transaction dates. Resources and liabilities denominated in U.S. dollars are translated to Philippine pesos at the prevailing Philippine Dealing System closing rates (PDSCR) at the end of the reporting period.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss, except when recognized in other comprehensive income and deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary items, such as equity securities classified as at FVTPL, are reported as part of fair value gain or loss in profit or loss.

For financial reporting purposes, the accounts of the FCDU are translated into their equivalents in Philippine pesos based on the prevailing PDSCR at the end of each reporting period (for resources and liabilities) and at the weighted average PDSCR for the period (for income and expenses). Any foreign exchange difference is recognized in profit or loss.

Changes in the fair value of monetary financial assets (debt securities) denominated in foreign currency classified as financial assets at FVTPL and financial assets at FVOCI are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Accordingly, translation differences related to changes in amortized cost of investment in debt securities are recognized in profit or loss, and other changes in the carrying amount are recognized as gains and losses in other comprehensive income.

*(b) Translation of Financial Statements of Foreign Subsidiaries*

The results of operations and financial position of all the Group's foreign subsidiaries (none of which has the currency dependency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

*(i)* Assets and liabilities at the end of each reporting period as presented in the statement of financial position are translated at the closing rate at the date of that statement of financial position;

*(ii)* Income and expenses are translated at average exchange rates during the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions' dates, in which case income and expenses are translated at the dates of the transactions); and,

*(iii)* All resulting exchange differences are recognized as a component of equity. In consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognized in other comprehensive income which form part of Revaluation Reserves account in equity. When a foreign operation is sold, the accumulated translation and exchange differences are recognized in profit or loss as part of the gain or loss on assets sold.

The translation of the financial statements into Philippine peso should not be construed as a representation that the amounts stated in currencies other than the Philippine peso could be converted in Philippine peso amounts at the translation rates or at any other rates of exchange.

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

Investments in subsidiaries and associates, bank premises, furniture, fixtures and equipment (including right-of-use asset), investment properties, and other resources (including intangible assets, and assets held for sale and disposal group) and other non-financial assets are subject to impairment testing. Intangible assets (including goodwill, branch licenses and trading right) with an indefinite useful life or those not yet available for use are tested for impairment at least annually.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows [cash-generating units (CGU)]. As a result, some assets are tested for impairment either individually or at the CGU level. Except for intangible assets with an indefinite useful life (i.e., goodwill, branch licenses and trading right) or those not yet available for use, individual assets or CGU are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where 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, an impairment loss is recognized immediately in profit or loss. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

Other intangible assets with indefinite useful lives, branch licenses and exchange trading right, are tested for impairment either individually or at the cash generating unit level, as appropriate when circumstances indicate that the intangible asset may be impaired.

Impairment loss is recognized in profit or loss for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction, while in determining value in use, management estimates the expected future cash flows to be generated from the continued use of the asset or CGU, and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each CGU and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets, except for intangible assets with indefinite useful life, are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or CGU's recoverable amount exceeds its carrying amount.

## *2.18 Employee Benefits*

Entities under the Group provide respective post-employment benefits to employees through a defined benefit plan and defined contribution plan, as well as other benefits, which are recognized and measured as follows:

*(a) Post-employment Defined Benefit Plan*

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's post-employment defined benefit plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by trustees.

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

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and other changes in actuarial assumptions, effect of the changes to the asset ceiling, if any, and actual return on plan assets (excluding amount included in net interest), are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income (loss) in the period in which they arise. Remeasurements are not reclassified to profit or loss in the subsequent periods.

Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Other Interest Income or Interest Expense from Bills Payable and Other Borrowings accounts in the statement of profit or loss.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

(b) *Post-employment Defined Contribution Plan*

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

(c) *Short-term Benefits*

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

(d) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The Group recognizes termination benefits at the earlier of: (i) when it can no longer withdraw the offer of such benefits, and, (ii) when it recognizes costs for a restructuring that is within the scope of PAS 37 involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(e) *Bonus Plans*

The Group recognizes a liability and an expense for bonuses, based on a fixed formula. The Group recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(f) *Compensated Absences*

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

### *2.19 Borrowing Costs*

Borrowing costs are recognized as expense in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are completed.

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

### *2.20 Income Taxes*

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

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

Deferred tax is provided using the liability method, on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax assets can be utilized. Deferred tax assets are reassessed at the end of each reporting period. Previously unrecognized deferred tax assets are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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

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

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

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

Deferred tax assets and deferred tax liabilities recognized by the entities under the Group are offset if they have a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

### *2.21 Related Party Relationships and Transactions*

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

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

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

All material related party transactions shall be approved by at least two-thirds vote of the BOD, with at least a majority of the independent directors voting to approve the material related party transactions. In case that a majority of the independent directors' is not secured, the material related party transaction may be ratified by the vote of the stockholders representing at least two-thirds of the outstanding capital stock. Transactions amounting to 10% or more of the consolidated total resources based on the latest audited consolidated financial statements entered into with related parties are considered material.

### *2.22 Earnings and Dilutive Earning Per Share*

Basic earnings per share (EPS) is determined by dividing the adjusted net profit for the year attributable to common shareholders by the weighted average number of common stocks outstanding during the period, after giving retroactive effect to any stock dividends declared in the current period.

Diluted EPS is also computed by dividing net profit by the weighted average number of common stocks subscribed and issued during the period. However, net profit attributable to common stocks and the weighted average number of common stocks outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred stocks. Convertible preferred stocks are deemed to have been converted into common stocks at the issuance of preferred stocks.

In cases of redemption of preference shares, the net income used in the computation of basic and diluted EPS is decreased by the excess of the fair value of consideration paid to holders of the instruments over the carrying amount of such repurchased instruments.

### *2.23 Trust and Fiduciary Activities*

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The resources, liabilities and income or loss arising thereon are excluded from these financial statements, as these are neither resources nor income of the Group.

### *2.24 Events After the End of the Reporting Period*

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

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately vary from these estimates.

### *3.1 Critical Management Judgments in Applying Accounting Policies*

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

*(a) Application of ECL to Financial Assets at Amortized Cost and Financial Assets at FVOCI*

The Group uses the general approach to calculate ECL for all debt instruments carried at amortized cost and FVOCI, together with loan commitments and financial guarantee contracts. The allowance for impairment is based on the ECLs associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

The Group has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

*(b) Evaluation of Business Models Applied in Managing Financial Instruments*

The Group manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely, its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for trading activities consistent with its risk appetite.

The Group's business models reflect how it manages its portfolio of financial instruments. The Group's business models need not be assessed at entity level or as a whole but applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument, the Group evaluates in which business model a financial instrument or a portfolio of financial instruments belongs to taking into consideration the objectives of each business model established by the Group (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Group's investment, trading and lending strategies.

If more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with the HTC business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

There is no disposal of HTC investments in 2022 and 2021.

In 2022, the Parent Company started to perform evaluation of its business models for HTC and FVOCI investments as a result of internal changes on how it manages these financial assets. Such changes are determined by senior management as significant to the Parent Company's operations wherein it implemented adjustments to its portfolio strategies in light of the revised long-term outlook following the pandemic and other global developments. Revisions in the business models may result in reclassifications in the categories of portfolio investments to be effected only at the beginning of the next reporting period following the change in business model. The Parent Company expects to complete its assessment before the end of year 2023.

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

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

*(d) Determination of Timing of Satisfaction of Performance Obligation*

The Group determines that its revenue shall be recognized at a point in time for loan syndication and underwriting fees and commission. In making its judgment, the Group considers the timing of receipt and consumption of benefits provided by the Group to the customers. The services provided by the Group would need substantial reperformance from other entities. This demonstrates that the customers do not simultaneously receive and consume the benefits provided by the Group.

For the revenues from services related to credit card membership and account management, the Group determines that its revenues shall be recognized over time. In making its judgment, the Group considers the timing of receipt and consumption of benefits provided to the customers. As the work is performed, the Group becomes entitled to payments. This demonstrates that the customers simultaneously receive and consume the benefits of the Group's rendering of these services as it performs.

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

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

For leases of offices, branches, machineries and equipment, the factors that are normally the most relevant are (a) if there are significant penalties should the Group pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Group is reasonably certain to extend and not to terminate the lease contract.

The Group did not include renewal options as part of the lease term as the terms are renewable upon mutual agreement.

The lease term is reassessed if an option is actually exercised or not exercised or the Group becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Group.

*(f) Distinction Between Investment Properties and Owner-occupied Properties*

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

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease) then these portions can be accounted for separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in operations or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property.

In 2021, the Group has a certain building which comprise a portion that is held for rental and other portion is used for operations which were classified by the Group as Investment Properties or as part of Bank Premises, Furniture, Fixtures and Equipment according to its current use. In 2022, the related property is sold (see Notes 13 and 14).

*(g) Distinction Between Operating and Finance Leases where the Group is the Lessor*

The Group has entered into various lease agreements as a lessor. Judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets or liabilities (see Note 2.15).

In determining whether the lease arrangements of the Parent Company and RCBC LFC qualify as a finance lease, the following factors have been considered:

*(i)* the lease provides the lessee an option to purchase the asset; or,

*(ii)* the lease transfers ownership of the property at the end of the lease and the related lease terms approximate the estimate useful life of the asset being leased.

*(h) Classification and Determination of Fair Value of Acquired Properties*

The Group classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets held-for-sale and disposal group presented under Other Resources account if the Group expects that the assets will be sold within one year from the date of recognition, or as Investment Properties if held for rental or for currently undetermined future use and is regarded as held for capital appreciation, or as financial assets. At initial recognition, the Group determines the fair value of acquired properties through internal and external appraisal depending on the Group's threshold policy. The appraised value is determined based on the current economic and market conditions, as well as the physical condition of the property.

The Group's methodology in determining the fair value of Investment Properties are further discussed in Note 7.4.

*(i) Assessment of Significant Influence on HCPI in which the Group and the Parent Company Holds Less than 20% Ownership*

The management considers that the Group and the Parent Company have significant influence on HCPI even though it holds less than 20% of the outstanding ordinary shares of the latter. In making this judgment, management considered the Group's and the Parent Company's agreement with another stockholder of HCPI to commit and undertake to vote, and to regulate the conduct of voting and the relationship between them with respect to their exercise of their voting rights (see Note 12.1).

*(j) Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.12 and relevant disclosures are presented in Note 28. In dealing with the Group's various legal proceedings, the Group's estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Group's internal and outside counsels acting in defense for the Group and the Parent Company's legal cases and are based upon the analysis of probable results.

Although the Group does not believe that its on-going proceedings, as disclosed in Note 28, will have material adverse effect on the Group's financial position, it is possible that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies conducted relating to those proceedings.

### *3.2 Key Sources of Estimation Uncertainty*

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

*(a) Estimation of Expected Credit Loss on Financial Assets*

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

Significant factors affecting the estimates on the ECL model include:

- internal rating matrix which determines the PD to be assigned to a financial asset;
- criteria for assessing if there has been an SICR and when a financial asset will be transferred between the three stages;
- the Group's definition of default for different segments of credit exposures that considers the regulatory requirements;
- establishing groups of similar financial assets (i.e., segmentation) for the purposes of measuring ECL on a collective basis;
- establishment of LGD parameters based on historical recovery rates of claims against defaulted counterparties across different group of financial instruments; and,
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

The explanation of inputs, assumptions and estimation techniques used in measuring ECL and the analysis of the allowance for ECL on various groups of financial instruments is further discussed in Note 4.4.

*(b) Fair Value Measurement for Financial Assets at FVTPL and at FVOCI*

The Group carries certain financial assets at fair value which requires judgment and extensive use of accounting estimates. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another financial instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument or other more appropriated valuation techniques (see Note 7.2).

The amount of changes in fair value would differ if the Group had utilized different valuation methods and assumptions. Any change in fair value of the financial assets and financial liabilities would affect profit or loss or other comprehensive income. The fair value of derivative financial instruments that are not quoted in an active market is determined through valuation techniques using the net present value computation (see Note 7.2).

The carrying values of the Group's and the Parent Company's trading and investment securities and the amounts of fair value changes recognized on those financial assets are disclosed in Note 10.

*(c) Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Assets, Investment Properties, Computer Software, Goodwill, Branch Licenses and Trading Right*

The Group estimates the useful lives of bank premises, furniture, fixtures and equipment, including right-of-use assets, investment properties and computer software based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The Group's goodwill, branch licenses and trading right were regarded as having indefinite useful lives considering there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the Group. The assessment of having indefinite useful lives is reviewed periodically and is updated whether events and circumstances such as the period of control over these assets and legal or similar limits on the use of these assets continue to support such assessment.

The carrying amounts of bank premises, furniture, fixtures and equipment, including right-of-use assets, investment properties and computer software are analyzed in Notes 13, 14 and 15, respectively, while the carrying amounts of goodwill, branch licenses and trading right are analyzed in Note 15. Based on management's assessment as of December 31, 2022 and 2021, there are no changes in the useful lives of these assets. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

*(d) Determination of Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Significant judgment is applied by management to determine the amount of deferred tax assets that can be recognized based on the likely timing and level of the Group's future taxable income together with its future tax planning strategies. The Group assessed its projected performance in determining the sufficiency of the future taxable income to support the recognition of deferred tax assets.

The carrying values of recognized and unrecognized deferred tax assets as of December 31, 2022 and 2021 are disclosed in Note 25.1.

*(e) Estimation of Impairment Losses of Non-financial Assets*

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indications are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.17.

The Group assesses impairment on these non-financial assets and considers the following important indicators:

- significant changes in asset usage;
- significant decline in assets' market value;
- obsolescence or physical damage of an asset;
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of usage of the acquired assets or the strategy for the Group's overall business; and,
- significant negative industry or economic trends.

If such indications are present and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Though management believes that the assumptions used in the estimation of fair values of non-financial assets are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

*(f) Determination of Fair Value of Investment Properties*

The Group's investment properties are composed of parcels of land, buildings and condominium units which are held for capital appreciation or held-for-lease, and are measured using cost model. The estimated fair value of investment properties disclosed in Note 7.4 is determined by either an independent or internal appraiser on the basis of current appraised values of the properties or similar properties in the same location and condition.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

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

*(g) Determination of Appropriate Discount Rate in Measuring Lease Liabilities*

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

*(h) Recognition of Reward Points*

The Group has a reward program related to its deposits, loans and credit card operations, which allows its cardholders to accumulate award credits or loyalty points that can be redeemed for free products.

The Group allocated a portion of the interchange fee billed to participating merchants to the loyalty points granted to cardholders based on relative stand-alone selling price and recognizes liability equivalent to the estimated loyalty points until these are redeemed.

(i) *Valuation of Post-employment Defined Benefits*

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

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

## 4. RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group is exposed to risks in relation to its operating, investing, and financing activities, and the business environment in which it operates. The Group's objectives in risk management are to ensure that it identifies, measures, monitors, and controls the various risks that arise from its business activities, and that it adheres strictly to the policies, procedures, and control systems which are established to address these risks.

A committee system is a fundamental part of the Group's process of managing risk. The following five committees of the Parent Company's BOD are relevant in this context:

- The Executive Committee, which meets weekly, has the power to act and pass upon such matters as the BOD may entrust to it for action in between BOD meetings. It may also consider and approve loans and other credit related matters, investments, purchase of shares of stock, bonds, securities and other commercial papers for the Bank's portfolio. The Executive Committee also has the power to review an asset or loan to ensure timely resolution and recognition of losses of impaired assets.

- The Risk Oversight Committee (ROC), which meets monthly, carries out the BOD's oversight responsibility for Group's capital adequacy and risk management strategy and actions covering credit, market and operational risks under Pillar I of the Basel framework; as well as the management of other material risks determined under Pillar II and the Internal Capital Adequacy Assessment Process (ICAAP) (see Note 5.2). Risk limits are reviewed and approved by the ROC.

- The Audit and Compliance Committee (ACC), which meets monthly, reviews the results of the Internal Audit examinations and recommends remedial actions to the BOD as appropriate. The ACC also performs oversight functions over the Regulatory Affairs Group on matters such as compliance risk assessment, annual testing work plan, compliance breaches, and other regulatory issues.

- The Related Party Transactions (RPT) Committee, which meets monthly and as necessary, reviews proposed RPT within the materiality threshold to determine whether or not the transaction is on terms no less favorable to the Group than terms available to any unconnected third party under the same or similar circumstances. On favorable review, the RPT Committee endorses transactions to the BOD for approval.

- The Anti-Money Laundering (AML) Board Committee, which meets monthly, oversees the implementation of the Bank's Money Laundering and Terrorist Financing Prevention Program (MTPP) and ensures that Money Laundering/Terrorist Financing risks are effectively managed. The AML Board Committee also ensures that infractions are immediately corrected, issues are addressed and AML training of directors, officers, and staff are regularly conducted.

Four senior management committees also provide a regular forum to take up risk issues.

- The Credit and Collection Committee (CRECOL), chaired by the Chief Executive Officer (CEO) and composed of the heads of credit risk-taking business units and the head of credit management group, meets weekly to review and approve credit exposures within its authority. It also reviews plans and progress on the resolution of problem loan accounts.

- The Asset/Liability Committee (ALCO), chaired by the Treasurer of the Parent Company and with the participation of the CEO and key business and support unit heads meets weekly to appraise market trends, and economic and political developments. It provides direction in the management of interest rate risk, liquidity risk, foreign currency risk, and trading and investment portfolio decisions. It sets prices or rates for various asset and liability, and trading products, in light of funding costs and competitive and other market conditions. It receives confirmation that market risk limits (as described in the succeeding pages) are not breached; or if breached, it provides guidance on the handling of the relevant risk exposure in between ROC meetings.

- The Related Party Transactions Management Committee (RPT ManCom), composed of the Group Heads of the business units as specified in the charter or their respective designates. It meets monthly to review and approve proposed RPT within the materiality threshold for the purpose of determining whether or not the transaction is on terms no less favorable to the Bank than terms available to any unconnected third party under the same or similar circumstances unless the transaction requires BOD approval. On favorable review, the RPT ManCom endorses the transaction for BOD confirmation.

- The Anti-Money Laundering Management Committee (AML ManCom), which meets weekly, evaluates the unusual/suspicious transaction reported by the different bank units, RCBC Business Centers, alerts that are generated by our Screening System (Accuity), Transaction Monitoring System (Predator) and other referrals from relevant Regulators to determine the filing of Suspicious Transaction Reports (STRs) to the Anti-Money Laundering Council (AMLC).

  The AML ManCom is composed of the Chief Compliance Officer as the Chairperson and Presiding Officer and the Heads of Operations Group, Retail Banking Group, Controllership Group, Legal Affairs Group, Risk Management Group or their duly appointed designates, as members, and Investigators from the Compliance Operations Division (COD) as the Rapporteur. The AMRD, through the Chief Compliance Officer, reports to the AML Board Committee its monthly activities including the results of the AML ManCom meetings.

The Parent Company established a Risk Management Group (RMG), headed by the Chief Risk Officer, to ensure that consistent implementation of the objectives of risk identification, measurement and/or assessment, mitigation, and monitoring are pursued via practices commensurate with the group-wide risk profile.

In addition to established risk management systems and controls, the Group holds capital commensurate with the levels of risk it undertakes (see Note 5), in accordance with regulatory capital standards and internal benchmarks set by the Parent Company's BOD.

### *4.1 Group's Strategy in Using Financial Instruments*

It is the Group's intent to generate returns mainly from the traditional financial intermediation and service-provision activities, augmented by returns from positions based on views on the financial markets. The main source of risk, therefore, remains to be that arising from credit risk exposures. Nevertheless, within BSP regulatory constraints, and subject to limits and parameters established by the BOD and/or the ROC, the Group is exposed to liquidity risk and interest rate risk inherent in the Group's operations, and other market risks, which include foreign exchange risk.

In the course of performing financial intermediation function, the Group accepts deposits from customers at fixed and floating rates, and for various periods, and seeks to earn interest margins by investing these funds in high-quality assets. The conventional strategy to enhance net interest margin is the investment of short-term funds in longer-term assets, such as fixed-income securities. While, in doing so, the Group maintains liquidity at prudent levels to meet all claims that fall due, the Group fully recognizes the consequent interest rate risk exposure.

The Group's investment portfolio is composed mainly of marketable, sovereign and corporate debt instruments.

The Parent Company was granted by the BSP additional derivatives authorities effective January 2011. Products approved under the Limited Dealer Authority (Type 2) are foreign currency forwards, non-deliverable forwards, interest rate and cross currency swaps while credit-linked notes and bond options were approved under the Limited User Authority (Type 3). In February 2012, bond forwards, non-deliverable swaps and foreign exchange options have been included under the same Type 3 license. In June 2013, the Parent Company was granted a Type 2 license non-deliverable swaps, foreign currency options, bond and interest rate options, and asset swaps. During the same period, additional Type 3 licenses for foreign exchange-option and bond-option linked notes were likewise approved. The Parent Company's derivatives portfolio consists mostly of short-term currency forward contracts and swaps, and interest rate swaps and futures.

### *4.2 Liquidity Risk*

Liquidity risk refers to current and prospective risk to earnings or capital arising from a 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. The Group manages liquidity risk by limiting the maturity mismatch between assets and liabilities, and by holding sufficient liquid assets of appropriate quality and marketability.

The Group recognizes the liquidity risk inherent in its activities, and identifies, measures, monitors and controls the liquidity risk inherent to the members of the Group which are financial intermediaries.

The Group's liquidity policy is to manage its operations to ensure that funds available are more than adequate to meet demands of its customers and to enable deposits to be repaid on maturity. The Group's liquidity policies and procedures are set out in its funding and liquidity plan which contains certain funding requirements based on assumptions and uses resources and liability maturity gap analysis.

The Group uses Maximum Cumulative Outflow (MCO) model to measure liquidity risk arising from mismatches of assets and liabilities. MCO is a liquidity gap tool to project cash flow expectations on a status quo condition. The MCO is generated by distributing the cash flows of the Group's assets, liabilities and off-balance sheet items to time buckets based cash flow expectations such as contractual maturity, nature of the account, behavioral patterns, projections on business strategies, and/or optionality of certain products.

The incorporation of behavioral cash flow assumptions and business projections or targets results in a dynamic gap report which realistically captures the behavior of the products and creates a forward-looking cash flow projection.

The Group monitors MCO regularly to ensure that it remains within the set limits. The Parent Company generates and monitors daily its MCO. The subsidiaries generate at least monthly their respective MCO reports. The liquidity profile of the Group is reported monthly to the Parent Company's ROC. To supplement the status quo scenario parameters reflected in the MCO report, the Group also conducts liquidity stress testing to determine the impact of extreme factors, scenarios and events to the Group's liquidity profile.

The gap analyses as of December 31, 2022 and 2021 are presented below.

| | Group 2022 | | | | | |
|---|---|---|---|---|---|---|
| | One to Three Months | Three Months to One Year | One to Five Years | More than Five Years | Non-maturity | Total |
| **Resources:** | | | | | | |
| Cash and cash equivalents | P 143,756 | P 1,941 | P 2,583 | P 1 | P 60,042 | P 208,323 |
| Investment - net | 104,192 | 6,773 | 69,882 | 187,972 | 5,546 | 374,365 |
| Loans and receivables - net | 31,278 | 23,537 | 39,306 | 47,412 | 398,315 | 539,848 |
| Other resources - net | 3,230 | 4,109 | 1,195 | 294 | 22,744 | 31,572 |
| Total resources | 282,456 | 36,360 | 112,966 | 235,679 | 486,647 | 1,154,108 |
| **Liabilities:** | | | | | | |
| Deposit liabilities | 182,086 | 24,074 | 10,413 | 4 | 640,667 | 857,244 |
| Bills payable | 48,571 | 10,848 | 6,863 | - | 378 | 66,660 |
| Bonds payable | 25,081 | 13,743 | 35,587 | - | - | 74,411 |
| Other liabilities | 14,506 | 11,385 | 428 | - | 13,113 | 39,432 |
| Total liabilities | 270,244 | 60,050 | 53,291 | 4 | 654,158 | 1,037,747 |
| **Equity** | - | - | - | - | 116,361 | 116,361 |
| Total liabilities and equity | 270,244 | 60,050 | 53,291 | 4 | 770,519 | 1,154,108 |
| **On-book gap** | 12,212 | ( 23,690) | 59,675 | 235,675 | ( 283,872) | - |
| **Cumulative on-book gap** | 12,212 | ( 11,478) | 48,197 | 283,872 | - | - |
| Contingent resources | 41,796 | - | - | - | - | 41,796 |
| Contingent liabilities | 62,608 | - | - | - | - | 62,608 |
| **Off-book gap** | ( 20,812) | - | - | - | - | ( 20,812) |
| **Cumulative off-book gap** | ( 20,812) | ( 20,812) | ( 20,812) | ( 20,812) | ( 20,812) | - |
| **Periodic gap** | **( 8,600)** | **( 23,690)** | **59,675** | **235,675** | **( 283,872)** | **20,812** |
| **Cumulative total gap** | **( P 8,600)** | **(P 32,290)** | **P 27,385** | **P 263,060** | **(P 20,812)** | **P -** |

| | Group 2021 | | | | | |
|---|---|---|---|---|---|---|
| | One to Three Months | Three Months to One Year | One to Five Years | More than Five Years | Non-maturity | Total |
| Resources: | | | | | | |
| Cash and cash equivalents | P 130,264 | P 5,523 | P 3,048 | P 1 | P 60,441 | P 199,277 |
| Investments - net | 7,593 | 2,901 | 26,666 | 176,914 | 5,161 | 219,235 |
| Loans and receivables - net | 31,319 | 21,174 | 40,637 | 48,351 | 366,258 | 507,739 |
| Other resources - net | 2,578 | 3,780 | 652 | 169 | 25,703 | 32,882 |
| Total resources | 171,754 | 33,378 | 71,003 | 225,435 | 457,563 | 959,133 |
| Liabilities: | | | | | | |
| Deposit liabilities | 108,927 | 34,938 | 12,391 | 9 | 516,194 | 672,459 |
| Bills payable | 23,560 | - | 32,344 | - | - | 55,904 |
| Bonds payable | - | 31,171 | 56,044 | - | - | 87,215 |
| Other liabilities | 8,053 | 5,907 | 330 | - | 18,185 | 32,475 |
| Total liabilities | 140,540 | 72,016 | 101,109 | 9 | 534,379 | 848,053 |
| Equity | - | - | - | - | 111,080 | 111,080 |
| Total liabilities and equity | 140,540 | 72,016 | 101,109 | 9 | 645,459 | 959,133 |
| On-book gap | 31,214 | ( 38,638) | ( 30,106) | 225,426 | ( 187,896) | - |
| Cumulative on-book gap | 31,214 | ( 7,424) | ( 37,530) | 187,896 | - | - |
| Contingent resources | 25,670 | - | - | - | - | 25,670 |
| Contingent liabilities | 35,842 | - | - | - | - | 35,842 |
| Off-book gap | ( 10,172) | - | - | - | - | ( 10,172) |
| Cumulative off-book gap | ( 10,172) | ( 10,172) | ( 10,172) | ( 10,172) | ( 10,172) | - |
| Periodic gap | 21,042 | ( 38,638) | ( 30,106) | 225,426 | ( 187,896) | 10,172 |
| Cumulative total gap | P 21,042 | (P 17,596) | (P 47,702) | P 177,724 | (P 10,172) | P - |

| | Parent Company 2022 | | | | | |
|---|---|---|---|---|---|---|
| | One to Three Months | Three Months to One Year | One to Five Years | More than Five Years | Non-maturity | Total |
| **Resources:** | | | | | | |
| Cash and cash equivalents | P 142,520 | P 1,525 | P 1,316 | P 1 | P 60,958 | P 206,320 |
| Investments - net | 102,319 | 6,773 | 69,882 | 187,972 | 4,786 | 371,732 |
| Loans and receivables - net | 30,438 | 22,856 | 32,869 | 47,409 | 398,621 | 532,193 |
| Other resources - net | 3,106 | 4,109 | 1,195 | 294 | 25,800 | 34,504 |
| Total resources | 278,383 | 35,263 | 105,262 | 235,676 | 490,165 | 1,144,749 |
| **Liabilities:** | | | | | | |
| Deposit liabilities | 181,529 | 23,903 | 10,410 | 4 | 641,793 | 857,639 |
| Bills payable | 48,142 | 8,995 | 1,254 | - | - | 58,391 |
| Bonds payable | 25,081 | 13,743 | 35,587 | - | - | 74,411 |
| Other liabilities | 13,975 | 11,366 | 428 | - | 12,255 | 38,024 |
| Total liabilities | 268,727 | 58,007 | 47,679 | 4 | 654,048 | 1,028,465 |
| **Equity** | - | - | - | - | 116,284 | 116,284 |
| Total liabilities and equity | 268,727 | 58,007 | 47,679 | 4 | 770,332 | 1,144,749 |
| **On-book gap** | 9,656 | ( 22,744) | 57,583 | 235,672 | ( 280,167) | - |
| **Cumulative on-book gap** | 9,656 | ( 13,088) | 44,495 | 280,167 | - | - |
| Contingent resources | 41,767 | - | - | - | - | 41,767 |
| Contingent liabilities | 48,956 | - | - | - | - | 48,956 |
| **Off-book gap** | ( 7,189) | - | - | - | - | ( 7,189) |
| **Cumulative off-book gap** | ( 7,189) | ( 7,189) | ( 7,189) | ( 7,189) | ( 7,189) | - |
| **Periodic gap** | **2,467** | **( 22,744)** | **57,583** | **235,672** | **( 280,167)** | **7,189** |
| **Cumulative total gap** | **P 2,467** | **( P 20,277)** | **P 37,306** | **P 272,978** | **(P 7,189)** | **P -** |

| | Parent Company 2021 | | | | | |
|---|---|---|---|---|---|---|
| | One to Three Months | Three Months to One Year | One to Five Years | More than Five Years | Non-maturity | Total |
| Resources: | | | | | | |
| Cash and cash equivalents | P 140,623 | P 4,478 | P 1,337 | P 1 | P 51,234 | P 197,673 |
| Investments - net | 5,663 | 2,901 | 26,666 | 176,914 | 4,033 | 216,177 |
| Loans and receivables - net | 30,424 | 20,624 | 34,555 | 48,349 | 365,949 | 499,901 |
| Other resources - net | 2,468 | 3,780 | 652 | 169 | 29,474 | 36,543 |
| Total resources | 179,178 | 31,783 | 63,210 | 225,433 | 450,690 | 950,294 |
| Liabilities: | | | | | | |
| Deposit liabilities | 108,526 | 34,802 | 12,383 | 9 | 518,694 | 674,414 |
| Bills payable | 23,560 | - | 22,839 | - | - | 46,399 |
| Bonds payable | - | 31,171 | 56,044 | - | - | 87,215 |
| Other liabilities | 7,289 | 5,889 | 330 | - | 17,765 | 31,273 |
| Total liabilities | 139,375 | 71,862 | 91,596 | 9 | 536,459 | 839,301 |
| Equity | - | - | - | - | 110,993 | 110,993 |
| Total liabilities and equity | 139,375 | 71,862 | 91,596 | 9 | 647,452 | 950,294 |
| On-book gap | 39,803 | ( 40,079) | ( 28,386) | 225,424 | ( 196,762) | - |
| Cumulative on-book gap | 39,803 | ( 276) | ( 28,662) | 196,762 | - | - |
| Contingent resources | 25,667 | - | - | - | - | 25,667 |
| Contingent liabilities | 22,561 | - | - | - | - | 22,561 |
| Off-book gap | 3,106 | - | - | - | - | 3,106 |
| Cumulative off-book gap | 3,106 | 3,106 | 3,106 | 3,106 | 3,106 | - |
| Periodic gap | 42,909 | ( 40,079) | ( 28,386) | 225,424 | ( 196,762) | ( 3,106) |
| Cumulative total gap | P 42,909 | P 2,830 | (P 25,556) | P 199,868 | P 3,106 | P - |

Pursuant to applicable BSP regulations, the Group is required to maintain reserves against deposit liabilities which are based on certain percentages of deposits. The required reserves against deposit liabilities shall be kept in the form of deposits placed in the Group's demand deposit accounts with the BSP. The BSP also requires the Parent Company to maintain asset cover of 100% for foreign currency-denominated liabilities of its FCDU.

### *4.2.1 Foreign Currency Liquidity Management*

The liquidity risk management policies and objectives described also apply to the management of any foreign currency to which the Group maintains significant exposure. Specifically, the Group ensures that its measurement, monitoring, and control systems account for these exposures as well. The Group sets and regularly reviews limits on the size of the cash flow mismatches for each significant individual currency and in aggregate over appropriate time horizons. The Group also assesses its access to foreign exchange markets when setting up its risk limits.

Following BSP Circular No. 639 on ICAAP, the Group likewise calculates and maintains a level of capital needed to support unexpected losses attributable to liquidity risk (see Note 5.2).

### *4.2.2 Liquidity Risk Stress*

To augment the effectiveness of the Group's gap analysis, the Group regularly assesses liquidity risk based on behavioral and hypothetical assumptions under stress conditions. Survivability and resilience of the Group are assessed for a minimum stress period of 30 days for all crisis scenarios enumerated in BSP Circular No. 981: *Guidelines on Liquidity Risk Management*. The results of these liquidity stress simulations are reported monthly to ALCO and ROC.

### *4.3 Market Risk*

The Group's exposure to market risk is the potential diminution of earnings arising from the adverse movement of market interest rates and foreign exchange rates, as well as the potential loss of market value, primarily of its holdings of foreign exchange currencies, debt securities and derivatives.

The market risks of the Group are: (a) foreign exchange risk, (b) interest rate risk and (c) equity price risk. The Group manages these risks via a process of identifying, analyzing, measuring and controlling relevant market risk factors, and establishing appropriate limits for the various exposures. The market risk metrics in use, each of which has a corresponding limit, include the following:

- Nominal Position – an open risk position that is held as of any point in time expressed in terms of the nominal amount of the exposure.

- Dollar Value of 01 (DV01) – an estimate of the price impact due to a one-basis point change in the yield of fixed income securities. It effectively captures both the nominal size of the portfolio as well as its duration. A given DV01 limit accommodates various combinations of portfolio nominal size and duration, thus providing a degree of flexibility to the trading/risk taking function, but at the same time represents a ceiling to the rate sensitivity of the exposure according to the Group's risk appetite.

- Value-at-Risk (VaR) – an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movements of the relevant market risk factors, and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Group uses a 99% confidence level for this measurement. VaR is used as a risk measure for trading positions, which are marked-to-market (as opposed to exposures resulting from banking, or accrual, book resources and liabilities). Foreign Exchange Position VaR uses a one-day holding period, while Fixed Income VaR uses a defeasance period assessed periodically as appropriate to allow an orderly unwinding of the position. VaR models are back-tested to ensure that results remain consistent with the expectations based on the chosen statistical confidence level. The Bank employs appropriate back-testing methodology to perform a "reality check" on the models used. More specifically, the current back-test procedure employs the "hypothetical P&L" method where the daily position from which the VaR was computed is marked-to-market using the closing price of that day and the closing price of the next trading day. Any change in value in excess of the day's VaR is treated as an exception.

The Parent Company uses VaR as an important tool for measuring market risk, they are cognizant of its limitations, notably the following:

- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

- VaR is based on historical volatility. Future volatility may be different due to either random, one-time events or structural changes (including changes in correlation). VaR may be unable to capture volatility due to either of these.

- The holding period assumption may not be valid in all cases, such as during periods of extremely stressed market liquidity.

- VaR is, by definition, an estimate at a specified level of confidence. Losses may occur beyond VaR. A 99% VaR implies that losses can exceed VaR 1% of the time.

- In cases where a parametric distribution is assumed to calculate VaR, the assumed distribution may not fit the actual distribution well.

- VaR assumes a static position over the holding period. In reality, trading positions change, even during the trading day.

In addition to the limits corresponding to the above measurements, the following are also in place:

- Loss Limit – represents a ceiling on accumulated month-to-date and year-to-date losses. For trading positions, a Management Action Trigger (MAT) is also usually defined to be at 50% of the Loss Limit. When MAT is breached, the risk-taking unit must consult with ALCO for approval of a course of action moving forward.

- Product Limit – the nominal position exposure for certain specific financial instruments is established.

Stress Testing, which uses more severe rate/price volatility and/or holding period assumptions, (relative to those used for VaR) is applied to marked-to-market positions to arrive at "worst case" loss estimates. This supplements the VaR measure, in recognition of its limitations mentioned above.

A summary of the VaR position of the trading portfolios at December 31 is as follows:

| | Group and Parent Company | | | |
|---|---|---|---|---|
| | **At December 31** | **Average** | **Maximum** | **Minimum** |
| **2022:** | | | | |
| Foreign currency risk | P 54 | P 56 | P 106 | P 27 |
| Interest rate risk | 639 | 435 | 639 | 376 |
| Overall | **P 693** | **P 491** | **P 745** | **P 403** |
| 2021: | | | | |
| Foreign currency risk | P 51 | P 56 | P 112 | P 37 |
| Interest rate risk | 501 | 425 | 769 | 183 |
| Overall | P 552 | P 481 | P 881 | P 220 |

| | Group and Parent Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | At December 31 | | Average | | Maximum | | Minimum | |
| 2020: | | | | | | | | |
| Foreign currency risk | P | 82 | P | 56 | P | 89 | P | 32 |
| Interest rate risk | | 260 | | 367 | | 984 | | 97 |
| Overall | P | 342 | P | 423 | P | 1,073 | P | 129 |

### *4.3.1 Foreign Exchange Risk*

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The net foreign exchange exposure, or the difference between foreign currency denominated assets and foreign currency denominated liabilities, is capped by current BSP regulations. Compliance with this ceiling by the Group and the respective foreign currency positions of its subsidiaries are reported to the BSP on a daily basis as required. Beyond this constraint, the Group manages its foreign exchange exposure by limiting it within the conservative levels justifiable from a return/risk perspective. In addition, the Group regularly calculates VaR for each currency position, which is incorporated in the foregoing market risk management discussion.

The following table sets forth the impact of reasonably possible changes in the USD exchange rate and other currencies per Philippine peso on pre-tax income and equity of the Group and Parent Company:

| | **Group and Parent Company** | | | | | |
|---|---|---|---|---|---|---|
| | **2022** | | | 2021 | | |
| | **Change in currency rate in %** | **Effect on profit before tax** | **Effect on equity** | Change in currency rate in % | Effect on profit before tax | Effect on equity |
| **Currency:** | | | | | | |
| USD | **+1.00%** | **P -** | **P -** | +1.00% | P 1 | P 1 |
| | **-1.00%** | **-** | **-** | -1.00% | ( 1) | ( 1) |
| EUR | **+1.00%** | **( 1)** | **( 1)** | +1.00% | ( 2) | ( 2) |
| | **-1.00%** | **1** | **1** | -1.00% | 2 | 2 |
| GBP | **+1.00%** | **( 2)** | **( 2)** | +1.00% | 1 | 1 |
| | **-1.00%** | **2** | **2** | -1.00% | ( 1) | ( 1) |
| Others | **+1.00%** | **5** | **5** | +1.00% | ( 3) | ( 3) |
| | **-1.00%** | **( 5)** | **( 5)** | -1.00% | 3 | 3 |

Closing exchange rates and weighted average rates (WAR) of USD to Philippine peso as of and for each of the year ended December 31 are as follows:

| | | **2022** | | 2021 | | 2020 |
|---|---|---|---|---|---|---|
| Closing | **P** | **55.76** | P | 50.99 | P | 48.04 |
| WAR | | **55.58** | | 49.26 | | 49.61 |

The breakdown of the financial resources and financial liabilities as to foreign and Philippine peso-denominated balances, after elimination of intercompany accounts or transactions, as of December 31 follows:

| | Group | | |
|---|---|---|---|
| | Foreign Currencies | Philippine Pesos | Total |
| **2022:** | | | |
| **Resources:** | | | |
| Cash and other cash items | P 1,111 | P 16,967 | P 18,078 |
| Due from BSP | - | 156,664 | 156,664 |
| Due from other banks | 4,866 | 970 | 5,836 |
| Loans arising from reverse repurchase agreements | - | 8,724 | 8,724 |
| Financial assets at FVTPL | 392 | 6,645 | 7,037 |
| Financial assets at FVOCI | 46,124 | 68,822 | 114,946 |
| Investment securities at amortized cost - net | 118,135 | 134,247 | 252,382 |
| Loans and receivables - net | 85,911 | 472,958 | 558,869 |
| Other resources | 417 | 787 | 1,204 |
| | **P 256,956** | **P 866,784** | **P 1,123,740** |
| **Liabilities:** | | | |
| Deposit liabilities | P 170,613 | P 686,631 | P 857,244 |
| Bills payable | 58,391 | 8,269 | 66,660 |
| Bonds payable | 41,782 | 32,629 | 74,411 |
| Accrued interest and other expenses | 1,507 | 6,350 | 7,857 |
| Other liabilities | 1,028 | 24,305 | 25,333 |
| | **P 273,321** | **P 758,184** | **P 1,031,505** |
| 2021: | | | |
| Resources: | | | |
| Cash and other cash items | P 718 | P 13,973 | P 14,691 |
| Due from BSP | - | 130,170 | 130,170 |
| Due from other banks | 10,721 | 1,441 | 12,162 |
| Loans arising from reverse repurchase agreements | - | 11,691 | 11,691 |
| Financial assets at FVTPL | 641 | 5,222 | 5,863 |
| Financial assets at FVOCI | 18,866 | 30,895 | 49,761 |
| Investment securities at amortized cost - net | 75,676 | 87,935 | 163,611 |
| Loans and receivables - net | 84,144 | 454,158 | 538,302 |
| Other resources | - | 825 | 825 |
| | P 190,766 | P 736,310 | P 927,076 |
| Liabilities: | | | |
| Deposit liabilities | P 120,601 | P 551,858 | P 672,459 |
| Bills payable | 46,398 | 9,506 | 55,904 |
| Bonds payable | 38,249 | 48,966 | 87,215 |
| Accrued interest and other expenses | 596 | 4,963 | 5,559 |
| Other liabilities | 1,224 | 20,426 | 21,650 |
| | P 207,068 | P 635,719 | P 842,787 |

| | Parent Company | | |
|---|---|---|---|
| | Foreign Currencies | Philippine Pesos | Total |
| **2022:** | | | |
| **Resources:** | | | |
| Cash and other cash items | P 1,111 | P 16,913 | P 18,024 |
| Due from BSP | - | 155,340 | 155,340 |
| Due from other banks | 4,866 | 517 | 5,383 |
| Loans arising from reverse repurchase agreements | - | 8,552 | 8,552 |
| Financial assets at FVTPL | 392 | 5,747 | 6,139 |
| Financial assets at FVOCI | 46,124 | 68,141 | 114,265 |
| Investment securities at amortized cost - net | 118,135 | 133,193 | 251,328 |
| Loans and receivables - net | 85,911 | 465,303 | 551,214 |
| Other resources | 417 | 785 | 1,202 |
| | **P 256,956** | **P 854,491** | **P 1,111,447** |
| **Liabilities:** | | | |
| Deposit liabilities | P 170,613 | P 687,026 | P 857,639 |
| Bills payable | 58,391 | - | 58,391 |
| Bonds payable | 41,782 | 32,629 | 74,411 |
| Accrued interest and other expenses | 1,507 | 6,156 | 7,663 |
| Other liabilities | 1,028 | 23,259 | 24,287 |
| | **P 273,321** | **P 749,070** | **P 1,022,391** |
| 2021: | | | |
| Resources: | | | |
| Cash and other cash items | P 716 | P 13,947 | P 14,663 |
| Due from BSP | - | 128,931 | 128,931 |
| Due from other banks | 10,721 | 1,139 | 11,860 |
| Loans arising from reverse repurchase agreements | - | 11,656 | 11,656 |
| Financial assets at FVTPL | 641 | 4,238 | 4,879 |
| Financial assets at FVOCI | 18,766 | 29,633 | 48,399 |
| Investment securities at amortized cost - net | 75,676 | 87,223 | 162,899 |
| Loans and receivables - net | 84,144 | 446,320 | 530,464 |
| Other resources | - | 823 | 823 |
| | P 190,664 | P 723,910 | P 914,574 |
| Liabilities: | | | |
| Deposit liabilities | P 120,601 | P 553,813 | P 674,414 |
| Bills payable | 46,398 | 1 | 46,399 |
| Bonds payable | 38,249 | 48,966 | 87,215 |
| Accrued interest and other expenses | 596 | 4,795 | 5,391 |
| Other liabilities | 1,224 | 19,343 | 20,567 |
| | P 207,068 | P 626,918 | P 833,986 |

### *4.3.2 Interest Rate Risk in the Banking Book (IRRBB)*

The interest rate risk inherent in the Group's financial statements arises from re-pricing mismatches between financial assets and financial liabilities. The IRRBB Management Framework details the Group's policy on managing its assets and liabilities to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

To aid the Group in managing IRRBB, the following measurement techniques are used. These are prepared and reported to ALCO and ROC, on a monthly basis.

| Technique | Description |
|---|---|
| **Interest Rate Gap or Re-pricing Gap** | *Contractual Gap*<br>Measures the sensitivity of assets, liabilities and off-balance sheet items towards changes in the market interest rates based on the re-pricing frequency of each item.<br><br>*Behavioral Gap*<br>Behavioral assumption (BeA) is applied to the contractual cash flows to reflect sensitivity to market conditions or behavioral characteristics (i.e., early redemption of deposits, prepayment of loans, etc.). |
| **Earnings Approach** | |
| Net Interest Income at Risk | Measures the sensitivity of earnings to market interest rates movements over a short- and medium-term horizon. Interest rate volatility is based on the maximum volatility of the 1-mo, 3-mo, 6-mo and 1-yr tenors over a 260-day look back. |
| **Economic Value Approach** | |
| Earnings-at-Risk | Measures the sensitivity of capital to market interest rates given the resulting Net Interest Income (NII)-at-Risk and fair value through profit and loss portfolio value-at-risk (FVTPL VaR). |
| Capital-at-Risk | Measures the sensitivity of capital to market interest rates given the resulting EaR and fair value through other comprehensive income value-at-risk (FVOCI VaR). |
| Economic Value of Equity (EVE) | Measures the sensitivity of economic value of all non-trading book assets, liabilities and interest rate sensitive off-balance sheet products to interest rate movements over a longer time horizon. |
| Stress Test | Assesses the ability to withstand such changes, usually in relation to the capacity of its capital and earnings to absorb potentially significant loses. Stress testing, which includes both scenario and sensitivity analysis, is an integral part of IRR management. Scenario analysis estimates possible outcomes given an event or series of events, while sensitivity analysis estimates the impact of change in one or only a few of model's significant parameters.<br><br>*Earnings approach*: NII-at-Risk Stress Test assumes gradual increase in Peso and USD interest rates to 400bps and 300bps, respectively. These are based on past local and global market events.<br><br>*Economic Value approach*: The EVE Stress Test uses Basel's six interest rate scenarios to capture parallel and non-parallel gap risks. The standardized scenarios are as follows: 1) parallel shock up; 2) parallel shock down; 3) steepener shock (short rates down and long rates up); 4) flattener shock (short rates up and long rates down; 5) short rates shock up; and, 6) short rates shock down. |

The interest rate gap analyses of financial assets and financial liabilities as of end of the reporting period based on re-pricing maturities are shown in the succeeding pages. It should be noted that such interest rate gap analyses are based on the following key assumptions:

- Loans and time deposits are subject to re-pricing on their contractual maturity dates. Non-performing loans, however, are not re-priced;

- Debt securities at amortized cost are bucketed based on their re-pricing profile;

- Held-for-trading securities and derivatives are considered as non-rate sensitive; and,

- For financial assets and financial liabilities with no definite re-pricing schedule or maturity, slotting is based on the Group's empirical assumptions.

These assumptions are reviewed on a regular basis. Similarly, other assumptions and behavioral models used in the preparation of other IRRBB metrics are also being reviewed, annually, at the minimum.

| | Group 2022 | | | | | |
|---|---|---|---|---|---|---|
| | One to Three Months | Three Months to One Year | One to Five Years | More than Five Years | Non-rate Sensitive | Total |
| **Resources:** | | | | | | |
| Cash and cash equivalents | P 162,611 | P 4,970 | P 1,403 | P 21,010 | P 18,329 | P 208,323 |
| Investments - net | 99,525 | 6,838 | 69,910 | 187,876 | 10,216 | 374,365 |
| Loans and receivables - net | 229,590 | 92,608 | 132,177 | 30,710 | 54,763 | 539,848 |
| Other resources - net | 3,283 | 1,082 | 1,113 | 423 | 25,671 | 31,572 |
| Total resources | 495,009 | 105,498 | 204,603 | 240,019 | 108,979 | 1,154,108 |
| **Liabilities:** | | | | | | |
| Deposit liabilities | 476,848 | 76,158 | 156,993 | 146,761 | 484 | 857,244 |
| Bills payable | 48,571 | 10,848 | 6,863 | - | 378 | 66,660 |
| Bonds payable | 25,081 | 13,743 | 35,587 | - | - | 74,411 |
| Other liabilities | 839 | 132 | 252 | - | 38,209 | 39,432 |
| Total liabilities | 551,339 | 100,881 | 199,695 | 146,761 | 39,071 | 1,037,747 |
| **Equity** | - | - | - | - | 116,361 | 116,361 |
| Total liabilities and equity | 551,339 | 100,881 | 199,695 | 146,761 | 155,432 | 1,154,108 |
| On-book gap | ( 56,330) | 4,617 | 4,908 | 93,258 | ( 46,453) | - |
| Cumulative on-book gap | ( 56,330) | ( 51,713) | ( 46,805) | 46,453 | - | - |
| Contingent resources | 41,796 | - | - | - | - | 41,796 |
| Contingent liabilities | 62,220 | - | - | - | - | 62,220 |
| **Off-book gap** | ( 20,424) | - | - | - | - | ( 20,424) |
| **Cumulative off-book gap** | ( 20,424) | ( 20,424) | ( 20,424) | ( 20,424) | ( 20,424) | - |
| **Periodic gap** | **( 76,754)** | **4,617** | **4,908** | **93,258** | **( 46,453)** | **20,424** |
| **Cumulative total gap** | **(P 76,754)** | **(P 72,137)** | **(P 67,229)** | **P 26,029** | **(P 20,424)** | **P -** |

| | Group 2021 | | | | | |
|---|---|---|---|---|---|---|
| | One to Three Months | Three Months to One Year | One to Five Years | More than Five Years | Non-rate Sensitive | Total |
| Resources: | | | | | | |
| Cash and cash equivalents | P 149,292 | P 6,613 | P 14,779 | P 13,773 | P 14,820 | P 199,277 |
| Investments - net | 3,694 | 1,758 | 26,914 | 176,739 | 10,130 | 219,235 |
| Loans and receivables - net | 212,486 | 88,138 | 144,070 | 36,581 | 26,464 | 507,739 |
| Other resources - net | 2,642 | 850 | 533 | 395 | 28,462 | 32,882 |
| Total resources | 368,114 | 97,359 | 186,296 | 227,488 | 79,876 | 959,133 |
| Liabilities: | | | | | | |
| Deposit liabilities | 307,238 | 57,063 | 160,125 | 147,743 | 290 | 672,459 |
| Bills payable | 23,560 | - | 32,344 | - | - | 55,904 |
| Bonds payable | - | 31,171 | 56,044 | - | - | 87,215 |
| Other liabilities | 764 | 238 | 570 | - | 30,903 | 32,475 |
| Total liabilities | 331,562 | 88,472 | 249,083 | 147,743 | 31,193 | 848,053 |
| Equity | - | - | - | - | 111,080 | 111,080 |
| Total liabilities and equity | 331,562 | 88,472 | 249,083 | 147,743 | 142,273 | 959,133 |
| On-book gap | 36,552 | 8,887 | ( 62,787) | 79,745 | ( 62,397) | - |
| Cumulative on-book gap | 36,552 | 45,439 | ( 17,348) | 62,397 | - | - |
| Contingent resources | 25,670 | - | - | - | - | 25,670 |
| Contingent liabilities | 35,983 | - | - | - | - | 35,983 |
| Off-book gap | ( 10,313) | - | - | - | - | ( 10,313) |
| Cumulative off-book gap | ( 10,313) | ( 10,313) | ( 10,313) | ( 10,313) | ( 10,313) | - |
| Periodic gap | 26,239 | 8,887 | ( 62,787) | 79,745 | ( 62,397) | 10,313 |
| Cumulative total gap | P 26,239 | P 35,126 | (P 27,661) | P 52,084 | (P 10,313) | P - |

| | Parent Company 2022 | | | | | |
|---|---|---|---|---|---|---|
| | One to Three Months | Three Months to One Year | One to Five Years | More than Five Years | Non-rate Sensitive | Total |
| **Resources:** | | | | | | |
| Cash and cash equivalents | P 161,376 | P 4,554 | P 136 | P 22,230 | P 18,024 | P 206,320 |
| Investments - net | 97,653 | 6,838 | 69,910 | 187,876 | 9,455 | 371,732 |
| Loans and receivables - net | 228,750 | 91,927 | 125,740 | 30,708 | 55,068 | 532,193 |
| Other resources - net | 3,159 | 1,081 | 1,113 | 423 | 28,728 | 34,504 |
| Total resources | 490,938 | 104,400 | 196,899 | 241,237 | 111,275 | 1,144,749 |
| **Liabilities:** | | | | | | |
| Deposit liabilities | 476,290 | 75,987 | 157,801 | 147,395 | 166 | 857,639 |
| Bills payable | 48,142 | 8,995 | 1,254 | - | - | 58,391 |
| Bonds payable | 25,081 | 13,743 | 35,587 | - | - | 74,411 |
| Other liabilities | 308 | 114 | 252 | - | 37,350 | 38,024 |
| Total liabilities | 549,821 | 98,839 | 194,894 | 147,395 | 37,516 | 1,028,465 |
| **Equity** | - | - | - | - | 116,284 | 116,284 |
| Total liabilities and equity | 549,821 | 98,839 | 194,894 | 147,395 | 153,800 | 1,144,749 |
| On-book gap | ( 58,883) | 5,561 | 2,005 | 93,842 | ( 42,525) | - |
| Cumulative on-book gap | ( 58,883) | ( 53,322) | ( 51,317) | 42,525 | - | - |
| Contingent resources | 41,767 | - | - | - | - | 41,767 |
| Contingent liabilities | 62,194 | - | - | - | - | 62,194 |
| Off-book gap | ( 20,427) | - | - | - | - | ( 20,427) |
| Cumulative off-book gap | ( 20,427) | ( 20,427) | ( 20,427) | ( 20,427) | ( 20,427) | - |
| **Periodic gap** | **( 79,310)** | **5,561** | **2,005** | **93,842** | **( 42,525)** | **20,427** |
| **Cumulative total gap** | **( P 79,310)** | **(P 73,749)** | **(P 71,744)** | **P 22,098** | **(P 20,427)** | **P -** |

| | Parent Company 2021 | | | | | |
|---|---|---|---|---|---|---|
| | One to Three Months | Three Months to One Year | One to Five Years | More than Five Years | Non-rate Sensitive | Total |
| Resources: | | | | | | |
| Cash and cash equivalents | P 147,996 | P 5,567 | P 15,674 | P 13,773 | P 14,663 | P 197,673 |
| Investments - net | 1,999 | 1,758 | 26,914 | 176,739 | 8,767 | 216,177 |
| Loans and receivables - net | 211,706 | 87,588 | 137,988 | 36,579 | 26,040 | 499,901 |
| Other resources - net | 2,532 | 849 | 533 | 395 | 32,234 | 36,543 |
| Total resources | 364,233 | 95,762 | 181,109 | 227,486 | 81,704 | 950,294 |
| Liabilities: | | | | | | |
| Deposit liabilities | 306,836 | 56,926 | 161,487 | 149,114 | 51 | 674,414 |
| Bills payable | 23,560 | - | 22,839 | - | - | 46,399 |
| Bonds payable | - | 31,171 | 56,044 | - | - | 87,215 |
| Other liabilities | - | 219 | 571 | - | 30,483 | 31,273 |
| Total liabilities | 330,396 | 88,316 | 240,941 | 149,114 | 30,534 | 839,301 |
| Equity | - | - | - | - | 110,993 | 110,993 |
| Total liabilities and equity | 330,396 | 88,316 | 240,941 | 149,114 | 141,527 | 950,294 |
| On-book gap | 33,837 | 7,446 | ( 59,832) | 78,372 | ( 59,823) | - |
| Cumulative on-book gap | 33,837 | 41,283 | ( 18,549) | 59,823 | - | - |
| Contingent resources | 25,667 | - | - | - | - | 25,667 |
| Contingent liabilities | 35,983 | - | - | - | - | 35,983 |
| Off-book gap | ( 10,316) | - | - | - | - | ( 10,316) |
| Cumulative off-book gap | ( 10,316) | ( 10,316) | ( 10,316) | ( 10,316) | ( 10,316) | - |
| Periodic gap | 23,521 | 7,446 | ( 59,832) | 78,372 | ( 59,823) | 10,316 |
| Cumulative total gap | P 23,521 | P 30,967 | (P 28,865) | P 49,507 | (P 10,316) | P - |

The table below summarizes the potential impact on the Group and the Parent Company's annual interest income of parallel rate shifts using the re-pricing.

| | **Changes in Interest Rates (in basis points)** | | | |
|---|---|---|---|---|
| | **- 100** | **- 200** | **+ 100** | **+ 200** |
| **December 31, 2022** | | | | |
| **Group** | **P 459** | **P 917** | **(P 459)** | **(P 917)** |
| **Parent Company** | **( 480)** | **( 960)** | **480** | **960** |
| December 31, 2021 | | | | |
| Group | (P 405) | (P 809) | P 405 | P 744 |
| Parent Company | ( 372) | ( 744) | 372 | 809 |

### *4.3.3 Equity Price Risk*

The Group's exposure to price risk on equity securities held and classified in the statement of financial position as financial assets at FVTPL or financial assets at FVOCI (under Trading and Investment Securities account) as of December 31, 2022 and 2021 is managed through diversification of portfolio and monitoring of changes in market prices. Diversification of the portfolio is done in accordance with the limits set by the Group.

Moreover, RCBC Capital and RSI estimate the potential loss and determine the market and position risk requirement on equity securities at FVTPL in the computation of the market and position risk requirement for all equity positions.

RCBC Capital uses the delta-normal approach as its VaR model to estimate the daily potential loss that can be incurred from equity securities held for trading. VaR is a key measure in the management of market price risk. VaR is defined as a statistical estimate of the maximum possible loss on a given position during a time horizon within a given confidence interval. RCBC Capital uses a 99% confidence level and a minimum 260-day observation period in VaR calculation. In addition, RSI computes its market and position risk for all equity positions, if any, in conjunction with the Risk Based Capital Adequacy ratio required to be maintained. Market and position risk requirement is calculated using position risk factor multiplied by mark-to-market value security.

### *4.4 Credit Risk*

Credit risk is the risk that the counterparty in a transaction may default, and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the Group. The Group manages credit risk through a system of policies and authorities that govern the processes and practices of all credit-originating and borrowing relationship management units.

The Enterprise Risk Division of RMG assists senior management: (a) in establishing risk concentration limits at the portfolio level; and (b) in the continuous monitoring of the actual credit risk portfolio from the perspective of those limits and other risk management objectives. The Credit Management Group (CMG), on the other hand, is responsible for: (a) the development of credit policies relating to account management; (b) the financial evaluation and credit risk rating of borrowers; and, (c) asset quality review.

At the individual borrower level, exposure to credit risk is managed via adherence to a set of policies, the most notable features of which, in this context, are: (a) credit approving authority, except as noted below, is not exercised by a single individual but rather, through a hierarchy of limits that is effectively exercised collectively; (b) business center (BC) managers have limited approval authority only for credit exposure related to deposit-taking operations in the form of bills purchase, acceptance of second endorsed checks and 1:1 loan accommodations; (c) an independent credit risk assessment by the CMG of large corporate and middle-market borrowers, summarized into a borrower risk rating, is provided as input to the credit decision-making process; and, (d) borrower credit analysis is performed at origination and at least annually thereafter or co-terminus with the renewal of the credit line. In addition, adverse economic and market conditions that may impact a certain borrower or a group of borrowers may trigger the Group to conduct a special credit review prior to expiry of credit line.

CMG also identifies homogenous target market and design Credit Programs that will accelerate credit processing of accounts without sacrificing underwriting quality, and, set up enhanced data framework that would deepen the Bank's ability to identify potential problem accounts earlier.

### *4.4.1 Concentrations of Credit Risk*

Credit risk concentration in the context of banking generally denotes the risk arising from an uneven distribution of counterparties in credit or in any other business relationships, or from a concentration in business sectors or geographic regions which is capable of generating losses large enough to jeopardize an institution's solvency. The Group monitors concentrations of credit risk by sector.

An analysis of concentrations of credit risk of the loan portfolio at the end of the reporting period is shown in Note 33.

In the course of the Group's implementation of ICAAP (see Note 5.2), it adopts a quantification of credit risk concentration following frameworks prescribed by some of the more advanced European central banks as well as established concentration metrics. Using sector distribution as a tool, the Group performs a straightforward application of the Herfindahl-Hirshman Index (HHI) to determine the existence of credit risk concentration. The Group supplements this methodology with the use of the Comprehensive Concentration Index (CCI) to monitor and analyze name concentration.

The Group, however, recognizes the inherent limitations of the use of HHI and CCI to assess credit concentration risk. To augment this measure and to appropriately manage said risk, the Group performs an in-depth analysis of its large borrowing groups. To ensure the independence of this process, the review and analysis are done during the ROC meetings.

### *4.4.2 Credit Risk Assessment*

The Group's credit risk assessment is performed based on the different segments of financial asset portfolio such as (a) corporate, which generally include corporate banking group loans, commercial and small-medium size segment loans, lease contract and finance receivables, and unquoted debt securities classified as loan (UDSCL), (b) retail, which include housing, auto, credit cards, and microfinance lending; and, (c) treasury, which covers credit exposures on debt securities under the Group's HTC portfolio and financial assets at FVOCI. The Group also established credit risk assessment procedures for sales contract receivables and other risk assets including accounts receivables.

*i.* *Corporate Loans*

Loans, regardless if the accounts have been fully paid, extended or renewed in subsequent period, are subjected to evaluation for possible losses. The Group's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions (or industry performance), expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such credit risk is measured using PD, LGD, and EAD, for purposes of measuring ECL.

The Group uses its internal credit risk rating system (ICRRS) to determine any evidence of potential deterioration in the quality of an instrument that take into consideration both quantitative and qualitative criteria. The rating system classifies performing accounts from a scale of AAA indicating an extremely strong capacity of the counterparty to meet financial commitments down to ratings lower than CCC demonstrating weakness in the counterparty's economic and financial condition that could lead to payment default on financial commitments. Past due accounts, accounts identified for phase-out and those that exhibit the characteristics of classified loans shall be risk-rated following the guidelines on credit classification per BSP Manual of Regulations for Banks and under the BSP Circular No. 1011, i.e., Especially Mentioned, Substandard, Doubtful or Loss. These guidelines are used by the Group to assign the individually assessed loan or a group of loans within a particular portfolio segment to a specific stage category under the PFRS 9 loan impairment standards (i.e., Stage 1, 2, 3).

The ICRRS is established by the Group in congruence with and with reference to the credit risk rating methodology used by Standard & Poor's (S&P) in measuring the creditworthiness of an individual borrower, whether the related borrowing is still performing or current in status. The risk ratings determined by the Group for its portfolio of loans and receivables at a given review date is updated to consider the possible shift in the economy or business environment or circumstances affecting the industry and the entity or borrower, in particular. Accordingly, a periodic assessment of credit quality may improve the borrower's rating or it could lead to one or more rating downgrades over time; hence, could lead to the transfer of credit exposure in different stages of impairment. The credit risk ratings in ICRRS are calibrated such that the risk of default increases exponentially at each higher risk rating (e.g., a difference in the PD between a risk rating of A and A- is lower than the difference in the PD between a B and B- risk rating).

In the process of applying the Group's ICRRS in determining the credit quality of loans and receivables, the Group analyzes the credit quality of the borrowers and counterparties through a set of criteria and rating scale classified into the following:

| Rating Scale | Rating Description/Criteria |
|---|---|
| AAA | Extremely strong capacity to meet financial commitments. |
| AA* | Very strong capacity to meet financial commitments. |
| A* | Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances. |
| BBB* | Adequate capacity to meet financial commitments, but more subject to adverse economic conditions. |
| BB* | Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions. |
| B* | More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments. |

* *Ratings from AA to CCC are modified by a plus (+) or minus (-) sign to show relative standing within the rating categories.*

| Rating Scale | Rating Description/Criteria |
|---|---|
| CCC and below* | Not at risk of loss at the moment and the borrower has the financial capacity to meet its obligations but its exposure to adverse business, financial or economic conditions has weakened it and, unless present trends are reversed, could eventually lead to losses. |
| Especially Mentioned | Has potential weaknesses that deserve management's close attention and if left uncorrected, these weaknesses may affect the repayment of the loan. |
| Substandard | Have well-defined weakness(es), that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower. |
| Doubtful | Loans and credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable. |
| Loss | Loans considered absolutely uncollectible or worthless. |

** Ratings from AA to CCC are modified by a plus (+) or minus (-) sign to show relative standing within the rating categories.*

As part of credit risk assessment documentation and reporting, the Group includes financial instruments rated as AAA to B- under the "Pass" classification, while instruments rated CCC+ and below are grouped under the Watchlisted classification. Generally, "Pass" classification includes loans and other credit accommodations that do not have a greater-than-normal credit risk and do not possess the characteristics of classified loans. These are credits that have the apparent ability and willingness to satisfy their obligations in full and therefore, no loss in ultimate collection is anticipated. On the other hand, watchlisted counterparties are characterized by the following:

- those that belong to an unfavorable industry or has company-specific risk factors which represent a concern;
- the operating performance and financial strength may be marginal and it is uncertain if borrower can attract alternative course of finance;
- borrower finds it hard to cope with any significant economic downturn and a default in such a case is more than a possibility; and,
- borrower incurs net losses and has salient financial weaknesses, reflected on their financial statements, specifically in profitability.

Split classification/rating may apply for non-performing secured loans and other credit accommodations, depending on the recoverability and liquidity of the collateral. The secured portion may be classified as "substandard" or "doubtful", as appropriate, while the unsecured portion shall be classified "loss" if there is no other source of payment other than the collateral.

In the case of syndicated loans, the Group shall maintain credit information on the borrower, and grade and make provision for its portion of the syndicated loan in accordance with its policy. The lead financial institution or bank shall provide participating financial institutions with the credit information on the borrower upon request by the participating financial institutions and inform the latter if the loan will be classified so as to achieve uniform classification of the syndicated loan.

*(ii) Retail and Other Products*

CMG is tasked to measure, control and manage credit risk on the consumer loans business of the Group through the performance of regular monitoring, reporting and recommendation of risk mitigation measures of the actual credit risk portfolio to the CRECOL and ROC, as well as accomplishment of the corresponding review and development of credit policies and guidelines to sustain asset quality.

For consumer loans, risk assessment is performed on an individual borrower through the use of a credit application scorecard for Housing, Auto and Personal Loans while for Corporate Salary Loans, rule-based credit criteria on company accreditation and borrower evaluation has been established. The credit application scorecard makes use of customer, loan and collateral characteristics which have been assigned weights based on their predictive power in determining the propensity of an account to default or maintain a satisfactory credit performance. Credit decisions are based on recommended score cut-offs.

Asset quality of the Group is monitored through a regular portfolio performance review including customer segmentation and loan concentration risk assessment to identify sources of risk and to determine risk mitigation on segments that drive delinquency or manifests triggers for default. Likewise, close monitoring and review of industry performance, economic changes and market conditions that may affect the consumer loans business is also taken into consideration to establish a holistic risk assessment process.

For the credit card portfolio of the Group, credit risk assessment is performed through segmentation process to diversify the portfolio risk into different homogeneous populations or segments. Over-all account distribution is analyzed for three different snapshots with respect to month-on-month days past due (DPD) to see consistency in the portfolio.

For microfinance and small business loans, regardless if the accounts have been fully paid, extended or renewed in subsequent period, are subjected to evaluation for possible losses. Credit risk assessment is performed based on groups of loan portfolio segmented by product type such as (a) credit accommodations to small-medium size borrowers; and, (b) agricultural and microfinance loans.

The Group classifies the consumer, microfinance and small business loans based on days past due following the categories that are consistent with the manner applied under the Group's internal credit risk assessment and regulatory reporting as follows:

| Bucket | Classification | Secured | Unsecured |
|---|---|---|---|
| Current | Unclassified | Unclassified | Unclassified |
| One to 30 days | Especially Mentioned | Unclassified | Especially Mentioned |
| 31 to 60 days | Especially Mentioned | Especially Mentioned | Especially Mentioned |
| 61 to 90 days | Substandard | Especially Mentioned | Substandard |
| 91 to 180 days | Substandard | Substandard | Substandard |
| 181 to 365 days | Doubtful | Doubtful | Doubtful |
| More than 365 days | Loss | Loss | Loss |

The Group assigns consumer, microfinance and small business loans based on classification into stages of impairment as follows:

| Classification | Stage |
|---|---|
| Unclassified | 1 |
| Especially Mentioned | 2 |
| Defaulted | 3 |

For purposes of the information disclosed for credit risk exposures, 'defaulted' accounts include those which are classified as Substandard, Doubtful, and Loss.

The groupings of financial instruments into a pool of shared credit quality are subject to the regular review by the Group's CMG in order to ensure that credit exposures within a particular group remain appropriately homogenous.

*(iii) Debt Securities at Amortized Cost and at FVOCI*

For debt securities, the Group adopts similar credit risk ratings published by reputable external rating agency (e.g., S&P). These ratings are continuously monitored and updated. The PD associated with each rating is determined based on realized default rates over the previous 12 months, as published by the rating agency.

### *4.4.3 Assessment of SICR*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group assesses the change in the risk of a default occurring over the remaining life of the financial instrument. In making this assessment, the Group assesses on a periodic basis both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information as appropriate. These may include macroeconomic conditions, economic sector and geographical region relevant to the counterparty or borrower and other factors that are counterparty-specific. As the Group holds various arrays of financial instruments, the extent of assessment may depend on the materiality of the financial instrument or the complexity of the portfolio being assessed.

The Group ECL model follows a three-stage impairment approach in determining the loss allowance to be recognized in the financial statements:

*(i)* Stage 1 – comprises of all credit exposures that are considered 'performing' and with no observed SICR since initial recognition. These include those financial instruments with low credit risk. For these financial instruments, the loss allowance is determined based on a 12-month ECL.

*(ii)* Stage 2 – comprises of all financial instruments assessed to have SICR since initial recognition based on the Group's quantitative and qualitative criteria, though not yet deemed to be credit-impaired. Using the Group's ICRRS, Stage 2 includes credit exposures that are considered 'under-performing' in which risk ratings were downgraded by at least three notches and/or downgraded to CCC+ to Especially Mentioned. Stage 2 financial instruments may also include those facilities where the credit risk has improved and have been reclassified from Stage 3 subject to the Group's observation period on the creditworthiness of the counterparty. A lifetime ECL is recognized for these financial instruments.

*(iii)* Stage 3 – comprises credit exposures which are assessed as 'credit-impaired', thus considered by the Group as 'non-performing', which is assessed consistently with the Group's definition of default. Generally, this includes accounts classified as Substandard, Doubtful and Loss. The Group recognizes a lifetime ECL for all credit-impaired financial assets.

The Group considers low credit risk for listed debt security when its credit risk rating is equivalent to a globally understood definition of 'investment grade' (which should be from at least one major rating agency); other debt securities are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Financial assets that are credit-impaired on initial recognition are classified as purchased or originated credit-impaired assets. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. Under the Group's ICRRS, these are exposures rated at least Especially Mentioned. For exposures with no internal credit risk rating performed, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Depending on the number of days past due which differ across the various retail products of the Group, a credit exposure may be transferred to Stage 2 or Stage 3. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Group shall revert to recognizing a 12-month ECL. As a general rule, an upgrade or transfer of credit exposure from Stage 3 to Stage 1 is allowed when there is sufficient evidence to support that full collection of principal and interest is probable, consistent with the Group's definition of curing period.

For portfolios in respect of which the Group has limited historical data, external benchmark information (e.g., Basel LGD) is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL include exposures to foreign borrowers and low default borrower segments.

#### *4.4.4 Definition of Default and Credit-impaired Assets*

*i. Loans and Receivables*

The Group defines a loan instrument as in default, which is aligned with the definition of credit-impaired, when the borrower is more than 90 days past due on its contractual payments, except for the 30 days past due threshold for retail loans of the Group and one day past due for microfinance loan portfolio of Rizal Microbank. As part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances and factors that may indicate unlikeliness to pay which may include (a) significant financial difficulty of the issuer or borrower; (b) the restructuring of a loan by the Group, for economic or legal reasons relating to the borrower's financial difficulty, on terms that the Group would not consider otherwise; or (c) it becoming probable that the borrower will enter bankruptcy or other financial reorganization.

When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

An instrument is considered to be no longer in default or have cured when the borrower is able to repay the installments in arrears and the account no longer meets any of the default criteria for a consecutive period of 180 days, observation period, within which the borrower shall make consecutive payments.

The definitions of default and observation period have been aligned with the definition used for regulatory capital purposes. Definitions of default and cure period can be rebutted and the rebuttal will be monitored and reviewed by the CMG on annual basis to ensure definitions remains appropriate.

These criteria are consistent with the definition of default used for internal credit risk management purposes that is aligned with the default criteria used for regulatory capital purposes. Such definition is consistently applied in determining PD, LGD, and EAD for each loan portfolio segment and throughout the ECL calculations of the Group.

*ii. Investments in Debt Securities*

Investments in debt securities is assessed as credit-impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of an event that occurred after the initial recognition of the security (a "loss event") and that loss event has impact on the estimated future cash flows of the securities. Losses expected as a result of future events, shall also be considered in estimating the ECL.

Objective evidence that the security is impaired includes observable data that comes to the attention of the holder of the security about the following loss events:

- significant financial difficulty of the issuer or obligor;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the financial institution, for economic or legal reasons relating to the issuer's financial difficulty, granting to the issuer a concession that the financial institution would not otherwise consider;
- it becoming probable that the issuer will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that security because of financial difficulties; or,
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of securities since the initial recognition of those assets, although the decrease cannot yet be identified with the individual securities in the portfolio, including adverse change in the payment status of issuers in the portfolio; or national or local economic conditions that correlate with defaults on the securities in the portfolio.

The disappearance of an active market because a financial institution's held securities are no longer publicly traded is not evidence of impairment. A downgrade of an issuer's credit rating is not, by itself, evidence of impairment, although it may be evidence of impairment when considered with other available information. A decline in the fair value of a security below its cost or amortized cost is not necessarily evidence of impairment (for example, a decline in fair value of an investment in debt security that results from an increase in the risk-free interest rate).

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

- the market's assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessment of credit-worthiness;
- the country's ability to access the capital markets for new debt issuance;
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; or,
- the internal support mechanism in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfill the required criteria.

### *4.4.5 ECL Measurement Inputs*

Integral in the Group's established policies in measuring and calculating ECL on financial instrument is the use of appropriate model for each segment of financial asset that applies relevant inputs and assumptions, including forward-looking information as appropriate.

*(a) Key Inputs and Assumptions in the ECL Model*

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment.

*(i)* PD represents an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. PD is calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures which considers both quantitative and qualitative factors. In determining PD, the Group performed segmentation of its credit exposures based on homogenous characteristics [including corporate loan and retail loan (including credit-card and microfinance)] and developed a systematic PD methodology for each portfolio. Generally, if a counterparty or exposure migrates between rating classes, this will lead to a change in the estimate of the associated PD.

*(ii)* LGD pertains to estimate of loss related to the amount that may not be recovered after the borrower defaults. The Group estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties, which takes into consideration the realization of any collateral that is integral to the financial asset. For secured credit exposure, the determination of LGD is dependent on the Group's collateral data which are available at the origination of the instrument which takes into account the amount and timing of the cash inflows (actual recovery) and outflows (actual expenses) and on the time value of money. Recoveries are calculated on a discounted cash flows basis using the effective interest rate as the discounting factor.

*(iii)* EAD represents the gross carrying amount of the exposure in the event of default which include the amortized cost amount of an instrument and any accrued interest receivable. For lending commitments, the EAD includes the amount of drawn and undrawn irrevocable loan commitments under the contract, which are estimated based on historical observations and forward-looking forecast. For some financial assets (e.g., credit card lending), EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical technique which considers the ability of borrowers to increase its exposure from the time of ECL calculation to the time of default (i.e., credit conversion factor).

These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not been prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to and summed at the end of the reporting period. The discount rate used in the ECL calculation is the original effective interest rate or the relevant fund transfer pricing rate, whichever is more applicable.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the life of the instrument. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. Such profile is supported by a historical analysis (i.e., an observation period of five years) which uses, among others the number of rated accounts and ratings of bad accounts at the time of default. Bad accounts are defaulted accounts classified into three classes such as the non-performing loans, accounts classified as Substandard, Doubtful or Loss, and real past due accounts.

In a risk rating model applied by the Group, a better rating or score denotes less probability of default than those of a worse rating. Identifying the counterparty default is done through a computation of the portfolio's observed default frequency (ODF). In cases when ODF method and the data to be used is limited, the Group may also employ the implied probability of default frequency (IPD) and the application of overlay factors in the PD.

Using the historical defaults under the Group's ICRRS based on S&P scale, ODF is calculated per rating class using the cumulative five-year data as the basis for grouping. This represents the actual numbers of bad borrower cases that have occurred during the five-year timeframe. On the other hand, unrated account are distributed to existing S&P rating classes using normal distribution assumption. In cases when there is zero-percent ODF in any of the rating class, these are grouped together with the next rating class with at least one bad borrower using cumulative five-year data. If there is no rating class after certain rating, grouping shall be decided by management.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

For loans with periodic amortization and one-time full payment at end of the term, EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation.

For revolving products (such as credit cards and credit line facilities), EAD is determined by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on analysis of the Group's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default, and may vary by product type. For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market or book values due to forced sales, time to repossession and recovery costs observed. For unsecured products, LGD is typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. The LGD is influenced by collection strategies.

For cash and cash equivalents and debt securities, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECL on such instruments on a 12-month basis. However, when there has been a SICR since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from S&P to determine whether the debt instrument has significantly increased in credit risk and to estimate ECL.

The assumptions underlying the ECL calculation are monitored and reviewed on an annual basis. With the changes in the current economic condition and granular behavior analysis of customers, the management has enhanced its existing ECL model in 2022 to reflect the continuing impact of the COVID-19 pandemic and the Group's and Parent Company's financial support program to its customers on a reasonable and supportable basis.

The determination of the 12-month and lifetime PD, LGD, and EAD includes the overlay of forward-looking economic information discussed below.

*(b) Overlay of Forward-looking Information*

The Group incorporates forward-looking information (FLI) in its calculation of ECL. The Group has performed historical analysis and has identified the key macroeconomic variables (MEVs) impacting credit risk associated with its borrowers and/or counterparties and the ECL for relevant portfolio of debt instruments.

The MEVs and their associated impact on the PD, LGD and EAD vary by financial instrument. To project the MEVs for the full remaining life of each financial instrument, a mean reversion approach has been used, which means that MEVs tend to either a long run average rate (e.g., for unemployment) or a long run average growth rate [e.g., Gross Domestic Product (GDP)] over a period of two to five years. The impact of these economic variables on the PD, LGD and EAD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The MEVs considered by the Group include economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority), international organizations (e.g., International Monetary Fund), and certain reputable private and academic organizations involved in forecasting. Accordingly, the Group has identified key drivers for credit risk for its corporate loans portfolio, which include among others, GDP growth rate, inflation rate, unemployment rate, interest rate (i.e., based on 91-day T-bill Yield), and foreign currency exchange rates. On the other hand, the key drivers for the Group's retail and consumer loans portfolio include unemployment rate, GDP growth rate, consumer spending growth rate, and inflation rate. Using an analysis of historical data, the Group has estimated relationships between MEVs and credit risk and credit losses.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore, the actual outcomes may be significantly different to those projections. The Group considers these forecasts to represent its best estimate of the possible outcomes.

Management has also considered other FLI not incorporated within the above economic scenarios, such as any regulatory, legislative, or political changes, but are not deemed to have a significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs on a regular basis and additional factors may be incorporated from time to time as deemed appropriate.

### *4.4.6 Impact of COVID-19 on Measurement of ECL*

In response to the COVID-19 situation and the Group's expectations of economic impacts, the key conditions and assumptions utilized in the Group's calculation of ECL have been revisited and recalibrated. The Group considers economic scenarios and forward-looking macroeconomic assumptions underpinning the ECL calculation. The expected impacts of COVID-19 have been reasonably captured using the Group's business-as-usual (BAU) ECL methodology (i.e., the ECL methodology consistently used in the prior years) and post-model adjustments (or the "COVID-19 overlay"), as applicable.

Prior to 2022, the Group's BAU ECL methodology has been constructed and calibrated using historical trends and correlations as well as forward-looking economic scenarios. The severity of the current macroeconomic projections and the added complexity caused by the various support schemes and regulatory guidance could not be reliably modeled for the time being. Therefore, the BAU ECL model may generate results that are either overly conservative or overly optimistic depending on the specific portfolio or segment. As a result, post-model adjustments were needed to reflect the considerable uncertainty in BAU ECL methodology given the unprecedented impacts of COVID-19.

In 2022, the Group revised its BAU ECL methodology to incorporate impacts of COVID-19 under its new normal assessments eliminating the need for separate post model adjustments. Notwithstanding that the measurement inputs and assumptions, including forward-looking macroeconomic assumptions were recalibrated in response to the COVID-19 situation, the fundamental ECL mechanics and methodology underpinning the Group's measurement of ECL have remained consistent with the prior periods.

In identifying the impact of COVID-19 pandemic to the Group's customers, the Group re-segmented its loan portfolio based on the perceived and expected COVID-19 impact to the customers' businesses and industries which also considers additional qualitative characteristics that would elevate COVID-19 changes to SICR such as differentiation of temporary liquidity need from permanently impacted SICR.

Supporting the re-segmentation is the COVID-19 Assistance and Recovery Enhancement (CARE) Program, primarily designed to: (1) extend financial assistance to customers by way of extended repayment plans given cash flow tightness and (2) immediately get the customer back into the habit of paying based on amounts they can afford. In accordance with regulatory guidance, the Group also implemented mandatory payment holidays to all eligible loans (see also Note 4.4.12).

The following are the considerations in measuring ECL heeding the continuing impact of COVID-19.

*(a) SICR*

The offer or uptake of COVID-19 related repayment deferrals, whether coming from government reliefs or from the Group's CARE Program, does not itself constitute an SICR event unless the exposure is considered to have experienced an SICR based on other available information. SICR has been reassessed with reference to the Group's CARE Program credit risk rating which considers industry or segment assessment under the COVID-19 situation, financial performance indicators, historical credit information of the borrower and other modifiers. The Group's reassessment is to determine if changes in the customers' circumstances were sufficient to constitute SICR.

*(b) COVID-19 Overlay (applicable to 2021 only)*

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

The impact of post-model adjustments made in estimating the reported ECL as at December 31, 2021 are disclosed in Note 4.4.9. Post-model adjustment in 2022 is already included in the enhanced ECL model.

### *4.4.7 Credit Risk Exposures*

An analysis of the maximum credit risk exposure relating to receivables from customers is shown below:

| | Group | | | |
|---|---|---|---|---|
| | Gross Maximum Exposure | Fair Value of Collaterals | Net Exposure | Financial Effect of Collaterals |
| **2022** | | | | |
| Loans and discounts: | | | | |
| Corporate | P 380,722 | P 334,727 | P 45,995 | P 334,727 |
| Consumer | 107,776 | 145,007 | - | 107,776 |
| Credit card receivables | 50,380 | - | 50,380 | - |
| Leasing and finance | 3,233 | 12,248 | - | 3,233 |
| Microfinance and small business | 1,235 | 3,178 | - | 1,235 |
| Other receivables | 31,553 | 1,919 | 29,634 | 1,919 |
| | **P 574,899** | **P 497,079** | **P 126,009** | **P 448,890** |
| 2021 | | | | |
| Loans and discounts: | | | | |
| Corporate | P 363,508 | P 284,574 | P 78,794 | P 284,714 |
| Consumer | 109,994 | 163,700 | - | 109,994 |
| Credit card receivables | 35,563 | - | 35,563 | - |
| Leasing and finance | 2,593 | 5,992 | - | 2,593 |
| Microfinance and small business | 1,073 | 3,341 | - | 1,073 |
| Other receivables | 43,835 | 1,852 | 41,983 | 1,852 |
| | P 556,566 | P 459,459 | P 156,340 | P 400,226 |

| | Parent Company | | | |
|---|---|---|---|---|
| | Gross Maximum Exposure | Fair Value of Collaterals | Net Exposure | Financial Effect of Collaterals |
| **2022** | | | | |
| Loans and discounts: | | | | |
| Corporate | P 377,420 | P 334,727 | P 42,693 | P 334,727 |
| Consumer | 107,776 | 145,005 | - | 107,776 |
| Credit card receivables | 50,380 | - | 50,380 | - |
| Other receivables | 30,726 | 1,799 | 28,927 | 1,799 |
| | **P 566,302** | **P 481,531** | **P 122,000** | **P 444,302** |
| 2021 | | | | |
| Loans and discounts: | | | | |
| Corporate | P 359,376 | P 284,574 | P 74,802 | P 284,574 |
| Consumer | 109,994 | 163,700 | - | 109,994 |
| Credit card receivables | 35,563 | - | 35,563 | - |
| Other receivables | 42,870 | 1,754 | 41,116 | 1,754 |
| | P 547,803 | P 450,028 | P 151,481 | P 396,322 |

The table below sets out the gross carrying amounts of the exposures to credit risk on financial assets with low credit risk measured at amortized cost and debt securities at FVOCI as of December 31.

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Cash and cash equivalents | **P 208,323** | P 199,277 | **P 206,320** | P 197,673 |
| Debt Securities: | | | | |
| At amortized cost | **252,545** | 163,758 | **251,399** | 162,951 |
| At FVOCI | **111,314** | 46,094 | **111,205** | 45,611 |
| | **P 572,182** | P 409,129 | **P 568,924** | P 406,235 |

Cash and cash equivalents include loans and advances to banks [i.e., Due from BSP, Due from Other Banks, Loans Arising from Repurchase Agreements, and Interbank Loans Receivables (see Note 9)]. Debt securities includes government and corporate bonds and bills. These are held with central bank, financial institutions and other counterparties that are reputable and with low credit risk; corresponding allowance for ECL is shown below and succeeding pages.

The information about the credit exposures on the above financial assets as well as on loan commitments by stages of impairment as of December 31, 2022 and 2021, shown at their gross carrying amounts with the corresponding allowance for ECL are shown in the succeeding pages. All instruments, which were not assessed by the Group for ECL based on individual credit risk rating were evaluated on a collective basis, applying applicable PD and LGD based on the segment of instrument.

The maximum exposure to credit risks for other financial assets is limited to their carrying values as of December 31, 2022 and 2021.

a) *Loans and receivables*

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired* | Total |
| **2022** | | | | | |
| ***Corporate Loans*** | | | | | |
| Pass | | | | | |
| AAA to BBB | P 14,666 | P - | P 2 | P - | P 14,668 |
| BBB- to B- | 323,944 | 1 | 3 | - | 323,948 |
| Watchlisted | 15,794 | 205 | 125 | - | 16,124 |
| Especially mentioned | 3,845 | 3,620 | 400 | - | 7,865 |
| Substandard | - | - | 8,533 | - | 8,533 |
| Defaulted | - | - | 348 | 20 | 368 |
| Unrated | 9,164 | 11 | 41 | - | 9,216 |
| | 367,413 | 3,837 | 9,452 | 20 | 380,722 |
| Allowance for ECL | ( 1,607) | ( 1,200) | ( 5,818) | ( 18) | ( 8,643) |
| Carrying Amount | **365,806** | **2,637** | **3,634** | **2** | **372,079** |
| ***Consumer loans*** | | | | | |
| Current | 89,533 | 1,730 | - | - | 91,263 |
| 1-30 dpd | - | 4,465 | - | - | 4,465 |
| 31-90 dpd | - | 3,166 | - | - | 3,166 |
| Defaulted | - | - | 8,882 | - | 8,882 |
| | 89,533 | 9,361 | 8,882 | - | 107,776 |
| Allowance for ECL | ( 210) | ( 222) | ( 2,024) | - | ( 2,456) |
| Carrying amount | **89,323** | **9,139** | **6,858** | **-** | **105,320** |
| ***Credit cards*** | | | | | |
| Current | 46,988 | 30 | - | - | 47,018 |
| 1-29 dpd | 725 | 10 | - | - | 735 |
| 30-59 dpd | - | 386 | - | - | 386 |
| 60-89 dpd | - | 326 | - | - | 326 |
| Defaulted | - | - | 1,915 | - | 1,915 |
| | 47,713 | 752 | 1,915 | - | 50,380 |
| Allowance for ECL | ( 718) | ( 310) | ( 1,662) | - | ( 2,690) |
| Carrying amount | **46,995** | **442** | **253** | **-** | **47,690** |
| ***Leasing and finance receivables**** | | | | | |
| AAA+ to B+ | 742 | - | - | - | 742 |
| B- | 399 | - | - | - | 399 |
| CCC below | - | 1,286 | 806 | - | 2,092 |
| | 1,141 | 1,286 | 806 | - | 3,233 |
| Allowance for ECL | ( 26) | ( 100) | ( 624) | - | ( 750) |
| Carrying amount | **1,115** | **1,186** | **182** | **-** | **2,483** |
| ***Micro and small business loans***** | | | | | |
| Unclassified | 982 | - | - | - | 982 |
| Especially Mentioned | - | 67 | - | - | 67 |
| Defaulted | - | - | 186 | - | 186 |
| | 982 | 67 | 186 | - | 1,235 |
| Allowance for ECL | ( 1) | ( 2) | ( 65) | - | ( 68) |
| Carrying amount | **981** | **65** | **121** | **-** | **1,167** |
| *Balance forwarded* | **P 504,220** | **P 13,469** | **P 11,048** | **P 2** | **P 528,739** |

| | Group | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Purchased credit-impaired*** | **Total** |
| *Balance carried forward* | **P 504,220** | **P 13,469** | **P 11,048** | **P 2** | **P 528,739** |
| ***Other receivables*** | | | | | |
| Current | 29,187 | - | - | - | 29,187 |
| Past due | - | 494 | 1,872 | - | 2,366 |
| | 29,187 | 494 | 1,872 | - | 31,553 |
| Allowance for ECL | ( 128) | ( 57) | ( 1,238 ) | - | ( 1,423) |
| Carrying amount | **29,059** | **437** | **634** | **-** | **30,130** |
| Total gross amount | 535,969 | 15,797 | 23,113 | 20 | 574,899 |
| Allowance for ECL | ( 2,690) | ( 1,891) | ( 11,431 ) | ( 18) | ( 16,030) |
| Carrying amount | **P 533,279** | **P 13,906** | **P 11,682** | **P 2** | **P 558,869** |

**Purchased credit-impaired financial assets pertain to the non-performing loans of RCBC JPL*
***Leasing and finance receivables are from RCBC LFC*
****Micro and small business loans are from Rizal Microbank*

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired* | Total |
| 2021 | | | | | |
| *Corporate loans* | | | | | |
| Pass | | | | | |
| AAA to BBB | P 12,771 | P - | P - | P - | P 12,771 |
| BBB- to B- | 331,812 | 145 | 2,458 | - | 334,415 |
| Watchlisted | 4,066 | 460 | 54 | - | 4,580 |
| Especially mentioned | - | 45 | 444 | - | 489 |
| Defaulted | - | - | 7,671 | 45 | 7,716 |
| Unrated | 3,440 | 4 | 93 | - | 3,537 |
| | 352,089 | 654 | 10,720 | 45 | 363,508 |
| Allowance for ECL | ( 2,064) | ( 29) | ( 5,218 ) | ( 40 ) | ( 7,351 ) |
| Carrying amount | 350,025 | 625 | 5,502 | 5 | 356,157 |
| *Consumer loans* | | | | | |
| Current | 81,363 | 2,889 | - | - | 84,252 |
| 1-30 dpd | - | 4,854 | - | - | 4,854 |
| 31-90 dpd | - | 4,770 | - | - | 4,770 |
| Defaulted | - | - | 16,118 | - | 16,118 |
| | 81,363 | 12,513 | 16,118 | - | 109,994 |
| Allowance for ECL | ( 363) | ( 357) | ( 3,772 ) | - | ( 4,492) |
| Carrying amount | 81,000 | 12,156 | 12,346 | - | 105,502 |
| *Credit cards* | | | | | |
| Current | 31,598 | 46 | - | - | 31,644 |
| 1-29 dpd | 637 | 18 | - | - | 655 |
| 30-59 dpd | - | 351 | - | - | 351 |
| 60-89 dpd | - | 377 | - | - | 377 |
| Defaulted | - | - | 2,536 | - | 2,536 |
| | 32,235 | 792 | 2,536 | - | 35,563 |
| Allowance for ECL | ( 572) | ( 325) | ( 2,150 ) | - | ( 3,047) |
| Carrying amount | 31,663 | 467 | 386 | - | 32,516 |
| *Balance forwarded* | P 462,688 | P 13,248 | P 18,234 | P 5 | P 494,175 |

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired* | Total |
| *Balance carried forward* | P 462,688 | P 13,248 | P 18,234 | P 5 | P 494,175 |
| *Leasing and finance receivables*** | | | | | |
| AAA+ to B+ | 1,101 | - | - | - | 1,101 |
| B- | - | 755 | - | - | 755 |
| CCC below | - | - | 737 | - | 737 |
| | 1,101 | 755 | 737 | - | 2,593 |
| Allowance for ECL | ( 31) | ( 35) | ( 654 ) | - | ( 720) |
| Carrying amount | 1,070 | 720 | 83 | - | 1,873 |
| *Micro and small business loans**** | | | | | |
| Unclassified | 684 | - | - | - | 684 |
| Especially Mentioned | - | 322 | - | - | 322 |
| Defaulted | - | - | 67 | - | 67 |
| | 684 | 322 | 67 | - | 1,073 |
| Allowance for ECL | ( 49) | ( 16) | ( 66 ) | - | ( 131) |
| Carrying amount | 635 | 306 | 1 | - | 942 |
| *Other receivables* | | | | | |
| Current | 39,996 | - | - | - | 39,996 |
| Past due | - | 327 | 3,512 | - | 3,839 |
| | 39,996 | 327 | 3,512 | - | 43,835 |
| Allowance for ECL | ( 140) | ( 16) | ( 2,367 ) | - | ( 2,523) |
| Carrying amount | 39,856 | 311 | 1,145 | - | 41,312 |
| Total gross amount | 507,468 | 15,363 | 33,690 | 45 | 556,566 |
| Allowance for ECL | ( 3,219) | ( 778) | ( 14,227 ) | ( 40 ) | ( 18,264) |
| Carrying amount | P 504,249 | P 14,585 | P 19,463 | P 5 | P 538,302 |

**Purchased credit-impaired financial assets pertain to the non-performing loans of RCBC JPL*
***Leasing and finance receivables are from RCBC LFC*
****Micro and small business loans are from Rizal Microbank*

| | **Parent Company** | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Purchased credit-impaired** | **Total** |
| **2022** | | | | | |
| ***Corporate Loans*** | | | | | |
| Pass | | | | | |
| AAA to BBB | P 14,666 | P - | P 2 | P - | P 14,668 |
| BBB- to B- | 323,944 | 1 | 3 | - | 323,948 |
| Watchlisted | 15,794 | 205 | 125 | - | 16,124 |
| Especially mentioned | 3,845 | 3,620 | 400 | - | 7,865 |
| Substandard | - | - | 8,533 | - | 8,533 |
| Defaulted | - | - | 348 | - | 348 |
| Unrated | 5,882 | 11 | 41 | - | 5,934 |
| | 364,131 | 3,837 | 9,452 | - | 377,420 |
| Allowance for ECL | ( 1,607) | ( 1,200) | ( 5,818) | - | ( 8,625) |
| Carrying amount *(Balance forwarded)* | **P 362,524** | **P 2,637** | **P 3,634** | **P -** | **P 368,795** |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | **P 362,524** | **P 2,637** | **P 3,634** | **P -** | **P 368,795** |
| ***Consumer loans*** | | | | | |
| Current | 89,533 | 1,730 | - | - | 91,263 |
| 1-30 dpd | - | 4,465 | - | - | 4,465 |
| 31-90 dpd | - | 3,166 | - | - | 3,166 |
| Defaulted | - | - | 8,882 | - | 8,882 |
| | 89,533 | 9,361 | 8,882 | - | 107,776 |
| Allowance for ECL | ( 210) | ( 222) | ( 2,024) | - | ( 2,456) |
| Carrying amount | **89,323** | **9,139** | **6,858** | **-** | **105,320** |
| ***Credit cards*** | | | | | |
| Current | 46,988 | 30 | - | - | 47,018 |
| 1-29 dpd | 725 | 10 | - | - | 735 |
| 30-59 dpd | - | 386 | - | - | 386 |
| 60-89 dpd | - | 326 | - | - | 326 |
| Defaulted | - | - | 1,915 | - | 1,915 |
| | 47,713 | 752 | 1,915 | - | 50,380 |
| Allowance for ECL | ( 718) | ( 310) | ( 1,662) | - | ( 2,690) |
| Carrying amount | **46,995** | **442** | **253** | **-** | **47,690** |
| ***Other receivables*** | | | | | |
| Current | 28,589 | - | - | - | 28,589 |
| Past due | - | 461 | 1,676 | - | 2,137 |
| | 28,589 | 461 | 1,676 | - | 30,726 |
| Allowance for ECL | ( 76) | ( 52) | ( 1,189) | - | ( 1,317) |
| Carrying amount | **28,513** | **409** | **487** | **-** | **29,409** |
| Total gross amount | 529,966 | 14,411 | 21,925 | - | 566,302 |
| Allowance for ECL | ( 2,611) | ( 1,784) | ( 10,693) | - | ( 15,088) |
| Carrying amount | **P 527,355** | **P 12,627** | **P 11,232** | **P -** | **P 551,214** |
| 2021 | | | | | |
| *Corporate Loans* | | | | | |
| Pass | | | | | |
| AAA to BBB | P 12,771 | P - | P - | P - | P 12,771 |
| BBB- to B- | 331,812 | 145 | 2,458 | - | 334,415 |
| Watchlisted | 1,852 | 460 | 54 | - | 2,366 |
| Especially mentioned | - | 45 | 444 | - | 489 |
| Substandard | - | - | - | - | - |
| Defaulted | - | - | 7,671 | - | 7,671 |
| Unrated | 1,567 | 4 | 93 | - | 1,664 |
| | 348,002 | 654 | 10,720 | - | 359,376 |
| Allowance for ECL | ( 2,064) | ( 29) | ( 5,218) | - | ( 7,311) |
| Carrying amount | 345,938 | 625 | 5,502 | - | 352,065 |
| *Consumer loans* | | | | | |
| Current | 81,363 | 2,889 | - | - | 84,252 |
| 1-30 dpd | - | 4,854 | - | - | 4,854 |
| 31-90 dpd | - | 4,770 | - | - | 4,770 |
| Defaulted | - | - | 16,118 | - | 16,118 |
| | 81,363 | 12,513 | 16,118 | - | 109,994 |
| Allowance for ECL | ( 363) | ( 357) | ( 3,772) | - | ( 4,492) |
| Carrying amount | 81,000 | 12,156 | 12,346 | - | 105,502 |
| *Balance forwarded* | P 426,938 | P 12,781 | P 17,848 | P - | P 457,567 |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | P 426,938 | P 12,781 | P 17,848 | P - | P 457,567 |
| *Credit cards* | | | | | |
| Current | 31,598 | 46 | - | - | 31,644 |
| 1-29 dpd | 637 | 18 | - | - | 655 |
| 30-59 dpd | - | 351 | - | - | 351 |
| 60-89 dpd | - | 377 | - | - | 377 |
| Defaulted | - | - | 2,536 | - | 2,536 |
| | 32,235 | 792 | 2,536 | - | 35,563 |
| Allowance for ECL | ( 572) | ( 325) | ( 2,150 ) | - | ( 3,047) |
| Carrying amount | 31,663 | 467 | 386 | - | 32,516 |
| *Other receivables* | | | | | |
| Current | 39,249 | - | - | - | 39,249 |
| Past due | - | 312 | 3,309 | - | 3,621 |
| | 39,249 | 312 | 3,309 | - | 42,870 |
| Allowance for ECL | ( 132) | ( 16) | ( 2,341) | - | ( 2,489) |
| Carrying amount | 39,117 | 296 | 968 | - | 40,381 |
| Total gross amount | 500,849 | 14,271 | 32,683 | - | 547,803 |
| Allowance for ECL | ( 3,131) | ( 727) | ( 13,481) | - | ( 17,339) |
| Carrying amount | P 497,718 | P 13,544 | P 19,202 | P - | P 530,464 |

b) *Investments in debt securities at amortized cost and at FVOCI*

| | Group | | Parent Company | |
|---|---|---|---|---|
| | HTC | FVOCI | HTC | FVOCI |
| **2022** | | | | |
| Government securities | | | | |
| AAA to A+ | P 28,000 | P 31,495 | P 28,000 | P 31,495 |
| BBB+ to BBB- | 190,163 | 21,997 | 189,017 | 21,997 |
| | 218,163 | 53,492 | 217,017 | 53,492 |
| Corporate debt securities | | | | |
| AAA | 8,685 | 32,552 | 8,685 | 32,552 |
| AA+ to A+ | 276 | 241 | 276 | 241 |
| A to A- | 695 | - | 695 | - |
| BBB+ to BBB- | 13,584 | 18,777 | 13,584 | 18,777 |
| BB+ to BB- | 10,979 | 6,252 | 10,979 | 6,143 |
| B+ and below | 163 | - | 163 | - |
| | 34,382 | 57,822 | 34,382 | 57,713 |
| Allowance for ECL | ( 163) | ( 13) | ( 71) | ( 13) |
| | 34,219 | 57,809 | 34,311 | 57,700 |
| | **P 252,382** | **P 111,301** | **P 251,328** | **P 111,192** |

| | Group | | Parent Company | |
|---|---|---|---|---|
| | HTC | FVOCI | HTC | FVOCI |
| 2021 | | | | |
| Government securities | | | | |
| AAA to A+ | P 12,021 | P - | P 12,021 | P - |
| BBB+ to BBB- | 120,948 | 28,682 | 120,141 | 28,682 |
| | 132,969 | 28,682 | 132,162 | 28,682 |
| Corporate debt securities | | | | |
| AAA | - | 272 | - | 272 |
| AA+ to A+ | 764 | 260 | 764 | 260 |
| A to A- | 638 | - | 638 | - |
| BBB+ to BBB- | 19,520 | 13,381 | 19,520 | 13,381 |
| BB+ to BB- | 9,704 | 3,499 | 9,704 | 3,016 |
| B+ and below | 163 | - | 163 | - |
| | 30,789 | 17,412 | 30,789 | 16,929 |
| Allowance for ECL | ( 147) | ( 12) | ( 52) | ( 12) |
| | 30,642 | 17,400 | 30,737 | 16,917 |
| | P 163,611 | P 46,082 | P 162,899 | P 45,599 |

Credit exposures for debt securities not held for trading are all classified as Stage 1.

c) *Loan Commitments*

The credit quality of the Group and Parent Company's irrevocable loan commitments with amounts determined after considering credit conversion factor, as of December 31 follows:

| | Group and Parent Company | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **2022** | | | | |
| **Corporate loans** | | | | |
| Pass | | | | |
| AAA to BBB | P 132 | P - | P - | P 132 |
| BBB- to B- | 8,297 | - | - | 8,297 |
| Watchlisted | 13 | - | - | 13 |
| Unrated | 488 | - | - | 488 |
| | 8,930 | - | - | 8,930 |
| ECL provisions | ( 29) | - | - | ( 29) |
| | 8,901 | - | - | 8,901 |
| **Credit cards** | | | | |
| Current | 15,568 | - | - | 15,568 |
| ECL provisions | ( 185) | - | - | ( 185) |
| | 15,383 | - | - | 15,383 |
| | **P 24,284** | **P -** | **P -** | **P 24,284** |

| | Group and Parent Company | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| 2021 | | | | |
| Corporate loans | | | | |
| Pass | | | | |
| AAA to BBB | P 77 | P - | P - | P 77 |
| BBB- to B- | 3,914 | - | - | 3,914 |
| Watchlisted | - | 4 | 13 | 17 |
| Unrated | 115 | - | - | 115 |
| | 4,106 | 4 | 13 | 4,123 |
| ECL provisions | ( 18) | - | ( 5) | ( 23) |
| | 4,088 | 4 | 8 | 4,100 |
| Credit cards | | | | |
| Current | 9,607 | - | | 9,607 |
| ECL provisions | ( 122) | - | - | ( 122) |
| | 9,485 | - | - | 9,485 |
| | P 13,573 | P 4 | P 8 | P 13,585 |

### *4.4.8 Maximum Exposure to Credit Risk of Financial Instruments not Subject to Impairment*

The following table contains analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e., FVTPL).

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Government securities | **P 3,883** | P 4,330 | **P 3,834** | P 3,346 |
| Corporate debt securities | **38** | 35 | **38** | 35 |
| Derivative financial assets | **2,267** | 1,266 | **2,267** | 1,266 |
| | **P 6,188** | P 5,631 | **P 6,139** | P 4,647 |

### 4.4.9 Allowance for ECL

The following tables show the reconciliation of the loss allowance for ECL by class of significant financial instruments.

*a) Loans and receivables*

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| **2022** | | | | | |
| ***Corporate Loans*** | | | | | |
| Balance at beginning of year | P 2,064 | P 29 | P 5,218 | P 40 | P 7,351 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 120 ) | 120 | - | - | - |
| Stage 1 to Stage 3 | ( 17 ) | - | 17 | - | - |
| Stage 2 to Stage 1 | 17 | ( 17 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 10 ) | 10 | - | - |
| Stage 3 to Stage 1 | 8 | - | ( 8 ) | - | - |
| Stage 3 to Stage 2 | - | 7 | ( 7 ) | - | - |
| Assets derecognized or repaid | ( 1,055 ) | ( 108 ) | ( 314 ) | ( 22 ) | ( 1,499 ) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 710 | - | - | - | 710 |
| Moved to Stages 2 and 3 | - | 1,179 | 902 | - | 2,081 |
| | ( 457 ) | 1,171 | 600 | ( 22 ) | 1,292 |
| Balance at end of year | **1,607** | **1,200** | **5,818** | **18** | **8,643** |
| ***Consumer loans*** | | | | | |
| Balance at beginning of year | 363 | 357 | 3,772 | - | 4,492 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 46 ) | 46 | - | - | - |
| Stage 1 to Stage 3 | ( 272 ) | - | 272 | - | - |
| Stage 2 to Stage 1 | 228 | ( 228 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 187 ) | 187 | - | - |
| Stage 3 to Stage 2 | - | 183 | ( 183 ) | - | - |
| Assets derecognized or repaid | ( 387 ) | ( 31 ) | ( 781 ) | - | ( 1,199 ) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 324 | - | - | - | 324 |
| Moved to Stages 2 and 3 | - | 82 | 455 | - | 537 |
| Write-offs | - | - | ( 1,698 ) | - | ( 1,698 ) |
| | ( 153 ) | ( 135 ) | ( 1,748 ) | - | ( 2,036 ) |
| Balance at end of year | **210** | **222** | **2,024** | **-** | **2,456** |
| *Balance carried forward* | **P 1,817** | **P 1,422** | **P 7,842** | **P 18** | **P 11,099** |

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | P 1,817 | P 1,422 | P 7,842 | P 18 | P 11,099 |
| ***Credit cards*** | | | | | |
| Balance at beginning of year | 572 | 325 | 2,150 | - | 3,047 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 22) | 22 | - | - | - |
| Stage 1 to Stage 3 | ( 106) | - | 106 | - | - |
| Stage 2 to Stage 3 | - | ( 271) | 271 | - | - |
| Stage 3 to Stage 2 | - | 43 | ( 43) | - | - |
| Stage 2 to Stage 1 | 41 | ( 41) | - | - | - |
| Stage 3 to Stage 1 | 51 | - | ( 51) | - | - |
| Assets derecognized or repaid | ( 846) | ( 139) | ( 288) | - | ( 1,273) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 1,028 | - | - | - | 1,028 |
| Moved to Stages 2 and 3 | - | 371 | 2,993 | - | 3,364 |
| Write-offs | - | - | ( 3,476) | - | ( 3,476) |
| | 146 | ( 15) | ( 488) | - | ( 357) |
| Balance at end of year | 718 | 310 | 1,662 | - | 2,690 |
| ***Leasing and finance receivables**** | | | | | |
| Balance at beginning of year | 31 | 35 | 654 | - | 720 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 177) | 177 | - | - | - |
| Stage 1 to Stage 3 | ( 140) | - | 140 | - | - |
| Stage 2 to Stage 3 | - | ( 176) | 176 | - | - |
| Assets derecognized or repaid | ( 18) | ( 31) | ( 414) | - | ( 463) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 330 | - | - | - | 330 |
| Moved to Stages 2 and 3 | - | 95 | 68 | - | 163 |
| | ( 5) | 65 | ( 30) | - | 30 |
| Balance at end of year | 26 | 100 | 624 | - | 750 |
| ***Micro and small business loans***** | | | | | |
| Balance at beginning of year | 49 | 16 | 66 | - | 131 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 1) | 1 | - | - | - |
| Stage 2 to Stage 3 | - | ( 11) | 11 | - | - |
| Assets derecognized or repaid | ( 19) | ( 5) | ( 6) | - | ( 30) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 6 | - | - | - | 6 |
| Moved to Stages 2 and 3 | - | 1 | 5 | - | 6 |
| Write-offs | ( 34) | - | ( 11) | - | ( 45) |
| | ( 48) | ( 14) | ( 1) | - | ( 63) |
| Balance at end of year | 1 | 2 | 65 | - | 68 |
| *Balance forwarded* | P 2,562 | P 1,834 | P 10,193 | P 18 | P 14,607 |

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | P 2,562 | P 1,834 | P 10,193 | P 18 | P 14,607 |
| ***Other receivables*** | | | | | |
| Balance at beginning of year | 140 | 16 | 2,367 | - | 2,523 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | (35) | 35 | - | - | - |
| Stage 2 to Stage 3 | - | (31) | 31 | - | - |
| Stage 3 to Stage 1 | 17 | - | (17) | - | - |
| Assets derecognized or repaid | (152) | (126) | (386) | - | (664) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 158 | - | - | - | 158 |
| Moved to Stages 2 and 3 | - | 163 | 336 | - | 499 |
| Write-offs | - | - | (1,093) | - | (1,093) |
| | (12) | 41 | (1,129) | - | (1,100) |
| Balance at end of year | **128** | **57** | **1,238** | **-** | **1,423** |
| | **P 2,690** | **P 1,891** | **P 11,431** | **P 18** | **P 16,030** |
| 2021 | | | | | |
| *Corporate Loans* | | | | | |
| Balance at beginning of year | P 1,813 | P 761 | P 4,853 | P 36 | P 7,463 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | (2) | 2 | - | - | - |
| Stage 1 to Stage 3 | (9) | - | 9 | - | - |
| Stage 2 to Stage 1 | 635 | (635) | - | - | - |
| Stage 2 to Stage 3 | - | (20) | 20 | - | - |
| Stage 3 to Stage 1 | 75 | - | (75) | - | - |
| Stage 3 to Stage 2 | - | 3 | (3) | - | - |
| Assets derecognized or repaid | (1,877) | (91) | (63) | - | (2,031) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 1,429 | - | - | - | 1,429 |
| Moved to Stages 2 and 3 | - | 9 | 477 | 4 | 490 |
| | 251 | (732) | 365 | 4 | (112) |
| Balance at end of year | 2,064 | 29 | 5,218 | 40 | 7,351 |
| *Consumer loans* | | | | | |
| Balance at beginning of year | 725 | 393 | 3,077 | - | 4,195 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | (37) | 37 | - | - | - |
| Stage 1 to Stage 3 | (8) | - | 8 | - | - |
| Stage 2 to Stage 1 | 318 | (318) | - | - | - |
| Stage 2 to Stage 3 | - | (21) | 21 | - | - |
| Stage 3 to Stage 1 | 709 | - | (709) | | |
| Stage 3 to Stage 2 | - | 569 | (569) | - | - |
| Assets derecognized or repaid | (1,697) | (412) | (624) | - | (2,733) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 353 | - | - | - | 353 |
| Moved to Stages 2 and 3 | - | 109 | 2,568 | - | 2,677 |
| | (362) | (36) | 695 | - | 297 |
| Balance at end of year | 363 | 357 | 3,772 | - | 4,492 |
| *Balance forwarded* | P 2,427 | P 386 | P 8,990 | P 40 | P 11,843 |

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | P 2,427 | P 386 | P 8,990 | P 40 | P 11,843 |
| *Credit cards* | | | | | |
| Balance at beginning of year | 656 | 1,499 | 2,625 | - | 4,780 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 28 ) | 28 | - | - | - |
| Stage 1 to Stage 3 | ( 90 ) | - | 90 | - | - |
| Stage 2 to Stage 1 | 89 | ( 89 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 140 ) | 140 | - | - |
| Stage 3 to Stage 1 | 65 | | ( 65 ) | - | - |
| Stage 3 to Stage 2 | - | 37 | ( 37 ) | - | - |
| Assets derecognized or repaid | ( 608 ) | ( 615 ) | ( 867 ) | - | ( 2,090) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 591 | - | - | - | 591 |
| Moved to Stages 2 and 3 | - | 346 | 4,577 | - | 4,923 |
| Write-offs | ( 103 ) | ( 741 ) | ( 4,313 ) | - | ( 5,157) |
| | ( 84 ) | ( 1,174 ) | ( 475 ) | - | ( 1,733) |
| Balance at end of year | 572 | 325 | 2,150 | - | 3,047 |
| *Leasing and finance receivables** | | | | | |
| Balance at beginning of year | 18 | 76 | 204 | - | 298 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 13 ) | 13 | - | - | - |
| Stage 1 to Stage 3 | ( 78 ) | - | 78 | - | - |
| Stage 2 to Stage 3 | - | ( 149 ) | 149 | - | - |
| Assets derecognized or repaid | ( 5 ) | ( 20 ) | ( 24 ) | - | ( 49) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 7 | - | - | - | 7 |
| Moved to Stages 2 and 3 | - | 7 | 15 | - | 22 |
| Others | 102 | 108 | 232 | - | 442 |
| | 13 | ( 41 ) | 450 | - | 422 |
| Balance at end of year | 31 | 35 | 654 | - | 720 |
| *Micro and small business loans*** | | | | | |
| Balance at beginning of year | 40 | 2 | 92 | - | 134 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 2 ) | 2 | - | - | - |
| Stage 2 to Stage 3 | - | ( 2 ) | 2 | - | - |
| Stage 3 to Stage 1 | 2 | - | ( 2 ) | - | - |
| Assets derecognized or repaid | ( 11 ) | - | ( 34 ) | - | ( 45) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 20 | - | - | - | 20 |
| Moved to Stages 2 and 3 | - | 14 | 8 | - | 22 |
| | 9 | 14 | ( 26 ) | - | ( 3) |
| Balance at end of year | 49 | 16 | 66 | - | 131 |
| *Balance forwarded* | P 3,079 | P 762 | P 11,860 | P 40 | P 15,741 |

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | P 3,079 | P 762 | P 11,860 | P 40 | P 15,741 |
| *Other receivables* | | | | | |
| Balance at beginning of year | 486 | 52 | 1,785 | - | 2,323 |
| Transfers: | | | | | |
| Stage 2 to Stage 3 | - | ( 182 ) | 182 | - | - |
| Stage 3 to Stage 1 | 78 | - | ( 78 ) | - | - |
| Assets derecognized or repaid | ( 579 ) | ( 7 ) | ( 226 ) | - | ( 812) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 155 | - | - | - | 155 |
| Moved to Stages 2 and 3 | - | 153 | 708 | - | 861 |
| Write-offs | - | - | ( 4) | - | ( 4 ) |
| | ( 346 ) | ( 36) | 582 | - | 200 |
| Balance at end of year | 140 | 16 | 2,367 | - | 2,523 |
| | P 3,219 | P 778 | P 14,227 | P 40 | P 18,264 |

| | **Parent Company** | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Purchased credit-impaired** | **Total** |
| **2022** | | | | | |
| ***Corporate Loans*** | | | | | |
| Balance at beginning of year | P 2,064 | P 29 | P 5,218 | P - | P 7,311 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 120 ) | 120 | - | - | - |
| Stage 1 to Stage 3 | ( 17 ) | - | 17 | - | - |
| Stage 2 to Stage 1 | 17 | ( 17 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 10 ) | 10 | - | - |
| Stage 3 to Stage 1 | 8 | - | ( 8 ) | - | - |
| Stage 3 to Stage 2 | - | 7 | ( 7 ) | - | - |
| Assets derecognized or repaid | ( 1,055 ) | ( 108 ) | ( 314 ) | - | ( 1,477) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 710 | - | - | - | 710 |
| Moved to Stages 2 and 3 | - | 1,179 | 902 | - | 2,081 |
| | ( 457) | 1,171 | 600 | - | 1,314 |
| Balance at end of year (*balance forwarded*) | **P 1,607** | **P 1,200** | **P 5,818** | **P -** | **P 8,625** |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | **P 1,607** | **P 1,200** | **P 5,818** | **P -** | **P 8,625** |
| ***Consumer loans*** | | | | | |
| Balance at beginning of year | 363 | 357 | 3,772 | P - | 4,492 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 46 ) | 46 | - | - | - |
| Stage 1 to Stage 3 | ( 272 ) | - | 272 | - | - |
| Stage 2 to Stage 1 | 228 | ( 228 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 187 ) | 187 | - | - |
| Stage 3 to Stage 2 | - | 183 | ( 183 ) | - | - |
| Assets derecognized or repaid | ( 387 ) | ( 31 ) | ( 781 ) | - | ( 1,199) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 324 | - | - | - | 324 |
| Moved to Stages 2 and 3 | - | 82 | 455 | - | 537 |
| Write-offs | - | - | ( 1,698 ) | - | ( 1,698) |
| | ( 153 ) | ( 135 ) | ( 1,748 ) | - | ( 2,036 ) |
| Balance at end of year | **210** | **222** | **2,024** | **-** | **2,456** |
| ***Credit cards*** | | | | | |
| Balance at beginning of year | 572 | 325 | 2,150 | - | 3,047 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 22 ) | 22 | - | - | - |
| Stage 1 to Stage 3 | ( 106 ) | - | 106 | - | - |
| Stage 2 to Stage 3 | - | ( 271 ) | 271 | - | - |
| Stage 3 to Stage 2 | - | 43 | ( 43 ) | - | - |
| Stage 2 to Stage 1 | 41 | ( 41 ) | - | - | - |
| Stage 3 to Stage 1 | 51 | - | ( 51 ) | - | - |
| Assets derecognized or repaid | ( 846 ) | ( 139 ) | ( 288 ) | - | ( 1,273) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 1,028 | - | - | - | 1,028 |
| Moved to Stages 2 and 3 | - | 371 | 2,993 | - | 3,364 |
| Write-offs | - | - | ( 3,476 ) | - | ( 3,476) |
| | 146 | ( 15 ) | ( 488 ) | - | ( 357) |
| Balance at end of year | **718** | **310** | **1,662** | **-** | **2,690** |
| *Other receivables* | | | | | |
| Balance at beginning of year | 132 | 16 | 2,341 | - | 2,489 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 7 ) | 7 | - | - | - |
| Stage 2 to Stage 3 | - | ( 19 ) | 19 | - | - |
| Stage 3 to Stage 1 | 17 | - | ( 17 ) | - | - |
| Assets derecognized or repaid | ( 247 ) | ( 112 ) | ( 397 ) | - | ( 756) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 181 | - | - | - | 181 |
| Moved to Stages 2 and 3 | - | 160 | 336 | - | 496 |
| Write-offs | - | - | ( 1,093 ) | - | ( 1,093) |
| | ( 56) | 36 | ( 1,152 ) | - | ( 1,172) |
| Balance at end of year | **76** | **52** | **1,189** | **-** | **1,317** |
| | **P 2,611** | **P 1,784** | **P 10,693** | **P -** | **P 15,088** |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| 2021 | | | | | |
| *Corporate Loans* | | | | | |
| Balance at beginning of year | P 1,813 | P 761 | P 4,853 | P - | P 7,427 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 2 ) | 2 | - | - | - |
| Stage 1 to Stage 3 | ( 9 ) | - | 9 | - | - |
| Stage 2 to Stage 1 | 635 | ( 635 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 20 ) | 20 | - | - |
| Stage 3 to Stage 1 | 75 | - | ( 75 ) | - | - |
| Stage 3 to Stage 2 | - | 3 | ( 3 ) | - | - |
| Assets derecognized or repaid | ( 1,877) | ( 91 ) | ( 63) | - | ( 2,031 ) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 1,429 | - | - | - | 1,429 |
| Moved to Stages 2 and 3 | - | 9 | 477 | - | 486 |
| | 251 | ( 732 ) | 365 | - | ( 116) |
| Balance at end of year | 2,064 | 29 | 5,218 | - | 7,311 |
| *Consumer loans* | | | | | |
| Balance at beginning of year | 725 | 393 | 3,077 | - | 4,195 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 37 ) | 37 | - | - | - |
| Stage 1 to Stage 3 | ( 8 ) | - | 8 | - | - |
| Stage 2 to Stage 1 | 318 | ( 318 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 21 ) | 21 | - | - |
| Stage 3 to Stage 1 | 709 | - | ( 709 ) | | |
| Stage 3 to Stage 2 | - | 569 | ( 569 ) | - | - |
| Assets derecognized or repaid | ( 1,697) | ( 412 ) | ( 624 ) | - | ( 2,733) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 353 | - | - | - | 353 |
| Moved to Stages 2 and 3 | - | 109 | 2,568 | - | 2,677 |
| | ( 362) | ( 36 ) | 695 | - | 297 |
| Balance at end of year | 363 | 357 | 3,772 | - | 4,492 |
| *Credit cards* | | | | | |
| Balance at beginning of year | 656 | 1,499 | 2,625 | - | 4,780 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 28) | 28 | - | - | - |
| Stage 1 to Stage 3 | ( 90) | - | 90 | - | - |
| Stage 2 to Stage 1 | 89 | ( 89 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 140 ) | 140 | - | - |
| Stage 3 to Stage 1 | 65 | | ( 65 ) | - | - |
| Stage 3 to Stage 2 | - | 37 | ( 37 ) | - | - |
| Assets derecognized or repaid | ( 608 ) | ( 615 ) | ( 867 ) | - | ( 2,090) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 591 | - | - | - | 591 |
| Moved to Stages 2 and 3 | - | 346 | 4,577 | - | 4,923 |
| Write-offs | ( 103) | ( 741 ) | ( 4,313) | - | ( 5,157) |
| | ( 84 ) | ( 1,174 ) | ( 475 ) | - | ( 1,733) |
| Balance at end of year | 572 | 325 | 2,150 | - | 3,047 |
| *Balance forwarded* | P 2,999 | P 711 | P 11,140 | P - | P 14,850 |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | P 2,999 | P 711 | P 11,140 | P - | P 14,850 |
| *Other receivables* | | | | | |
| Balance at beginning of year | 298 | 45 | 1,618 | - | 1,961 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | - | - | - | - | - |
| Stage 2 to Stage 3 | - | ( 175 ) | 175 | - | - |
| Stage 3 to Stage 1 | 78 | - | ( 78 ) | - | - |
| Assets derecognized or repaid | ( 399 ) | ( 7 ) | ( 59 ) | - | ( 465) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 155 | - | - | - | 155 |
| Moved to Stages 2 and 3 | - | 153 | 685 | - | 838 |
| | ( 166) | ( 29 ) | 723 | - | 528 |
| Balance at end of year | 132 | 16 | 2,341 | - | 2,489 |
| | P 3,131 | P 727 | P 13,481 | P - | P 17,339 |

Presented below are the composition of allowance for ECL as by loan portfolio (see Note 11):

| | **Group** | | **Parent Company** | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Corporate | **P 8,643** | P 7,351 | **P 8,625** | P 7,311 |
| Credit card receivables | **2,690** | 3,047 | **2,690** | 3,047 |
| Consumer | **2,456** | 4,492 | **2,456** | 4,492 |
| Leasing and finance | **750** | 720 | **-** | - |
| Microfinance and small business | **68** | 131 | **-** | - |
| Other receivables | **1,423** | 2,523 | **1,317** | 2,489 |
| | **P 16,030** | P 18,264 | **P 15,088** | P 17,339 |

b) *Investments in debt securities at amortized cost and at FVOCI*

| | **Group** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **2022** | | | | |
| ***HTC*** | | | | |
| Balance at beginning of year | P 147 | P - | P - | P 147 |
| Net remeasurement of loss allowance | 19 | - | - | 19 |
| Derecognition of financial assets | ( 3) | - | - | ( 3) |
| Balance at end of year | **P 163** | **P -** | **P -** | **P 163** |
| 2021 | | | | |
| Balance at beginning of year | P 142 | P - | P - | P 142 |
| Net remeasurement of loss allowance | 14 | - | - | 14 |
| Derecognition of financial assets | ( 9) | - | - | ( 9) |
| Balance at end of year | P 147 | P - | P - | P 147 |

| | Parent Company | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **2022** | | | | |
| Balance at beginning of year | P 52 | P - | P - | P 52 |
| Net remeasurement of loss allowance | 19 | - | - | 19 |
| Balance at end of year | **P 71** | **P -** | **P -** | **P 71** |
| 2021 | | | | |
| Balance at beginning of year | P 48 | P - | P - | P 48 |
| Net remeasurement of loss allowance | 12 | - | - | 12 |
| Derecognition of financial assets | ( 8) | - | - | ( 8) |
| Balance at end of year | P 52 | P - | P - | P 52 |

| | Group and Parent Company | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **2022** | | | | |
| ***FVOCI*** | | | | |
| Balance at beginning of year | P 12 | P - | P - | P 12 |
| Net remeasurement of loss allowance | 1 | - | - | 1 |
| Balance at end of year | **P 13** | **P -** | **P -** | **P 13** |
| 2021 | | | | |
| Balance at beginning of year | P 1 | P - | P - | P 1 |
| Net remeasurement of loss allowance | 11 | - | - | 11 |
| Balance at end of year | P 12 | P - | P - | P 12 |

c) *Loan commitments*

| | Group and Parent Company | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **2022** | | | | |
| ***Corporate Loans*** | | | | |
| Balance at beginning of year | P 18 | P - | P 5 | P 23 |
| Transfers: | | | | |
| Stage 3 to 1 | 5 | - | ( 5) | - |
| New assets originated: | | | | |
| Remained in Stage 1 | 6 | - | - | 6 |
| | 11 | - | ( 5) | 6 |
| Balance at end of year | **29** | **-** | **-** | **29** |
| ***Credit Cards*** | | | | |
| Balance at beginning of year | 122 | - | - | 122 |
| New assets originated: | | | | |
| Remained in Stage 1 | 63 | - | - | 63 |
| | 63 | - | - | 63 |
| Balance at end of year | **185** | **-** | **-** | **185** |
| | **P 214** | **P -** | **P -** | **P 214** |

| | Group and Parent Company | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| 2021 | | | | |
| *Corporate Loans* | | | | |
| Balance at beginning of year | P 18 | P 1 | P 5 | P 24 |
| Transfers: | | | | |
| Stage 2 to 1 | 1 | ( 1) | - | - |
| Assets derecognized | ( 1) | - | - | ( 1) |
| | - | ( 1) | - | ( 1) |
| Balance at end of year | 18 | - | 5 | 23 |
| *Credit Cards* | | | | |
| Balance at beginning of year | P 115 | P - | P - | P 115 |
| New assets originated: | | | | |
| Remained in Stage 1 | 7 | - | - | 7 |
| | 7 | - | - | 7 |
| Balance at end of year | 122 | - | - | 122 |
| | P 140 | P - | P 5 | P 145 |

The information on how the significant changes in the gross carrying amount of the financial instruments contributed to the changes in the amount of allowance for ECL are presented in Note 4.4.10.

### *4.4.10 Significant Changes in Gross Carrying Amount Affecting Allowance for ECL*

The tables below and in the succeeding pages provides information how the significant changes in the gross carrying amount of financial instruments in 2022 and 2021 contributed to the changes in the allowance for ECL.

a) *Loans and receivables*

| | **Group** | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Purchased credit-impaired** | **Total** |
| **2022** | | | | | |
| ***Corporate Loans*** | | | | | |
| Balance at beginning of year | P 352,089 | P 654 | P 10,720 | P 45 | P 363,508 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 2,910 ) | 2,910 | - | - | - |
| Stage 1 to Stage 3 | ( 2,392 ) | - | 2,392 | - | - |
| Stage 2 to Stage 1 | 293 | ( 293 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 130 ) | 130 | - | - |
| Stage 3 to Stage 1 | 51 | - | ( 51) | - | - |
| Stage 3 to Stage 2 | - | 21 | ( 21) | - | - |
| Assets derecognized or repaid | ( 170,111 ) | ( 3,585 ) | ( 5,221 ) | ( 25 ) | ( 178,942) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 190,393 | - | - | - | 190,393 |
| Moved to Stages 2 and 3 | - | 4,260 | 1,503 | - | 5,763 |
| | 15,324 | 3,183 | ( 1,268 ) | ( 25 ) | 17,214 |
| Balance at end of year *(Balance forwarded)* | **P 367,413** | **P 3,837** | **P 9,452** | **P 20** | **P 380,722** |

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | **P 367,413** | **P 3,837** | **P 9,452** | **P 20** | **P 380,722** |
| ***Consumer loans*** | | | | | |
| Balance at beginning of year | 81,363 | 12,513 | 16,118 | - | 109,994 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 4,551 ) | 4,551 | - | - | - |
| Stage 1 to Stage 3 | ( 1,070 ) | - | 1,070 | - | - |
| Stage 2 to Stage 1 | 5,962 | ( 5,962 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 2,061 ) | 2,061 | - | - |
| Stage 3 to Stage 1 | - | - | - | - | - |
| Stage 3 to Stage 2 | - | 2,085 | ( 2,085 ) | - | - |
| Assets derecognized or repaid | ( 4,225 ) | ( 2,389 ) | ( 6,708 ) | - | ( 13,322 ) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 12,054 | - | - | - | 12,054 |
| Moved to Stages 2 and 3 | - | 624 | 124 | - | 748 |
| Write-offs | - | - | ( 1,698 ) | - | ( 1,698 ) |
| | 8,170 | ( 3,152 ) | ( 7,236 ) | - | ( 2,218 ) |
| Balance at end of year | **89,533** | **9,361** | **8,882** | **-** | **107,776** |
| ***Credit cards*** | | | | | |
| Balance at beginning of year | 32,235 | 792 | 2,536 | - | 35,563 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 603 ) | 603 | - | - | - |
| Stage 1 to Stage 3 | ( 2,002 ) | - | 2,002 | - | - |
| Stage 2 to Stage 1 | 122 | ( 122 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 634 ) | 634 | - | - |
| Stage 3 to Stage 1 | 65 | - | ( 65) | - | - |
| Stage 3 to Stage 2 | - | 51 | ( 51) | - | - |
| Assets derecognized or repaid | ( 83,655 ) | ( 411 ) | ( 2,658 ) | - | ( 86,724) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 101,551 | - | - | - | 101,551 |
| Moved to Stages 2 and 3 | - | 473 | 2,993 | - | 3,466 |
| Write-offs | - | - | ( 3,476 ) | - | ( 3,476 ) |
| | 15,478 | ( 40 ) | ( 621 ) | - | 14,817 |
| Balance at end of year | **47,713** | **752** | **1,915** | **-** | **50,380** |
| *Balance forwarded* | **P 504,659** | **P 13,950** | **P 20,249** | **P 20** | **P 538,878** |

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | **P 504,659** | **P 13,950** | **P 20,249** | **P 20** | **P 538,878** |
| ***Leasing and finance receivables**** | | | | | |
| Balance at beginning of year | 1,101 | 755 | 737 | - | 2,593 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 1,641) | 1,641 | - | - | - |
| Stage 1 to Stage 3 | ( 446) | - | 446 | - | - |
| Stage 2 to Stage 1 | - | - | - | - | - |
| Stage 2 to Stage 3 | - | ( 325) | 325 | - | - |
| Stage 3 to Stage 1 | - | - | - | - | - |
| Stage 3 to Stage 2 | - | 2 | ( 2) | - | - |
| Assets derecognized or repaid | ( 496) | ( 1,072) | ( 898) | - | ( 2,466) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 2,623 | - | - | - | 2,623 |
| Moved to Stages 2 and 3 | - | 285 | 198 | - | 483 |
| | 40 | 531 | 69 | - | 640 |
| Balance at end of year | **1,141** | **1,286** | **806** | **-** | **3,233** |
| ***Micro and small business loans**** | | | | | |
| Balance at beginning of year | 684 | 322 | 67 | - | 1,073 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 46) | 46 | - | - | - |
| Stage 1 to Stage 3 | - | - | - | - | - |
| Stage 2 to Stage 1 | - | - | - | - | - |
| Stage 2 to Stage 3 | - | ( 53) | 53 | - | - |
| Stage 3 to Stage 1 | - | - | - | - | - |
| Stage 3 to Stage 2 | - | 2 | ( 2) | - | - |
| Assets derecognized or repaid | ( 297) | ( 276) | ( 72) | - | ( 645) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 677 | - | - | - | 677 |
| Moved to Stages 2 and 3 | - | 26 | 149 | - | 175 |
| Write-offs | ( 36) | - | ( 9) | - | ( 45) |
| | 298 | ( 255) | 119 | - | 162 |
| Balance at end of year | **982** | **67** | **186** | **-** | **1,235** |
| *Other receivables* | | | | | |
| Balance at beginning of year | 39,996 | 327 | 3,512 | - | 43,835 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 84) | 84 | - | - | - |
| Stage 2 to Stage 3 | - | ( 313) | 313 | - | - |
| Stage 3 to Stage 1 | 114 | - | ( 114) | - | - |
| Assets derecognized or repaid | ( 11,783) | ( 252) | ( 1,082) | - | ( 13,117) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 944 | - | - | - | 944 |
| Moved to Stages 2 and 3 | - | 648 | 336 | - | 984 |
| Write-offs | - | - | ( 1,093) | - | ( 1,093) |
| | ( 10,809) | 167 | ( 1,640) | - | ( 12,282) |
| Balance at end of year | **29,187** | **494** | **1,872** | **-** | **31,553** |
| | **P 535,969** | **P 15,797** | **P 23,113** | **P 20** | **P 574,899** |

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| 2021 | | | | | |
| *Corporate Loans* | | | | | |
| Balance at beginning of year | P 303,872 | P 4,937 | P 10,002 | P 48 | P 318,859 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 121 ) | 121 | - | - | - |
| Stage 1 to Stage 3 | ( 768 ) | - | 768 | - | - |
| Stage 2 to Stage 1 | 3,412 | ( 3,412 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 83 ) | 83 | - | - |
| Stage 3 to Stage 1 | 198 | - | ( 198) | - | - |
| Stage 3 to Stage 2 | - | 8 | ( 8) | - | - |
| Assets derecognized or repaid | ( 150,404) | ( 1,164 ) | ( 1,004 ) | ( 3 ) | ( 152,575) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 195,900 | - | - | - | 195,900 |
| Moved to Stages 2 and 3 | - | 247 | 1,077 | - | 1,324 |
| | 48,217 | ( 4,283) | 718 | ( 3 ) | 44,649 |
| Balance at end of year | 352,089 | 654 | 10,720 | 45 | 363,508 |
| *Consumer loans* | | | | | |
| Balance at beginning of year | 78,060 | 11,986 | 11,100 | - | 101,146 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 3,462) | 3,462 | - | - | - |
| Stage 1 to Stage 3 | ( 794 ) | - | 794 | - | - |
| Stage 2 to Stage 1 | 7,918 | ( 7,918 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 534 ) | 534 | - | - |
| Stage 3 to Stage 1 | 4,576 | - | ( 4,576) | - | - |
| Stage 3 to Stage 2 | - | 3,740 | ( 3,740) | - | - |
| Assets derecognized or repaid | ( 4,986) | ( 1,175 ) | ( 3,035 ) | - | ( 9,196) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 51 | - | - | - | 51 |
| Moved to Stages 2 and 3 | - | 2,952 | 15,041 | - | 17,993 |
| | 3,303 | 527 | 5,018 | - | 8,848 |
| Balance at end of year | 81,363 | 12,513 | 16,118 | - | 109,994 |
| *Credit cards* | | | | | |
| Balance at beginning of year | 26,906 | 2,442 | 2,625 | - | 31,973 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 669) | 669 | - | - | - |
| Stage 1 to Stage 3 | ( 1,519 ) | - | 1,519 | - | - |
| Stage 2 to Stage 1 | 230 | ( 230 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 322 ) | 322 | - | - |
| Stage 3 to Stage 1 | 90 | - | ( 90) | - | - |
| Stage 3 to Stage 2 | - | 51 | ( 51) | - | - |
| Assets derecognized or repaid | ( 55,774) | ( 615 ) | ( 4,130 ) | - | ( 60,519) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 64,072 | - | - | - | 64,072 |
| Moved to Stages 2 and 3 | - | 617 | 4,577 | - | 5,194 |
| Write-offs | ( 1,101) | ( 1,820 ) | ( 2,236 ) | - | ( 5,157) |
| | 5,329 | ( 1,650 ) | ( 89 ) | - | 3,590 |
| Balance at end of year | 32,235 | 792 | 2,536 | - | 35,563 |
| *Balance forwarded* | P 465,687 | P 13,959 | P 29,374 | P 45 | P 509,065 |

| | Group | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | P 465,687 | P 13,959 | P 29,374 | P 45 | P 509,065 |
| *Leasing and finance receivables** | | | | | |
| Balance at beginning of year | 2,153 | 680 | 625 | - | 3,458 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 715) | 715 | - | - | - |
| Stage 1 to Stage 3 | ( 463) | - | 463 | - | - |
| Stage 2 to Stage 1 | - | - | - | - | - |
| Stage 2 to Stage 3 | - | ( 322) | 322 | - | - |
| Stage 3 to Stage 1 | 38 | - | ( 38) | - | - |
| Stage 3 to Stage 2 | - | - | - | - | - |
| Assets derecognized or repaid | ( 348) | ( 25) | ( 130) | - | ( 503) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 515 | - | - | - | 515 |
| Moved to Stages 2 and 3 | - | 200 | 5 | - | 205 |
| Others | ( 79) | ( 493) | ( 510) | - | ( 1,082) |
| | ( 1,052) | 75 | 112 | - | ( 865) |
| Balance at end of year | 1,101 | 755 | 737 | - | 2,593 |
| *Micro and small business loans*** | | | | | |
| Balance at beginning of year | P 1,021 | P 10 | P 98 | P - | P 1,129 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 42) | 42 | - | - | - |
| Stage 1 to Stage 3 | - | - | - | - | - |
| Stage 2 to Stage 1 | - | - | - | - | - |
| Stage 2 to Stage 3 | - | ( 3) | 3 | - | - |
| Stage 3 to Stage 1 | 1 | - | ( 1) | - | - |
| Stage 3 to Stage 2 | - | 8 | ( 8) | - | - |
| Assets derecognized or repaid | ( 667) | ( 1) | ( 35) | - | ( 703) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 371 | - | - | - | 371 |
| Moved to Stages 2 and 3 | - | 266 | 10 | - | 276 |
| | ( 337) | 312 | ( 31) | - | ( 56) |
| Balance at end of year | 684 | 322 | 67 | - | 1,073 |
| *Other receivables* | | | | | |
| Balance at beginning of year | 49,849 | 933 | 3,130 | - | 53,912 |
| Transfers: | | | | | |
| Stage 2 to Stage 3 | - | ( 414) | 414 | - | - |
| Stage 3 to Stage 1 | 337 | - | ( 337) | - | - |
| Assets derecognized or repaid | ( 13,041) | ( 498) | ( 715) | - | ( 14,254) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 2,851 | - | - | - | 2,851 |
| Moved to Stages 2 and 3 | - | 306 | 1,024 | - | 1,330 |
| Write-offs | - | - | ( 4) | - | ( 4) |
| | ( 9,853) | ( 606) | 382 | - | ( 10,077) |
| Balance at end of year | 39,996 | 327 | 3,512 | - | 43,835 |
| | P 507,468 | P 15,363 | P 33,690 | P 45 | P 556,566 |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| **2022** | **Stage 1** | **Stage 2** | **Stage 3** | **Purchased credit-impaired** | **Total** |
| ***Corporate Loans*** | | | | | |
| Balance at beginning of year | P 348,002 | P 654 | P 10,720 | P - | P 359,376 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 2,910 ) | 2,910 | - | - | - |
| Stage 1 to Stage 3 | ( 2,392 ) | - | 2,392 | - | - |
| Stage 2 to Stage 1 | 293 | ( 293 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 130 ) | 130 | - | - |
| Stage 3 to Stage 1 | 51 | - | ( 51 ) | - | - |
| Stage 3 to Stage 2 | - | 21 | ( 21 ) | - | - |
| Assets derecognized or repaid | ( 169,306 ) | ( 3,585 ) | ( 5,221 ) | - | ( 178,112) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 190,393 | - | - | - | 190,393 |
| Moved to Stages 2 and 3 | - | 4,260 | 1,503 | - | 5,763 |
| | 16,129 | 3,183 | ( 1,268 ) | - | 18,044 |
| Balance at end of year | **P 364,131** | **P 3,837** | **P 9,452** | **P -** | **P 377,420** |
| ***Consumer loans*** | | | | | |
| Balance at beginning of year | 81,363 | 12,513 | 16,118 | - | 109,994 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 4,551 ) | 4,551 | - | - | - |
| Stage 1 to Stage 3 | ( 1,070 ) | - | 1,070 | - | - |
| Stage 2 to Stage 1 | 5,962 | ( 5,962 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 2,061 ) | 2,061 | - | - |
| Stage 3 to Stage 1 | - | - | - | - | - |
| Stage 3 to Stage 2 | - | 2,085 | ( 2,085) | - | - |
| Assets derecognized or repaid | ( 4,225 ) | ( 2,389 ) | ( 6,708 ) | - | ( 13,322) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 12,054 | - | - | - | 12,054 |
| Moved to Stages 2 and 3 | - | 624 | 124 | - | 748 |
| Write-offs | - | - | ( 1,698) | - | ( 1,698) |
| | 8,170 | ( 3,152 ) | ( 7,236 ) | - | ( 2,218) |
| Balance at end of year | **89,533** | **9,361** | **8,882** | **-** | **107,776** |
| ***Credit cards*** | | | | | |
| Balance at beginning of year | 32,235 | 792 | 2,536 | - | 35,563 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 603 ) | 603 | - | - | - |
| Stage 1 to Stage 3 | ( 2,002 ) | - | 2,002 | - | - |
| Stage 2 to Stage 1 | 122 | ( 122 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 634 ) | 634 | - | - |
| Stage 3 to Stage 1 | 65 | - | ( 65) | - | - |
| Stage 3 to Stage 2 | - | 51 | ( 51) | - | - |
| Assets derecognized or repaid | ( 83,655 ) | ( 411 ) | ( 2,658 ) | - | ( 86,724) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 101,551 | - | - | - | 101,551 |
| Moved to Stages 2 and 3 | - | 473 | 2,993 | - | 3,466 |
| Write-offs | - | - | ( 3,476) | - | ( 3,476) |
| | 15,478 | ( 40 ) | ( 621 ) | - | 14,817 |
| Balance at end of year | **47,713** | **752** | **1,915** | **-** | **50,380** |
| *Balance forwarded* | **P 501,377** | **P 13,950** | **P 20,249** | **P -** | **P 535,576** |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | **P 501,377** | **P 13,950** | **P 20,249** | **P -** | **P 535,576** |
| *Other receivables* | | | | | |
| Balance at beginning of year | 39,249 | 312 | 3,309 | - | 42,870 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 28 ) | 28 | - | - | - |
| Stage 2 to Stage 3 | - | ( 284 ) | 284 | - | - |
| Stage 3 to Stage 1 | 114 | - | ( 114 ) | - | - |
| Assets derecognized or repaid | ( 11,727 ) | ( 224 ) | ( 1,046 ) | - | ( 12,997) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 981 | - | - | - | 981 |
| Moved to Stages 2 and 3 | - | 629 | 336 | - | 965 |
| Write-off | - | - | ( 1,093) | - | ( 1,093) |
| | ( 10,660) | 149 | ( 1,633 ) | - | ( 12,144) |
| Balance at end of year | **28,589** | **461** | **1,676** | **-** | **30,726** |
| | **P 529,966** | **P 14,411** | **P 21,925** | **P -** | **P 566,302** |
| 2021 | | | | | |
| *Corporate Loans* | | | | | |
| Balance at beginning of year | P 299,814 | P 4,937 | P 10,002 | P - | P 314,753 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 121 ) | 121 | - | - | - |
| Stage 1 to Stage 3 | ( 768 ) | - | 768 | - | - |
| Stage 2 to Stage 1 | 3,412 | ( 3,412 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 83 ) | 83 | - | - |
| Stage 3 to Stage 1 | 198 | - | ( 198) | - | - |
| Stage 3 to Stage 2 | - | 8 | ( 8) | - | - |
| Assets derecognized or repaid | ( 150,433) | ( 1,164 ) | ( 1,004 ) | - | ( 152,601) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 195,900 | - | - | - | 195,900 |
| Moved to Stages 2 and 3 | - | 247 | 1,077 | - | 1,324 |
| | 48,188 | ( 4,283) | 718 | - | 44,623 |
| Balance at end of year | 348,002 | 654 | 10,720 | - | 359,376 |
| *Consumer loans* | | | | | |
| Balance at beginning of year | 78,060 | 11,986 | 11,100 | - | 101,146 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 3,462 ) | 3,462 | - | - | - |
| Stage 1 to Stage 3 | ( 794 ) | - | 794 | - | - |
| Stage 2 to Stage 1 | 7,918 | ( 7,918 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 534 ) | 534 | - | - |
| Stage 3 to Stage 1 | 4,576 | - | ( 4,576) | - | - |
| Stage 3 to Stage 2 | - | 3,740 | ( 3,740) | - | - |
| Assets derecognized or repaid | ( 4,986 ) | ( 1,175 ) | ( 3,035) | - | ( 9,196) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 51 | - | - | - | 51 |
| Moved to Stages 2 and 3 | - | 2,952 | 15,041 | - | 17,993 |
| | 3,303 | 527 | 5,018 | - | 8,848 |
| Balance at end of year | 81,363 | 12,513 | 16,118 | - | 109,994 |
| *Balance forwarded* | P 429,365 | P 13,167 | P 26,838 | P - | P 469,370 |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Purchased credit-impaired | Total |
| *Balance carried forward* | P 429,365 | P 13,167 | P 26,838 | P - | P 469,370 |
| *Credit cards* | | | | | |
| Balance at beginning of year | 26,906 | 2,442 | 2,625 | - | 31,973 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | ( 669 ) | 669 | - | - | - |
| Stage 1 to Stage 3 | ( 1,519 ) | - | 1,519 | - | - |
| Stage 2 to Stage 1 | 230 | ( 230 ) | - | - | - |
| Stage 2 to Stage 3 | - | ( 322 ) | 322 | - | - |
| Stage 3 to Stage 1 | 90 | - | ( 90 ) | - | - |
| Stage 3 to Stage 2 | - | 51 | ( 51 ) | - | - |
| Assets derecognized or repaid | ( 55,774 ) | ( 615 ) | ( 4,130 ) | - | ( 60,519) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 64,072 | - | - | - | 64,072 |
| Moved to Stages 2 and 3 | - | 617 | 4,577 | - | 5,194 |
| Write-offs | ( 1,101 ) | ( 1,820 ) | ( 2,236 ) | - | ( 5,157) |
| | 5,329 | ( 1,650 ) | ( 89 ) | - | 3,590 |
| Balance at end of year | 32,235 | 792 | 2,536 | - | 35,563 |
| *Other receivables* | | | | | |
| Balance at beginning of year | 49,810 | 867 | 2,837 | - | 53,514 |
| Transfers: | | | | | |
| Stage 1 to Stage 2 | - | - | - | - | - |
| Stage 2 to Stage 3 | - | ( 397 ) | 397 | - | - |
| Stage 3 to Stage 1 | 337 | - | ( 337 ) | - | - |
| Assets derecognized or repaid | ( 12,451 ) | ( 464 ) | ( 548 ) | - | ( 13,463) |
| New assets originated: | | | | | |
| Remained in Stage 1 | 1,553 | - | - | - | 1,553 |
| Moved to Stages 2 and 3 | - | 306 | 960 | - | 1,266 |
| | ( 10,561 ) | ( 555 ) | 472 | - | ( 10,644) |
| Balance at end of year | 39,249 | 312 | 3,309 | - | 42,870 |
| | P 500,849 | P 14,271 | P 32,683 | P - | P 547,803 |

The amounts of "Transfers to" include the changes in the ECL on the exposures transferred from one stage to another during the year.

The Group's receivables arising from salary loans are generally fully recoverable as those are collected through salary deductions, except for those receivables from resigned employees which were provided with full ECL allowance.

*b) Investment in debt securities at amortized cost and at FVOCI*

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **HTC** | **FVOCI** | **HTC** | **FVOCI** |
| **2022** | | | | |
| Balance at beginning of year | P 163,758 | P 46,094 | P 162,951 | P 45,611 |
| Assets purchased | 149,832 | 131,018 | 148,342 | 130,903 |
| Assets derecognized | ( 61,045) | ( 60,578) | ( 59,894) | ( 59,863) |
| Fair value loss | - | ( 5,220) | - | ( 5,446) |
| Balance at end of year | **P 252,545** | **P 111,314** | **P 251,399** | **P 111,205** |
| 2021 | | | | |
| Balance at beginning of year | P 43,168 | P 36,720 | P 42,561 | P 36,295 |
| Assets purchased | 230,816 | 127,044 | 230,816 | 126,809 |
| Assets derecognized | ( 110,226) | ( 117,158) | ( 110,426) | ( 116,890) |
| Fair value loss | - | ( 512) | - | ( 603) |
| Balance at end of year | P 163,758 | P 46,094 | P 162,951 | P 45,611 |

*c) Loan Commitments*

| | Group and Parent Company | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **2022** | | | | |
| ***Corporate Loans*** | | | | |
| Balance at beginning of year | P 4,106 | P 4 | P 13 | P 4,123 |
| Transfers: | | | | |
| Stage 2 to 1 | 4 | ( 4) | - | - |
| Stage 3 to 1 | 13 | - | ( 13) | - |
| New assets originated: | | | | |
| Remained in Stage 1 | 4,807 | - | - | 4,807 |
| | 4,824 | ( 4) | ( 13) | 4,807 |
| Balance at end of year | **8,930** | **-** | **-** | **8,930** |
| ***Credit Cards*** | | | | |
| Balance at beginning of year | 9,607 | - | - | 9,607 |
| New assets originated: | | | | |
| Remained in Stage 1 | 5,961 | - | - | 5,961 |
| | 5,961 | - | - | 5,961 |
| Balance at end of year | **15,568** | **-** | **-** | **15,568** |
| | **P 24,498** | **P -** | **P -** | **P 24,498** |

| | Group and Parent Company | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **2021** | | | | |
| *Corporate Loans* | | | | |
| Balance at beginning of year | P 5,536 | P 12 | P 13 | P 5,561 |
| Transfers: | | | | |
| Stage 2 to 1 | 8 | ( 8) | - | - |
| Assets derecognized | ( 1,438) | - | - | ( 1,438) |
| | ( 1,430) | ( 8) | - | ( 1,438) |
| Balance at end of year | 4,106 | 4 | 13 | 4,123 |
| *Credit Cards* | | | | |
| Balance at beginning of year | 8,501 | - | - | 8,501 |
| New assets originated: | | | | |
| Remained in Stage 1 | 1,106 | - | - | 1,106 |
| Balance at end of year | 9,607 | - | - | 9,607 |
| | P 13,713 | P 4 | P 13 | P 13,730 |

### *4.4.11 Collateral Held as Security and Other Credit Enhancements*

The Group holds collateral against loans and advances to customers in the form of hold-out deposits, real estate mortgage, standby letters of credit or bank guaranty, government guaranty, chattel mortgage, assignment of receivables, pledge of equity securities, personal and corporate guaranty and other forms of security. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are generally updated annually.

Generally, collateral is not held over loans and advances to other banks, except when securities are held as part of reverse repurchase and securities borrowing arrangements. Collateral is not usually held against trading and investment securities, and no such collateral was held as of December 31, 2022 and 2021.

The estimated fair value of collateral and other security enhancements held against the loan portfolio as of December 31 are presented below.

| | **Group** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **2022** | | | | |
| Real properties | P 120,659 | P 9,862 | P 11,157 | P 141,678 |
| Chattel | 66,648 | 8,404 | 6,974 | 82,026 |
| Hold-out deposits | 10,993 | 1 | 7 | 11,001 |
| Equity securities | 15,681 | - | 247 | 15,928 |
| Others | 237,070 | 2,524 | 6,852 | 246,446 |
| | **P 451,051** | **P 20,791** | **P 25,237** | **P 497,079** |

| | Group | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| 2021 | | | | |
| Real properties | P 141,510 | P 12,997 | P 16,335 | P 170,842 |
| Chattel | 71,445 | 8,963 | 14,090 | 94,498 |
| Hold-out deposits | 7,338 | 100 | 19 | 7,457 |
| Equity securities | 21,554 | 30 | 3,390 | 24,974 |
| Others | 147,579 | 558 | 13,551 | 161,688 |
| | P 389,426 | P 22,648 | P 47,385 | P 459,459 |

| | **Parent Company** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **2022** | | | | |
| Real properties | P 117,894 | P 9,197 | P 10,842 | P 137,933 |
| Chattel | 64,833 | 6,049 | 5,606 | 76,488 |
| Hold-out deposits | 10,936 | - | 5 | 10,941 |
| Equity securities | 15,681 | - | 247 | 15,928 |
| Others | 233,118 | 1,136 | 5,987 | 240,241 |
| | **P 442,462** | **P 16,382** | **P 22,687** | **P 481,531** |
| 2021 | | | | |
| Real properties | P 137,586 | P 12,187 | P 15,745 | P 165,518 |
| Chattel | 69,144 | 8,571 | 13,662 | 91,377 |
| Hold-out deposits | 7,338 | 100 | 19 | 7,457 |
| Equity securities | 21,554 | 30 | 3,390 | 24,974 |
| Others | 147,069 | 370 | 13,263 | 160,702 |
| | P 382,691 | P 21,258 | P 46,079 | P 450,028 |

The Group and the Parent Company have recognized certain properties arising from foreclosures in settlement of loan account amounting to P761 and P760, respectively, in 2022 and P908 and P907, respectively, in 2021.

The Group and the Parent Company's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place. The Group and the Parent Company do not generally use the non-cash collateral for its own operations.

There were no changes in the Group and the Parent Company's collateral policies in 2022 and 2021.

### *4.4.12 Modifications of Financial Assets*

*(a) Financial Reliefs Provided by the Group*

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

On top of the government reliefs, the Group has offered financial relief through its CARE Program, which was approved by the Executive Committee on May 4, 2020, in response to the COVID-19 situation. These relief measures were granted to eligible customers to allow them to get back into the habit of paying loans and included the following:

- payment relief including extension of contractual terms;
- principal and interest relief including lower amortization on extended term with interest payment only on the first year; and,
- extension of balloon repayment terms.

The outstanding balance of loans modified under the CARE Program in 2022 and 2021 amounted to P35,695 and P30,918, respectively, for the Group, and P33,086 and P27,032, respectively for the Parent Company.

The following tables provide a summary of the outstanding balance of modified loans resulting from the financial reliefs provided by the Group as of December 31:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| **Stage 1 (Performing)** | | | | |
| Corporate | **P 21,121** | P 23,104 | **P 21,121** | P 23,000 |
| Consumer | **2,956** | 540 | **2,956** | 540 |
| Credit card | **654** | 2,256 | **654** | 2,256 |
| Leasing and finance | **115** | 1,519 | **-** | - |
| Microfinance and small business | **47** | 205 | **-** | - |
| | **P 24,893** | P 27,624 | **P 24,731** | P 25,796 |
| **Stage 2 (Underperforming)** | | | | |
| Corporate | **P 205** | P 351 | **P 205** | P 351 |
| Consumer | **2,218** | 518 | **2,218** | 744 |
| Credit card | **120** | 462 | **120** | 462 |
| Leasing and finance | **1,738** | 518 | **-** | - |
| Microfinance and small business | **55** | 88 | **-** | - |
| | **P 4,336** | P 1,937 | **P 2,543** | P 1,557 |
| **Stage 3 (Nonperforming)** | | | | |
| Corporate | **P 1,818** | P 1,112 | **P 1,818** | P 497 |
| Consumer | **3,830** | 1,900 | **3,830** | 1,900 |
| Credit card | **164** | 843 | **164** | 843 |
| Leasing and finance | **554** | 1,136 | **-** | - |
| Microfinance and small business | **100** | 17 | **-** | - |
| | **P 6,466** | P 5,008 | **P 5,812** | P 3,240 |

*(b) Assessment of SICR*

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

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

The Group continues to monitor if there is a subsequent SICR in relation to such modified assets through the use of specific models for modified assets [see also Note 4.4.6(a)].

### *4.4.13 Write-offs*

The Group and the Parent Company write off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include: cessation of enforcement activity; and, where the Group and Parent Company's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of the financial assets to be written-off.

The Group and Parent Company may write off financial assets that are still subject to enforcement activity. The outstanding amounts of such assets written off in 2022 and 2021 amounted to P6,312 and P5,161, respectively, for the Group, and P6,267 and P5,157, respectively, for the Parent Company. The Group and the Parent Company still seek to recover amounts legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

### *4.4.14 Credit Risk Stress Test*

To enhance the assessment of credit risk, the Group adopted a credit risk stress testing framework using break-even sales and cash flow debt service to determine a borrower's vulnerability and ultimately impact to the Group's capital adequacy. The Parent Company adopted a portfolio credit risk testing framework that takes into consideration the causal relationships among industry sectors.

### *4.4.15 Sensitivity Analysis on ECL Measurement*

Set out below are the changes to the Group's ECL as of December 31, 2022 and 2021 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Group's economic variable assumptions:

| | Change in MEVs | | Impact on ECL | |
|---|---|---|---|---|
| | **Upside Scenario** | **Downside Scenario** | **Upside Scenario** | **Downside Scenario** |
| **2022** | | | | |
| Credit card receivables | | | **(P 461)** | **P 1,477** |
| Unemployment rate | **- 5.80%** | **+ 5.20%** | | |
| Inflation rate | **- 0.20%** | **+ 5.30%** | | |
| Corporate loans | | | **( 99)** | **871** |
| USD-Php exchange rate | **- P3** | **+ P10.50** | | |
| Inflation rate | **- 0.50%** | **+ 5.00%** | | |
| 91D TD bill | **- 0.50%** | **+ 5.00%** | | |
| Consumer loans: | | | | |
| *Salary loans* | | | **( 11)** | **20** |
| Unemployment rate | **- 2.00%** | **+ 9.00%** | | |
| USD-Php exchange rate | **- P3** | **+ P10.50** | | |
| Inflation rate | **-0.50%** | **+ 5.00%** | | |
| Bank lending rate | **-0.50%** | **+ 5.00%** | | |
| *Housing loans* | | | **( 5)** | **45** |
| Unemployment rate | **- 2.00%** | **+ 9.00%** | | |
| Inflation rate | **- 0.50%** | **+ 5.00%** | | |
| Bank lending rate | **- 0.50%** | **+ 5.00%** | | |
| *Auto loans* | | | **( 1)** | **7** |
| GDP | **+ P26,008** | **- P338,098** | | |
| USD-Php exchange rate | **- P3** | **+ P10.50** | | |
| Bank lending rate | **- 0.50%** | **+ 5.00%** | | |
| *Personal loans* | | | **( 6)** | **37** |
| GDP | **+ P26,008** | **- P338,098** | | |
| USD-Php exchange rate | **- P3** | **+ P10.50** | | |
| Bank lending rate | **- 0.50%** | **+ 5.00%** | | |

| | Change in MEVs | | Impact on ECL | |
|---|---|---|---|---|
| | Upside Scenario | Downside Scenario | Upside Scenario | Downside Scenario |
| 2021 | | | | |
| Credit card receivables | | | (P 97) | P 4,972 |
| Unemployment rate | - 0.70% | + 11.20% | | |
| Inflation rate | - 0.10% | + 6.60% | | |
| Corporate loans | | | ( 87) | 40 |
| USD-Php exchange rate | - P3.00 | + P10.50 | | |
| Inflation rate | - 0.50% | + 5.00% | | |
| 91D TD bill | - 0.50% | + 5.00% | | |
| Consumer loans: | | | | |
| *Salary loans* | | | ( 12) | 16 |
| Unemployment rate | - 2.00% | + 9.00% | | |
| USD-Php exchange rate | - P4.00 | + P9.50 | | |
| Inflation rate | - 1.00% | + 5.00% | | |
| Bank lending rate | - 0.50% | + 5.00% | | |
| *Housing loans* | | | ( 7) | 57 |
| Unemployment rate | - 2.00% | + 9.00% | | |
| Inflation rate | - 1.00% | + 5.00% | | |
| Bank lending rate | - 0.50% | + 5.00% | | |
| *Auto loans* | | | ( 3) | 18 |
| GDP | + P24,118 | - P313,538 | | |
| USD-Php exchange rate | - P4.00 | + P9.50 | | |
| Bank lending rate | - 0.50% | + 5.00% | | |
| *Personal loans* | | | ( 10) | 44 |
| GDP | + P24,118 | - P313,538 | | |
| USD-Php exchange rate | - P4.00 | + P9.50 | | |
| Bank lending rate | - 0.50% | + 5.00% | | |

### *4.5 Operational Risk*

Operational risks are risks arising from the potential inadequate information systems and systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls, fraud, or unforeseen catastrophes that may result in unexpected loss. Operational risks include the risk of loss arising from various types of human or technical error, settlement or payments failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The Operational Risk Management Division (ORMD) assists management in meeting its responsibility to understand and manage operational risk exposures and to ensure consistent application of operational risk management tools across the Group.

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

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

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

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

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

- The ORMD reviews product and operating manuals, policies, procedures and circulars, thus allowing the embedding of desired operational risk management practices in all business units.

Operational Risk Management, as it relates to capital adequacy, is currently under Basic Indicator Approach (see Note 5.2).

The Group has also developed a Business Continuity Plan (BCP) based on several crisis severity levels which is tested at least annually and updated for any major changes in systems and procedures. Central to the Group's BCP is a disaster recovery plan to address the continued functioning of systems, recovery of critical data, and contingency processing requirements in the event of a disaster.

### *4.5.1 Reputation Risk*

Reputation risk is the risk to earnings or capital arising from negative public opinion. This affects the Group's ability to establish new relationships or services, or to continue servicing existing relationships. This risk can expose the Group to litigation, financial loss, or damage to its reputation. Reputation risk arises whenever technology-based banking products, services, delivery channels, or processes may generate adverse public opinion such that it seriously affects the Group's earnings or impairs its capital. This risk is present in activities such as asset management and regulatory compliance.

The Group adopted a reputation risk monitoring and reporting framework to manage public perception. Central to the said framework is the creation of the RCBC Marketing Committee chaired by the Parent Company's Chief Marketing Officer.

### 4.5.2 Legal Risk and Regulatory Risk Management

Changes in laws and regulations and fiscal policies could adversely affect the Group's operations and financial reporting. In addition, the Group faces legal risks in enforcing its rights under its loan agreements, such as foreclosing of collateral. Legal risk is higher in new areas of business where the law remains untested by the courts. The Group uses a legal review process as the primary control mechanism for legal risk. Such a legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions. In addition, the Group seeks to minimize its legal risk by using stringent legal documentation, imposing certain requirements designed to ensure that transactions are properly authorized, and consulting internal and external legal advisors.

Regulatory risk refers to the potential for the Group to suffer financial loss due to mid-stream changes in regulatory regime affecting current position and/or strategy. Compliance Risk is the risk of loss resulting from failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its banking activities.

The Group's Compliance Program, the design and implementation of which is overseen and coordinated by the Chief Compliance Officer, is the primary control process for regulatory and compliance risk issues. The Compliance Office is committed to safeguard the integrity of the Group by maintaining a high level of regulatory compliance. It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing periodic compliance testing an, and reporting compliance findings to the ACC and the BOD.

### 4.6 Anti-Money Laundering Controls

The AMLA or RA No. 9160 was passed in September 2001. It was subsequently amended by RA No. 9194, RA No. 10167, and RA No. 10365 in March 2003, June 2012 and February 2013, respectively. Together with the Terrorism Financing Prevention and Suppression Act (TFPSA) which was passed in June 2012 by virtue of RA No. 10168, and Anti-Terrorism Act of 2020 or R.A. 11479 these laws provide the regulatory framework for the Philippine Anti-Money Laundering and Terrorist Financing Prevention regulations. The Anti-Money Laundering Council is the financial intelligence unit tasked to implement AMLA, as amended. It is also the government agency that issues implementing guidelines to the AMLA and the TFPSA.

RCBC, as a BSP-supervised covered person, is subject to the Anti-Money Laundering and Combatting the Financing of Terrorism Regulations under Part Nine of the Manual of Regulations for Banks (MORB). Recent amendments to the said regulations were covered by BSP Circular Nos. 950 and 1022.

RCBC's MTPP is aligned with the foregoing laws, rules, and regulations, and follows a risk-based approach in identifying, assessing, and mitigating money laundering, terrorist financing, and proliferation financing risks. It includes the policies, procedures, and controls that are designed to prevent, detect, and deter money laundering and terrorist financing. Some of these controls include the following:

- Delineation of the sales and the service functions of the first line of defense. The Sales function is focused on marketing and sales, relationship management, cross-selling, credit-related matters and documentation, and loan-related referrals and documentation; while the Service function is focused on BC operations such as: (a) customer servicing, which includes know your customer (KYC) and account opening, account maintenance and tellering, cash and vault management and ATM servicing, (b) BC administration, (c) customer experience management such as inquiries, feedback, and problem resolution, and (d) compliance and audit.

- The Group also created middle offices under the Branch Operations and Control Segment, comprised of Middle Office Support Division (MOSD) and Branch Control Division (BCD), tasked to review and validate KYC documents. The MOSD ensures the uniqueness of Customer Information Files and accuracy of information captured in the Credit Risk Mitigation (CRM). It also reviews the completeness of account opening documents. The BCD, on the other hand, ensures the proper implementation of KYC, the performance of independent enhanced due diligence based on customer risk profile, and monitoring adherence of BCs to standard operating procedures. It also acts as the additional control layer to track exceptions and decides on dispositions, recommends sanctions or additional trainings for BCs, and recommends process improvements. The key processes of the BCD are KYC, exceptions reporting, and quality assurance.

- Use of technology in automating compliance activities such as client risk profiling, watch list and sanctions screening, transaction monitoring, and regulatory reporting. In addition to this, the Bank recently initiated use of proactive compliance analytics and investigation to gain more actionable insights and typologies.

For the controls to remain effective, the RCBC Group assesses its key exposures to ML (money laundering)/TF (terrorist financing)/PF (proliferation financing) risks by performing an Institutional ML/TF/PF Risk Assessment (IRA) focusing on evaluating the inherent ML/TF/PF risks presented by the Bank's business activities and the controls in place to mitigate the inherent ML/TF/PF risks so as to determine the overall residual risks. The institutional risk assessment is conducted at least once every two (2) years, or as often as the Board or senior management may direct, depending on the level of risks identified in the previous risk assessment, or other relevant AML/Countering Financing of Terrorism developments that may have an impact on the covered person's operations.

### *4.7 Impact of London Interbank Offered Rate (LIBOR) Reform*

The Group currently has exposure to contracts which reference LIBOR and extend beyond 2021, including swaps which will transition under the International Swaps and Derivatives Association (ISDA) protocols.

In 2021, the Group established working team consisting of key personnel from treasury, finance, risk, IT, legal, compliance and lending groups to oversee the Group's transition plan. This working group put in place a transition project for those contracts which reference USD LIBOR to transition them to Secured Overnight Financing Rate (SOFR), with the aim of minimizing the disruption to business and mitigating operational risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications. Significant risk areas affected by the replacement of LIBOR include:

*(i)* updating systems and processes which capture USD LIBOR referenced contracts;
*(ii)* amending affected contracts, or existing fallback/transition clauses not operating as anticipated; and (iii) reviewing mismatches in timing of derivatives and loans transitioning from USD LIBOR and the resulting impact on economic risk management.

As confirmed by the United Kingdom's Financial Conduct Authority that LIBOR setting will either cease to be provided or no longer representative for:

- All Sterling, Euro, Swiss Franc and Japanese Yen settings and the 1-week and 2-month USD settings by December 31, 2021

- Remaining overnight, 1-month, 3-month and 12-month USD settings by June 30, 2023

The Group has decided to continue the use of USD LIBOR for its outstanding contracts until June 30, 2023. On the other hand, beginning January 1, 2022, the Group will use the Interbank Offered Rates (IBOR) Fallback Rates from Bloomberg for legacy deals while Overnight Index Swap (OIS) Rates as specified in the ISDA protocols will be used for normal Interest Rate Swaps upon cessation of LIBOR and other rates.

As of December 31, 2022, the Group has initiated set-up of the required changes to systems and processes to be fully implemented in 2023. Internal briefings were held across all lending units to disseminate the use of the new benchmark. The Group also sent notice to identified clients advising them of benchmark developments and the Group's adoption of CME Term SOFR for new loans beginning 2022. Loan documentations have also been reviewed for consistency with the new benchmark.

The Group continues to engage with industry participants and the BSP, to ensure an orderly transition to SOFR and to minimize the risks associating from transition, and it will continue to identify and assess risks associated with the USD LIBOR replacement.

The following table contains details of the carrying values of all financial instruments the Group holds as of December 31, 2022 which reference USD LIBOR and have not yet transitioned to SOFR:

| | Assets | Liabilities |
|---|---|---|
| Non-derivative exposed to USD LIBOR measured at amortized cost : | | |
| Loans and receivables | P 11,640 | P - |
| Bills payable | - | 1,673 |
| | 11,640 | 1,673 |
| Derivatives | 182 | 123 |
| Total assets/liabilities exposed to USD LIBOR | P 11,822 | P 1,796 |

*(a) Risks Arising from the Interest Rate Benchmark Reform*

The following are the key risks for the Group arising from the transition:

- Liquidity Risk: There are fundamental differences between LIBOR and the alternative benchmark rate which the Group will be adopting. LIBOR are forward-looking term rates published for a period (e.g., 3 months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments which will require additional liquidity management. The Group's liquidity risk management policy has been updated to ensure sufficient liquid resources to accommodate unexpected increases in overnight rates.

- Accounting: If transition to alternative benchmark rates for certain contracts is finalized in a manner that does not permit the application of reliefs, this could lead to volatility in profit or loss if non-derivative financial instruments are modified or derecognized. In particular, the Group is not seeking to novate derivatives or close out derivatives and enter into new on-market derivatives where derivatives have been designated in hedging relationships.

- Operational Risk: The Group's current treasury management system will undergo upgrades to fully manage the transition to alternative benchmark rates and there is a risk that such upgrades are not fully functional in time, resulting in additional manual procedures which give rise to operational risks. The Group is working closely with its system provider to ensure the relevant updates are made in good time and the Group has plans in place for alternative manual procedures with relevant controls to address any potential delay.

- Litigation Risk: If no agreement is reached to implement the interest rate benchmark reform on prospective contracts, there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The Group is working closely with all counterparties to avoid this from occurring.

## 5. CAPITAL MANAGEMENT

### *5.1 Regulatory Capital*

The Group's lead regulator, the BSP, sets and monitors the capital requirements of the Group.

In implementing the current capital requirements, the BSP requires the Group to maintain a prescribed ratio of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk computed based on BSP-prescribed formula provided under its circulars.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. Circular No. 781 is effective on January 1, 2014.

The BSP has adopted the Basel III risk-based capital adequacy framework effective January 1, 2014, which requires the Group to maintain at all times the following:

*(a)* Common Equity Tier 1 (CET1) of at least 6.0% of risk-weighted assets;
*(b)* Tier 1 Capital of at least 7.5% of risk-weighted assets;
*(c)* Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets; and,
*(d)* Capital Conservation Buffer of 2.5% of risk-weighted assets, comprised of CET1 Capital.

Under the relevant provisions of the current BSP regulations, the required minimum capitalization for the Parent Company, Rizal Microbank, RCBC Capital and RCBC LFC is P20,000, P400, P300 and P300, respectively.

In computing for the capital adequacy ratio (CAR), the regulatory qualifying capital is analyzed into two tiers which are: (i) Tier 1 Capital comprised of CET1 and AT1 capital, and, (ii) Tier 2 Capital, defined as follows and are subject to deductions as defined in relevant regulations:

*(a)* CET1 Capital includes the following:

*(i)* paid-up common stock;
*(ii)* common stock dividends distributable;
*(iii)* additional paid-in capital;
*(iv)* deposit for common stock subscription;
*(v)* retained earnings;
*(vi)* undivided profits;
*(vii)* other comprehensive income from net unrealized gains or losses on financial assets at FVOCI and cumulative foreign currency translation; and,
*(viii)* minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

*(b)* AT1 Capital includes:

*(i)* instruments that do not qualify as CET1, but meet the criteria set out in Annex B of BSP Circular No. 781;
*(ii)* financial liabilities meeting loss absorbency requirements set out in Annex E of BSP Circular No. 781;
*(iii)* financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular No. 781;
*(iv)* additional paid-in capital resulting from issuance of AT1 capital;
*(v)* deposit for subscription to AT1 instruments; and,
*(vi)* minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

*(c)* Tier 2 Capital includes:

*(i)* instruments issued that are not qualified as Tier 1 capital but meet the criteria set forth in Annex C of BSP Circular No. 781;
*(ii)* financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular No. 781;
*(iii)* deposit for subscription of Tier 2 capital;
*(iv)* appraisal increment reserve on bank premises, as authorized by the Monetary Board (MB) of the BSP;
*(v)* general loan loss provisions; and,
*(vi)* minority interest in subsidiary banks that are less than wholly-owned, subject to regulatory conditions.

In the calculation of Risk-based CAR, the total Qualifying Capital is expressed as a percentage of Total Risk-Weighted Assets based on book exposures, where Risk Weighted Assets is composed of Credit Risk, Market Risk and Operational Risk, net of specific provisions and exposures covered by CRM.

Banking book exposures shall be risk-weighted based on third party credit assessment of the individual exposure given by eligible external credit institutions and the corresponding external credit assessment are mapped with the corresponding risk weights following the Standardized Credit Risk Weights table as provided under BSP Circular No. 538, *Revised Risk-Based Capital Adequacy Framework.*

BSP Circular No. 856, *Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks under Basel III,* covers the implementing guidelines on the framework for dealing with domestic systemically important banks (D-SIBs) in accordance with the Basel III standards. Banks identified as D-SIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and capital conservation buffer. Compliance with this requirement was phased-in starting January 1, 2017, with full compliance on January 1, 2019.

The Group and Parent Company's regulatory capital position based on the Basel III risk-based capital adequacy framework as reported to the BSP follows:

| | Group | Parent Company |
|---|---|---|
| **2022:** | | |
| Tier 1 Capital | | |
| CET 1 | **P 85,637** | **P 81,243** |
| AT1 | **14,465** | **14,465** |
| | **100,102** | **95,708** |
| Tier 2 Capital | **6,081** | **6,025** |
| Total Qualifying Capital | **P 106,183** | **P 101,733** |
| Total Risk – Weighted Assets | **P 694,421** | **P 679,361** |
| Capital ratios: | | |
| Total qualifying capital expressed as a percentage of total risk-weighted assets | **15.29%** | **14.97%** |
| Tier 1 Capital Ratio | **14.42%** | **14.09%** |
| Total CET 1 Ratio | **12.33%** | **11.96%** |

| | | Group | | Parent Company |
|---|---|---|---|---|
| 2021: | | | | |
| Tier 1 Capital | | | | |
| CET 1 | P | 79,409 | P | 75,449 |
| AT1 | | 14,465 | | 14,465 |
| | | 93,874 | | 89,914 |
| Tier 2 Capital | | 5,591 | | 5,522 |
| Total Qualifying Capital | P | 99,465 | P | 95,436 |
| Total Risk – Weighted Assets | P | 653,108 | P | 638,940 |
| Capital ratios: | | | | |
| Total qualifying capital expressed as a percentage of total risk-weighted assets | | 15.23% | | 14.94% |
| Tier 1 Capital Ratio | | 14.37% | | 14.07% |
| Total CET 1 Ratio | | 12.16% | | 11.81% |

### *5.2 Internal Capital Adequacy Assessment and Pillar 2 Risk-Weighted Assets*

In January 2009, the BSP issued Circular No. 639 on the ICAAP and Supervisory Review Process covering universal and commercial banks on a group-wide basis. As a supplement to BSP Circular No. 538 on the Risk-Based Capital Adequacy Framework, ICAAP sets out the following principles:

*(a)* Banks must have a process for assessing capital adequacy relative to their risk profile, operating environment, and strategic/business plans;

*(b)* The Bank's ICAAP is the responsibility of the BOD, must be properly documented and approved and with policies and methodologies integrated into banking operations;

*(c)* The Bank's ICAAP should address other material risks – Pillar 2 risks – in addition to those covered by Pillar 1, with risk measurement methodologies linked to the assessment of corresponding capital requirement both on a BAU and stressed scenario;

*(d)* The minimum CAR prescribed by the BSP after accounting for Pillar 1 and other risks is retained at 10%; and,

*(e)* The Bank's ICAAP document must be submitted to the BSP every March 31 of each year.

The Group identified the following Pillar 2 risks as material to its operations, and consequently set out methodologies to quantify the level of capital that it must hold.

*(a)* *Credit Risk Concentration* – The Group has so far limited its analysis to credit risk concentration arising from the uneven sector distribution of the Group's credit exposures. Aside from using a simplified application of the HHI, concentration is estimated using the CCI. The capital charge is estimated by calculating the change in the Economic Capital (EC) requirement of the credit portfolio as an effect of credit deterioration in the largest industry exposure.

(b) *IRRBB* – It is the current and prospective negative impact on earnings and capital arising from interest rate shifts. The Group IRRBB estimates as its NII-at-risk, and accordingly deducts the same from regulatory qualifying capital. Stressed IRRBB is calculated by applying the highest observed market volatilities over a determined timeframe.

(c) *Liquidity Risk* – The Group estimates its liquidity risk under BAU scenario using standard gap analysis. Stressed liquidity risk on the other hand assumes a repeat of a historical liquidity stress, and estimates the impact if the Group were to partially defend its deposits and partially pay-off by drawing from its reserve of liquid assets.

(d) *IT Risk* – It is the current and prospective negative impact to earnings arising from failure of IT systems and realization of cyber security threats. The Group treats this risk as forming part of Operational Risk.

(e) *Compliance Risk* – It is the current and prospective negative impact on earnings and capital arising from violation of laws, regulations, ethical standards, and the like. For BAU scenario, the Group estimates compliance risk charge from historical fines and penalties as the worst-case loss determined via a frequency-severity analysis of each penalty type. The resulting compliance risk charge calculation is likewise directly deducted from earnings.

(f) *Strategic Business Risk* – It is the current and prospective negative impact on earnings and capital arising from adverse business decisions, improper implementation, and failure to respond to industry changes. The Group treats strategic business risk as a catch-all risk, and expresses its estimate as a cap on additional risk-weighted assets given other risks and the desired level of capital adequacy. The Group maintains that the assessment of strategic risk is embedded in the budget of the Group. Its capital impact therefore on a BAU case is already expressed in the amount of risk projected to be taken on in the forecast years. However, the Group does recognize the need to set up processes that would enable to put a number to the risk incurred by going into specific strategies.

(g) *Reputation Risk* – From the adoption of a theoretical measure, the Group amended its approach to reputation risk in 2011 by adopting instead a reputation risk monitoring and reporting process, run primarily by its Marketing Committee. The measurement of reputation risk under stress is folded into the Group's assessment of stressed liquidity risk.

### *5.3 Basel III Leverage Ratio*

BSP issued Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, which provides the implementing guidelines on the leverage ratio framework designed to act as a supplementary measure to the risk-based capital requirements. It sets out a minimum leverage ratio of 5.00% on a solo and consolidated basis and shall be complied with at all times. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018 per BSP Circular No. 990, *Amendments to the Basel III Leverage Ratio Framework,* issued on January 22, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

The Basel III leverage ratio intends to restrict the build-up of leverage 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. The Basel III leverage ratio is defined as the ratio of capital measure (Tier 1 Capital) and the exposure measure. Exposure measure includes: on-balance sheet exposures, securities financing transactions exposures and off-balance sheet.

The Group and Parent Company's Basel III leverage ratio as reported to the BSP are as follows:

| | Group | Parent Company |
|---|---|---|
| **2022:** | | |
| Tier 1 Capital | **P 100,102** | **P 95,708** |
| Exposure measure | **1,198,389** | **1,184,364** |
| | **8.35%** | **8.08%** |
| 2021: | | |
| Tier 1 Capital | P 93,874 | P 89,914 |
| Exposure measure | 963,320 | 950,191 |
| | 9.74% | 9.46% |

### *5.4 Liquidity Coverage Ratio and Net Stable Funding Ratio*

On March 10, 2016, the BSP issued Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio and Disclosure Standards*, which provides the implementing guidelines on liquidity coverage ratio (LCR) and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets to total net cash outflows, which should not be lower than 100.00%. Compliance with the LCR minimum requirement commenced on January 1, 2018 with the prescribed minimum ratio of 90.00% for 2018 and 100.00% effective January 1, 2019.

To promote the short-term resilience of the liquidity risk profile, the Bank maintains adequate stock of unencumbered high-quality liquid assets (HQLAs) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs under stressed conditions. The stock of liquid assets should enable the Bank to withstand significant liquidity shocks for at least 30 calendar days, which would give time for corrective actions to be taken by the Bank management and/or the BSP. Details of the Group's and Parent Company's LCR are summarized below.

| | Group | | Parent Company | |
|---|---|---|---|---|
| | Total Unweighted Value | Total Weighted Value | Total Unweighted Value | Total Weighted Value |
| **December 31, 2022** | | | | |
| Total stock of HQLA | P 429,188 | P 420,715 | P 426,745 | P 418,521 |
| Expected Net Cash Outflows* | 1,258,367 | 259,722 | 1,257,964 | 258,974 |
| Liquidity Coverage Ratio | | **161.99%** | | **161.61%** |
| December 31, 2021 | | | | |
| Total stock of HQLA | P 283,070 | P 269,687 | P 280,895 | P 267,777 |
| Expected Net Cash Outflows* | 992,911 | 175,035 | 994,823 | 175,800 |
| Liquidity Coverage Ratio | | 154.08% | | 152.32% |

**Includes Restricted Term Deposits and Deposits pledged as collateral or under hold-out arrangements*

Net Stable Funding Ratio (NSFR), as detailed in BSP Circular No. 1007, *Implementing Guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio*, measures the availability of medium and long-term stable funding to support illiquid assets and business activities on an on-going basis. It is an assessment of the level of sustainable funding required to reduce funding risk over a one-year time horizon. The NSFR complements the LCR, which promotes short-term resilience of the Group's liquidity profile.

To promote long-term resilience against liquidity risk, the Group maintains a stable funding profile in relation to the composition of its assets and off-balance sheet activities and seeks to meet this objective by limiting overreliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off-balance sheet accounts.

Details of the Group's and Parent Company's Basel III NSFR are summarized below.

| | Group | Parent Company |
|---|---|---|
| **December 31, 2022** | | |
| Available stable funding | P 694,870 | P 687,997 |
| Required stable funding | 553,443 | 554,141 |
| Basel III NSFR | **125.55%** | **124.16%** |
| December 31, 2021 | | |
| Available stable funding | P 599,445 | P 593,274 |
| Required stable funding | 503,747 | 504,473 |
| Basel III NSFR | 119.00% | 117.60% |

The Bank has complied with the daily minimum regulatory requirement of 100% for both ratios beginning in 2019. For the Bank's subsidiaries, per BSP Memo dated March 8, 2019, the observation period for LCR and NSFR was extended up to the end of December 2019 to give sufficient time to build up liquidity position given the combined impact of these liquidity measures.

## 6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### *6.1 Carrying Amounts and Fair Values by Category*

The following table summarizes the carrying amounts and corresponding fair values of financial assets and financial liabilities presented in the statements of financial position.

| | Group | | | |
|---|---|---|---|---|
| | **2022** | | 2021 | |
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| ***Financial Assets*** | | | | |
| At amortized cost: | | | | |
| Cash and cash equivalents | **P 208,323** | **P 208,323** | P 199,277 | P 199,277 |
| Investment securities - net | **252,382** | **220,523** | 163,611 | 164,277 |
| Loans and receivables - net | **539,848** | **555,018** | 507,739 | 538,971 |
| Other resources | **1,204** | **1,204** | 825 | 825 |
| | **1,001,757** | **985,068** | 871,452 | 903,350 |
| At fair value: | | | | |
| Investment securities at FVTPL | **7,037** | **7,037** | 5,863 | 5,863 |
| Investment securities at FVOCI | **114,946** | **114,946** | 49,761 | 49,761 |
| | **121,983** | **121,983** | 55,624 | 55,624 |
| | **P 1,123,740** | **P 1,107,051** | P 927,076 | P 958,974 |
| ***Financial Liabilities*** | | | | |
| At amortized cost: | | | | |
| Deposit liabilities | **P 857,244** | **P 857,299** | P 672,459 | P 672,708 |
| Bills payable | **66,660** | **66,660** | 55,904 | 55,904 |
| Bonds payable | **74,411** | **72,446** | 87,215 | 87,687 |
| Accrued interest and other expenses | **7,857** | **7,857** | 5,559 | 5,559 |
| Other liabilities | **25,333** | **25,333** | 20,724 | 20,724 |
| | **1,031,505** | **1,029,595** | 841,861 | 842,582 |
| At fair value – | | | | |
| Derivative financial liabilities | **2,116** | **2,116** | 926 | 926 |
| | **P 1,033,621** | **P 1,031,711** | P 842,787 | P 843,508 |

| | Parent Company | | | |
|---|---|---|---|---|
| | **2022** | | 2021 | |
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| ***Financial Assets*** | | | | |
| At amortized cost: | | | | |
| Cash and cash equivalents | **P 206,320** | **P 206,320** | P 197,673 | P 197,673 |
| Investment securities - net | **251,328** | **219,806** | 162,899 | 163,560 |
| Loans and receivables - net | **532,193** | **546,950** | 499,901 | 531,276 |
| Other resources | **1,202** | **1,202** | 823 | 823 |
| | **991,043** | **974,278** | 861,296 | 893,332 |
| At fair value: | | | | |
| Investment securities at FVTPL | **6,139** | **6,139** | 4,879 | 4,879 |
| Investment securities at FVOCI | **114,265** | **114,265** | 48,399 | 48,399 |
| | **120,404** | **120,404** | 53,278 | 53,278 |
| | **P 1,111,447** | **P 1,094,682** | P 914,574 | P 946,610 |

| | Parent Company | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| ***Financial Liabilities*** | | | | |
| At amortized cost: | | | | |
| Deposit liabilities | **P 857,639** | **P 857,694** | P 674,414 | P 674,663 |
| Bills payable | **58,391** | **58,391** | 46,399 | 46,399 |
| Bonds payable | **74,411** | **72,446** | 87,215 | 87,687 |
| Accrued interest and other expenses | **7,663** | **7,663** | 5,391 | 5,391 |
| Other liabilities | **24,287** | **24,287** | 19,641 | 19,641 |
| | **1,022,391** | **1,020,481** | 833,060 | 833,781 |
| At fair value – | | | | |
| Derivative financial liabilities | **2,116** | **2,116** | 926 | 926 |
| | **P 1,024,507** | **P 1,022,597** | P 833,986 | P 834,707 |

Except for investment securities at amortized cost, deposit liabilities, loans and receivables, and bonds payable with fair value disclosed different from their carrying amounts, management considers that the carrying amounts of other financial assets and financial liabilities presented above which are measured at amortized cost, approximate the fair values either because those instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material. The fair value information disclosed for the Group and Parent Company's investment securities at amortized cost and other financial assets and liabilities measured at fair value on a recurring basis are determined based on the procedures and methodologies discussed in Note 7.3.

### *6.2 Offsetting Financial Assets and Financial Liabilities*

The following financial assets presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar arrangements:

| | Group | | | | |
|---|---|---|---|---|---|
| | | | **Related amounts not set off in the statements of financial position** | | |
| | Notes | **Gross amounts recognized in the statements of financial position** | **Financial instruments** | **Collateral received** | **Net amount** |
| **December 31, 2022** | | | | | |
| Loans and receivables – Receivable from customers | 11 | **P 543,346** | **(P 11,001 )** | **P -** | **P 532,345** |
| Trading and investment securities – Investment securities at amortized cost | 10 | **252,472** | **( 40,481 )** | **-** | **211,991** |
| Other resources – Margin deposits | 15 | **240** | **-** | **( 240 )** | **-** |
| December 31, 2021 | | | | | |
| Loans and receivables – Receivable from customers | 11 | P 512,731 | (P 7,464 ) | P - | P 505,267 |
| Trading and investment securities – Investment securities at amortized cost | 10 | 163,611 | ( 45,378 ) | - | 118,233 |
| Other resources – Margin deposits | 15 | 73 | - | ( 73 ) | - |

| | Notes | Gross amounts recognized in the statements of financial position | Related amounts not set off in the statements of financial position: Financial instruments | Collateral received | Net amount |
|---|---|---|---|---|---|
| | | **Parent Company** | | | |
| **December 31, 2022** | | | | | |
| Loans and receivables – Receivable from customers | 11 | **P 535,576** | **( P 10,941 )** | **P -** | **P 524,635** |
| Trading and investment securities – Investment securities at amortized cost | 10 | **251,328** | **( 40,481 )** | **-** | **210,847** |
| Other resources – Margin deposits | 15 | **240** | **-** | **( 240 )** | **-** |
| December 31, 2021 | | | | | |
| Loans and receivables – Receivable from customers | 11 | P 504,933 | ( P 7,457 ) | P - | P 497,476 |
| Trading and investment securities – Investment securities at amortized cost | 10 | 162,899 | ( 45,378 ) | - | 117,521 |
| Other resources – Margin deposits | 15 | 73 | - | ( 73 ) | - |

The following financial liabilities presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar agreements:

| | Notes | Gross amounts recognized in the statements of financial position | Related amounts not set off in the statements of financial position: Financial instruments | Collateral received | Net amount |
|---|---|---|---|---|---|
| | | **Group** | | | |
| **December 31, 2022** | | | | | |
| Deposit liabilities | 17 | **P 857,244** | **( P 11,001 )** | **P -** | **P 846,243** |
| Bills payable | 18 | **66,660** | **( 40,481 )** | **-** | **26,179** |
| Other liabilities – Derivative financial liabilities | 21 | **2,116** | **-** | **( 240 )** | **1,876** |
| December 31, 2021 | | | | | |
| Deposit liabilities | 17 | P 672,459 | ( P 7,464 ) | P - | P 664,995 |
| Bills payable | 18 | 55,904 | ( 45,378 ) | - | 10,526 |
| Other liabilities – Derivative financial liabilities | 21 | 926 | - | ( 73 ) | 853 |

| | Notes | Gross amounts recognized in the statements of financial position | Related amounts not set off in the statements of financial position: Financial instruments | Collateral received | Net amount |
|---|---|---|---|---|---|
| | | **Parent Company** | | | |
| **December 31, 2022** | | | | | |
| Deposit liabilities | 17 | **P 857,639** | **( P 10,941 )** | **P -** | **P 846,698** |
| Bills payable | 18 | **58,391** | **( 40,481 )** | **-** | **17,910** |
| Other liabilities – Derivative financial liabilities | 21 | **2,116** | **-** | **( 240 )** | **1,876** |
| December 31, 2021 | | | | | |
| Deposit liabilities | 17 | P 674,414 | ( P 7,457 ) | P - | P 666,957 |
| Bills payable | 18 | 46,399 | ( 45,378 ) | - | 1,021 |
| Other liabilities – Derivative financial liabilities | 21 | 926 | - | ( 73 ) | 853 |

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

For purposes of presenting the above information, the related amounts not set off in the statements of financial position pertains to: (a) hold-out deposits and equity securities which serve as the Group's collateral enhancement for certain loans and receivables; (b) collaterized bills payable under sale and repurchase agreements; and, (c) margin deposits which serve as security for outstanding financial market transactions and other liabilities. The financial instruments that can be set off are only disclosed to the extent of the amounts of the Group's obligations to counterparties.

## 7. FAIR VALUE MEASUREMENT AND DISCLOSURES

### *7.1 Fair Value Hierarchy*

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels:

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

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

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

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

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

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

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3. Changes in assumptions could also affect the reported fair value of the financial instruments. The Group uses judgment to select a variety of valuation techniques and to make assumptions that are mainly based on market conditions existing at the end of each reporting period.

### *7.2 Financial Instruments Measured at Fair Value*

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2022 and 2021.

| | Group | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **2022:** | | | | |
| Financial assets at FVTPL: | | | | |
| Government securities | **P 3,883** | **P -** | **P -** | **P 3,883** |
| Corporate debt securities | **38** | **-** | **-** | **38** |
| Equity securities | **849** | **-** | **-** | **849** |
| Derivative assets | **20** | **2,247** | **-** | **2,267** |
| | **4,790** | **2,247** | **-** | **7,037** |
| Financial assets at FVOCI: | | | | |
| Equity securities | **515** | **1,005** | **2,112** | **3,632** |
| Government securities | **53,492** | **-** | **-** | **53,492** |
| Corporate debt securities | **57,822** | **-** | **-** | **57,822** |
| | **111,829** | **1,005** | **2,112** | **114,946** |
| Total Resources at Fair Value | **P 116,619** | **P 3,252** | **P 2,112** | **P 121,983** |
| Derivative liabilities | **P 33** | **P 2,083** | **P -** | **P 2,116** |
| 2021: | | | | |
| Financial assets at FVTPL: | | | | |
| Government securities | P 4,330 | P - | P - | P 4,330 |
| Corporate debt securities | 35 | - | - | 35 |
| Equity securities | 232 | - | - | 232 |
| Derivative assets | 11 | 1,255 | - | 1,266 |
| | 4,608 | 1,255 | - | 5,863 |
| Financial assets at FVOCI: | | | | |
| Equity securities | 1,497 | 355 | 1,815 | 3,667 |
| Government securities | 28,682 | - | - | 28,682 |
| Corporate debt securities | 17,412 | - | - | 17,412 |
| | 47,591 | 355 | 1,815 | 49,761 |
| Total Resources at Fair Value | P 52,199 | P 1,610 | P 1,815 | P 55,624 |
| Derivative liabilities | P 1 | P 925 | P - | P 926 |

| | Parent Company | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **2022:** | | | | |
| Financial assets at FVTPL: | | | | |
| Government securities | **P 2,985** | **P -** | **P -** | **P 3,834** |
| Corporate debt securities | **38** | **-** | **-** | **38** |
| Equity securities | **-** | **-** | **-** | **-** |
| Derivative assets | **20** | **2,247** | **-** | **2,267** |
| | **3,892** | **2,247** | **-** | **6,139** |
| Financial assets at FVOCI: | | | | |
| Equity securities | **622** | **350** | **2,088** | **3,060** |
| Government securities | **53,492** | **-** | **-** | **53,492** |
| Corporate debt securities | **57,713** | **-** | **-** | **57,713** |
| | **111,827** | **-** | **2,088** | **114,265** |
| Total Resources at Fair Value | **P 115,719** | **P 2,247** | **P 2,088** | **P 120,404** |
| Derivative liabilities | **P 33** | **P 2,083** | **P -** | **P 2,116** |
| 2021: | | | | |
| Financial assets at FVTPL: | | | | |
| Government securities | P 3,346 | P - | P - | P 3,346 |
| Corporate debt securities | 35 | - | - | 35 |
| Equity securities | 232 | - | - | 232 |
| Derivative assets | 11 | 1,255 | - | 1,266 |
| | 3,624 | 1,255 | - | 4,879 |
| Financial assets at FVOCI: | | | | |
| Equity securities | 645 | 355 | 1,788 | 2,788 |
| Government securities | 28,682 | - | - | 28,682 |
| Corporate debt securities | 16,929 | - | - | 16,929 |
| | 46,256 | 355 | 1,788 | 48,399 |
| Total Resources at Fair Value | P 49,880 | P 1,610 | P 1,788 | P 53,278 |
| Derivative liabilities | P 1 | P 925 | P - | P 926 |

Described below and in the succeeding page are the information about how the fair values of the Group's classes of financial assets and financial liabilities were determined.

(a) *Government and Corporate Debt Securities*

The fair value of the Group's government and corporate debt securities are categorized within Level 1 of the fair value hierarchy.

Fair values of peso-denominated government debt securities issued by the Philippine government, are determined based on the reference price per Bloomberg which used BVAL. These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparables.

Fair values of actively traded corporate debt securities are determined based on their market prices quoted in the Philippine Dealing Holdings System or based on the direct reference price per Bloomberg at the end of each reporting period; hence, categorized within Level 1.

(b) *Equity Securities*

The fair values of certain equity securities classified as financial assets at FVTPL and at FVOCI as of December 31, 2022 and 2021 were valued based on their market prices quoted in the PSE at the end of each reporting period; hence, categorized within Level 1.

Level 2 category includes the Group's investments in proprietary club shares as their prices are not derived from a market considered as active due to lack of trading activities among market participants at the end of each reporting period.

For equity securities which are not traded in an active market and with fair value categorized within Level 3, their fair value is determined through valuation techniques such as net asset value method, dividend discounted model or market-based approach (price-to-book value method) using current market values of comparable listed entities.

The price-to-book value method used to value a certain equity security of the Parent Company uses the price-to-book ratio of comparable listed entities as multiple in determining the fair value adjusted by a certain valuation discount. The price-to-book ratio used in the fair value measurement as of December 31, 2022 and 2021 ranges from 0.82:1 to 1.35:1 and from 0.84:1 to 1.56:1, respectively. Increase or decrease in the price-to-book ratio and net asset value would result in higher or lower fair values, all else equal.

For a certain preferred equity security, the Group has used the discounted cash flow applying a discount rate of 9.2% and 4.8%, which is based on the latest available weighted cost of capital of the investee company, in 2022 and 2021, respectively, to determine the present value of future cash flows from dividends or redemption expected to be received from the instrument.

A reconciliation of the carrying amounts of Level 3 FVOCI equity securities at the beginning and end of 2022 and 2021 is shown below.

| | **Group** | | **Parent Company** | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Balance at beginning of year | **1,815** | P 1,570 | **1,788** | P 1,542 |
| Fair value gains - net | **297** | 245 | **300** | 246 |
| Balance at end of year | **P 2,112** | P 1,815 | **P 2,088** | P 1,788 |

There were neither transfers between the levels of the fair value hierarchy nor gains or losses recognized in the statements of profit or loss for Level 3 financial assets in 2022 and 2021.

(c) *Derivative Assets and Liabilities*

The fair value of the Group's derivative assets categorized within Level 1 is determined be the current mid-price based on the last trading transaction as defined by third-party market makers.

On the other hand, the fair values of certain derivative financial assets and liabilities categorized within Level 2 were determined through valuation techniques using net present value computation which makes use of the streams of cash flows related to the derivative financial instruments such as interest rate swaps and currency swaps.

### *7.3 Financial Instruments Measured at Amortized Cost for Which Fair Value is Disclosed*

The table below summarizes the fair value hierarchy of the Group and Parent Company's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

| | Group | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **2022:** | | | | |
| ***Financial Assets:*** | | | | |
| Cash and other cash items | **P 18,078** | **P -** | **P -** | **P 18,078** |
| Due from BSP | **156,664** | **-** | **-** | **156,664** |
| Due from other banks | **5,836** | **-** | **-** | **5,836** |
| Loans arising from reverse repurchase agreements | **8,724** | **-** | **-** | **8,724** |
| Interbank loans | **19,021** | **-** | **-** | **19,021** |
| Investment securities at amortized cost | **220,523** | **-** | **-** | **220,523** |
| Loans and receivables - net | **-** | **-** | **555,018** | **555,018** |
| Other resources | **-** | **-** | **1,204** | **1,204** |
| | **P 428,846** | **P -** | **P 556,222** | **P 985,068** |
| ***Financial Liabilities:*** | | | | |
| Deposit liabilities | **P -** | **P -** | **P 857,299** | **P 857,299** |
| Bills payable | **-** | **-** | **66,660** | **66,660** |
| Bonds payable | **-** | **72,446** | **-** | **72,446** |
| Accrued interest and other expenses | **-** | **-** | **7,857** | **7,857** |
| Other liabilities | **-** | **-** | **25,333** | **25,333** |
| | **P -** | **P 72,446** | **P 957,149** | **P 1,029,595** |
| 2021: | | | | |
| *Financial Assets:* | | | | |
| Cash and other cash items | P 14,691 | P - | P - | P 14,691 |
| Due from BSP | 130,170 | - | - | 130,170 |
| Due from other banks | 12,162 | - | - | 12,162 |
| Loans arising from reverse repurchase agreements | 11,691 | - | - | 11,691 |
| Interbank loans | 30,563 | - | - | 30,563 |
| Investment securities at amortized cost | 164,277 | - | - | 164,277 |
| Loans and receivables - net | - | - | 538,971 | 538,971 |
| Other resources | - | - | 825 | 825 |
| | P 363,554 | P - | P 539,796 | P 903,350 |
| *Financial Liabilities:* | | | | |
| Deposit liabilities | P - | P - | P 672,708 | P 672,708 |
| Bills payable | - | - | 55,904 | 55,904 |
| Bonds payable | - | 87,687 | - | 87,687 |
| Accrued interest and other expenses | - | - | 5,559 | 5,559 |
| Other liabilities | - | - | 20,724 | 20,724 |
| | P - | P 87,687 | P 754,895 | P 842,582 |

| | Parent Company | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **2022:** | | | | |
| ***Financial Assets:*** | | | | |
| Cash and other cash items | **P 18,024** | **P -** | **P -** | **P 18,024** |
| Due from BSP | **155,340** | **-** | **-** | **155,340** |
| Due from other banks | **5,383** | **-** | **-** | **5,383** |
| Loans arising from reverse repurchase agreements | **8,552** | **-** | **-** | **8,552** |
| Interbank loans | **19,021** | **-** | **-** | **19,021** |
| Investment securities at amortized cost | **219,806** | **-** | **-** | **219,806** |
| Loans and receivables - net | **-** | **-** | **546,950** | **546,950** |
| Other resources | **-** | **-** | **1,202** | **1,202** |
| | **P 426,126** | **P -** | **P 548,152** | **P 974,278** |
| ***Financial Liabilities:*** | | | | |
| Deposit liabilities | **P -** | **P -** | **P 857,694** | **P 857,694** |
| Bills payable | **-** | **-** | **58,391** | **58,391** |
| Bonds payable | **-** | **72,446** | **-** | **72,446** |
| Accrued interest and other expenses | **-** | **-** | **7,663** | **7,663** |
| Other liabilities | **-** | **-** | **24,287** | **24,287** |
| | **P -** | **P 72,446** | **P 948,035** | **P 1,020,481** |
| 2021: | | | | |
| *Financial Assets:* | | | | |
| Cash and other cash items | P 14,663 | P - | P - | P 14,663 |
| Due from BSP | 128,931 | - | - | 128,931 |
| Due from other banks | 11,860 | - | - | 11,860 |
| Loans arising from reverse repurchase agreements | 11,656 | - | - | 11,656 |
| Interbank loans | 30,563 | - | - | 30,563 |
| Investment securities at amortized cost | 163,560 | - | - | 163,560 |
| Loans and receivables - net | - | - | 531,276 | 531,276 |
| Other resources | - | - | 823 | 823 |
| | P 361,233 | P - | P 532,099 | P 893,332 |
| *Financial Liabilities:* | | | | |
| Deposit liabilities | P - | P - | P 674,663 | P 674,663 |
| Bills payable | - | - | 46,399 | 46,399 |
| Bonds payable | - | 87,687 | - | 87,687 |
| Accrued interest and other expenses | - | - | 5,391 | 5,391 |
| Other liabilities | - | - | 19,641 | 19,641 |
| | P - | P 87,687 | P 746,094 | P 833,781 |

The following are the methods used to determine the fair value of financial assets and financial liabilities not presented in the statements of financial position at their fair values:

(a) *Due from BSP and Other Banks, and Loans and Receivables Arising from Reverse Repurchase Agreements*

Due from BSP pertains to deposits made to the BSP for clearing and reserve requirements, overnight and term deposit facilities, while loans and receivables arising from reverse repurchase agreements pertain to loans and receivables from BSP arising from overnight lending from excess liquidity. Due from other banks includes items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on the discounted cash flows using prevailing money market interest rates for debt with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(b) *Investment Securities at Amortized Cost*

The fair value of investment securities at amortized cost consisting of government securities and corporate debt securities is determined based on reference prices appearing in Bloomberg.

(c) *Deposits Liabilities and Borrowings*

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The Level 2 fair value of bonds payable and subordinated debt is determined based on the average of ask and bid prices as appearing on Bloomberg. For bills payable categorized within Level 3, fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values.

(d) *Other Resources and Other Liabilities*

Due to their short duration, the carrying amounts of other resources and liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

### *7.4 Fair Value Disclosures for Investment Properties Carried at Cost*

Details of Group's and Parent Bank's investment properties and the information about the fair value hierarchy as of December 31, 2022 and 2021 are shown in the succeeding page.

| | Group | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **December 31, 2022** | | | | |
| Land | P - | P - | P 7,168 | P 7,168 |
| Building and improvements | - | - | 1,520 | 1,520 |
| | **P -** | **P -** | **P 8,688** | **P 8,688** |
| December 31, 2021 | | | | |
| Land | P - | P - | P 6,098 | P 6,099 |
| Building and improvements | - | - | 5,512 | 5,511 |
| | P - | P - | P 11,610 | P 11,610 |

| | Parent | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **December 31, 2022** | | | | |
| Land | P - | P - | P 6,843 | P 6,843 |
| Building and improvements | - | - | 1,416 | 1,416 |
| | **P -** | **P -** | **P 8,259** | **P 8,259** |
| December 31, 2021 | | | | |
| Land | P - | P - | P 5,765 | P 5,765 |
| Building and improvements | - | - | 5,416 | 5,416 |
| | P - | P - | P 11,181 | P 11,181 |

The fair values of the Group and Parent Company's investment properties were determined based on the following approaches:

*(a) Fair Value Measurement for Land*

The Level 2 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations as determined by an independent or internal appraiser. Under this approach, when sales prices and/or actual sales transaction of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2.

On the other hand, if the observable and recent prices of the reference properties were adjusted for differences in key attributes such as property size, location and zoning, and accessibility, or any physical or legal restrictions on the use of the property, the fair value will be categorized as Level 3. The most significant input into this valuation approach is the price per square feet, hence, the higher the price per square feet, the higher the fair value.

*(b) Fair Value Measurement for Buildings and Improvements*

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

There has been no change in the valuation techniques for investment properties in both years.

# 8. SEGMENT INFORMATION

## *8.1 Business Segments*

The Group's operating businesses are managed separately according to the nature of services provided (primary segments) and the different geographical markets served (secondary segments) with a segment representing a strategic business unit. The Group's business segments follow:

(a) *Retail* – principally handles the BCs offering a wide range of consumer banking products and services. Products offered include individual customer's deposits, credit cards, home and mortgage loans, auto, personal and microfinance loans, overdraft facilities, payment remittances and foreign exchange transactions. It also upsells bank products [unit investment trust funds (UITFs), etc.] and cross-sells bancassurance products. The segment includes the net assets of the servicing entity, RBSC, and portfolios of Rizal Microbank.

(b) *Corporate* – principally handles distinct customer segments: (i) conglomerates; (ii) large corporations; (iii) emerging corporates, which focus on large middle accounts often referred to as the "Next 500 Corporations"; (iv) Japanese multinationals with a strong presence in the country; (v) Filipino-Chinese businesses; and, (vi) Korean businesses. This segment includes portfolio of RCBC LFC.

(c) *Small and Medium Enterprises (SME)* – principally handles the financial needs of the country's small businesses or the SMEs and the Commercial Middle Market segments. The SME Banking Group provides a holistic approach serving both the financial (e.g., loans, deposits, investments, insurance, etc.) and non-financial needs (e.g., networking, financial literacy trainings, etc.) of client to help them grow their business. Clients are the entrepreneurs located in different parts of the country and spread in various industry sectors such as manufacturing, wholesale and retail trade, construction, hotels, agriculture, and healthcare, among others.

(d) *Treasury* – principally provides 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.

(e) *Others* – consists of other subsidiaries except for RBSC and Rizal Microbank, which is presented as part of Retail, and RCBC LFC which is presented under Corporate.

These segments are the basis on which the Group reports its primary segment information. Other operations of the Group comprise the operations and financial control groups. Transactions between segments are conducted at estimated market rates on an arm's length basis.

Segment revenues and expenses that are directly attributable to primary business segment and the relevant portions of the Group's revenues and expenses that can be allocated to that business segment are accordingly reflected as revenues and expenses of that business segment.

For secondary segments, revenues and expenses are attributed to geographic areas based on the location of the resources producing the revenues, and in which location the expenses are incurred.

There were no changes in the Group's operating segments in 2022 and 2021.

## *8.2 Analysis of Primary Segment Information*

Primary segment information (by business segment) on a consolidated basis as of and for the years ended December 31, 2022, 2021 and 2020 follow:

| | Retail | Corporate | SME | Treasury | Others | Total |
|---|---|---|---|---|---|---|
| **2022:** | | | | | | |
| **Revenues** | | | | | | |
| From external customers | | | | | | |
| Interest income | P 33,539 | P 27,865 | P 6,325 | P 12,615 | P 100 | P 80,444 |
| Interest expense | ( 14,272) | ( 14,491) | ( 4,258) | ( 7,674) | ( 7) | ( 40,702) |
| Net interest income | 19,267 | 13,374 | 2,067 | 4,941 | 93 | 39,742 |
| Non-interest income | 8,152 | 6,671 | 240 | 673 | 1,075 | 16,811 |
| | 27,419 | 20,045 | 2,307 | 5,614 | 1,168 | 56,553 |
| Intersegment revenues | | | | | | |
| Interest income | - | 5 | 2,372 | - | 13 | 2,390 |
| Non-interest income | 650 | - | - | - | - | 650 |
| | 650 | 5 | 2,372 | - | 13 | 3,040 |
| Total net revenues | 28,069 | 20,050 | 4,679 | 5,614 | 1,181 | 59,593 |
| **Expenses** | | | | | | |
| Operating expenses excluding impairment, depreciation and amortization | 15,436 | 2,763 | 1,507 | 1,053 | 59 | 20,818 |
| Impairment losses -net | 3,529 | 1,544 | 400 | 19 | 214 | 5,706 |
| Depreciation and amortization | 1,239 | 880 | 27 | 23 | 23 | 2,192 |
| | 20,204 | 5,187 | 1,934 | 1,095 | 296 | 28,716 |
| **Segment operating income** | P 7,865 | P 14,863 | P 2,745 | P 4,519 | P 885 | P 30,877 |
| **Total resources** | P 163,956 | P 307,379 | P 88,807 | P 357,684 | P 4,224 | P 922,050 |
| **Total liabilities** | P 570,994 | P 417,070 | P 107,165 | P 43,284 | P 571 | P 1,139,084 |
| 2021: | | | | | | |
| Revenues | | | | | | |
| From external customers | | | | | | |
| Interest income | P 22,901 | P 21,285 | P 5,164 | P 5,613 | P 91 | P 55,054 |
| Interest expense | ( 7,648) | ( 10,564) | ( 2,273) | ( 2,193) | ( 10) | ( 22,688) |
| Net interest income | 15,253 | 10,721 | 2,891 | 3,420 | 81 | 32,366 |
| Non-interest income | 6,188 | 2,257 | 162 | 1,524 | 1,163 | 11,294 |
| | 21,441 | 12,978 | 3,053 | 4,944 | 1,244 | 43,660 |
| Intersegment revenues | | | | | | |
| Interest income | - | 8 | 1,271 | - | 11 | 1,290 |
| Non-interest income | 564 | - | - | - | - | 564 |
| | 564 | 8 | 1,271 | - | 11 | 1,854 |
| Total net revenues | 22,005 | 12,986 | 4,324 | 4,944 | 1,255 | 45,514 |
| Expenses | | | | | | |
| Operating expenses excluding impairment, depreciation and amortization | 14,404 | 2,286 | 352 | 777 | 604 | 18,423 |
| Impairment losses -net | 4,718 | 954 | 256 | 14 | 106 | 6,048 |
| Depreciation and amortization | 1,200 | 694 | 27 | 51 | 24 | 1,996 |
| | 20,322 | 3,934 | 635 | 842 | 734 | 26,467 |
| Segment operating income | P 1,683 | P 9,052 | P 3,689 | P 4,102 | P 521 | P 19,047 |
| Total resources | P 155,373 | P 295,922 | P 76,409 | P 236,958 | P 4,944 | P 769,606 |
| Total liabilities | P 450,053 | P 352,807 | P 88,464 | P 23,076 | P 1,395 | P 915,795 |
| 2020: | | | | | | |
| Revenues | | | | | | |
| From external customers | | | | | | |
| Interest income | P 28,426 | P 18,995 | P 4,976 | P 3,891 | P 125 | P 56,413 |
| Interest expense | ( 10,719) | ( 11,742) | ( 2,920) | ( 2,814) | 19 | ( 28,176) |
| Net interest income | 17,707 | 7,253 | 2,056 | 1,077 | 144 | 28,237 |
| Non-interest income | 4,742 | 1,905 | 142 | 7,022 | ( 9) | 13,802 |
| | 22,449 | 9,158 | 2,198 | 8,099 | 135 | 42,039 |
| Intersegment revenues | | | | | | |
| Interest income | - | 3,539 | 1,913 | - | 11 | 5,463 |
| Non-interest income | 617 | - | - | - | - | 617 |
| | 617 | 3,539 | 1,913 | - | 11 | 6,080 |
| Total net revenues | 23,066 | 12,697 | 4,111 | 8,099 | 146 | 48,119 |
| Expenses | | | | | | |
| Operating expenses excluding impairment, depreciation and amortization | 13,016 | 80 | 1,266 | 1,004 | 69 | 15,435 |
| Impairment losses -net | 6,775 | 1,744 | 704 | 1 | 151 | 9,375 |
| Depreciation and amortization | 945 | 521 | 16 | 42 | 14 | 1,538 |
| | 20,736 | 2,345 | 1,986 | 1,047 | 234 | 26,348 |
| Segment operating income | P 2,330 | P 10,352 | P 2,125 | P 7,052 | (P 88) | P 21,771 |

| | Retail | Corporate | SME | Treasury | Others | Total |
|---|---|---|---|---|---|---|
| 2020: | | | | | | |
| Total resources | P 153,127 | P 267,468 | P 66,421 | P 184,695 | P 4,994 | P 676,705 |
| Total liabilities | P 393,074 | P 267,700 | P 67,247 | P 27,640 | P 1,296 | P 756,957 |

## 8.3 Reconciliation

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its consolidated financial statements.

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| **Revenue** | | | |
| Total segment revenues | **P 59,593** | P 45,514 | P 48,119 |
| Elimination of intersegment revenues | **( 15,139 )** | ( 9,120 ) | ( 10,206 ) |
| Net revenues as reported in profit or loss | **P 44,454** | P 36,394 | P 37,913 |
| **Profit or loss** | | | |
| Total segment operating income | **P 30,877** | P 19,047 | P 21,771 |
| Elimination of intersegment profit | **( 18,797 )** | ( 11,964 ) | ( 16,753 ) |
| Group net profit as reported in profit or loss | **P 12,080** | P 7,083 | P 5,018 |
| **Resources** | | | |
| Total segment resources | **P 922,050** | P 769,606 | P 676,705 |
| Unallocated assets | **232,058** | 189,527 | 95,401 |
| Total resources | **P 1,154,108** | P 959,133 | P 772,106 |
| **Liabilities** | | | |
| Total segment liabilities | **P 1,139,084** | P 915,795 | P 756,957 |
| Unallocated liabilities (elimination of intersegment liabilities) | **( 101,337 )** | ( 67,742 ) | ( 86,229 ) |
| Total liabilities | **P 1,037,747** | P 848,053 | P 670,728 |

## 8.4 Analysis of Secondary Segment Information

Secondary information (by geographical locations) as of and for the years ended December 31, 2022, 2021 and 2020 follow:

| | **Philippines** | **Asia and Europe** | **Total** |
|---|---|---|---|
| **2022:** | | | |
| **Statement of profit or loss** | | | |
| Total income | P 59,057 | P 16 | P 59,073 |
| Total expenses | 46,971 | 22 | 46,993 |
| Net profit (loss) | **P 12,086** | **(P 6 )** | **P 12,080** |
| **Statement of financial position** | | | |
| Total resources | **P 1,153,994** | **P 114** | **P 1,154,108** |
| Total liabilities | **P 1,037,741** | **P 6** | **P 1,037,747** |
| **Other segment information** | | | |
| Depreciation and amortization | **P 3,037** | **P -** | **P 3,037** |

| | Philippines | Asia and Europe | Total |
|---|---|---|---|
| 2021: | | | |
| Statement of profit or loss | | | |
| Total income | P 44,660 | P 14 | P 44,674 |
| Total expenses | 37,569 | 22 | 37,591 |
| Net profit (loss) | P 7,091 | ( P 8 ) | P 7,083 |
| Statement of financial position | | | |
| Total resources | P 959,022 | P 111 | P 959,133 |
| Total liabilities | P 848,048 | P 5 | P 848,053 |
| Other segment information | | | |
| Depreciation and amortization | P 3,020 | P - | P 3,020 |
| 2020: | | | |
| Statement of profit or loss | | | |
| Total income | P 48,572 | P 12 | P 48,584 |
| Total expenses | 43,545 | 21 | 43,566 |
| Net profit (loss) | P 5,027 | ( P 9 ) | P 5,018 |
| Statement of financial position | | | |
| Total resources | P 771,994 | P 112 | P 772,106 |
| Total liabilities | P 670,722 | P 6 | P 670,728 |
| Other segment information | | | |
| Depreciation and amortization | P 2,924 | P - | P 2,924 |

## 9. CASH AND CASH EQUIVALENTS

The components of Cash and Cash Equivalents follow:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Cash and other cash items | **P 18,078** | P 14,691 | **P 18,024** | P 14,663 |
| Due from BSP | **156,664** | 130,170 | **155,340** | 128,931 |
| Due from other banks | **5,836** | 12,162 | **5,383** | 11,860 |
| Loans arising from reverse repurchase agreements | **8,724** | 11,691 | **8,552** | 11,656 |
| Interbank loans receivables (see Note 11) | **19,021** | 30,563 | **19,021** | 30,563 |
| | **P 208,323** | P 199,277 | **P 206,320** | P 197,673 |

Cash consists primarily of funds in the form of Philippine currency notes and coins, and includes foreign currencies acceptable to form part of the international reserves in the Group's vault and those in the possession of tellers, including ATMs. Other cash items include cash items other than currency and coins on hand, such as checks drawn on other banks or other branches after the clearing cut-off time until the close of the regular banking hours.

Due from BSP represents the aggregate balance of deposit accounts maintained with the BSP primarily to meet reserve requirements (see Note 17), to serve as clearing account for interbank claims and to comply with existing trust regulations.

Loans arising from repurchase agreements, which normally mature within 30 days, represents overnight placements with private entities where the underlying securities cannot be sold or repledged to parties other than the contracting party.

Due from BSP includes:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Demand deposit and secured settlement accounts | **P 76,582** | P 65,074 | **P 75,340** | P 63,931 |
| Term deposit | **72,050** | 45,086 | **72,000** | 45,000 |
| Overnight deposit | **8,032** | 20,010 | **8,000** | 20,000 |
| | **P 156,664** | P 130,170 | **P 155,340** | P 128,931 |

The balance of Due from other banks account represents regular deposits with the following:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Foreign banks | **P 4,689** | P 10,386 | **P 4,681** | P 10,371 |
| Local banks | **1,147** | 1,776 | **702** | 1,489 |
| | **P 5,836** | P 12,162 | **P 5,383** | P 11,860 |

Interest on placements with BSP and other banks, which is presented as Interest Income on Due from BSP and other banks in the statements of profit or loss, consist of:

| | Group | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| BSP | **P 1,037** | P 755 | P 929 |
| Other banks | **73** | 8 | 35 |
| | **P 1,110** | P 763 | P 964 |

| | Parent Company | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| BSP | **P 1,033** | P 752 | P 917 |
| Other banks | **44** | 3 | 28 |
| | **P 1,077** | P 755 | P 945 |

The Group's deposits in other banks and in BSP arising from overnight lending from excess liquidity earn annual interest of 0.00% to 1.60% and 1.50% to 4.80% in 2022, 0.00% to 2.00% and 1.50% to 2.50% in 2021, and 0.00% to 2.00% and 1.50% to 2.20% in 2020, respectively.

## 10. TRADING AND INVESTMENT SECURITIES

This account is comprised of:

| | Group | | | | Parent Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2022** | | 2021 | | **2022** | | 2021 | |
| Financial assets at FVTPL | **P** | **7,037** | P | 5,863 | **P** | **6,139** | P | 4,879 |
| Financial assets at FVOCI | | **114,946** | | 49,761 | | **114,265** | | 48,399 |
| Investment securities at amortized cost | | **252,382** | | 163,611 | | **251,328** | | 162,899 |
| | **P** | **374,365** | P | 219,235 | **P** | **371,732** | P | 216,177 |

### *10.1 Financial Assets at Fair Value Through Profit or Loss*

Financial assets at FVTPL is composed of the following:

| | Group | | | | Parent Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2022** | | 2021 | | **2022** | | 2021 | |
| Government securities | **P** | **3,883** | P | 4,330 | **P** | **3,834** | P | 3,346 |
| Derivative financial assets | | **2,267** | | 1,266 | | **2,267** | | 1,266 |
| Equity securities | | **849** | | 232 | | **-** | | 232 |
| Corporate debt securities | | **38** | | 35 | | **38** | | 35 |
| | **P** | **7,037** | P | 5,863 | **P** | **6,139** | P | 4,879 |

The carrying amounts of financial assets at FVTPL are classified as follows:

| | Group | | | | Parent Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2022** | | 2021 | | **2022** | | 2021 | |
| Held-for-trading | **P** | **4,770** | P | 4,365 | **P** | **3,872** | P | 3,381 |
| Designated as at FVTPL | | **-** | | 232 | | **-** | | 232 |
| Derivative financial assets | | **2,267** | | 1,266 | | **2,267** | | 1,266 |
| | **P** | **7,037** | P | 5,863 | **P** | **6,139** | P | 4,879 |

Equity securities are composed of listed shares of stock traded at the PSE and shares of stock designated as at FVTPL. Dividend income earned by the Group on these equity securities amounted to nil, P22, and P20 in 2022, 2021, and 2020, respectively, and nil, P22, and P9 for the Parent Company in 2022, 2021 and 2020, respectively, which are included as part of Miscellaneous income under the Other Operating Income account in the statements of profit or loss (see Note 24.1).

Treasury bills and other debt securities issued by the government and other private corporations earn annual interest as follows:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Peso denominated | **1.41% - 12.38%** | 1.37% - 8.12% | 2.38% - 15.00% |
| Foreign currency denominated | **0.28% - 9.63%** | 1.37% - 10.62% | 2.46% - 10.63% |

Derivative instruments used by the Group include foreign currency short-term forwards, cross-currency swaps, debt warrants and options. Foreign currency forwards represent commitments to purchase/sell on a future date at a specific exchange rate. Foreign currency short-term swaps are simultaneous foreign currency spot and forward deals with tenor of one year.

Debt warrants attached to the bonds and other debt securities allows the Group to purchase additional debt securities from the same contracting issuer at the same price and yield as the initial purchased security. Option is a derivative financial instrument that specifies a contract between two parties for a future transaction on an asset at a reference price.

The aggregate contractual or notional amount of derivative financial instruments and the aggregative fair values of derivative financial assets and financial liabilities as of December 31 both in the Group and Parent Company's financial statements are shown below.

| | Notional Amount | Fair Values | |
|---|---|---|---|
| | | Assets | Liabilities |
| **2022:** | | | |
| Currency swaps and forwards | **P 156,832** | **P 2,053** | **P 1,949** |
| Interest rate swaps and futures | **16,067** | **203** | **130** |
| Debt warrants | **5,864** | **9** | **-** |
| Options | **1,320** | **2** | **4** |
| Credit default swap | **613** | **-** | **33** |
| | **P 180,696** | **P 2,267** | **P 2,116** |
| 2021: | | | |
| Currency swaps and forwards | P 85,909 | P 985 | P 745 |
| Interest rate swaps and futures | 18,854 | 272 | 177 |
| Debt warrants | 5,364 | 8 | - |
| Credit default swap | 11,216 | 1 | 4 |
| | P 121,343 | P 1,266 | P 926 |

Derivative liabilities are shown as Derivative financial liabilities as part of Other Liabilities account in the statements of financial position (see Note 21). The significant portion of such derivative liabilities have maturity periods of less than a year.

Other information about the fair value measurement of the Group and Parent Company's financial assets at FVTPL are presented in Note 7.2.

### *10.2 Financial Assets at Fair Value Through Other Comprehensive Income*

Financial assets at FVOCI as of December 31 consist of:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Quoted equity securities | **P 1,520** | P 1,852 | **P 972** | P 1,000 |
| Unquoted equity securities | **2,112** | 1,815 | **2,088** | 1,788 |
| Government debt securities | **53,492** | 28,682 | **53,492** | 28,682 |
| Corporate debt securities | **57,822** | 17,412 | **57,713** | 16,929 |
| | **P 114,946** | P 49,761 | **P 114,265** | P 48,399 |

The reconciliation of the carrying amounts of these financial assets are as follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Balance at the beginning | **P 49,761** | P 40 | **P 48,399** | P 38,813 |
| Additions | **131,018** | 127,044 | **130,903** | 126,809 |
| Disposals | **( 60,578)** | ( 117,158) | **( 59,863)** | ( 116,890) |
| Fair value losses - net | **( 5,255)** | ( 275) | **( 5,174)** | ( 16,929) |
| Balance at end of year | **P 114,946** | P 49,761 | **P 114,265** | P 48,399 |

Unquoted equity securities include investments in non-marketable equity securities of private companies. The carrying amount and fair value of the Group's unquoted equity securities as of December 31, 2022 and 2021 amounted to P2,112 and P1,815, respectively, determined using the net asset value method, dividend discounted model, or a market-based approach (price-to-book value method); hence, categorized under Level 3 of the fair value hierarchy (see Note 7.2).

In 2022, 2021 and 2020, dividends recognized on these equity securities amounting to P293, P83 and P58 by the Group and, P227, P17 and P7 by the Parent Company, respectively, which are included as part of Miscellaneous income under the Other Operating Income account in the statements of profit or loss (see Note 24.1).

### *10.3 Investment Securities at Amortized Cost*

Investment securities at amortized cost as of December 31 consist of:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Government securities | **P 218,163** | P 132,969 | **P 217,017** | P 132,162 |
| Corporate debt securities | **34,382** | 30,789 | **34,382** | 30,789 |
| | **252,545** | 163,758 | **251,399** | 162,951 |
| Allowance for impairment | **( 163)** | ( 147) | **( 71)** | ( 52) |
| | **P 252,382** | P 163,611 | **P 251,328** | P 162,899 |

Interest rates per annum on government securities and corporate debt securities range from the following:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Peso denominated securities | **2.90% - 6.87%** | 2.63% - 5.26% | 3.38% - 8.60% |
| Foreign currency-denominated securities | **0.28% - 7.65%** | 0.18% - 7.65% | 0.18% - 10.63% |

There is no disposal of HTC investment in 2022 and 2021.

The Group recognized ECL on investment securities at amortized cost amounting to P19 in 2022, P14 in 2021, and P1 in 2020 (see Note 16). The Parent Company recognized ECL on investment at amortized cost amounting to P19 in 2022, P12 in 2021 and nil in 2020 (see Note 16).

Certain government securities are deposited with the BSP as security for the Group's faithful compliance with its fiduciary obligations in connection with its trust operations (see Note 26).

As of December 31, 2022 and 2021, certain investment securities of both the Group and Parent Company were pledged as collateral for bills payable under repurchase agreements (see Note 18).

### *10.4 Interest Income from Trading and Investment Securities*

Interest income from trading and investment securities recognized by the Group and Parent Company in 2022, 2021 and 2020 are shown below.

| | Group | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| Financial assets at FVTPL | **P 150** | P 96 | P 223 |
| Debt securities at FVOCI | **2,094** | 1,343 | 848 |
| Investment securities at amortized cost | **7,511** | 3,009 | 1,008 |
| | **P 9,755** | P 4,448 | P 2,079 |

| | Parent | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| Financial assets at FVTPL | **P 150** | P 92 | P 213 |
| Debt securities at FVOCI | **2,074** | 1,320 | 804 |
| Investment securities at amortized cost | **7,459** | 2,967 | 974 |
| | **P 9,683** | P 4,379 | P 1,991 |

### *10.5 Trading and Securities Gains (Losses)*

The Group and the Parent Company recognized trading and securities gains (losses) in its trading or disposals of investment securities, including their fair value changes, in 2022, 2021, and 2020 are as follows:

| | Group | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| **Profit or loss:** | | | |
| Financial assets at FVTPL | **(P 42)** | P 309 | P 286 |
| Debt securities at FVOCI | **5** | 554 | 3,103 |
| Investment securities at amortized cost | **-** | - | 2,695 |
| | **(P 37)** | P 863 | P 6,084 |
| **Other comprehensive income (loss):** | | | |
| Equity securities at FVOCI | **P 191** | P 548 | (P 570) |
| Debt securities at FVOCI | **( 5,446)** | ( 823) | 339 |
| | **(P 5,255)** | (P 275) | (P 231) |

| | Parent 2022 | Parent 2021 | Parent 2020 |
|---|---|---|---|
| **Profit or loss:** | | | |
| Financial assets at FVTPL | **P 34** | P 314 | P 264 |
| Debt securities at FVOCI | **( 12)** | 542 | 3,098 |
| Investment securities at amortized cost | **-** | - | 2,678 |
| | **P 22** | P 856 | P 6,040 |
| **Other comprehensive income (loss):** | | | |
| Equity securities at FVOCI | **P 272** | P 490 | (P 591) |
| Debt securities at FVOCI | **( 5,446)** | ( 823) | 339 |
| | **(P 5,174)** | (P 333) | (P 252) |

## 11. LOANS AND RECEIVABLES

This account consists of the following (see also Note 27.1)

| | Group 2022 | Group 2021 | Parent Company 2022 | Parent Company 2021 |
|---|---|---|---|---|
| Receivables from customers: | | | | |
| Loans and discounts | **P 465,160** | P 452,495 | **P 459,956** | P 446,954 |
| Credit card receivables | **50,380** | 35,563 | **50,380** | 35,563 |
| Customers' liabilities on acceptances, import bills and trust receipts | **22,587** | 20,662 | **22,587** | 20,662 |
| Lease contract receivables | **3,084** | 2,296 | **-** | - |
| Bills purchased | **2,888** | 2,033 | **2,888** | 2,033 |
| Receivables financed | **149** | 297 | **-** | - |
| | **544,248** | 513,346 | **535,811** | 505,212 |
| Unearned discount | **( 902)** | ( 615) | **( 235)** | ( 279) |
| | **543,346** | 512,731 | **535,576** | 504,933 |
| Other receivables: | | | | |
| Interbank loans receivables (see Note 9) | **19,021** | 30,563 | **19,021** | 30,563 |
| Accrued interest receivables | **7,828** | 7,372 | **7,669** | 7,058 |
| Accounts receivables [see Note 27.5(b)] | **4,015** | 4,114 | **3,479** | 3,603 |
| UDSCL | **-** | 989 | **-** | 989 |
| Sales contract receivables | **689** | 797 | **557** | 657 |
| | **31,553** | 43,835 | **30,726** | 42,870 |
| | **574,899** | 556,566 | **566,302** | 547,803 |
| Allowance for impairment (see Notes 4.4.9 and 16) | **( 16,030)** | ( 18,264) | **( 15,088)** | ( 17,339) |
| | **P 558,869** | P 538,302 | **P 551,214** | P 530,464 |

Receivables from customers' portfolio earn average annual interest or range of interest as follows:

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| Loans and discounts: | | | |
| Philippine peso | **6.12%** | 7.37% | 8.58% |
| Foreign currencies | **4.92%** | 4.37% | 4.62% |
| Credit card receivables | **16.21% - 18.12%** | 14.23% - 18.87% | 16.52% - 29.87% |
| Lease contract receivables | **7.25% - 26.00%** | 8.00% - 26.00% | 9.50% - 26.00% |
| Receivables financed | **10.00% - 22.00%** | 11.00% - 22.00% | 10.00% - 24.00% |

Effective November 3, 2020, interest rates and cash advance fees charged by the Parent Company to its credit card holders were updated to comply with BSP Circular No. 1098, *Ceiling on Interest of Finance Charges of Credit Card Receivables*. Under the new circular, interest or finance charges on all credit card transactions are not to exceed an annual interest rate of 24%, except credit card installment loans which shall be subject to monthly add-on rate not exceeding 1%. In addition, the maximum amount that can be charged for Cash Advances is capped at P200 (absolute amount) per transaction.

Included in UDSCL is a 10-year note with carrying amount of P742 as of December 31, 2021 and bears 6.44% interest per annum. This pertains to the agreement entered into in June 2017 with a third party for the sale of various foreclosed real properties with book value of P1,127, for a total consideration of P1,385; of which P396 and P989 (with present value of P742 on date of sale) were in the form of cash and note receivable, respectively. In 2022, the outstanding balance of UDSCL was fully written off as recovery is no longer expected from the counterparty. Write-off amounting to P989 is included as part of Impairment losses – net in 2022 statement of profit or loss (see Note 16).

Also included in the Parent Company's accounts receivables is the amount due from RCBC JPL which was acquired from Rizal Microbank in 2015 amounting to P222. As of December 31, 2022 and 2021, the outstanding balance amounted to P127. The receivable amount is unsecured, noninterest-bearing and payable in cash on demand (see Note 27). The receivable has been appropriately provided with allowance for ECL.

Interest income earned by the Bank from its loans and other receivables is broken down as follows:

| | Group | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| Loans and discounts | **P 27,068** | P 25,827 | P 25,678 |
| Credit card receivables | **6,289** | 4,890 | 6,759 |
| Finance lease receivables | **202** | 319 | 337 |
| Others | **1,411** | 864 | 1,135 |
| | **P 34,970** | P 31,900 | P 33,909 |

| | Parent Company | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| Loans and discounts | **P 26,889** | P 25,661 | P 25,483 |
| Credit card receivables | **6,289** | 4,890 | 6,759 |
| Others | **1,140** | 225 | 452 |
| | **P 34,367** | P 31,095 | P 33,031 |

The breakdown of the receivables from customers' portfolio as to secured and unsecured follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Secured: | | | | |
| Real estate mortgage | **P 169,253** | P 132,782 | **P 168,045** | P 132,094 |
| Chattel mortgage | **44,003** | 66,351 | **41,542** | 66,254 |
| Hold-out deposits | **11,001** | 7,464 | **10,941** | 7,457 |
| Other securities | **11,286** | 14,280 | **7,938** | 14,248 |
| | **235,543** | 220,877 | **228,466** | 220,053 |
| Unsecured | **307,803** | 291,854 | **307,110** | 284,880 |
| | **P 543,346** | P 512,731 | **P 535,576** | P 504,933 |

A reconciliation of the allowance for impairment on loans and receivables at the beginning and end of 2022 and 2021 is shown below (see Note 16).

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Balance at beginning of year | **P 18,264** | P 19,193 | **P 17,339** | P 18,363 |
| Impairment losses during the year | **5,259** | 4,994 | **5,043** | 4,895 |
| Accounts written off and others | **( 7,493)** | ( 5,923) | **( 7,294)** | ( 5,919) |
| Balance at end of year | **P 16,030** | P 18,264 | **P 15,088** | P 17,339 |

## 12. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

The components of the carrying values of investments in and advances to subsidiaries and associates are as follows (refer to Note 1.2 for the effective percentage of ownership, line of business, and country of incorporation of subsidiaries and associates):

| | Group and Parent Company | |
|---|---|---|
| | **2022** | 2021 |
| Acquisition costs of associates: | | |
| HCPI | **P 91** | P 91 |
| LIPC | **57** | 57 |
| YCS | **4** | 4 |
| | **152** | 152 |
| Accumulated equity in net earnings: | | |
| Balance at beginning of year | **192** | 187 |
| Share in net earnings for the year | **32** | 12 |
| Share in actuarial gains (losses) on defined benefit plan | **4** | ( 3) |
| Others | **( 1)** | ( 4) |
| Balance at end of year | **227** | 192 |
| | **P 379** | P 344 |

| | Parent Company | |
|---|---|---|
| | **2022** | 2021 |
| Acquisition costs of subsidiaries: | | |
| RCBC Capital | **P 2,231** | P 2,231 |
| Rizal Microbank | **1,253** | 1,242 |
| RCBC LFC | **1,987** | 1,987 |
| NPHI | **609** | 609 |
| RCBC JPL | **403** | 403 |
| RCBC Forex | **150** | 150 |
| RCBC Telemoney | **72** | 72 |
| RCBC IFL | **58** | 58 |
| Cajel | **51** | 51 |
| Total acquisition costs *(balance forwarded)* | **P 6,814** | P 6,803 |

| | Parent Company | |
|---|---|---|
| | **2022** | 2021 |
| Total acquisition costs *(balance carried forward)* | **P 6,814** | P 6,803 |
| Accumulated equity in net earnings: | | |
| Balance at beginning of year | **( 120)** | ( 162) |
| Share in net earnings for the year | **122** | 465 |
| Share in actuarial gains on defined benefit plan | **-** | 50 |
| Share in fair value loss on financial assets at FVOCI | **( 81)** | 58 |
| Cash dividends | **( 71)** | ( 524) |
| Others | **( 8)** | ( 7) |
| Balance at end of year | **( 158)** | ( 120) |
| Investments in subsidiaries | **6,656** | 6,683 |
| Investments in associates | **379** | 344 |
| | **P 7,035** | P 7,027 |

At the end of each reporting period, the Group has no material interest in unconsolidated structured entities.

Also, the Parent Company and its subsidiaries did not enter in any contractual arrangements to provide financial support to any entities under the Group.

The Parent Company earned dividends from its subsidiaries amounting to P71 and P524 in 2022 and 2021, respectively. No dividends were earned from associates for 2022 and 2021. Dividends receivable as of December 31, 2022 and 2021 amounted to nil and P500, respectively.

### *12.1 Information About Investments in Associates*

The Parent Company, under a shareholder's agreement, agreed with another stockholder of HCPI to commit and undertake to vote, as a unit, the shares of stock thereof, which they proportionately own and hold, and to regulate the conduct of the voting and the relationship between them with respect to their exercise of their voting rights. As a result of this agreement, the Parent Company is able to exercise significant influence over the operating and financial policies of HCPI. Thus, HCPI has been considered by the Parent Company as an associate despite holding only 12.88% ownership interest.

The investments in LIPC and YCS have an aggregate carrying value of P11 as of December 31, 2022 and 2021, respectively, which are insignificant to the Group.

The table below presents the summary of the unaudited financial information of HCPI as of and for the years ended December 31, 2022 and 2021. HCPI uses a fiscal year ending March 31 as its reporting period.

| | 2022 | 2021 |
|---|---|---|
| **Financial position**: | | |
| Current assets | P 4,832 | P 3,835 |
| Noncurrent assets | 1,101 | 1,063 |
| Current liabilities | 2,604 | 1,823 |
| Noncurrent liabilities | 403 | 420 |
| **Financial performance:** | | |
| Revenues | 13,508 | 11,113 |
| Gross income | 952 | 1,070 |
| Operating income | 152 | 255 |
| Net income | 203 | 221 |
| Other comprehensive loss | - | ( 25) |
| Total comprehensive income | 203 | 196 |
| **Cash flows:** | | |
| Net cash from (used in): | | |
| Operating activities | 55 | ( 930) |
| Investing activities | 731 | ( 31) |
| Cash at the beginning | 679 | 1,640 |
| Cash at the end | 1,465 | 679 |

The table presented below summarized the reconciliation of equity interest to HCPI as of December 31, 2022 and 2021

| | 2022 | 2021 |
|---|---|---|
| Net asset of HCPI | P 2,926 | P 2,655 |
| Proportion of interest | 12.88% | 12.88% |
| Current liabilities | 377 | 342 |
| Nominal goodwill in equity ownership | 2 | 2 |
| Carrying amount of investment | P 379 | P 344 |

Effective March 25, 2020, HCPI closed the production operations on its plant site in Laguna, where it assembles certain models of passenger cars. This is in consideration of efficient allocation and distribution of its resources in Asia and Oceania. Despite the closure of the manufacturing plant, HCPI will continue sales and after-sales service operations in the Philippines as an importer/wholesaler. The Parent Company believes that the event will not lead to any significant uncertainty for HCPI to continue its operations as a going concern.

## 13. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2022 and 2021 are shown below and in succeeding page.

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Land | Buildings | Furniture, Fixtures and Equipment | Leasehold Rights and Improvements | Right-of-use Asset | Total |
| **December 31, 2022** | | | | | | |
| Cost | P 918 | P 2,385 | P 12,537 | P 1,900 | P 9,842 | P 27,582 |
| Accumulated depreciation and amortization | - | ( 1,435) | ( 8,431) | ( 899) | ( 5,553) | ( 16,318) |
| Net carrying amount | **P 918** | **P 950** | **P 4,106** | **P 1,001** | **P 4,289** | **P 11,264** |
| December 31, 2021 | | | | | | |
| Cost | P 1,267 | P 3,822 | P 11,470 | P 1,509 | P 6,967 | P 25,035 |
| Accumulated depreciation and amortization | - | ( 1,742) | ( 6,697) | ( 595) | ( 3,341) | ( 12 ,375) |
| Net carrying amount | P 1,267 | P 2,080 | P 4,773 | P 914 | P 3,626 | P 12,660 |
| January 1, 2021 | | | | | | |
| Cost | P 1,286 | P 3,780 | P 12,914 | P 1,306 | P 6,113 | P 25,399 |
| Accumulated depreciation and amortization | - | ( 1,661) | ( 8,281) | ( 339) | ( 2,056) | ( 12,337) |
| Net carrying amount | P 1,286 | P 2,119 | P 4,633 | P 967 | P 4,057 | P 13,062 |

| | Parent Company | | | | | |
|---|---|---|---|---|---|---|
| | Land | Buildings | Furniture, Fixtures and Equipment | Leasehold Rights and Improvements | Right-of-use Asset | Total |
| **December 31, 2022** | | | | | | |
| Cost | P 917 | P 2,385 | P 7,538 | P 1,737 | P 9,831 | P 22,408 |
| Accumulated depreciation and amortization | - | ( 1,436) | ( 5,526) | ( 772) | ( 5,128) | ( 12,862) |
| Net carrying amount | **P 917** | **P 949** | **P 2,012** | **P 965** | **P 4,703** | **P 9,546** |
| December 31, 2021 | | | | | | |
| Cost | P 1,222 | P 3,788 | P 8,828 | P 1,411 | P 7,134 | P 22,383 |
| Accumulated depreciation and amortization | - | ( 1,720) | ( 6,577) | ( 531) | ( 2,984) | ( 11,812) |
| Net carrying amount | P 1,222 | P 2,068 | P 2,251 | P 880 | P 4,150 | P 10,571 |
| January 1, 2021 | | | | | | |
| Cost | P 1,249 | P 3,733 | P 8,603 | P 1,214 | P 5,954 | P 20,753 |
| Accumulated depreciation and amortization | - | ( 1,630) | ( 6,387) | ( 284) | ( 1,952) | ( 10,253) |
| Net carrying amount | P 1,249 | P 2,103 | P 2,216 | P 930 | P 4,002 | P 10,500 |

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2022 and 2021 is shown below.

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Land | Buildings | Furniture, Fixtures and Equipment | Leasehold Rights and Improvements | Right-of-Use Asset | Total |
| Balance at January 1, 2022, net of accumulated depreciation and amortization | P 1,267 | P 2,080 | P 4,773 | P 914 | P 3,626 | P 12,660 |
| Additions | 1 | 389 | 605 | 632 | 2,023 | 3,650 |
| Disposals | ( 350) | ( 1,306) | ( 479) | ( 241) | - | ( 2,376) |
| Depreciation and amortization charges for the period | - | ( 213) | ( 793) | ( 304) | ( 1,360) | ( 2,670) |
| Balance at December 31, 2022, net of accumulated depreciation and amortization | **P 918** | **P 950** | **P 4,106** | **P 1,001** | **P 4,289** | **P 11,264** |
| Balance at January 1, 2021, net of accumulated depreciation and amortization | P 1,286 | P 2,119 | P 4,633 | P 967 | P 4,057 | P 13,062 |
| Additions | - | 93 | 1,020 | 220 | 855 | 2,188 |
| Reclassifications | 4 | 3 | ( 1) | - | - | 6 |
| Disposals | ( 23) | ( 11) | ( 36) | ( 17) | ( 1) | ( 88) |
| Depreciation and amortization charges for the period | - | ( 124) | ( 843) | ( 256) | ( 1,285) | ( 2,508) |
| Balance at December 31, 2021, net of accumulated depreciation and amortization | P 1,267 | P 2,080 | P 4,773 | P 914 | P 3,626 | P 12,660 |

| | Parent Company | | | | | |
|---|---|---|---|---|---|---|
| | Land | Buildings | Furniture, Fixtures and Equipment | Leasehold Rights and Improvements | Right-of-use Asset | Total |
| Balance at January 1, 2022, net of accumulated depreciation and amortization | P 1,222 | P 2,068 | P 2,251 | P 880 | P 4,150 | P 10,571 |
| Additions | 1 | 291 | 577 | 382 | 1,845 | 3,096 |
| Disposals | ( 306) | ( 1,306) | ( 271) | ( 56) | - | ( 1,939) |
| Depreciation and amortization charges for the period | - | ( 104) | ( 545) | ( 241) | ( 1,292) | ( 2,182) |
| Balance at December 31, 2022, net of accumulated depreciation and amortization | **P 917** | **P 949** | **P 2,012** | **P 965** | **P 4,703** | **P 9,546** |

| | Parent Company | | | | | |
|---|---|---|---|---|---|---|
| | Land | Buildings | Furniture, Fixtures and Equipment | Leasehold Rights and Improvements | Right-of-use Asset | Total |
| Balance at January 1, 2021, net of accumulated depreciation and amortization | P 1,249 | P 2,103 | P 2,216 | P 930 | P 4,002 | P 10,500 |
| Additions | - | 93 | 688 | 214 | 1,180 | 2,175 |
| Reclassifications | 4 | 3 | - | - | - | 7 |
| Disposals | ( 31) | ( 9) | ( 38) | ( 17) | - | ( 95) |
| Depreciation and amortization charges for the period | - | ( 122) | ( 615) | ( 247) | ( 1,032) | ( 2,016) |
| Balance at December 31, 2021, net of accumulated depreciation and amortization | P 1,222 | P 2,068 | P 2,251 | P 880 | P 4,150 | P 10,571 |

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of the respective unimpaired capital of the Parent Company and its bank subsidiaries. As of December 31, 2022 and 2021, the Parent Company and its bank subsidiary have satisfactorily complied with this BSP requirement.

The cost of the Group and the Parent Company's fully depreciated bank premises, furniture, fixtures and equipment that are still in use in operations is P8,740 and P7,905, respectively, as of December 31, 2022, and P6,974 and P6,334, respectively, as of December 31, 2021.

As part of strengthening the Parent Company's capital position, on September 30, 2022, the Parent Company sold and immediately leased back for five years a portion of its bank premises and investment properties pertaining to AT Yuchengco Centre (ATYC), with carrying amount of P1,501 and P1,361, respectively [see Notes 14 and 27.5(a)]. The sale qualified as a sale and leaseback and accounted under the applicable financial reporting standard (see Note 2.15). The total selling price amounted to P6,065, of which P2,426 is still outstanding as part of Loans and discounts under Loans and Receivables – net in the 2022 statement of financial position. The loan receivable from ATYCI is secured, bears 6.04% interest and payable in 3 years. The impairment loss recognized on this loan receivable under the Parent Company's ECL model amounted to P10 [see Notes 11 and 27.5(a)].

The gain on sale recognized over the aforementioned sale and leaseback transaction amounted to P2,352 and is reported as part of the Gain on asset sold – net under Other Operating Income in the 2022 statement of profit or loss. Right-of-use asset and lease liability recognized amounted to P760 and P1,611, respectively (see Note 21). There is no similar transaction in 2021.

The Group has leases for certain offices and branches (see Note 21). With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected as a right-of-use asset and a lease liability as part of Bank Premises, Furniture, Fixtures and Equipment and Other Liabilities, respectively. The total short-term leases and leases of low-value entered into contract by the Parent Company amounted to P39 and P7 in 2022 and 2021, respectively. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The table below describes the nature of the Company's leasing activities at December 31, 2022 and 2021:

| | Number of right-of-use Assets leased | | Range of remaining lease terms (in years) | | Average remaining lease terms (in years) | |
|---|---|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 |
| Buildings | **7** | 4 | **1 to 5** | 1 to 4 | **2** | 2 |
| Warehouses | **6** | 1 | **1 to 3** | 1 | **1** | 1 |
| ATM batches | **18** | 13 | **3 to 5** | 4 to 5 | **4** | 4 |
| Branches | **334** | 380 | **1 to 11** | 1 to 12 | **4** | 3 |

The lease liabilities are secured by the related underlying assets and are presented as part of Other Liabilities in the statement of financial position (see Note 21). The undiscounted maturity analysis of lease liabilities at December 31, 2022 and 2021 are as follows:

| | **Within 1 Year** | **Within 2 Years** | **Within 3 Years** | **Within 4 Years** | **Within 5 Years** | **More than 5 Years** | **Total** |
|---|---|---|---|---|---|---|---|
| **2022:** | | | | | | | |
| **Group** | | | | | | | |
| Lease payments | P 1,458 | P 1,296 | P 1,096 | P 895 | P 610 | P 884 | P 6,239 |
| Finance charges | ( 222 ) | ( 171 ) | ( 125 ) | ( 85 ) | ( 53 ) | ( 83 ) | ( 739 ) |
| Net present value | **P 1,236** | **P 1,125** | **P 971** | **P 810** | **P 557** | **P 801** | **P 5,500** |
| **Parent Company** | | | | | | | |
| Lease payments | P 1,495 | P 1,328 | P 1,156 | P 980 | P 698 | P 973 | P 6,630 |
| Finance charges | ( 215 ) | ( 165 ) | ( 122 ) | ( 83 ) | ( 51 ) | ( 81 ) | ( 717 ) |
| Net present value | **P 1,280** | **P 1,163** | **P 1,034** | **P 897** | **P 647** | **P 892** | **P 5,913** |
| 2021: | | | | | | | |
| Group | | | | | | | |
| Lease payments | P 1,214 | P 1,033 | P 854 | P 675 | P 452 | P 545 | P 4,773 |
| Finance charges | ( 216 ) | ( 164 ) | ( 122 ) | ( 86 ) | ( 54 ) | ( 81 ) | ( 723 ) |
| Net present value | P 998 | P 869 | P 732 | P 589 | P 398 | P 464 | P 4,050 |
| Parent Company | | | | | | | |
| Lease payments | P 1,239 | P 1,075 | P 899 | P 730 | P 538 | P 694 | P 5,175 |
| Finance charges | ( 206 ) | ( 157 ) | ( 117 ) | ( 83 ) | ( 53 ) | ( 80 ) | ( 696 ) |
| Net present value | P 1,033 | P 918 | P 782 | P 647 | P 485 | P 614 | P 4,479 |

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over branches and offices, the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must ensure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying lease asset outright at the end of the lease, or to extend the lease for a further term. The use of extension and termination options gives the Group added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the Group's regional markets strategy and the economic benefits of exercising the option exceeds the expected overall cost.

On January 1, 2021, the Parent Company and RCBC Realty Corporation renewed the terms for the lease of RCBC Plaza's several floors. The amendments in the terms include a new rental rate and extended term of five years. In addition, the Parent Company has also entered a five-year lease agreement with ATYC, Inc. (ATYCI) in October 2022 which is effective until September 30, 2027.

The total cash outflow in respect of leases in 2022, 2021 and 2020 amounted to P5,311, P1,360 and P1,173, respectively, for the Group, and P5,695, P1,205 and P1,113, respectively, for the Parent Company. Interest expense in relation to lease liabilities in 2022, 2021 and 2020 amounted to P189, P170 and P165, respectively, for the Group, and P218, P185 and P162, respectively, for the Parent Company and is presented as part of Interest expense in the statements of profit or loss.

## 14. INVESTMENT PROPERTIES

Investment properties pertain to land, buildings or condominium units acquired by the Group, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment and properties which are held for rental.

The gross carrying amounts and accumulated depreciation and impairment losses of investment properties at the beginning and end of 2022 and 2021 are shown below.

| | Group | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | Land | Buildings | Total | Land | Buildings | Total |
| **December 31, 2022** | | | | | | |
| Cost | P 1,781 | P 1,784 | P 3,565 | P 1,643 | P 1,763 | P 3,406 |
| Accumulated depreciation | - | ( 675) | ( 675) | - | ( 665) | ( 665) |
| Accumulated impairment (see Note 16) | ( 22) | ( 252) | ( 274) | ( 1) | ( 252) | ( 253) |
| Net carrying amount | **P 1,759** | **P 857** | **P 2,616** | **P 1,642** | **P 846** | **P 2,488** |
| December 31, 2021 | | | | | | |
| Cost | P 1,658 | P 3,096 | P 4,754 | P 1,518 | P 3,070 | P 4,588 |
| Accumulated depreciation | - | ( 905) | ( 905) | - | ( 892) | ( 892) |
| Accumulated impairment (see Note 16) | ( 17) | ( 260) | ( 277) | ( 1) | ( 260) | ( 261) |
| Net carrying amount | P 1,641 | P 1,931 | P 3,572 | P 1,517 | P 1,918 | P 3,435 |

| | Group | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | Land | Buildings | Total | Land | Buildings | Total |
| January 1, 2021 | | | | | | |
| Cost | P 1,783 | P 3,044 | P 4,827 | P 1,634 | P 3,021 | P 4,655 |
| Accumulated depreciation | - | ( 791) | ( 791) | - | ( 777) | ( 777) |
| Accumulated impairment (see Note 16) | ( 40) | ( 271) | ( 311) | ( 27) | ( 271) | ( 298) |
| Net carrying amount | P 1,743 | P 1,982 | P 3,725 | P 1,607 | P 1,973 | P 3,580 |

The reconciliations of the carrying amounts of investment properties at the beginning and end of 2022 and 2021 follow:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Balance at January 1, net of accumulated depreciation and impairment | **P 3,572** | P 3,725 | **P 3,435** | P 3,580 |
| Additions | **784** | 437 | **767** | 436 |
| Disposals | **( 1,672)** | ( 71) | **( 1,648)** | ( 66) |
| Reclassification | **( 10)** | ( 7) | **( 10)** | ( 7) |
| Depreciation charges for the year | **( 57)** | ( 172) | **( 56)** | ( 172) |
| Impairment losses | **( 1)** | ( 340) | **-** | ( 336) |
| Balance at December 31, net of accumulated depreciation and impairment | **P 2,616** | P 3,572 | **P 2,488** | P 3,435 |

As of December 31, 2022 and 2021, there is no restriction on the realizability of investment properties or the remittance of income and proceeds of disposal therefrom.

### *14.1 Additions and Disposals of Investment Properties*

The Group and the Parent Company foreclosed real and other properties totaling P784 and P767, respectively, in 2022, and P437 and P436, respectively, in 2021, in settlement of certain loan accounts.

As of December 31, 2022, and 2021, foreclosed investment properties still subject to redemption period by the borrowers amounted to P918 and P638, respectively, for the Group and P894 and P1,390, respectively, for the Parent Company.

The total gain recognized by the Group and the Parent Company from disposals of investment properties amounted to P510 and P502, respectively, in 2022, and P30 and P18, respectively, in 2021, and P23 and P20, respectively, in 2020, which is presented as part of Gain on assets sold – net under Other Operating Income account in the statements of profit or loss.

### *14.2 Income and Expenses from Investment Properties Held for Rental*

The Group and Parent Company earned rental income from investment properties amounting to P199 in 2022, P229 in 2021 and P215 in 2020, and are presented as part of Rentals under Miscellaneous Income account in the statements of profit or loss [see Notes 24.1 and 27.5(b)]. Expenses incurred by the Group and Parent Company in relation to the investment properties include taxes and licenses amounting to P48 in 2022, P16 and P13, respectively, in 2021 and P6 and P5, respectively, in 2020.

## 15. OTHER RESOURCES

Other resources consist of the following:

| | Note | Group 2022 | Group 2021 | Parent Company 2022 | Parent Company 2021 |
|---|---|---|---|---|---|
| Assets held-for-sale and disposal group | 15.1 | **P 3,440** | P 5,295 | **P 2,665** | P 4,745 |
| Creditable withholding taxes | | **3,257** | 2,412 | **3,211** | 2,398 |
| Prepaid expenses | 15.2 | **1,795** | 1,651 | **1,573** | 1,449 |
| Software – net | 15.3 | **1,362** | 1,338 | **1,359** | 1,332 |
| Branch licenses | 15.4 | **1,000** | 1,000 | **1,000** | 1,000 |
| Refundable and other deposits | | **803** | 528 | **801** | 526 |
| Goodwill | 15.5 | **426** | 426 | **269** | 269 |
| Unused stationery and supplies | | **559** | 419 | **545** | 412 |
| Deferred charges | | **547** | 390 | **529** | 369 |
| Returned checks and other cash items | | **80** | 196 | **80** | 196 |
| Margin deposits | 15.6 | **240** | 73 | **240** | 73 |
| Miscellaneous | 15.7 | **1,287** | 640 | **721** | 863 |
| | | **14,796** | 14,368 | **12,993** | 13,632 |
| Allowance for impairment | 15.1, 15.5 | **( 1,223)** | ( 1,268) | **( 1,066)** | ( 1,135) |
| | | **P 13,573** | P 13,100 | **P 11,927** | P 12,497 |

### *15.1 Assets Held-for-Sale and Disposal Group*

| | Group 2022 | Group 2021 | Parent Company 2022 | Parent Company 2021 |
|---|---|---|---|---|
| Equity securities | **P 1,894** | P 1,842 | **P 1,889** | P 1,842 |
| Foreclosed automobiles | **918** | 2,812 | **546** | 2,673 |
| Foreclosed real properties | **628** | 641 | **230** | 230 |
| | **3,440** | 5,295 | **2,665** | 4,745 |
| Allowance for impairment | **( 1,048)** | ( 1,118) | **( 1,048)** | ( 1,118) |
| Balance at end of year | **P 2,392** | P 4,177 | **P 1,617** | P 3,627 |

Assets held-for-sale represents assets that are approved by management to be immediately sold in its present condition and management believes that the sale is highly probable at the time of reclassification. These mainly include real properties, automobiles, equipment and other assets foreclosed by the Parent Company and RCBC LFC in settlement of loans and real properties held for sale by NHPI and Cajel. Recovery on assets held for sale for Group and Parent amounted to P135 for 2022 while impairment loss amounted to P678 for 2021 and are presented as part of the Impairment losses – net on non-financial asset (see Note 16).

### *15.1.1 HHIC Equity Securities*

In May 2019, RCBC, together with other local banks, entered into a Detailed Implementing Agreement with Hanjin Heavy Industries and Construction Philippines, Inc. (HHIC-Phil), a subsidiary of Hanjin Heavy Industry Co., Ltd. (HHIC), a Korean shipbuilding company, to convert a part of the former's debt into a 20% stake in HHIC (see Note 28.3). Accordingly, in June 2019, the Bank received 7,100,129 common shares representing 8.53% ownership in HHIC in settlement of HHIC-Phil's gross outstanding loan amounting to USD63.5 million or P3,286. In 2022, the Parent Company recognized impairment of the HHIC equity securities amount to P516 and this is included as part of Impairment Losses – net in the 2022 statement of profit or loss (see Note 16). There is no similar transaction in 2021.

As of December 31, 2022, the Bank estimates that it will need two more years to complete the sale of the shares under its current plan. This is covered by the exception in PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, which states that an extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset. As a result, the carrying amount of the investment is measured at the lower of their carrying amount, immediately prior to its classification as held-for-sale and its fair value less costs to sell.

### *15.2 Prepaid Expenses*

Prepaid expenses include prepayments for insurance, taxes and licenses, and software maintenance.

### *15.3 Software*

A reconciliation of the carrying amounts of software at the beginning and end of 2022 and 2021 is shown below.

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Balance at beginning of year | **P 1,338** | P 1,184 | **P 1,332** | P 1,175 |
| Additions | **334** | 494 | **333** | 493 |
| Amortization | **( 310)** | ( 340) | **( 306)** | ( 336) |
| Balance at end of year | **P 1,362** | P 1,338 | **P 1,359** | P 1,332 |

Amortization charges for software are included as part of Depreciation and Amortization account in the statements of profit or loss.

### *15.4 Branch Licenses*

Branch licenses represent the rights granted by the BSP to the Parent Company in 2015 to establish a certain number of branches in the restricted areas in the country. Branch licenses are annually tested for impairment either individually or at the CGU level, as appropriate when circumstances indicate that the intangible asset may be impaired.

Branch licenses is subject to annual impairment testing and whenever there is an indication of impairment. The recoverable amount used to determine impairment on the branch licenses was based on Value-in-Use (VIU) calculation computed through discounting the five-year cash flow projections from financial budgets approved by the Parent Company's senior management covering a five-year period. The recoverable amount was computed by determining the excess of the projected interest income from the projected interest expense. The Group also considered key assumptions in determining cash flow projections which includes discount rates and growth rates. Future cash flows and growth rates were based on experience, strategies developed, and prospects. The discount rate applied to cash flow projections is 10.91% and 8.5% in 2022 and 2021, respectively, while the growth rate used to extrapolate cash flows covering a five-year period is 5.67% and 5.00%, in 2022 and 2021, respectively.

### *15.5 Goodwill*

The Parent Company recognized goodwill amounting to P269 which arose from its acquisition of the net assets of another bank in 1998 from which it had expected future economic benefits and synergies that will result from combining the operations of the acquired bank.

Goodwill is subject to annual impairment testing and whenever there is an indication of impairment. In 2022 and 2021, the Parent Company engaged a third party consultant to perform an independent impairment testing of goodwill. The recoverable amount of the CGU has been based on VIU calculation using the cash flow projections from financial budgets approved by the Parent Company's senior management covering a five-year period. The Group also considered key assumptions in determining cash flow projections which includes discount rates and growth rates. Future cash flows and growth rates were based on experience, strategies developed, and prospects.

The discount rate used for the computation of the net present value is the cost of equity and was determined by reference to comparable entities within the industry. In 2022 and 2021, the discount rate applied to cash flow projections is 13.86% and 10.55%, respectively, while the growth rate used to extrapolate cash flows beyond five-year period is 5.67% and 6.46% for 2022 and 2021, respectively. On the basis of the report of the third-party consultant dated January 18, 2023 and January 26, 2022 with valuation date as of the end of 2022 and 2021, respectively, the Group has assessed that the recoverable amount of the goodwill is higher than its carrying value. Accordingly, no impairment loss is required to be recognized in the statements of profit or loss in both years.

In addition, the goodwill pertaining to the acquisition of Rizal Microbank amounting to P157 million was fully provided with impairment in 2011.

### *15.6 Margin Deposits*

Margin deposits serve as security for outstanding financial market transactions and other liabilities. These are designed to provide additional credit risk protection for counterparty exposures.

### *15.7 Miscellaneous*

Miscellaneous account includes various deposits, advance rentals, service provider fund, trading right and other assets.

## 16. ALLOWANCE FOR EXPECTED CREDIT LOSS AND IMPAIRMENT

Changes in the amounts of allowance for impairment are summarized below.

| | | Group | | Parent Company | |
|---|---|---|---|---|---|
| | Notes | **2022** | 2021 | **2022** | 2021 |
| Balance at beginning of year | | | | | |
| Loans and receivables | 11 | **P 18,264** | P 19,193 | **P 17,339** | P 18,363 |
| Investment securities | | | | | |
| at amortized cost | 10.3 | **147** | 142 | **52** | 48 |
| Loan commitments | 21 | **145** | 194 | **145** | 139 |
| Investment properties | 14 | **277** | 311 | **261** | 298 |
| Other resources | 15 | **1,268** | 802 | **1,135** | 670 |
| | | **20,101** | 20,642 | **18,932** | 19,518 |
| Impairment losses – net: | | | | | |
| Loans and receivables | 11 | **5,259** | 4,994 | **5,043** | 4,895 |
| Investment securities | | | | | |
| at amortized cost | 10.3 | **19** | 14 | **19** | 12 |
| Loan commitments | 4.4 | **69** | 5 | **69** | 5 |
| Investment properties | 14 | **1** | 340 | **-** | 336 |
| Other resources | 15 | **358** | 695 | **358** | 685 |
| | | **5,706** | 6,048 | **5,489** | 5,933 |
| Charge-offs and other adjustments during the year | | **( 7,903)** | ( 6,589) | **( 7,729)** | ( 6,519) |
| Balance at end of year | | | | | |
| Loans and receivables | 11 | **16,030** | 18,264 | **15,088** | 17,339 |
| Investment securities at | | | | | |
| at amortized cost | 10.3 | **163** | 147 | **71** | 52 |
| Loan commitments | 21 | **214** | 145 | **214** | 145 |
| Investment properties | 14 | **274** | 277 | **253** | 261 |
| Other resources | 15 | **1,223** | 1,268 | **1,066** | 1,135 |
| | | **P 17,904** | P 20,101 | **P 16,692** | P 18,932 |

## 17. DEPOSIT LIABILITIES

The following is the breakdown of deposit liabilities (see also Note 27.2):

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Demand | **P 174,563** | P 144,810 | **P 175,230** | P 146,793 |
| Savings | **246,242** | 228,470 | **246,524** | 228,944 |
| Time | **430,357** | 293,097 | **429,803** | 292,595 |
| Long-term Negotiable Certificate of Deposits (LTNCD) | **6,082** | 6,082 | **6,082** | 6,082 |
| | **P 857,244** | P 672,459 | **P 857,639** | P 674,414 |

The Parent Company's LTNCD as of December 31, 2022 and 2021 are as follows:

| Issuance Date | Maturity Date | Coupon Interest | | Outstanding Balance |
|---|---|---|---|---|
| September 28, 2018 | March 28, 2024 | 5.50% | **P** | **3,580** |
| August 11, 2017 | February 11, 2023 | 3.75% | | **2,502** |
| | | | **P** | **6,082** |

The Parent Company's LTNCD were used in the expansion of its term deposit base to support long-term asset growth and for other general funding purposes.

The Group's deposit liabilities bear annual interest as follows:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Demand, Savings and Time deposits | **0.07% - 6.13%** | 0.10% - 6.00% | 0.10% - 5.00% |

The total interest expense incurred by the Group and the Parent Company on deposit liabilities are as follows:

| | **Group** | | | | | |
|---|---|---|---|---|---|---|
| | | **2022** | | 2021 | | 2020 |
| Time | **P** | **7,995** | P | 2,639 | P | 4,118 |
| Savings | | **894** | | 597 | | 503 |
| Demand | | **868** | | 524 | | 327 |
| LTNCD | | **300** | | 299 | | 340 |
| | **P** | **10,057** | P | 4,059 | P | 5,288 |

| | **Parent Company** | | | | | |
|---|---|---|---|---|---|---|
| | | **2022** | | 2021 | | 2020 |
| Time | **P** | **7,987** | P | 2,632 | P | 4,086 |
| Savings | | **895** | | 597 | | 504 |
| Demand | | **873** | | 528 | | 335 |
| LTNCD | | **300** | | 299 | | 340 |
| | **P** | **10,055** | P | 4,056 | P | 5,265 |

Under existing BSP regulations, non-FCDU deposit liabilities, including tax exempt LTNCDs, of the Parent Company and Rizal Microbank is subject to reserve requirement of 14% and 4%, respectively, at the end of 2019 until April 2, 2020. In 2020, BSP reduced the reserve requirements for both the Parent Company and Rizal Microbank effective April 3 and July 31 by 200 basis points and 100 basis points, respectively. The reserve requirement ratio for the Parent Company and Rizal Microbank is at 12% and 3%, respectively, both in 2022 and 2021.

Peso-denominated LTNCDs of the Parent Company are subject to reserve requirement equivalent of 4% in both years. As of December 31, 2022 and 2021, the Group is in compliance with such regulatory reserve requirements.

Under BSP Circular No. 1063, *Reduction in Reserve Requirements*, cash in vault and regular reserve deposit accounts with BSP are excluded as eligible forms of compliance for the reserve requirements. The required reserve shall only be kept in the form of demand deposit accounts with the BSP. Available reserves consist of Due from BSP amounting to P76,582, P65,074, and P49,539 for the Group and P75,340, P63,931, and P48,119 for the Parent Company as of December 31, 2022, 2021 and 2020, respectively (see Note 9).

## 18. BILLS PAYABLE

This account consists of borrowings from:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Foreign banks | **P 40,482** | P 46,398 | **P 40,482** | P 46,398 |
| Local banks | **26,178** | 9,505 | **17,909** | - |
| Others | **-** | 1 | **-** | 1 |
| | **P 66,660** | P 55,904 | **P 58,391** | P 46,399 |

Borrowings from foreign and local banks are subject to annual fixed interest rates as follows:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| **Group** | | | |
| Peso denominated | **4.66% - 8.00%** | 4.15% - 7.50% | 4.66% - 4.96% |
| Foreign currency denominated | **0.0001% - 0.725%** | 0.0001% - 0.725% | 0.22% - 0.54% |
| **Parent Company** | | | |
| Peso denominated | **4.66% - 4.96%** | 4.66% - 4.96% | 4.66% - 4.96% |
| Foreign currency denominated | **0.0001% - 0.725%** | 0.0001% - 0.725% | 0.22% - 0.54% |

The total interest expense incurred by the Group on the bills payable amounted to P824 in 2022, P420 in 2021, and P933 in 2020. The total interest expense incurred by the Parent Company on the bills payable amounted to P420 in 2022, P22 in 2021, and P434 in 2020.

As of December 31, 2022 and 2021, bills payable availed under repurchase agreements amounting to P62,142 and P55,380, respectively, are secured by the Group and Parent Company's investment securities (see Note 10.3). Investment securities used as collateral to the bills payable are government securities and corporate debt securities that are measured at amortized cost. The average interest rate is 4.05% in 2022, and 8.60% in 2021 for government securities, and 3.70% in 2022 and 3.10% in 2021 for corporate debt securities. Average remaining terms before maturity of these investment securities as of 2022 and 2021 is 3 years and 4 years, respectively, for government securities, and 7 years and 12 years, respectively, for corporate debt securities.

## 19. BONDS PAYABLE

The composition of this account for the Group and the Parent Company follows:

| Issuance Date | Maturity Date | Coupon Interest | Face Value (in millions) | Outstanding Balance 2022 | Outstanding Balance 2021 |
|---|---|---|---|---|---|
| February 21, 2022 | May 21, 2024 | 3.00% | P 14,756 | **P 14,756** | P - |
| March 31, 2021 | September 30, 2023 | 3.20% | P 13,743 | **13,743** | 13,743 |
| March 31, 2021 | June 30, 2026 | 4.18% | P 4,130 | **4,130** | 4,130 |
| September 11, 2019 | September 11, 2024 | 3.05% | $ 300 | **16,727** | 15,264 |
| March 15, 2018 | March 16, 2023 | 4.13% | $ 450 | **25,055** | 22,908 |
| July 27, 2020 | July 27, 2022 | 3.25% | P 16,616 | **-** | 16,616 |
| April 7, 2020 | April 7, 2022 | 4.85% | P 7,054 | **-** | 7,054 |
| November 13, 2019 | November 13, 2022 | 4.43% | P 7,500 | **-** | 7,500 |
| | | | | **P 74,411** | P 87,215 |

On February 21, 2022, the Parent Company issued unsecured Peso-denominated Senior Notes with principal amount and outstanding balance as of December 31, 2022 of P14,756 bearing an interest of 3.00% per annum. The senior notes will mature on May 21, 2024.
On March 31, 2021, the Parent Company issued unsecured Peso-denominated Senior Notes with outstanding balance as of December 31, 2022 of P13,743 and P4,130 bearing an interest of 3.20% and 4.18% per annum, respectively, payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. The senior notes will mature on September 30, 2023 and June 30, 2026, respectively.

On July 27, 2020, the Parent Company issued unsecured Peso-denominated Senior Notes with principal amount and outstanding balance as of December 31, 2021 of P16,616 bearing an interest of 3.25% per annum, payable in arrears on January 27, April 27, July 27 and October 27. The senior notes matured last July 27, 2022.

On April 7, 2020, the Parent Company issued unsecured Peso-denominated Senior Notes with principal amount and outstanding balance as of December 31, 2021 of P7,054 bearing an interest of 4.85% per annum, payable quarterly in arrears on January 7, April 7, July 7 and October 7. The senior notes matured on April 7, 2022.

In November 2019, the Parent Company issued unsecured Peso-denominated Senior Notes with principal amount and outstanding balance as of December 31, 2021 and 2020, of P7,500 bearing an interest of 4.43% per annum, payable quarterly in arrears on February 13, May 13, August 13 and November 13. The senior notes matured on November 13, 2022.

In September 2019, the Parent Company issued unsecured US$-denominated Senior Notes with principal amount of US$300 bearing an interest of 3.00% per annum, payable semi-annually in arrears every March 11 and September 1 of each year. The senior notes, unless redeemed, will mature on September 11, 2024. As of December 31, 2022 and 2021, the peso equivalent of this outstanding bond issue amounted to P16,727 and P15,624, respectively.

In March 2018, the Parent Company issued unsecured US$-denominated Senior Notes with principal amount of US$450 bearing an interest of 4.13% per annum, payable semi-annually in arrears every March 16 and September 16 of each year. The senior notes, unless redeemed, will mature on March 16, 2023. As of December 31, 2022, and 2021, the peso equivalent of this outstanding bond issue amounted to P25,055 and P22,908, respectively.

The debt issue cost incurred in 2022 and 2021 amounted to P111 and P134, respectively. The unamortized debt issue cost as of December 31, 2022 and 2021 amounted to P150 and P194, respectively. The related amortization of unamortized debt issue cost is recorded as part of Interest Expense in the statements of profit or loss.

The interest expense incurred on these bonds payable amounted to P3,397 in 2022, P3,503 in 2021, and P4,023 in 2020. The Group and Parent Company recognized foreign currency exchange gains related to these bonds payable amounting to P3,567, P2,287 and P2,712 in 2022, 2021 and 2020, respectively. Foreign currency exchange losses are netted against Foreign exchange gains presented under Other Operating Income account in the statements of profit or loss.

## 20. ACCRUED INTEREST, TAXES AND OTHER EXPENSES

The composition of this account follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Accrued expenses | **P 4,492** | P 4,236 | **P 4,302** | P 4,113 |
| Accrued interest | **3,365** | 1,323 | **3,361** | 1,278 |
| Taxes payable | **571** | 538 | **529** | 489 |
| | **P 8,428** | P 6,097 | **P 8,192** | P 5,880 |

Accrued expenses represent mainly the accruals for utilities, employee benefits and other operating expenses. Accrued interest primarily includes unpaid interest on deposit liabilities, bills payable and bonds payable at the end of each reporting period.

## 21. OTHER LIABILITIES

Other liabilities consist of the following:

| | | Group | | Parent Company | |
|---|---|---|---|---|---|
| | Notes | **2022** | 2021 | **2022** | 2021 |
| Accounts payable | 27.5(c) | **P 7,756** | P 7,963 | **P 7,041** | P 7,155 |
| Lease liabilities | 13 | **5,500** | 4,050 | **5,913** | 4,479 |
| Outstanding acceptances payable | | **4,587** | 4,634 | **4,587** | 4,634 |
| Derivative financial liabilities | 10.1 | **2,116** | 926 | **2,116** | 926 |
| Bills purchased – contra | | **2,113** | 1,018 | **2,113** | 1,018 |
| Post-employment defined benefit obligation | 23.2 | **1,986** | 2,501 | **1,972** | 2,487 |
| Manager's checks | | **1,680** | 1,150 | **1,680** | 1,150 |
| Unclaimed balances-deposit | | **1,128** | 42 | **1,128** | 42 |
| Deposit on lease contracts | | **776** | 799 | **33** | 92 |
| Withholding taxes payable | | **714** | 449 | **708** | 448 |
| Unearned income | | **602** | 585 | **589** | 558 |
| Other credits | | **432** | 440 | **432** | 440 |
| Sundry credits | | **355** | 341 | **357** | 341 |
| Payment orders payable | | **241** | 263 | **241** | 263 |
| ECL provisions on loan commitments | 4.4.9(c) | **214** | 145 | **214** | 145 |
| Guaranty deposits | | **66** | 363 | **66** | 363 |
| Due to BSP | | **66** | 44 | **66** | 44 |
| Advance rentals | | **10** | 72 | **10** | 72 |
| Miscellaneous | | **662** | 593 | **566** | 736 |
| | | **P 31,004** | P 26,378 | **P 29,832** | P 25,393 |

Accounts payable is mainly composed of prepaid card balances of customers, settlement billing from credit card operations and the Group's expenditure purchases which are to be settled within the next reporting period.

Miscellaneous liabilities include unclaimed balances for deposits and other miscellaneous liabilities.

Interest expense incurred on other liabilities for 2022, 2021 and 2020 amounted to P11, P15 and P83 for the Group, and P11, P15 and P81 for the Parent Company, respectively.

## 22. EQUITY

### *22.1 Capital Stock*

The movements in the outstanding capital stock of the Parent Company are as follows:

| | Number of Shares | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| Preferred stock – voting, non-cumulative non-redeemable, participating, convertible into common stock – P10 par value | | | |
| Authorized – 200,000,000 shares | | | |
| Issued and outstanding | | | |
| Balance at beginning and end of year | **267,410** | 267,410 | 267,410 |
| Common stock – P10 par value | | | |
| Authorized: | | | |
| Balance at beginning and end of year | **2,600,000,000** | 2,600,000,000 | 2,600,000,000 |
| Issued and outstanding: | | | |
| Balance at beginning of year | **2,037,478,896** | 1,935,628,896 | 1,935,628,896 |
| Reissuance of shares during the year | **-** | 101,850,000 | - |
| Balance at end of year | **2,037,478,896** | 2,037,478,896 | 1,935,628,896 |

As of December 31, 2022, and 2021, there are 748 holders of the Parent Company's listed shares holding an equivalent of 100.00% of the Parent Company's total issued and outstanding shares. Such listed shares closed at P23.70 per share and P20.00 per share as of December 31, 2022 and 2021, respectively.

In 1986, the Parent Company listed its common shares with the PSE. The historical information on the Parent Company's issuance of common shares arising from the initial and subsequent public offerings, including private placements is presented below.

| Issuance | Subscriber | Issuance Date | Number of Shares Issued |
|---|---|---|---|
| Initial public offering | Various | November 1986 | 1,410,579 |
| Stock rights offering | Various | April 1997 | 44,492,908 |
| Stock rights offering | Various | July 1997 | 5,308,721 |
| Stock rights offering | Various | August 1997 | 830,345 |
| Stock rights offering | Various | January 2002 | 167,035,982 |
| Stock rights offering | Various | June 2002 | 32,964,018 |
| Follow-on offering | Various | March 2007 | 210,000,000 |
| Private placement | International Finance Corporation (IFC) | March 2011 | 73,448,275 |
| Private placement | Hexagon Investments B.V. | September 2011 | 126,551,725 |
| Private placement | PMMIC | March 2013 | 63,650,000 |
| Private placement | IFC Capitalization Fund | April 2013 | 71,151,505 |
| Private placement | Cathay | April 2015 | 124,242,272 |
| Stock rights offering | Various | July 2018 | 535,710,378 |
| Private placement | Sumitomo Mitsui Banking Corporation (SMBC) | July 2021 | 101,850,000 |

On May 29, 2006, the Parent Company's stockholders approved the issuance of up to 200,000,000 convertible preferred shares with a par value of P10 per share, subject to the approval, among others, by the PSE. The purpose of the issuance of the convertible preferred shares is to raise the Tier 1 capital pursuant to BSP regulations, thereby strengthening the capital base of the Parent Company and allowing it to expand its operations. On February 13, 2007, the PSE approved the listing application of the underlying common shares for the 105,000 convertible preferred shares, subject to the compliance of certain conditions of the PSE.

Preferred shares have the following features:

*(a)* Entitled to dividends at floating rate equivalent to the three-month LIBOR plus a spread of 2.0% per annum, calculated quarterly;

*(b)* Convertible to common shares at any time after the issue date at the option of the Parent Company at a conversion price using the adjusted net book value per share of the Parent Company based on the latest available financial statements prepared in accordance with PFRS, adjusted by local regulations;

*(c)* Non-redeemable; and,

*(d)* Participating as to dividends on a pro rata basis with the common stockholders in the surplus of the Parent Company after dividend payments had been made to the preferred shareholders.

On June 28, 2010, the Parent Company's stockholders owning or representing more than two-thirds of the outstanding capital stock confirmed and ratified the approval by the majority of the BOD on their Executive Session held on May 21, 2010, the proposed increase in Parent Company's authorized capital stock and removal of pre-emptive rights from holders of capital stock, whether common or preferred, to subscribe for or to purchase any shares of stock of any class, by amending the Parent Company's Articles of Incorporation.

The proposed P16,000 authorized capital stock is divided into the following classes of stocks:

*(a)* 1,400,000,000 common shares with a par value of ten pesos (P10.00) per share.

*(b)* 200,000,000 preferred shares with a par value of ten pesos (P10.00) per share.

The removal of pre-emptive rights was approved by the BSP and SEC on October 20, 2010 and November 4, 2010, respectively. On the other hand, the increase in authorized capital stock of the Parent Company was approved by the BSP and SEC on August 24, 2011 and September 16, 2011, respectively.

Common shares may be transferred to local and foreign nationals and shall, at all times, not be less than 60% and not more than 40% of the voting stock, be beneficially owned by local nationals and by foreign nationals, respectively.

### *22.2 Issuance of Common Shares*

On July 22, 2019, the effective date of merger, the Parent Company issued 315,287,248 common shares in exchange of the transfer of net assets of RSB at carrying value. The Parent Company recognized P10,507 as additional paid-in capital, which pertains to the difference between the par value of the shares issued and the carrying value of the net assets of RSB.

On November 27, 2017, the BOD of the Parent Company approved the increase in the Parent Company's authorized capital through the increase in the authorized common stock from 1,400,000,000 shares to 2,600,000,000 shares at P10 par value per share or for a total capital stock of P14,000 to P26,000. The BOD also approved the amendment of the Parent Company's Articles of Incorporation for the principal purpose of reflecting the said increase in authorized capital. These resolutions were approved by the Parent Company's stockholders representing at least two-thirds of its outstanding capital stock in a special meeting held on January 29, 2018. In the same meeting, the Parent Company's BOD approved the stock rights offering (Rights Offer) to be subscribed out of the increase in the authorized capital. The increase in authorized capital stock and the Rights Offer were approved by the BSP and SEC on June 29, 2018 and July 4, 2018, respectively. The offering of the stock rights representing 535,710,378 common shares (with equivalent amount of P5,357) occurred from June 25 to June 29, 2018 and the shares were listed at the PSE on July 16, 2018. The Rights Offer and issuance generated P15,000 proceeds, reduced by P217 issue costs; hence, resulting in P9,426 excess of consideration received over par value recognized in Capital Paid in Excess of Par account.

In 2015, the Parent Company issued common shares to Cathay at P64 per share for a total issue price of P7,951. This issuance resulted in the recognition of Capital Paid in Excess of Par amounting to P6,709 reduced by the total issuance cost of P222. The acquisition involves Cathay: (i) acquiring from Hexagon Investments B.V., an entity controlled by funds managed by CVC Asia Pacific Limited, 118,935,590 secondary shares at P64 per share, pursuant to a Sale and Purchase Agreement; (ii) acquiring 36,724,138 secondary common shares from IFC Capitalization Fund also at P64 per share, pursuant to a Sale and Purchase Agreement; and, (iii) entering into a shareholders agreement with PMMIC and the Parent Company.

In 2013, the Parent Company issued common shares to PMMIC and IFC Capitalization Fund at P64 and P58 per share for a total issue price of P4,074 and P4,127, respectively. These issuances resulted in the recognition of Capital Paid in Excess of Par amounting to P3,437 and P3,415, respectively, reduced by total issuance costs of P101.

### *22.3 Treasury Shares*

In 2019, subsequent to the effective date of the merger, the Parent Company acquired the 315,287,248 common shares issued in exchange of the net assets of RSB equal to the Parent Company's investment in RSB as at December 31, 2018.

On September 23, 2011, the Parent Company issued 5,821,548 common shares (equivalent of 18,082,311 preferred shares and with total par value of P58) from the treasury account reissuance (with total cost of P182) and an additional 120,730,177 common stock (with total par value of P1,207) from unissued portion of the increase in authorized capital stock on September 23, 2011 to Hexagon Investments B.V. that is equivalent to approximately 15.00% of the outstanding common shares. The issuance resulted in the recognition of additional Capital Paid in Excess of Par amounting to P2,264.

On March 17, 2011, the Parent Company issued 73,448,275 common shares, comprising of 50,427,931 treasury shares reissuance (with total cost of P771) and 23,020,344 unissued stock (with total par value of P230), to IFC Capitalization Fund for a total consideration of P2,130 representing 7.20% ownership interest. The issuance resulted in the recognition of additional Capital Paid in Excess of Par amounting to P1,078.

On July 23, 2021, the Parent Company sold 101,850,000 shares to SMBC at P44.00 per share. This came from the treasury shares resulting from the merger of Parent Company and RSB. The sale of shares held by the Parent Company in treasury is equivalent to 4.999% of the total outstanding Common Stock. The issuance resulted in a recognition of additional Capital Paid in Excess of Par amounting to P50. In 2021, the Parent Company incurred expenses related to the issuance amounting to P113 which was charged to equity resulting in a P63 net decrease in the Capital Paid in Excess of Par. In 2022, the Parent Company incurred additional expenses amounting to P12 in relation to this treasury shares reissuance and this was charged against the 2022 Capital Paid in Excess of Par account.

### *22.4 Hybrid Perpetual Securities*

In August 27, 2020, the Parent Company issued US$300 non-cumulative, unsecured, subordinated capital securities which qualify as AT1 capital under Basel III standards. As of December 31, 2022 and 2021, the hybrid perpetual securities amounted to P14,463, net of issuance costs.

The capital securities are perpetual in respect of which there is no fixed redemption date. The Parent Company may redeem the capital securities only in certain circumstances as described in the conditions of the securities and with prior written consent of BSP. Distributions are non-cumulative and payable semi-annually in arrear at a rate of 6.5%. Certain conditions provide for circumstances under which the Parent Company will not be obliged to pay any distribution on the applicable payment date.

The proceeds of the hybrid perpetual securities are used to support and finance medium-term to long-term asset growth, loans to customers, other general corporate purposes and to maintain sufficient buffers above the minimum capital thresholds required by BSP.

### *22.5 Surplus and Dividend Declarations*

The details of the cash dividend distributions follow:

| Date Declared | Dividend Per Share | Dividend Total Amount | Record Date | Date Approved by BOD | Date Paid/Payable |
|---|---|---|---|---|---|
| February 24, 2020 | 0.0993 | 0.03 | March 21, 2020 | February 24, 2020 | April 1, 2020 |
| May 26, 2020 | 0.0808 | 0.02 | June 21, 2020 | May 26, 2020 | June 24, 2020 |
| May 26, 2020 | 0.5560 | 1,076.21 | June 9, 2020 | May 26, 2020 | June 24, 2020 |
| May 26, 2020 | 0.5560 | 0.15 | June 9, 2020 | May 26, 2020 | June 24, 2020 |
| September 1, 2020 | 0.0589 | 0.02 | September 21, 2020 | September 1, 2020 | September 24, 2020 |
| December 1, 2020 | 0.0563 | 0.02 | December 21, 2020 | December 1, 2020 | January 7, 2021 |
| February 22, 2021 | 0.0560 | 0.01 | March 21, 2021 | February 22, 2021 | March 31, 2021 |
| February 22, 2021* | - | 472.40 | February 26, 2021 | February 22, 2021 | February 26, 2021 |
| April 26, 2021 | 0.4850 | 938.78 | May 10, 2021 | April 26, 2021 | May 25, 2021 |
| April 26, 2021 | 0.4850 | 0.13 | May 10, 2021 | April 26, 2021 | May 25, 2021 |
| May 31, 2021 | 0.0559 | 0.01 | June 21, 2021 | May 31, 2021 | June 25, 2021 |
| July 26, 2021* | - | 486.04 | August 26, 2021 | July 26, 2021 | August 26, 2021 |
| August 31, 2021 | 0.0545 | 0.01 | September 21, 2021 | August 31, 2021 | September 24, 2021 |
| November 29, 2021 | 0.0537 | 0.01 | December 21, 2021 | November 29, 2021 | December 24, 2021 |
| January 31, 2022* | - | 500.57 | February 28, 2022 | January 31, 2022 | February 28, 2022 |
| February 28, 2022 | 0.0553 | 0.01 | March 31, 2022 | February 28, 2022 | March 23, 2022 |
| March 28, 2022 | 0.6180 | 1,259.16 | April 11, 2022 | March 28, 2022 | April 27, 2022 |
| March 28, 2022 | 0.6180 | 0.17 | April 11, 2022 | March 28, 2022 | April 27, 2022 |
| May 30, 2022 | 0.0748 | 0.02 | June 21, 2022 | May 30, 2022 | June 23, 2022 |
| July 25, 2022* | - | 547.59 | August 26, 2022 | July 25, 2022 | August 26, 2022 |
| August 30, 2022 | 0.1047 | 0.03 | September 21, 2022 | August 30, 2022 | September 22, 2022 |
| November 28, 2022 | 0.1407 | 0.04 | December 21, 2022 | November 28, 2022 | December 27, 2022 |

**Dividends for Hybrid Perpetual Securities*

In 2015, the BSP, through the MB, approved the liberalized rules for banks and quasi-banks on dividend declaration. The policy requires that dividend declaration be immediately recognized as a liability upon the approval of the BOD and that it be disclosed in the statement of changes in equity.

A portion of the Parent Company's surplus corresponding to the equity in net earnings of certain subsidiaries and associates totaling P11,757 and P11,749 as of December 31, 2022 and 2021, respectively, and treasury shares of the Parent Company amounting to P9,287 as of December 31, 2022 and 2021, are not currently available for distribution as dividends.

### *22.6 Revaluation Reserves*

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

| | Revaluation of Financial Assets at FVOCI | Accumulated Translation Adjustments on Foreign Operations | Actuarial Gains (Losses) on Defined Benefit Plan | Total |
|---|---|---|---|---|
| Balance as of January 1, 2022 | P 389 | P 54 | (P 2,366) | (P 1,923) |
| Actuarial gains on defined benefit plan | - | - | 786 | 786 |
| Fair value loss on financial assets at FVOCI | ( 5,255) | - | - | ( 5,255) |
| Other comprehensive income (loss) | ( 5,255) | - | 786 | ( 4,469) |
| Balance as of December 31, 2022 | **(P 4,866)** | **P 54** | **(P 1,580)** | **(P 6,392)** |
| Balance as of January 1, 2021 | P 664 | P 54 | (P 2,788) | (P 2,070) |
| Actuarial gains on defined benefit plan | - | - | 422 | 422 |
| Fair value loss on financial assets at FVOCI | ( 275) | - | - | ( 275) |
| Other comprehensive income (loss) | ( 275) | - | 422 | 147 |
| Balance as of December 31, 2021 | P 389 | P 54 | (P 2,366) | (P 1,923) |
| Balance as of January 1, 2020 | P 895 | P 53 | (P 3,141) | (P 2,193) |
| Actuarial gains on defined benefit plan | - | - | 353 | 353 |
| Fair value loss on financial assets at FVOCI | ( 231) | - | - | ( 231) |
| Translation adjustments on foreign operations | - | 1 | - | 1 |
| Other comprehensive income (loss) | ( 231) | 1 | 353 | 123 |
| Balance as of December 31, 2020 | P 664 | P 54 | (P 2,788) | (P 2,070) |

### *22.7 Appropriation for General Loan Loss Reserves*

Pursuant to the requirements of the BSP under Circular No. 1011, the Group shall recognize general loan loss provisions equivalent to one percent of all outstanding loans as of the end of the reporting period, except for accounts considered as credit risk-free under the existing BSP regulations. In cases when the computed allowance for ECL on those exposures is less than one percent of the general loan loss provisions required, the deficiency is recognized through appropriation from the Group's available Surplus. Such appropriation is considered as Tier 2 capital subject to the limit provided under the CAR framework. The outstanding balance of appropriation for General Loan Loss Reserves as of December 31, 2022 and 2021 amounted to P3,824 and P3,617 for the Group, and P3,823 and P3,616 for the Parent Company, respectively. The additional appropriation made in 2022 amounted to P207 for the Group and Parent Company.

### *22.8 Other Reserves*

As of December 31, 2022 and 2021, this account consists of reserves arising from the acquisitions of RCBC LFC and Rizal Microbank amounting to P86 and P97, respectively.

In 2022, the Parent Company has acquired remaining interest to Rizal Microbank making it a wholly-owned subsidiary of the Parent Company (see Note 1.2). This acquisition resulted in the reduction of Other Reserves and Non-controlling Interest accounts amounting to P11 and P9, respectively. There is no similar transaction in 2021.

## 23. EMPLOYEE BENEFITS

### *23.1 Salaries and Employee Benefits Expense*

Expenses recognized for salaries and other employee benefits are shown below.

| | Group | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| Short-term employee benefits | **P 6,100** | P 5,888 | P 6,167 |
| Post-employment defined benefits | **463** | 483 | 459 |
| | **P 6,563** | P 6,371 | P 6,626 |

| | Parent Company | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| Short-term employee benefits | **P 5,368** | P 5,247 | P 5,468 |
| Post-employment defined benefits | **426** | 439 | 428 |
| | **P 5,794** | P 5,686 | P 5,896 |

### 23.2 Post-employment Defined Benefit Plan

*(a) Characteristics of the Defined Benefit Plan*

The Parent Company and certain subsidiaries maintain a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by the Parent Company's Trust and Investment Group (TIG), covering all regular full-time employees. The Parent Company's TIG manages the fund in coordination with the Parent Company's Retirement Plan Committee (RPC), Trust Committee and the respective committees of the subsidiaries which act in the best interest of the plan assets and are responsible for setting the investment policies.

The normal retirement age of the Group's employees ranges between 55 to 60 but the plan also provides for an early retirement at age 50 to 55 with a minimum of 10 to 20 years of credited service. The maximum retirement benefit is the lump sum equivalent to two months pay per year of continuous employment based on the employees' salary at retirement. Any fraction of a year shall be computed proportionately.

*(b) Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation reports obtained from independent actuaries in 2022 and 2021.

The amounts of post-employment benefit obligation recognized in the financial statements are determined as follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Present value of the obligation | **P 5,130** | P 5,604 | **P 4,857** | P 5,309 |
| Fair value of plan assets | **( 3,145)** | ( 3,104) | **( 2,885)** | ( 2,822) |
| Effect of asset ceiling test | **1** | 1 | **-** | - |
| Deficiency of plan assets | **P 1,986** | P 2,501 | **P 1,972** | P 2,487 |

The Group and Parent Company's post-employment defined benefit obligation as of December 31, 2022 and 2021 are included as part of Other Liabilities account in the statements of financial position (see Note 21).

The movements in the present value of the defined benefit obligation follow:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Balance at beginning of year | **P 5,604** | P 5,650 | **P 5,309** | P 5,342 |
| Current and past service cost | **463** | 483 | **426** | 439 |
| Interest expense | **280** | 223 | **266** | 212 |
| Business combinations | **( 11)** | - | **-** | - |
| Remeasurements – actuarial gains arising from changes in: | | | | |
| – experience adjustments | **( 44)** | ( 254) | **( 57)** | ( 248) |
| – financial assumptions | **( 730)** | ( 80) | **( 700)** | ( 28) |
| – demographic assumptions | **( 1)** | ( 1) | **-** | ( 1) |
| Benefits paid by the plan | **( 431)** | ( 417) | **( 387)** | ( 407) |
| Balance at end of year | **P 5,130** | P 5,604 | **P 4,857** | P 5,309 |

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

| | Group | | | | Parent Company | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2022 | | 2021 | | 2022 | | 2021 |
| Balance at beginning of year | P | 3,104 | P | 2,657 | P | 2,822 | P | 2,389 |
| Interest income | | 152 | | 110 | | 139 | | 99 |
| Gains on plan assets (excluding amounts included in net interest) | | 7 | | 91 | | 25 | | 98 |
| Contributions paid into the plan | | 313 | | 663 | | 286 | | 643 |
| Benefits paid by the plan | ( | 431 ) | ( | 417) | ( | 387 ) | ( | 407) |
| Balance at end of year | P | 3,145 | P | 3,104 | P | 2,885 | P | 2,822 |

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

| | Group | | | | Parent Company | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2022 | | 2021 | | 2022 | | 2021 |
| Cash and cash equivalents | P | 556 | P | 551 | P | 506 | P | 450 |
| Debt securities: | | | | | | | | |
| Corporate debt securities | | 337 | | 385 | | 300 | | 378 |
| Government bonds | | 105 | | 90 | | - | | 1 |
| Equity securities: | | | | | | | | |
| Financial intermediaries | | 1,256 | | 1,077 | | 1,256 | | 1,066 |
| Transportation and communication | | 185 | | 254 | | 185 | | 254 |
| Electricity, gas and water | | 133 | | 113 | | 133 | | 112 |
| Diversified holding companies | | 89 | | 31 | | 89 | | 24 |
| Quoted equity securities | | 30 | | - | | - | | - |
| Others | | 56 | | 180 | | 11 | | 114 |
| Unquoted long-term equity investments | | 139 | | 140 | | 139 | | 140 |
| UITF | | 256 | | 273 | | 256 | | 273 |
| Investment properties | | 7 | | 5 | | 7 | | 5 |
| Loans and receivables | | 4 | | 5 | | 3 | | 5 |
| Others | ( | 8) | | - | | - | | - |
| | P | 3,145 | P | 3,104 | P | 2,885 | P | 2,822 |

The fair values of the above debt securities and quoted equity securities are determined based on market prices in active markets. Long-term equity investments represent investment in corporations not listed in active and organized markets. Fair values are determined based on the book value per share based on latest audited financial statements of the investee company. The fair value of the UITF is determined based on the net asset value per unit of investment held in the fund.

The fair value of the plan assets is at Level 1 in the fair value hierarchy except for unquoted long-term equity investments, loans and receivables, investment properties and other investments which are at Level 3.

The net gains on plan assets are as follows:

| | Group | | | | Parent Company | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2022 | | 2021 | | 2022 | | 2021 |
| Interest income | P | 152 | P | 110 | P | 139 | P | 99 |
| Fair value gains - net | | 7 | | 91 | | 25 | | 98 |
| Actual gains - net | P | 159 | P | 201 | P | 164 | P | 197 |

The amounts of post-employment benefit expense recognized in the profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are determined below and in the succeeding page as follows:

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **2022** | | 2021 | | 2020 | |
| *Reported in profit or loss:* | | | | | | |
| Current and past service cost | **P** | **463** | P | 483 | P | 459 |
| Net interest expense | | **141** | | 113 | | 179 |
| | **P** | **604** | P | 596 | P | 638 |
| *Reported in other comprehensive income:* | | | | | | |
| Actuarial gains (losses) arising from changes in: | | | | | | |
| – Experience adjustments | **P** | **44** | P | 254 | P | 179 |
| – Financial assumptions | | **730** | | 80 | | 422 |
| – Demographic assumptions | | **1** | | 1 | | 1 |
| Effect of asset ceiling test | | **-** | | ( 1) | | - |
| Gains (Losses) on plan assets (excluding amounts included in net interest) | | **7** | | 91 | | ( 241) |
| | **P** | **782** | P | 425 | P | 361 |

| | Parent Company | | | | | |
|---|---|---|---|---|---|---|
| | **2022** | | 2021 | | 2020 | |
| *Reported in profit or loss:* | | | | | | |
| Current service costs | **P** | **426** | P | 439 | P | 428 |
| Net interest expense | | **127** | | 112 | | 177 |
| | **P** | **553** | P | 551 | P | 605 |
| *Reported in other comprehensive income:* | | | | | | |
| Actuarial gains (losses) arising from changes in: | | | | | | |
| – Experience adjustments | **P** | **57** | P | 248 | P | 172 |
| – Financial assumptions | | **700** | | 28 | | 443 |
| – Demographic assumptions | | **-** | | 1 | | - |
| Gains (Losses) on plan assets (excluding amounts included in net interest) | | **25** | | 98 | | ( 254) |
| | **P** | **782** | P | 375 | P | 361 |

Current service costs, including the effect of curtailment and past service cost, form part of Employee Benefits under the Other Operating Expenses account, while net interest expense or income is presented as part of Interest Expense on Bills Payable and Other Borrowings in the statements of profit or loss.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

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

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| **Group** | | | |
| Discount rates | **7.22% - 7.56%** | 4.98% - 5.09% | 3.67% - 4.08% |
| Expected rate of salary increases | **5.00% - 8.00%** | 3.50% - 8.00% | 2.70% - 8.00% |

**Parent Company**

| | | | |
|---|---|---|---|
| Discount rates | **7.44%** | 5.01% | 3.95% |
| Expected rate of salary increases | **5.00%** | 4.00% | 3.00% |

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at the Group's normal retiring age of 60 is based on the 2017 Philippine Intercompany Mortality table. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

*(c) Risks Associated with the Retirement Plan*

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

*(i) Investment and Interest Rate Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

Currently, the plan assets of the Group are significantly invested in equity and debt securities, while the Group also invests in cash and cash equivalents and other investments. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

*(ii) Longevity and Salary Risks*

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

*(d) Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the post-employment plan are described in the succeeding pages.

*(i) Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2022 and 2021:

| | Group | | |
|---|---|---|---|
| | Impact on Post-employment Defined Benefit Obligation | | |
| | Change in Assumption | Increase in Assumption | Decrease in Assumption |
| **2022:** | | | |
| Discount rate | +/-1 % | **(P 437)** | **P 506** |
| Salary growth rate | +/-1 % | **513** | **( 449)** |
| 2021: | | | |
| Discount rate | +/-1 % | (P 551) | P 638 |
| Salary growth rate | +/-1 % | 641 | ( 558) |

| | Parent Company | | |
|---|---|---|---|
| | Impact on Post-employment Defined Benefit Obligation | | |
| | Change in Assumption | Increase in Assumption | Decrease in Assumption |
| **2022:** | | | |
| Discount rate | +/- 1% | **(P 413)** | **P 477** |
| Salary growth rate | +/- 1% | **484** | **( 425)** |
| 2021: | | | |
| Discount rate | +/- 1% | (P 512) | P 600 |
| Salary growth rate | +/- 1% | 600 | ( 520) |

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

*(ii) Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Parent Company through its RPC in coordination with the Parent Company's Trust Investment Group, ensures that the investment positions are managed considering the computed retirement obligations under the retirement plan. This strategy aims to match the plan assets to the retirement obligations due by investing in assets that are easy to liquidate (i.e., government securities, corporate bonds, equities with high value turnover).

As the Group's retirement obligations are in Philippine peso, all assets are invested in the same currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations. In view of this, various investments are made in a portfolio that may be liquidated within a reasonable period of time.

A large portion of the plan assets as of December 31, 2022 and 2021 consists of equity securities with the balance invested in fixed income securities and cash and cash equivalents. The Group believes that equity securities offer the best returns over the long term with an acceptable level of risk.

*(iii) Funding Arrangements and Expected Contributions*

The plan is currently underfunded by P1,975 and P1,972 for the Group and Parent Company, respectively, based on the latest funding actuarial valuations in 2022.

The maturity profile of undiscounted expected benefit payments from the plan within 15 years from the end of each reporting period follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Less than one year | **P 1,936** | P 194 | **P 240** | P 186 |
| More than one year to five years | **5,916** | 1,592 | **1,560** | 1,472 |
| More than five years to ten years | **4,236** | 3,646 | **4,047** | 3,477 |
| More than ten to fifteen years | **-** | 19 | **-** | - |
| More than fifteen years | **6,172** | 26 | **-** | - |
| | **P 18,260** | P 5,477 | **P 5,847** | P 5,135 |

The Group and Parent Company expect to contribute P6,313 and P6,268, respectively, to the plan in 2023.

## 24. MISCELLANEOUS INCOME AND EXPENSES

These accounts consist of the following:

### *24.1 Miscellaneous Income*

| | | Group | | |
|---|---|---|---|---|
| | Notes | **2022** | 2021 | 2020 |
| Gain on extinguishment of loan | | **P 890** | P - | P - |
| Rentals | 14.2 | **872** | 926 | 883 |
| Recoveries from written off assets | | **486** | 223 | 102 |
| Dividend income | 10.1, 10.2 | **293** | 105 | 78 |
| Others | | **163** | 211 | 140 |
| | | **P 2,704** | P 1,465 | P 1,203 |

| | Notes | Parent Company 2022 | 2021 | 2020 |
|---|---|---|---|---|
| Gain on extinguishment of loan | | **P 890** | P - | P - |
| Recoveries from written off assets | | **486** | 223 | 99 |
| Rentals | 14.2, 27.5(b) | **261** | 287 | 266 |
| Dividend income | 10.1, 10.2 | **227** | 39 | 16 |
| Others | | **148** | 26 | 125 |
| | | **P 2,012** | P 575 | P 506 |

In 2022, the Parent Company received the full payment of its outstanding receivables from HHIC-Phil, Inc. The excess of the settlement amount over the carrying value of loans receivable amounting to P890 was recognized as Gain on extinguishment of loan.

Miscellaneous income classified as Others includes rebates, penalty charges and other income items that cannot be appropriately classified under any of the foregoing income accounts.

### *24.2 Miscellaneous Expenses*

| | Group 2022 | 2021 | 2020 |
|---|---|---|---|
| Insurance | **P 1,543** | P 1,215 | P 1,017 |
| Credit card-related expenses | **1,302** | 1,114 | 1,023 |
| Service and processing fees | **776** | 540 | 420 |
| Litigation/assets acquired expenses | **600** | 739 | 434 |
| Communication and information services | **582** | 604 | 639 |
| Management and other professional fees | **505** | 514 | 413 |
| Banking fees | **376** | 319 | 271 |
| Advertising and publicity | **322** | 324 | 288 |
| Transportation and travel | **225** | 133 | 166 |
| Stationery and office supplies | **140** | 118 | 233 |
| Other outside services | **122** | 135 | 137 |
| Donation and charitable contribution | **107** | 79 | 93 |
| Representation and entertainment | **55** | 15 | 29 |
| Membership fees | **21** | 17 | 22 |
| Others | **1,271** | 983 | 1,307 |
| | **P 7,947** | P 6,849 | P 6,492 |

| | Parent Company 2022 | 2021 | 2020 |
|---|---|---|---|
| Insurance | **P 1,541** | P 1,213 | P 1,015 |
| Service and processing fees | **1,418** | 540 | 419 |
| Credit card-related expenses | **1,279** | 1,655 | 1,631 |
| Litigation/assets acquired expense | **589** | 729 | 427 |
| Communication and information services | **552** | 572 | 606 |
| Management and other professional fees | **465** | 438 | 334 |
| Banking fees | **370** | 316 | 267 |
| Advertising and publicity | **318** | 321 | 286 |
| Transportation and travel | **213** | 126 | 155 |
| Stationery and office supplies | **135** | 115 | 228 |
| Other outside services | **122** | 135 | 135 |
| Donations and charitable contributions | **106** | 79 | 93 |
| Representation and entertainment | **48** | 11 | 24 |
| Membership fees | **19** | 16 | 16 |
| Others | **1,233** | 930 | 1,239 |
| | **P 8,408** | P 7,196 | P 6,875 |

The Group's other expenses are composed of freight, various processing fees, fines and penalties, and seasonal giveaways. The Group and Parent Company's other expenses also include fees for records, facilities and management services to a related party under common control amounting to P362 and P362, P298 and P298, and P267 and P263, in 2022, 2021 and 2020, respectively (see Note 27).

## 25. INCOME AND OTHER TAXES

Under Philippine tax laws, the regular banking unit (RBU) of the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the statements of profit or loss), as well as income taxes. Percentage and other taxes paid consist principally of the gross receipts tax (GRT) and documentary stamp tax (DST).

RA No. 9238, which was enacted on February 10, 2004, provides for the reimposition of GRT on banks and non-bank financial intermediaries performing quasi-banking functions and other non-bank financial intermediaries beginning January 1, 2004.

The recognition of liability of the Parent Company and certain subsidiaries for GRT is based on the related regulations issued by the tax authorities.

Income taxes include the regular corporate income tax (RCIT) [see Note 20], and final tax paid at the rate of 20%, which represents the final withholding tax on gross interest income from government securities and other deposit substitutes.

Interest allowed as a deductible expense is reduced by an amount equivalent to certain percentage of interest income subjected to final tax. Minimum corporate income tax (MCIT) of 1% or 2% on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against regular income tax liability in the next three consecutive years. In addition, ordinarily, the Group's net operating loss carry over (NOLCO) is allowed as a deduction from taxable income in the next three consecutive years.

However, pursuant to Section 4 (bbb) of Bayanihan to Recover as One (BARO) Act and as implemented under Revenue Regulation 25-2020, the net operating losses of a business or enterprise incurred for taxable years 2021 and 2022 can be carried over as a deduction from gross income for the next five consecutive taxable years following the year of such loss.

Effective May 2004, RA No. 9294 restored the tax exemption of FCDUs and offshore banking units (OBUs). Under such law, the income derived by the FCDU from foreign currency 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% gross income tax.

Interest income on deposits with other FCDUs and offshore banking units is subject to 15.0% final tax effective January 1, 2018.

In 2022, 2021 and 2020, the Group opted to continue claiming itemized deductions for income tax purposes.

The Parent Company's foreign subsidiaries are subject to income and other taxes based on the enacted tax laws of the countries and/or jurisdictions where they operate.

### *25.1 Current and Deferred Taxes*

On March 26, 2021, R.A. No. 11534, *Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*, as amended, was signed into law and shall be effective beginning July 1, 2020. The following are the major changes brought about by the CREATE Act that are relevant to and considered by the Company.

- RCIT was reduced from 30% to 25% starting July 1, 2020;
- MCIT was reduced from 2% to 1% starting July 1, 2020 until June 30, 2023; and,
- The allowable deduction for interest expense is reduced from 33% to 20% of the interest income subjected to final tax.

As a result of the application of the lower RCIT rate of 25% starting July 1, 2020, the current income tax expense and income tax payable, as presented in the 2020 annual income tax return of the Parent Company, would be lower by P165 and P151, respectively, than the amount presented in the 2020 financial statements and such amount was charged to 2021 profit or loss.

In 2021, the recognized net deferred tax assets as of December 31, 2020 was remeasured using the 25% tax rate. This resulted in a decline in the recognized deferred tax asset as of December 31, 2020 by P508 and P460 for the Group and Parent, respectively, and such was recognized in the 2021 profit or loss. There is no similar transaction in 2022.

The tax expense as reported in the statements of profit or loss consists of:

| | Group | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| Current tax expense: | | | |
| Final tax | **P 1,564** | P 635 | P 1,278 |
| RCIT at 25% in 2022 and 2021 | **286** | 192 | 1,091 |
| Adjustment in 2020 income taxes due to change in income tax rate | **-** | ( 165) | - |
| Excess MCIT over RCIT | **252** | 228 | 10 |
| | **2,102** | 890 | 2,379 |
| Deferred tax income arising from: | | | |
| Origination and reversal of temporary differences | **( 534)** | ( 670) | ( 904) |
| Effect of change in income tax rate | **-** | 508 | - |
| | **( 534)** | ( 162) | ( 904) |
| | **P 1,568** | P 728 | P 1,475 |

| | Parent Company 2022 | 2021 | 2020 |
|---|---|---|---|
| Current tax expense: | | | |
| Final tax | **P 1,553** | P 618 | P 1,033 |
| RCIT at 25% in 2022 and 2021 | **209** | 80 | 1,281 |
| Adjustment in 2020 income taxes due to change in income tax rate | **-** | ( 151) | - |
| Excess MCIT over RCIT | **251** | 226 | - |
| | **2,013** | 773 | 2,314 |
| Deferred tax income arising from: | | | |
| Origination and reversal of temporary differences | **( 495)** | ( 708) | ( 877) |
| Effect of change in income tax rate | **-** | 460 | - |
| | **( 495)** | ( 248) | ( 877) |
| | **P 1,518** | P 525 | P 1,437 |

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in profit or loss is as follows:

| | Group 2022 | 2021 | 2020 |
|---|---|---|---|
| Tax on pretax profit at at 25% in 2022 and 2021 and 30% in 2020 | **P 3,412** | P 1,952 | P 1,948 |
| Adjustments for income subjected to lower income tax rates | **( 399)** | ( 108) | ( 348) |
| Adjustment in 2020 income taxes due to change in income tax rate | | 343 | - |
| Tax effects of: | | | |
| FCDU income | **( 780)** | ( 402) | ( 755) |
| Unrecognized temporary differences | **( 852)** | ( 396) | 157 |
| Non-taxable income | **( 562)** | ( 680) | ( 1,672) |
| Non-deductible expenses | **504** | 406 | 2,146 |
| Excess MCIT over RCIT | **252** | 228 | - |
| Utilization of NOLCO | **( 7)** | ( 8) | ( 1) |
| Recognition of previously unrecognized deferred tax asset | **-** | ( 614) | - |
| Others | **-** | 7 | - |
| | **P 1,568** | P 728 | P 1,475 |

| | Parent Company 2022 | 2021 | 2020 |
|---|---|---|---|
| Tax on pretax profit at at 25% in 2022 and 2021 and 30% in 2020 | **P 3,399** | P 1,902 | P 1,937 |
| Adjustments for income subjected to lower income tax rates | **( 397)** | ( 104) | ( 337) |
| Adjustment in 2020 income taxes due to change in income tax rate | | 309 | - |
| Tax effects of: | | | |
| Unrecognized temporary differences | **( 925)** | ( 404) | 124 |
| FCDU income | **( 780)** | ( 402) | ( 755) |
| Non-taxable income | **( 511)** | ( 627) | ( 1,656) |
| Non-deductible expenses | **481** | 239 | 2,124 |
| Excess MCIT over RCIT | **251** | 226 | - |
| Recognition of previously unrecognized deferred tax asset | **-** | ( 614) | - |
| | **P 1,518** | P 525 | P 1,437 |

The deferred tax assets of the Group recognized in the consolidated statements of financial position as of December 31, 2022 and 2021 relate to the operations of the Parent Company and certain subsidiaries as shown below.

| | Statements of Financial Position | | Statements of Profit or Loss | | |
|---|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 | 2020 |
| Allowance for impairment | **P 2,925** | P 2,785 | **P 140** | (P 49) | P 1,109 |
| Excess MCIT over RCIT | **538** | 286 | **252** | 281 | ( 199) |
| NOLCO | **194** | 33 | **161** | ( 34) | 67 |
| Post-employment benefit obligation | **83** | 102 | **( 19)** | ( 36) | 52 |
| Provision for credit card reward payments | **-** | - | **-** | - | ( 117) |
| Others | **-** | - | **-** | - | ( 8) |
| Deferred tax assets – net | **P 3,740** | P 3,206 | | | |
| Deferred tax income – net | | | **P 534** | P 162 | P 904 |

The deferred tax assets of the Parent Company recognized in its statements of financial position as of December 31, 2022 and 2021 is shown below.

| | Statement of Financial Position | | Statements of Profit of Loss | | |
|---|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 | 2020 |
| Allowance for impairment | **P 2,747** | P 2,648 | **P 99** | (P 33) | P 1,131 |
| Excess MCIT over RCIT | **477** | 226 | **251** | 226 | ( 124) |
| NOLCO | **193** | 33 | **160** | 33 | - |
| Post-employment benefit obligation | **91** | 106 | **( 15)** | 22 | 7 |
| Provision for credit card reward payments | **-** | - | **-** | - | ( 117) |
| Others | **-** | - | **-** | - | ( 20) |
| Deferred tax assets | **P 3,508** | P 3,013 | | | |
| Deferred tax income – net | | | **P 495** | P 248 | P 877 |

The Parent Company and certain subsidiaries have not recognized deferred tax assets on certain temporary differences since management believes that the Parent Company and certain subsidiaries may not be able to generate sufficient taxable profit in the future against which the tax benefits arising from those deductible temporary differences, NOLCO and other tax credits can be utilized.

The unrecognized deferred tax assets relate to the following:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Allowance for impairment | **P 1,551** | P 2,204 | **P 1,190** | P 2,049 |
| Post-employment benefit obligation | **406** | 523 | **402** | 516 |
| NOLCO | **221** | 226 | - | - |
| Excess MCIT over RCIT | **33** | 33 | - | - |
| | **P 2,211** | P 2,986 | **P 1,592** | P 2,565 |

Consequently, deferred tax liabilities were also not recognized on certain taxable temporary differences as the settlement of those can be offset by the available deductible temporary differences in the future.

In addition, deferred tax liabilities on accumulated translation adjustments, relating to its foreign subsidiaries were not recognized since their reversal can be controlled, and it is probable that the temporary difference will not reverse in the foreseeable future.

NOLCO can be claimed as deduction from future taxable income within three and five years from the year the taxable loss was incurred. In accordance with BARO Act, NOLCO incurred in 2020 and 2021 can be claimed as a deduction from the gross income until 2025 and 2026, respectively. The details of the Group's NOLCO are shown below.

| Inception Year | Amount | Utilized | Expired | Balance | Expiry Year |
|---|---|---|---|---|---|
| 2022 | P 644 | P - | P - | P 644 | 2025 |
| 2021 | 140 | - | - | 140 | 2026 |
| 2020 | 873 | - | - | 873 | 2025 |
| 2019 | 23 | 7 | 16 | - | |
| | **P 1,680** | **P 7** | **P 16** | **P 1,657** | |

The details of the Parent Company's NOLCO are shown below:

| Inception Year | Amount | Utilized | Expired | Balance | Expiry Year |
|---|---|---|---|---|---|
| 2022 | P 640 | - | - | 640 | 2025 |
| 2021 | 132 | - | - | 132 | 2026 |
| | **P 772** | **P -** | **P -** | **P 772** | |

The breakdown of the Group's excess MCIT over RCIT with the corresponding validity periods follows:

| Inception Year | Amount | Utilized | Expired | Balance | Expiry Year |
|---|---|---|---|---|---|
| 2022 | P 252 | P - | P - | P 252 | 2025 |
| 2021 | 228 | - | - | 228 | 2024 |
| 2020 | 91 | - | - | 91 | 2023 |
| 2019 | 80 | - | 80 | - | |
| | **P 651** | **P -** | **P 80** | **P 571** | |

The breakdown of the Parent Company's excess MCIT over RCIT with the corresponding validity periods follows:

| Inception Year | Amount | Utilized | Expired | Balance | Expiry Year |
|---|---|---|---|---|---|
| 2022 | P 251 | P - | P - | P 251 | 2025 |
| 2021 | 226 | - | - | 226 | 2024 |
| 2019 | 19 | 19 | - | - | |
| | **P 496** | **P 19** | **P -** | **P 477** | |

### *25.2 Supplementary Information Required Under Revenue Regulation No. 15-2010*

The Bureau of Internal Revenue (BIR) issued RR 15-2010 on November 25, 2010 which require certain tax information to be disclosed as part of the notes to financial statements. Such supplementary information is, however, not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the SEC rules and regulations covering form and content of financial statements under the Revised Securities Regulation Code Rule 68.

The Parent Company presented this tax information required by the BIR as a supplemental schedule filed separately from the basic financial statements.

## 26. TRUST OPERATIONS

With the endorsement of the Group's Trust Committee, on November 28, 2022, the Bank's BOD approved the spin-off of the Trust operations from the Parent Company into a separate corporate entity by establishing a Stand-Alone Trust Corporation (SATC) in accordance with the Manual of Regulations for Non-Bank Financing Institution. The BOD approved the capital infusion by the Parent Company equivalent to 40% of the required capital under the capital build-up plan. As early as March 2022, the Group has been coordinating with the BSP with respect to stage licenses that the Parent Company needs to obtain with the planned transition to a SATC. The Parent Company foresees that it will be able to fully transition its trust operations to a SATC by third or fourth quarter of 2024.

Securities and properties (other than deposits) held by the Parent Company in fiduciary or agency capacity for its customers are not included in the financial statements, since these are not resources of the Parent Company. The Group and Parent Company's total trust resources amounted to P142,479 and P146,769 as of December 31, 2022 and 2021, respectively (see Note 33).

Investment in government securities which are shown as part of Investment securities at amortized cost (see Note 10.3) with a total face value of P1,842 and P1,638 as of December 31, 2022 and 2021, respectively, for both the Group and the Parent Company are deposited with the BSP as security for faithful compliance with fiduciary obligations.

Income from trust operations, shown as Trust fees under Other Operating Income account, amounted to P415, P392 and P323 in 2022, 2021 and 2020, respectively, in the Group and Parent Company's statements of profit or loss.

## 27. RELATED PARTY TRANSACTIONS

The Group and Parent Company's related parties include its ultimate parent company, subsidiaries, associates, entities under common ownership, key management personnel and others.

The RPT Committee, which meet monthly and as necessary, review proposed RPT within the materiality threshold to determine whether or not the transaction is on terms no less favorable to the Group than terms available to any unconnected third party under the same or similar circumstances. On favorable review, the RPT Committee endorse transactions to the BOD for approval.

A summary of the Group and Parent Company's transactions and outstanding balances of such transactions with related parties as of and for the years ended December 31, 2022, 2021 and 2020 is presented below.

| | | **Group** | | | | | |
|---|---|---|---|---|---|---|---|
| | | **2022** | | 2021 | | 2020 | |
| | Notes | **Amount of Transaction** | **Outstanding Balance** | Amount of Transaction | Outstanding Balance | Amount of Transaction | Outstanding Balance |
| **Stockholders** | | | | | | | |
| Loans and receivables | 27.1 | **(P 96)** | **P -** | (P 55) | P 96 | (P 55) | P 151 |
| Deposit liabilities | 27.2 | **670** | **2,670** | 745 | 2,000 | 454 | 1255 |
| Interest expense on deposits | 27.2 | **46** | **-** | 24 | - | 17 | - |
| Cash received from issuance of shares of stock | 22.3 | **-** | **-** | 4,369 | - | - | - |
| Interest income from loans and receivables | 27.1 | **-** | **-** | 9 | - | 14 | - |
| **Associates** | | | | | | | |
| Loans and receivables | 27.1 | **-** | **-** | ( 203) | - | 203 | 203 |
| Deposit liabilities | 27.2 | **15** | **98** | ( 984) | 83 | 769 | 1,085 |
| Interest expense on deposits | 27.2 | **2** | **-** | 1 | - | 3 | - |
| **Related Parties Under Common Ownership** | | | | | | | |
| Loans and receivables | 27.1 | **2,782** | **3,597** | ( 2,818) | 815 | 3,436 | 3,633 |
| Deposit liabilities | 27.2 | **2,343** | **5,359** | 397 | 3,016 | 628 | 4,516 |
| Interest income from loans and receivables | 27.1 | **98** | **-** | 37 | - | 183 | - |
| Interest expense on deposits | 27.2 | **56** | **-** | 24 | - | 67 | - |
| Gain on assets sold | 27.5(a) | **2,352** | **-** | - | - | - | - |
| Occupancy and equipment related expenses | 27.5(b) | **6,997** | **2,426** | 967 | - | 777 | - |
| Miscellaneous expenses – others | 24.2 | **362** | **-** | 298 | - | 267 | - |

| | | Group | | | | | |
|---|---|---|---|---|---|---|---|
| | | **2022** | | 2021 | | 2020 | |
| | Note | **Amount of Transaction** | **Outstanding Balance** | Amount of Transaction | Outstanding Balance | Amount of Transaction | Outstanding Balance |
| **Key Management Personnel** | | | | | | | |
| Loans and receivables | 27.1 | **P -** | **P 6** | (P 8) | P 6 | P 1 | P 14 |
| Deposit liabilities | 27.2 | **107** | **426** | 75 | 319 | 42 | 244 |
| Interest expense on deposits | 27.2 | **4** | **-** | 2 | - | 4 | - |
| Salaries and employee benefits | 27.5(e) | **583** | **-** | 585 | - | 629 | - |
| **Other Related Interests** | | | | | | | |
| Loans and receivables | 27.1 | **1,831** | **20,361** | 9,979 | 18,530 | 5,863 | 8,551 |
| Deposit liabilities | 27.2 | **5,794** | **11,228** | 914 | 5,434 | 1,202 | 4,520 |
| Interest income from loans and receivables | 27.1 | **823** | **-** | 716 | - | 370 | - |
| Interest expense on deposits | 27.2 | **137** | **-** | 33 | - | 48 | - |

| | | Parent Company | | | | | |
|---|---|---|---|---|---|---|---|
| | | **2022** | | 2021 | | 2020 | |
| | Note | **Amount of Transaction** | **Outstanding Balance** | Amount of Transaction | Outstanding Balance | Amount of Transaction | Outstanding Balance |
| **Stockholders** | | | | | | | |
| Loans and receivables | 27.1 | **(P 96)** | **P -** | (P 55) | P 96 | (P 55) | P 151 |
| Deposit liabilities | 27.2 | **670** | **2,670** | 745 | 2,000 | 296 | 1,255 |
| Interest expense on deposits | 27.2 | **46** | **-** | 15 | - | 17 | - |
| Cash received from reissuance of treasury shares | 22.3 | **-** | **-** | 4,369 | - | - | - |
| Interest income from loans and receivables | 27.1 | **-** | **-** | 9 | - | 14 | - |

| | | Parent Company | | | | | |
|---|---|---|---|---|---|---|---|
| | | **2022** | | 2021 | | 2020 | |
| | Notes | **Amount of Transaction** | **Outstanding Balance** | Amount of Transaction | Outstanding Balance | Amount of Transaction | Outstanding Balance |
| **Subsidiaries** | | | | | | | |
| Loans and receivable | 27.1 | **P -** | **P -** | P - | P - | (P 13) | P - |
| Deposit liabilities | 27.2 | **(1,159)** | **1,493** | 2,211 | 2,652 | (1) | 441 |
| Interest expense on deposits | 27.2 | **6** | **-** | 6 | - | 1 | - |
| Dividend | 12 | **71** | **-** | 524 | 500 | 1,243 | 600 |
| Rental income | 27.5(a) | **62** | **-** | 60 | - | 50 | 40 |
| Occupancy and equipment-related expenses | 27.5(a) | **436** | **-** | 420 | - | 368 | 365 |
| Service and processing fees | 27.5(b) | **650** | **-** | 564 | - | 617 | 591 |
| Sale of investment securities | 27.3 | **1,780** | **-** | 1,034 | - | 30 | 126 |
| Purchase of investment securities | 27.3 | **620** | **-** | 497 | - | 1,202 | 3 |
| Assignment of receivables | 11 | **-** | **127** | (20) | 127 | (25) | 147 |
| **Associates** | | | | | | | |
| Loans and receivables | 27.1 | **-** | **-** | (203) | - | 203 | 203 |
| Deposit liabilities | 27.2 | **15** | **116** | (984) | 101 | 1,009 | 1,085 |
| Interest expense on deposits | 27.2 | **2** | **-** | 1 | - | 3 | - |
| **Related Parties Under Common Ownership** | | | | | | | |
| Loans and receivables | 27.1 | **2,782** | **3,597** | (2,818) | 815 | 212 | 3,633 |
| Deposit liabilities | 27.2 | **2,112** | **7,025** | (1,483) | 4,913 | 1,632 | 6,396 |
| Interest income from loans and receivables | 27.1 | **98** | **-** | 37 | - | 176 | - |
| Interest expense on deposits | 27.2 | **56** | **-** | 24 | - | 55 | - |
| Gain on assets sold | 27.5(a) | **2,352** | **-** | - | - | - | - |
| Occupancy and equipment-related expenses | 27.5(b) | **6,985** | **2,426** | 961 | - | 775 | - |
| Miscellaneous expenses – others | 24.2 | **362** | **-** | 298 | - | 263 | - |

| | | Parent Company | | | | | |
|---|---|---|---|---|---|---|---|
| | | **2022** | | 2021 | | 2020 | |
| | Note | **Amount of Transaction** | **Outstanding Balance** | Amount of Transaction | Outstanding Balance | Amount of Transaction | Outstanding Balance |
| **Key Management Personnel** | | | | | | | |
| Loans and receivables | 27.1 | **P -** | **P 1** | P - | P 1 | P 1 | P 1 |
| Deposit liabilities | 27.2 | **107** | **413** | 62 | 306 | 42 | 244 |
| Interest expense on deposits | 27.2 | **4** | **-** | 2 | - | 4 | - |
| Salaries and employee benefits | 27.5(e) | **334** | **-** | 335 | - | 391 | - |
| **Other Related Interests** | | | | | | | |
| Loans and receivables | 27.1 | **1,831** | **20,361** | 9,984 | 18,530 | 6,171 | 8,546 |
| Deposit liabilities | 27.2 | **5,794** | **13,798** | 3,484 | 8,004 | 1,202 | 4,520 |
| Interest income from loans and receivables | 27.1 | **823** | **-** | 716 | - | 370 | - |
| Interest expense on deposits | 27.2 | **137** | **-** | 33 | - | 48 | - |

### *27.1 Loans and Receivables*

The summary of the Group and Parent Company's significant transactions and the related outstanding balances for loans and receivables with its related parties as of and for the years ended December 31, 2022, 2021 and 2020 are as follows:

| | Group | | | |
|---|---|---|---|---|
| **Related Party Category** | **Issuances** | **Repayments** | **Interest Income** | **Loans Outstanding** |
| **2022:** | | | | |
| Stockholders | P - | P 96 | P - | P - |
| Related parties under common ownership | 5,360 | 2,578 | 98 | 3,597 |
| Key management personnel | 1 | 1 | - | 6 |
| Other related interests | 4,192 | 2,361 | 823 | 20,361 |
| | **P 9,553** | **P 5,036** | **P 921** | **P 23,964** |
| 2021: | | | | |
| Stockholders | P - | P 55 | P 9 | P 96 |
| Associate | - | 203 | - | - |
| Related parties under common ownership | 360 | 3,178 | 37 | 815 |
| Key management personnel | 2 | 10 | - | 6 |
| Other related interests | 12,345 | 2,366 | 716 | 18,530 |
| | P 12,707 | P 5,812 | P 762 | P 19,447 |
| 2020: | | | | |
| Stockholders | P - | P 55 | P 14 | P 151 |
| Associate | 203 | - | - | 203 |
| Related parties under common ownership | 4,133 | 697 | 183 | 3,633 |
| Key management personnel | 1 | - | - | 14 |
| Other related interests | 7,257 | 1,394 | 370 | 8,551 |
| | P 11,594 | P 2,146 | P 567 | P 12,552 |

| | Parent Company | | | |
|---|---|---|---|---|
| **Related Party Category** | **Issuances** | **Repayments** | **Interest Income** | **Loans Outstanding** |
| **2022:** | | | | |
| Stockholders | P - | P 96 | P - | P - |
| Related parties under common ownership | 5,360 | 2,578 | 98 | 3,597 |
| Key management personnel | 1 | 1 | - | 1 |
| Other related interests | 4,192 | 2,361 | 823 | 20,361 |
| | **P 9,553** | **P 5,036** | **P 921** | **P 23,959** |

| Related Party Category | Parent Company Issuances | Repayments | Interest Income | Loans Outstanding |
|---|---|---|---|---|
| 2021: | | | | |
| Stockholders | P - | P 55 | P 9 | P 96 |
| Associate | - | 203 | - | - |
| Related parties under common ownership | 360 | 3,178 | 37 | 815 |
| Key management personnel | 1 | 1 | - | 1 |
| Other related interests | 12,345 | 2,361 | 716 | 18,530 |
| | P 12,706 | P 5,798 | P 762 | P 19,442 |
| 2020: | | | | |
| Stockholders | P - | P 55 | P 14 | P 151 |
| Subsidiaries | - | 13 | - | - |
| Associate | 203 | - | - | 203 |
| Related parties under common ownership | 2,229 | 2,017 | 176 | 3,633 |
| Key management personnel | 1 | - | - | 1 |
| Other related interests | 7,242 | 1,071 | 370 | 8,546 |
| | P 9,675 | P 3,156 | P 560 | P 12,534 |

In the ordinary course of business, the Group has loan transactions with each other, their other affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRIs). Under existing policies of the Group, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

As of December 31, 2022, 2021 and 2020, the Group and Parent Company is in compliance with these regulatory requirements.

As of December 31, 2022, 2021 and 2020, the Group has not recognized impairment loss on loans and receivables from DOSRI.

### *27.2 Deposit Liabilities*

The summary of the Group and Parent Company's significant transactions and the related outstanding balances for deposit liabilities with its related parties as of and for the years ended December 31, 2022, 2021 and 2020 are as follows (see Note 17):

| Related Party Category | Group Deposits | Withdrawals | Interest Expense | Outstanding Balance |
|---|---|---|---|---|
| **2022:** | | | | |
| Stockholders | P 10,299 | P 9,629 | P 46 | P 2,670 |
| Associate | 48,673 | 48,658 | 2 | 98 |
| Related parties under common ownership | 197,237 | 194,894 | 56 | 5,359 |
| Key management personnel | 845 | 738 | 4 | 426 |
| Other related interests | 188,857 | 183,063 | 137 | 11,228 |
| | **P 445,911** | **P 436,982** | **P 245** | **P 19,781** |

| Related Party Category | Group Deposits | | Withdrawals | | Interest Expense | | Outstanding Balance | |
|---|---|---|---|---|---|---|---|---|
| 2021: | | | | | | | | |
| Stockholders | P | 10,349 | P | 9,604 | P | 15 | P | 2,000 |
| Associate | | 50,457 | | 51,459 | | 1 | | 83 |
| Related parties under common ownership | | 199,399 | | 200,899 | | 24 | | 3,016 |
| Key management personnel | | 840 | | 765 | | 2 | | 319 |
| Other related interests | | 186,805 | | 185,891 | | 33 | | 5,434 |
| | P | 447,850 | P | 448,618 | P | 75 | P | 10,852 |
| 2020: | | | | | | | | |
| Stockholders | P | 10,149 | P | 9,853 | P | 17 | P | 1,255 |
| Associates | | 49,173 | | 48,404 | | 3 | | 1,085 |
| Related parties under common ownership | | 196,041 | | 195,413 | | 67 | | 4,516 |
| Key management personnel | | 815 | | 773 | | 4 | | 244 |
| Other related interests | | 186,607 | | 185,405 | | 48 | | 4,520 |
| | P | 442,785 | P | 439,848 | P | 139 | P | 11,620 |

| **Related Party Category** | **Parent Company Deposits** | | **Withdrawals** | | **Interest Expense** | | **Outstanding Balance** | |
|---|---|---|---|---|---|---|---|---|
| **2022:** | | | | | | | | |
| Stockholders | P | 10,299 | P | 9,629 | P | 46 | P | 2,670 |
| Subsidiaries | | 141,887 | | 143,046 | | 6 | | 1,493 |
| Associate | | 48,673 | | 48,658 | | 2 | | 116 |
| Related parties under common ownership | | 197,006 | | 194,894 | | 56 | | 7,025 |
| Key management personnel | | 845 | | 738 | | 4 | | 413 |
| Other related interests | | 188,857 | | 183,063 | | 137 | | 13,798 |
| | **P** | **587,567** | **P** | **580,028** | **P** | **251** | **P** | **25,515** |
| 2021: | | | | | | | | |
| Stockholders | P | 10,349 | P | 9,604 | P | 15 | P | 2,000 |
| Subsidiaries | | 143,387 | | 141,176 | | 6 | | 2,652 |
| Associate | | 48,173 | | 49,157 | | 1 | | 101 |
| Related parties under common ownership | | 195,506 | | 196,989 | | 24 | | 4,913 |
| Key management personnel | | 825 | | 763 | | 2 | | 306 |
| Other related interests | | 187,707 | | 184,223 | | 33 | | 8,004 |
| | P | 585,947 | P | 581,912 | P | 81 | P | 17,976 |
| 2020: | | | | | | | | |
| Stockholders | P | 10,149 | P | 9,853 | P | 17 | P | 1,255 |
| Subsidiaries | | 142,175 | | 142,176 | | 1 | | 441 |
| Associates | | 49,173 | | 48,164 | | 3 | | 1,085 |
| Related parties under common ownership | | 197,006 | | 195,374 | | 55 | | 6,396 |
| Key management personnel | | 815 | | 773 | | 4 | | 244 |
| Other related interests | | 186,607 | | 185,405 | | 48 | | 4,520 |
| | P | 585,925 | P | 581,745 | P | 128 | P | 13,941 |

Deposit liabilities transactions with related parties have similar terms with third party depositors.

### *27.3 Sale and Purchase of Securities*

The Parent Company and certain subsidiaries engage in the trading of investment securities as counterparties to the transaction. These transactions are priced similar to transactions with other counterparties outside the Group and there are no unsettled transactions as of the end of each reporting period.

### *27.4 Retirement Fund*

The Parent Company and certain subsidiaries' retirement funds covered under their post-employment plan maintained for qualified employees are administered and managed by the Parent Company's TIG in accordance with the respective trust agreements covering the plan.

The retirement funds have transactions with the Group and Parent Company as of December 31, 2022, 2021 and 2020 as follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| **Nature of Transactions** | **Net Amount of Transaction** | **Outstanding Balance** | **Net Amount of Transaction** | **Outstanding Balance** |
| **2022:** | | | | |
| Investment in common shares of Parent Company | **P 215** | **P 1,255** | **P 214** | **P 1,249** |
| Investments in corporate debt securities of Parent Company | **( 2)** | **2** | **-** | **-** |
| Deposits with the Parent Company | **( 49)** | **34** | **( 49)** | **4** |
| Fair value losses | **( 148)** | **-** | **( 148)** | **-** |
| 2021: | | | | |
| Investment in common shares of Parent Company | P 23 | P 1,040 | P 58 | P 1,035 |
| Investments in corporate debt securities of Parent Company | ( 558) | 4 | ( 498) | - |
| Deposits with the Parent Company | 46 | 83 | 30 | 53 |
| Fair value losses | 58 | - | 58 | - |
| 2020: | | | | |
| Investment in common shares of Parent Company | (P 176) | P 1,017 | (P 213) | P 977 |
| Investments in corporate debt securities of Parent Company | 238 | 562 | 187 | 498 |
| Deposits with the Parent Company | ( 27) | 37 | ( 17) | 23 |
| Fair value losses | ( 190) | - | ( 195) | - |
| Interest income | 19 | - | 18 | - |

The carrying amount and the composition of the plan assets as of December 31, 2022, 2021 and 2020 are disclosed in Note 23.2. Investments in corporate debt securities include long-term negotiable certificates of deposit issued by the Parent Company.

The information on the Group and Parent Company's contributions to the retirement fund and benefit payments through the fund are disclosed in Note 23.2.

The retirement fund neither provides any guarantee or surety for any obligation of the Group nor its investments in its own shares of stock covered by any restriction and liens.

### *27.5 Other Related Party Transactions*

*(a) Sale of ATYC to ATYCI*

In 2022, the Parent Company sold to ATYCI and immediately leased back from the later a portion of its bank premises and investment properties pertaining to ATYC (see Notes 13 and 14).

*(b) Lease Contracts with ATYCI and RRC and Sublease Agreement with Subsidiaries*

The Parent Company and certain subsidiaries occupy several floors of RCBC Plaza as leaseholders of RRC [see Note 28.4(b)]. In October 2022, the Parent Company entered into a five-year lease agreement with ATYCI [see Notes 13 and 27.5 (a)]. Amortization of right-of-use of asset amounted to P400 for the years ended December 31, 2022 and 2021, and are presented as part of Depreciation and Amortization expenses account in the statement of profit or loss. The Parent Company's lease contract with RRC and ATYCI is effective until December 31, 2025 and September 30, 2027, respectively.

The Parent Company entered into sublease agreements with certain subsidiaries which occupy several floors of RCBC Plaza. Rental income by Parent Company related to these sublease arrangements is included as part of Rentals under the Miscellaneous income account in the statements of profit or loss (see Notes 14.2 and 24.1). The outstanding receivable on the lease contracts, if any, is presented as part of Accounts receivable under Loans and Receivables account in the statements of financial position (see Note 11). The related outstanding receivable is unsecured, noninterest-bearing and payable in cash on demand. Management believes that the receivables on the sublease agreements are fully recoverable.

*(c) Service Agreement with RBSC*

The Parent Company has Service Agreement (the Agreement) with RBSC, wherein RBSC shall provide the Parent Company with marketing, distribution, technical, collection and selling assistance and processing services in connection with the operation of the Parent Company's credit card, and personal and salary loans business. The total service processing fees incurred by the Parent Company is recognized as part of the Service and processing fees under the Miscellaneous Expenses account in the statements of profit or loss (see Note 24.2). The outstanding payable related to the service agreement is presented as part of Accounts payable under Other Liabilities account in the statements of financial position (see Note 21). The related outstanding payable is unsecured, noninterest-bearing and payable in cash on demand.

*(d) Increase in shareholding of SMBC*

On November 2, 2022, the Bank's BOD approved the increase in shareholding of SMBC, an existing shareholder of 4.99% of the total outstanding common stock of the Bank, to 20% through the combined sale of subscription of an aggregate of 382 common stock to SMBC, partly coming from the reissuance of treasury shares and issuance of new common stock, at the price of P71 per share. As of the report date of the 2022 financial statements, there is still no capital infusion in relation to this transaction.

*(e) Key Management Personnel Compensation*

The breakdown of key management personnel compensation follows:

| | Group | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| Short-term employee benefits | **P 537** | P 546 | P 601 |
| Post-employment defined benefits | **46** | 39 | 28 |
| | **P 583** | P 585 | P 629 |

| | Parent Company | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| Short-term employee benefits | **P 334** | P 335 | P 391 |

## 28. COMMITMENTS AND CONTINGENCIES

In the normal course of operations of the Group, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, tax assessments, claims from customers and third parties, etc., with amounts not reflected in the financial statements. Management does not anticipate losses from these transactions that will adversely affect the Group's operations.

In the opinion of management, the suits and claims arising from the normal course of operations of the Group that remain unsettled, if decided adversely, will not involve sums that would have material effect on the Group's financial position or operating results.

### *28.1 Applicability of RR 4-2011*

In March 2011, the Bureau of Internal Revenue ("BIR") issued RR 4-2011, prescribing a new way of reporting income solely for banks/other financial institutions, and issued assessment notices to banks/other financial institutions for deficiency income tax.

In its Order dated May 25, 2018, the Regional Trial Court of Makati (a) granted the Petition of the Bank/other Bankers Association of the Philippines ("BAP") member banks praying for the nullification of RR 4-2011; and (b) permanently enjoined the enforcement of the same.

The Department of Finance ("DOF")/BIR filed a Petition for Review with the Supreme Court (a) claiming that jurisdiction over the matter lies with the Court of Tax Appeals; (b) challenging the propriety of the declaratory relief action filed by the Bank/other BAP member banks in view of the prior issuance of Preliminary Assessment Notices; and (c) arguing that public hearings are not required in all instances involving regulatory issuances. While it agreed with the DOF/BIR, the Supreme Court still denied the Petition for Review in its Decision dated December 1, 2021, as (a) RR 4-2011 violated the banks' right to decide which accounting method accurately reflects their income; (b) the questioned income streams are within the same bank/financial institutions, negating any reason to invoke Sec. 50 of the Tax Code; and (c) RR 4-2011 further added a condition for expense deductibility not found therein. The penalty imposed by RR 4-2011 also made the prior notice/hearing/publication requirement mandatory. The Supreme Court Decision became final and executory on June 7, 2022.

***28.2 Alleged Unauthorized Transfer of Funds – Bank of Bangladesh***

In February 2016, four (4) allegedly unauthorized fund transfers were made into four (4) accounts with the Bank from Bangladesh Bank's account with the Federal Reserve Bank of New York, before being further dispersed to other banks and casinos. In August 2016, the MB impose a P1 Billion fine upon the Bank, which it paid in full, without any effect on its ability to perform its existing obligations or its operations.

***28.2.1 U.S. Litigation relating to the Bangladesh Bank Incident***

Failing to prosecute the Bank under the Federal Racketeer Influence and Corrupt Organizations Act, Bangladesh Bank initiated a second complaint before the New York State Court, on May 27, 2020. The Bank has since sought the dismissal of this second case, citing (a) New York's lack of personal jurisdiction over it; (b) the impropriety of New York as a forum, given the ongoing related proceedings in the Philippines and the location of material witnesses/evidence; and (c) the untenable nature of the fraud charge against the Bank due to the lack of any fiduciary duty to Bangladesh Bank. The Bank's Motion to Dismiss was heard on October 14, 2021. The matter remains pending to date.

***28.2.2 Philippine Litigation relating to the Bangladesh Bank Incident***

On March 6, 2019, the Bank/its former National Sales Director ("NSD") filed a complaint for Injunction and Damages against Bangladesh Bank with the Regional Trial Court of Makati City ("Makati Trial Court").

After initially denying the said Motion to Dismiss, the Makati Trial Court reversed itself holding that it did not acquire jurisdiction over Bangladesh Bank citing the alleged (a) lack of provision in the 1997 and 2019 Rules of Court for service of summons on a foreign public corporation not doing business in the Philippines; and (b) non-applicability of the rules on extra-territorial service.

The Bank/former NSD sought the reversal of the aforecited ruling, and the inhibition of the hearing Judge, citing, among others, the 2019 the Rules of Court which directs a counsel making a special appearance to serve summons upon his or her client. Notwithstanding an earlier order directing the transmittal of the records to the Office of the Clerk of Court for re-raffle and re-assignment, the same remains with the originating branch of the Makati Trial Court.

### *28.3 HHIC-Phil Rehabilitation Proceedings*

On January 9, 2019, HHIC-Phil, Inc. ("HHIC-Phil") filed a Petition for corporate rehabilitation under R.A. No. 10142, the *Financial Rehabilitation and Insolvency Act of 2010*, which was given due course by the Regional Trial Court, Branch 72, Olongapo City (the "Rehabilitation Court").

After negotiating with HHIC-Phil/HHIC-Korea, which resulted in the creditors or Rehabilitation Court-approved Modified Rehabilitation Plan with Clarifications ("MRP-C"), the Bank and four (4) other creditor banks successfully negotiated the sale of the Subic Shipyard/certain other assets to third-party buyers, as called for by the MRP-C. In the Order dated December 6, 2021, the Rehabilitation Court approved the Asset Purchase Agreement ("APA") dated October 5, 2021.

In April 2022, the outstanding loan obligation of HHIC-Phil to the Bank has been fully settled.

Except for the above-mentioned proceedings, the Bank is not aware of any suits and claims by or against it or its subsidiaries, which if decided adversely, would have a material effect on its financial position or operating results.

### *28.4 Lease Commitments – Group as a Lessor*

*a. Finance Lease*

The Group, as a lessor, enters into finance leases covering various equipment and vehicles with lease term ranging one to more than five years. To manage its risks over these finance leases, the Group retains its legal title over the underlying assets and are used as securities over the finance lease receivables. The Group's future minimum lease payments receivable (MLPR) under this finance lease together with the present value of net minimum lease payments receivable (NMLPR) follow:

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Future MLPR** | **PV of NMLPR** | Future MLPR | PV of NMLPR |
| Within one year | **P 923** | **P 867** | P 972 | P 933 |
| After one year but not more than two years | **571** | **503** | 603 | 556 |
| After two years but not more than three years | **252** | **209** | 280 | 247 |
| After three years but not more than four years | **69** | **54** | 92 | 78 |
| After four years but not more than five years | **25** | **18** | 9 | 8 |
| More than five years | **3** | **2** | 4 | 3 |
| Total MLPR | **1,843** | **1,653** | 1,960 | 1,825 |
| Unearned lease income | **( 190)** | **-** | ( 135) | - |
| Present value of MLPR | **P 1,653** | **P 1,653** | P 1,825 | P 1,825 |

The only change in the carrying amount of the net investment in finance leases during the year is the amortization of finance income. The net investment relating to this finance lease is presented as Lease contract receivables under Loans and Receivables account in the statements of financial position (see Note 11). The interest income from the finance leases amount to P202, P319, and P337 in 2022, 2021 and 2020, respectively and is presented as part of is recognized as part of Interest Income in the statements of profit or loss (see Note 11).

b. *Operating Lease*

Prior to the sale of the ATYC, the Group and Parent Company has entered into various lease contracts related to this property, with lease terms ranging from one to five years and with monthly rent depending on market price with 6% escalation rate every year. Moreover, RRC entered into several lease agreements for lease of machineries and equipment for a period of one to more than five years. Total rent income earned from these leases amounted to P872, P926, and P883 in 2022, 2021, and 2020, respectively, which are presented as Rentals under the Miscellaneous Income account in the statements of profit or loss (see Note 24.1).

The Group is subject to risk incidental to the leasing operations which include, among others, changes in the market rental rates, inability to renew leases upon lease expiration and inability to collect rent from lessees due to bankruptcy or insolvency of lessees. To mitigate these risks, lessees pay guarantee deposit ranging from 10% to 20% of the value of the leased assets, which is forfeited in case a lessee pre-terminates without prior notice or before the expiry of lease terminate without cause.

There are no variable lease rentals as of December 31, 2022 and 2021.

The Group's and Parent Company's future minimum rental receivables under this non-cancellable operating lease arrangement are as follows:

| | Group | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| Within one year | **P 598** | P 1,347 | P 984 |
| After one year but not more than two years | **444** | 959 | 765 |
| After two years but not more three five years | **392** | 718 | 601 |
| After three years but not more than four years | **173** | 583 | 435 |
| After four years but not more than five years | **13** | 257 | 343 |
| More than five years | **-** | 45 | 212 |
| | **P 1,620** | P 3,909 | P 3,340 |

| | Parent Company | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| Within one year | **P -** | P 498 | P 470 |
| After one year but not more than two years | **-** | 421 | 375 |
| After two years but not more three five years | **-** | 269 | 244 |
| After three years but not more than four years | **-** | 182 | 135 |
| After four years but not more than five years | **-** | 72 | 93 |
| More than five years | **-** | 13 | 56 |
| | **P -** | P 1,455 | P 1,373 |

### *28.4 Capital Commitments*

As of December 31, 2022 and 2021, the Group and Parent bank has no contractual commitment for the acquisition of Bank premises, furniture, fixtures and equipment, Intangible assets, and Investment properties (see Notes 13, 14 and 15).

## 29. EARNINGS PER SHARE

The following shows the Group's profit and per share data used in the basic and diluted EPS computations for the three years presented:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Net profit attributable to Parent Company's shareholders | **P 12,080** | P 7,082 | P 5,020 |
| Dividends paid to preferred shareholders and distributions allocated to holders of hybrid perpetual securities | **( 1,037)** | ( 964) | ( 320) |
| | **11,043** | 6,118 | 4,700 |
| Weighted average number of outstanding common shares of stock | **2,037** | 1,979 | 1,936 |
| Basic and diluted EPS | **P 5.42** | P 3.09 | P 2.43 |

The convertible preferred shares did not have a significant impact on the EPS for each of the periods presented. The Group and the Parent Company has no potential dilutive shares as of the end of each reporting period.

## 30. SUPPLEMENTARY INFORMATION TO STATEMENTS OF CASH FLOWS

Significant non-cash transaction of the Group and the Parent Company includes additional leases under PFRS 16 as discussed in Notes 13 and 22; disposals of investment properties and bank premises as discussed in Note 14 and 15, additions of real properties, chattel properties and other assets through foreclosures, dacion in payment and repossessions as discussed in Notes 14.1 and 15; and, partial settlement of certain loan in exchange of equity securities as discussed in Note 15.

In 2022, the Parent Company disposed of a portion of its bank premises and investment properties with total selling price P6,065, which is paid partly in cash and through issuance of notes receivables [see Notes 11, 13, 14 and 27.5(a)].

Presented below is the reconciliation of the Group and Parent Company's liabilities arising from financing activities, which includes both cash and non-cash changes.

| | Group | | | | |
|---|---|---|---|---|---|
| | **Bills Payable (see Note 18)** | **Bonds Payable (see Note 19)** | **Lease Liabilities (see Note 21)** | **Hybrid Perpetual Securities (see Note 22)** | **Total Financing Activities** |
| Balance at January 1, 2022 | P 55,904 | P 87,215 | P 4,050 | P 14,463 | P 161,632 |
| Cash flow from financing activities: | | | | | |
| Availments/proceeds from issuance | 62,142 | 14,756 | - | - | 76,898 |
| Payments/redemption | ( 52,865) | ( 31,170) | ( 5,311) | - | ( 89,346) |
| Non-cash financing activities: | | | | | |
| Additional lease liabilities | - | - | 6,563 | - | 6,563 |
| Foreign exchange gains | 1,479 | 3,567 | - | - | 5,046 |
| Amortization of discount and interest | - | 43 | 198 | - | 241 |
| **Balance at December 31, 2022** | **P 66,660** | **P 74,411** | **P 5,500** | **P 14,463** | **P 161,034** |
| Balance at January 1, 2021 | P 13,167 | P 90,439 | P 4,385 | P 14,463 | P 122,454 |
| Cash flow from financing activities: | | | | | |
| Availments/proceeds from issuance | 148,820 | 17,873 | - | - | 166,693 |
| Payments/redemption | ( 104,018) | ( 18,810) | ( 1,360) | - | ( 124,188) |
| Non-cash financing activities: | | | | | |
| Additional lease liabilities | - | - | 855 | - | 855 |
| Foreign exchange gains | ( 2,065) | ( 2,312) | - | - | ( 4,377) |
| Amortization of discount and interest | - | 25 | 170 | - | 195 |
| Balance at December 31, 2021 | P 55,904 | P 87,215 | P 4,050 | P 14,463 | P 161,632 |
| Balance at January 1, 2020 | P 101,606 | P 96,814 | P 2,877 | P - | P 201,297 |
| Cash flow from financing activities: | | | | | |
| Availments/proceeds from issuance | 284,718 | 23,670 | - | 14,463 | 322,851 |
| Payments/redemption | ( 371,858) | ( 27,371) | ( 1,173) | - | ( 400,402) |
| Non-cash financing activities: | | | | | |
| Additional lease liabilities | - | - | 2,516 | - | 2,516 |
| Foreign exchange gains | ( 1,299) | ( 2,712) | - | - | ( 4,011) |
| Amortization of discount and interest | - | 38 | 165 | - | 203 |
| Balance at December 31, 2020 | P 13,167 | P 90,439 | P 4,385 | P 14,463 | P 122,454 |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | **Bills Payable (see Note 18)** | **Bonds Payable (see Note 19)** | **Lease Liabilities (see Note 21)** | **Hybrid Perpetual Securities (see Note 22)** | **Total Financing Activities** |
| Balance at January 1, 2022 | P 46,399 | P 87,215 | P 4,479 | P 14,463 | P 152,556 |
| Cash flow from financing activities: | | | | | |
| Availments/proceeds from issuance | 55,380 | 14,756 | - | - | 70,136 |
| Payments/redemption | ( 44,867) | ( 31,170) | ( 5,695 ) | - | ( 81,732 ) |
| Non-cash financing activities: | | | | | |
| Additional lease liabilities | | | 7,057 | - | 7,057 |
| Foreign exchange gains | 1,479 | 3,567 | - | - | 5,046 |
| Amortization of discount and interest | - | 43 | 72 | - | 115 |
| **Balance at December 31, 2022** | **P 58,391** | **P 74,411** | **P 5,913** | **P 14,463** | **P 153,178** |
| Balance at January 1, 2021 | P 4,200 | P 90,439 | P 4,319 | P 14,463 | P 113,421 |
| Cash flow from financing activities: | | | | | |
| Availments/proceeds from issuance | 142,675 | 17,873 | - | - | 160,548 |
| Payments/redemption | ( 98,411) | ( 18,810) | ( 1,205) | - | ( 118,426 ) |
| Non-cash financing activities: | | | | | |
| Additional lease liabilities | - | - | 1,180 | - | 1,180 |
| Foreign exchange gains | ( 2,065) | ( 2,312) | - | - | ( 4,377 ) |
| Amortization of discount and interest | - | 25 | 185 | - | 210 |
| Balance at December 31, 2021 | P 46,399 | P 87,215 | P 4,479 | P 14,463 | P 152,556 |
| Balance at January 1, 2020 | P 93,938 | P 96,814 | P 2,797 | P - | P 193,549 |
| Cash flow from financing activities: | | | | | |
| Availments/proceeds from issuance | 276,859 | 23,670 | - | 14,463 | 314,992 |
| Payments/redemption | ( 365,298) | ( 27,371) | ( 1,113) | - | ( 393,782 ) |
| Non-cash financing activities: | | | | | |
| Additional lease liabilities | - | - | 2,473 | - | 2,473 |
| Foreign exchange gains | ( 1,299) | ( 2,712) | - | - | ( 4,011 ) |
| Amortization of discount and interest | - | 38 | 162 | - | 200 |
| Balance at December 31, 2020 | P 4,200 | P 90,439 | P 4,319 | P 14,463 | P 113,421 |

## 31. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled:

| | 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Group | | | Parent Company | | |
| | Within One Year | Beyond One Year | Total | Within One Year | Beyond One Year | Total |
| ***Financial Assets*** | | | | | | |
| Cash and other cash items | P 18,078 | P - | P 18,078 | P 18,024 | P - | P 18,024 |
| Due from BSP | 112,871 | 43,793 | 156,664 | 111,089 | 44,251 | 155,340 |
| Due from other banks | 5,080 | 756 | 5,836 | 5,383 | - | 5,383 |
| Loans and receivables arising from reverse repurchase agreements | 8,724 | - | 8,724 | 8,552 | - | 8,552 |
| Interbank loans receivables | 19,021 | - | 19,021 | 19,021 | - | 19,021 |
| Financial assets at FVTPL | 5,568 | 1,469 | 7,037 | 4,670 | 1,469 | 6,139 |
| Financial assets at FVOCI - net | 74,914 | 40,032 | 114,946 | 74,914 | 39,351 | 114,265 |
| Investments at amortized cost - net | 30,482 | 221,900 | 252,382 | 29,508 | 221,820 | 251,328 |
| Loans and other receivables - net | 54,815 | 485,033 | 539,848 | 53,294 | 478,899 | 532,193 |
| Other resources - net | 1,204 | - | 1,204 | 1,202 | - | 1,202 |
| | 330,757 | 792,983 | 1,123,740 | 325,657 | 785,790 | 1,111,447 |
| ***Non Financial Assets*** | | | | | | |
| Investment in subsidiaries and associates - net | - | 379 | 379 | - | 7,035 | 7,035 |
| Bank premises, furnitures, fixtures and equipment - net | - | 11,264 | 11,264 | - | 9,546 | 9,546 |
| Investment properties - net | - | 2,616 | 2,616 | - | 2,488 | 2,488 |
| Deferred tax asset-net | - | 3,740 | 3,740 | - | 3,508 | 3,508 |
| Other resources - net | 7,155 | 5,214 | 12,369 | 7,033 | 3,692 | 10,725 |
| | 7,155 | 23,213 | 30,368 | 7,033 | 26,269 | 33,302 |
| | P 337,912 | P 816,196 | P 1,154,108 | P 332,690 | P 812,059 | P 1,144,749 |
| ***Financial Liabilities*** | | | | | | |
| Deposit liabilities | P 206,161 | P 651,083 | P 857,244 | P 205,432 | P 652,207 | P 857,639 |
| Bills payable | 59,419 | 7,241 | 66,660 | 57,137 | 1,254 | 58,391 |
| Bonds payable | 38,823 | 35,588 | 74,411 | 38,824 | 35,587 | 74,411 |
| Accrued interest and other expenses | 3,365 | 4,492 | 7,857 | 3,361 | 4,302 | 7,663 |
| Other liabilities | 14,919 | 10,414 | 25,333 | 14,303 | 9,984 | 24,287 |
| | 322,687 | 708,818 | 1,031,505 | 319,057 | 703,334 | 1,022,391 |
| ***Non Financial Liabilities*** | | | | | | |
| Accrued interest and other expenses | 571 | - | 571 | 529 | - | 529 |
| Other liabilities | 1,997 | 3,674 | 5,671 | 1,904 | 3,641 | 5,545 |
| | 2,568 | 3,674 | 6,242 | 2,433 | 3,641 | 6,074 |
| | P 325,255 | P 712,492 | P 1,037,747 | P 321,490 | P 706,975 | P 1,028,465 |

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Group | | | Parent Company | | |
| | Within One Year | Beyond One Year | Total | Within One Year | Beyond One Year | Total |
| *Financial Assets* | | | | | | |
| Cash and other cash items | P 14,691 | P - | P 14,691 | P 14,663 | P - | P 14,663 |
| Due from BSP | 130,170 | - | 130,170 | 128,931 | - | 128,931 |
| Due from other banks | 12,162 | - | 12,162 | 11,860 | - | 11,860 |
| Loans and receivables arising from reverse repurchase agreements | 11,691 | - | 11,691 | 11,656 | - | 11,656 |
| Interbank loans receivables | 30,563 | - | 30,563 | 30,563 | - | 30,563 |
| Financial assets at FVTPL | 5,863 | - | 5,863 | 4,879 | - | 4,879 |
| Financial assets at FVOCI - net | 7,107 | 42,654 | 49,761 | 5,745 | 42,654 | 48,399 |
| Investments at amortized cost - net | 81,599 | 82,012 | 163,611 | 81,599 | 81,300 | 162,899 |
| Loans and other receivables - net | 54,493 | 453,246 | 507,739 | 51,048 | 448,853 | 499,901 |
| Other resources - net | 825 | - | 825 | 823 | - | 823 |
| | 349,164 | 577,912 | 927,076 | 341,767 | 572,807 | 914,574 |
| *Non Financial Assets* | | | | | | |
| Investment in subsidiaries and associates - net | - | 344 | 344 | - | 7,027 | 7,027 |
| Bank premises, furnitures, fixtures and equipment - net | - | 12,660 | 12,660 | - | 10,571 | 10,571 |
| Investment properties - net | - | 3,572 | 3,572 | - | 3,435 | 3,435 |
| Deferred tax asset-net | - | 3,206 | 3,206 | - | 3,013 | 3,013 |
| Other resources - net | 6,358 | 5,917 | 12,275 | 6,248 | 5,426 | 11,674 |
| | 6,358 | 25,699 | 32,057 | 6,248 | 29,472 | 35,720 |
| | P 355,522 | P 603,611 | P 959,133 | P 348,015 | P 602,279 | P 950,294 |
| *Trust* | | | | | | |
| Deposit liabilities | P 143,865 | P 528,594 | P 672,459 | P 143,328 | P 531,086 | P 674,414 |
| Bills payable | 23,560 | 32,344 | 55,904 | 23,560 | 22,839 | 46,399 |
| Bonds payable | 31,171 | 56,044 | 87,215 | 31,171 | 56,044 | 87,215 |
| Accrued interest and other expenses | 1,323 | 4,236 | 5,559 | 1,278 | 4,113 | 5,391 |
| Other liabilities | 12,188 | 9,462 | 21,650 | 10,963 | 9,604 | 20,567 |
| | 212,107 | 630,680 | 842,787 | 210,300 | 623,686 | 833,986 |
| *Non Financial Liabilities* | | | | | | |
| Accrued interest and other expenses | 538 | - | 538 | 489 | - | 489 |
| Other liabilities | 449 | 4,279 | 4,728 | 448 | 4,378 | 4,826 |
| | 987 | 4,279 | 5,266 | 937 | 4,378 | 5,315 |
| | P 213,094 | P 634,959 | P 848,053 | P 211,237 | P 628,064 | P 839,301 |

## 32. OTHER MATTERS

### *32.1 Continuing Impact of COVID-19*

In December 2019, COVID-19 was reported to have surfaced in China. The World Health Organization has declared the outbreak as a public health emergency of international concern. COVID-19 started to become widespread in the Philippines in early March 2020 causing the government to declare the country in a state of public health emergency followed by implementation of ECQ and social distancing measures and restrictions within the Luzon area with other cities and provinces in the country enacting similar measures thereafter. This resulted in a wide-ranging business suspension – disrupting the supply chains, affecting production and sales across a range of industries, and weakening the stock market.

On March 23, 2020, Bayanihan to Heal as One (BAHO) Act was signed into law declaring a national health emergency throughout the Philippines as a result of the COVID-19 crisis. The implementation of Section 4(aa) of said law has directed banks and other private and government financial institutions to implement a minimum thirty (30)-day grace period on all loans with principal and interests falling due within the period of the Enhanced Community Quarantine (ECQ), which started on March 17, 2020 up to April 30, 2020, which was extended until May 31, 2020, without incurring interest, penalties, fees or other charges. On September 11, 2020, BARO Act was signed into law which directed banks and other private and government financial institutions particularly under Section 4 (uu) the grant of one-time sixty (60)-day grace period for payments and/or maturity periods of all existing, current and outstanding loans as of September 15, 2020, falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interests, penalties, fees or other charges, thereby extending the maturity of the said loans, subject to compliance with regulatory requirements.

The Group has been able to keep approximately 50-60% of its branches open during the early part of the community quarantine in mid-March 2020, and around 40-50% in April and May, with a skeletal workforce and corresponding adjustments in banking hours and cut-off times similar to adjustments instituted by the BSP and Bankers Association of the Philippines. By end-September 2020, the Group has kept about 98% of its branches open. Among the steps taken to address its customers' needs during the COVID-19 outbreak, the Group has (i) ensured cash availability at its ATMs and branches and (ii) extended loan payments for corporate and consumer loans for 60 days and waived fees on electronic and similar forms of payments for its clients. The Group has also encouraged its customers to use its online and mobile banking services to pay bills, send money, as well as use ATMs and cash acceptance machines as an alternative to branch banking. The Group also did not experience massive withdrawals from its depositors as the deposit liabilities still increased during the ECQ period.

Further, the Group focused on supporting customers who are experiencing and about to experience financial difficulties as a result of the COVID-19 global pandemic and has offered a range of financial assistance measures including temporary loan repayment deferrals (principal and/or interest) through its CARE Program. The Group's CARE Program is primarily designed to provide financial assistance to customers by way of extended repayment plans. The assistance would help get the customer back into the habit of paying based on amounts they can afford. Albeit using tighter credit underwriting parameters, the Group continued its lending activities including on-boarding of new customer for both wholesale and consumer lending. Despite these challenges, cash flow remained stable given the growth in deposits and with some clients still opting to continue their amortization payments despite the loan payment moratorium provided for under the BAHO Act and BARO Act.

Since last year, an increase in volume of transactions is evident to the Group which was mainly due to customer acquisition driven by data science and digital marketing. The Group expects the general business environment to improve as quarantine restrictions ease and vaccination uptake continued to increase. While economic recovery is expected, the Group will stay focused on keeping efficient operations as it embarks on transformation projects such as: (i) fully automated KYC process and (ii) enhanced credit and control systems. These activities include various business process reengineering exercises such as process reviews and digital enhancements that support efficiency, lower cost of transaction and reduced costs in product delivery.

As the economy continue with its recovery from pandemic-related issues in 2022, the Group saw more normalized operations and increasingly positive results.

### *32.2 Impact of Russia – Ukraine Conflict*

The ongoing Russia-Ukraine war since February 24, 2022 led to higher global crude oil and other commodity prices in 2022 which partly bloated the Philippines' imports and trade deficit to record levels. This resulted in elevated inflation worldwide which triggered aggressive Federal rate hikes that supported a strong U.S. dollar earlier in 2022.

This event prompted BSP to implement local policy rate hikes totaling 350 basis points in 2022 and another 50 bps this February 2023 to temper the high domestic inflation and be in sync with US Federal hikes to help manage the peso exchange rate.

The increase in BSP policy rates resulted in higher cost of deposits. It has also led to unrealized mark-to-market losses in FVOCI portfolio which fluctuates according to market condition; unless sold, these losses are recorded as part of the other comprehensive income or loss under Statement of comprehensive income.

The Group has implemented strategies to mitigate the increase in cost by issuances of loans with higher rates and growing low-cost deposits. BSP policy rates are also seen to come down in the second half of 2023 as inflation decelerates.

## 33. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

Presented below are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP MORB to be disclosed as part of the notes to financial statements based on BSP Circular No. 1074, *Amendments to Regulations on Financial Audit of Banks.*

*(a) Selected Financial Performance Indicators*

The following basic ratios measure the financial performance of the Group and the Parent Company:

| | **Group** | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| Return on average equity | | | |
| Net profit / Average total equity | **11.24%** | 6.71% | 5.54% |
| Return on average resources | | | |
| Net profit / Average total resources | **1.20%** | 0.84% | 0.68% |
| Net interest margin | | | |
| Net interest income / Average interest earning resources | **3.70%** | 4.07% | 4.31% |

| | Parent Company | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| Return on average equity | | | |
| Net profit / Average total equity | **11.24%** | 6.72% | 5.55% |
| Return on average resources | | | |
| Net profit / Average total resources | **1.21%** | 0.85% | 0.69% |
| Net interest margin | | | |
| Net interest income / Average interest earning resources | **3.70%** | 4.06% | 4.31% |

*(b) Capital Instruments Issued*

*(i) Common Stock*

As of December 31, 2022 and 2021, the Parent Company's common stock amounted to P22,509 representing 2,250,916,144 issued common shares.

On July 23, 2021, the Parent Company sold 101,850,000 shares to SMBC at P44.00 per share. This came from the treasury shares resulting from the merger of Parent Company and RSB.

*(ii) Preferred Stock*

As of December 31, 2022 and 2021, the Parent Company's issued and outstanding preferred stock amounted to P3 representing 267,410 preferred shares. These preferred shares are voting, non-cumulative, non-redeemable, participating and convertible into common stock.

*(iii) Hybrid Perpetual Securities*

In August 27, 2020, the Parent Company issued US$300 non-cumulative, unsecured, subordinated AT1 capital securities. The capital securities are perpetual in respect of which there is no fixed redemption date. The Parent Company may redeem the capital securities only in certain circumstances as described in the conditions of the securities and with prior written consent of BSP. Distributions are non-cumulative and payable semi-annually in arrear at a rate of 6.5%. Certain conditions provide for circumstances under which the Parent Company will not be obliged to pay any distribution on the applicable payment date.

*(c) Significant Credit Exposures for Loans*

The Group and Bank's concentration of credit as to industry for its receivables from customers gross of allowance for ECL follows:

| | Group | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| | Amount | Share | Amount | Share |
| Consumer | **P 158,481** | **29%** | P 145,560 | 28% |
| Real estate, renting and other related activities | **80,276** | **15%** | 89,891 | 18% |
| Electricity, gas and water | **73,970** | **14%** | 69,258 | 14% |
| Wholesale and retail trade | **69,080** | **13%** | 57,829 | 11% |
| Manufacturing (various industries) | **50,441** | **9%** | 55,618 | 11% |
| Transportation and communication | **49,605** | **9%** | 41,080 | 8% |
| Financial intermediaries | **39,878** | **7%** | 33,794 | 7% |
| Agriculture, fishing, and forestry | **5,285** | **1%** | 4,414 | 1% |
| Hotels and restaurants | **4,616** | **1%** | 4,207 | 1% |
| Other community, social and personal activities | **2,817** | **1%** | 2,439 | - |
| Mining and quarrying | **1,193** | **-** | 1,022 | - |
| Others | **7,704** | **1%** | 7,619 | 1% |
| | **P 543,346** | **100%** | P 512,731 | 100% |

| | Parent Company | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| | Amount | Share | Amount | Share |
| Consumer | **P 158,475** | **30%** | P 145,557 | 29% |
| Real estate, renting and other related activities | **79,139** | **15%** | 83,231 | 16% |
| Electricity, gas and water | **73,856** | **14%** | 69,258 | 14% |
| Wholesale and retail trade | **67,985** | **13%** | 56,866 | 11% |
| Manufacturing (various industries) | **49,240** | **9%** | 55,618 | 11% |
| Transportation and communication | **46,436** | **9%** | 41,080 | 8% |
| Financial intermediaries | **39,872** | **7%** | 33,772 | 7% |
| Agriculture, fishing, and forestry | **4,940** | **1%** | 4,309 | 1% |
| Hotels and restaurants | **4,514** | **1%** | 4,207 | 1% |
| Other community, social and personal activities | **2,734** | **-** | 2,439 | - |
| Mining and quarrying | **988** | **-** | 1,022 | - |
| Others | **7,397** | **1%** | 7,574 | 2% |
| | **P 535,576** | **100%** | P 504,933 | 100% |

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable or 10% of Tier 1 capital.

As of December 31, 2022, 10% of Tier 1 capital of the Group and Parent Company amounted to P10,010 and P9,571, respectively. As of December 31, 2021, 10% of Tier 1 capital of the Group and Parent Company amounted to P9,387 and P8,991, respectively. The table below show the industry groups exceeding this level (amounts in millions).

| | **2022** | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Group** | | **Parent** | | Group | | Parent | |
| Consumer | **P** | **158,481** | **P** | **158,475** | P | 145,560 | P | 145,557 |
| Real estate, renting and other related activities | | **80,276** | | **79,139** | | 89,891 | | 83,231 |
| Electricity, gas and water | | **73,970** | | **73,856** | | 69,258 | | 56,866 |
| Wholesale and retail trade | | **69,080** | | **67,985** | | 57,829 | | 56,866 |
| Manufacturing (various industries) | | **50,441** | | **49,240** | | 55,618 | | 55,618 |
| Transportation and communication | | **49,605** | | **46,436** | | 41,080 | | 41,080 |
| Financial intermediaries | | **39,878** | | **39,872** | | 33,794 | | 33,772 |

*(d) Credit Status of Loans*

The breakdown of receivable from customers as to status is shown below.

**Group**

| | **2022** | | | | | |
|---|---|---|---|---|---|---|
| | **Performing** | | **Non-performing** | | **Total Loan Portfolio** | |
| Gross carrying amount: | | | | | | |
| Corporate | P | 373,172 | P | 10,475 | P | 383,647 |
| Consumer | | 148,777 | | 10,922 | | 159,699 |
| | | 521,949 | | 21,397 | | 543,346 |
| Allowance for ECL | ( | 4,642) | ( | 9,965) | ( | 14,607 ) |
| Net carrying amount | **P** | **517,307** | **P** | **11,432** | **P** | **528,739** |

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Performing | | Non-performing | | Total Loan Portfolio | |
| Gross carrying amount: | | | | | | |
| Corporate | P | 353,986 | P | 12,115 | P | 366,101 |
| Consumer | | 128,458 | | 18,172 | | 146,630 |
| | | 482,444 | | 30,287 | | 512,731 |
| Allowance for ECL | ( | 4,670) | ( | 11,952) | ( | 16,622 ) |
| Net carrying amount | P | 477,774 | P | 18,335 | P | 496,109 |

**Parent Company**

| | 2022 | | |
|---|---|---|---|
| | **Performing** | **Non-performing** | **Total Loan Portfolio** |
| Gross carrying amount: | | | |
| Corporate | P 368,241 | P 8,885 | P 377,126 |
| Consumer | 147,528 | 10,922 | 158,450 |
| | 515,769 | 19,807 | 535,576 |
| Allowance for ECL | ( 4,538) | ( 9,232) | ( 13,770) |
| Net carrying amount | **P 511,231** | **P 10,575** | **P 521,806** |

| | 2021 | | |
|---|---|---|---|
| | Performing | Non-performing | Total Loan Portfolio |
| Gross carrying amount: | | | |
| Corporate | P 348,642 | P 10,734 | P 359,376 |
| Consumer | 127,374 | 18,183 | 145,557 |
| | 476,016 | 28,917 | 504,933 |
| Allowance for ECL | ( 4,562 ) | ( 11,169 ) | ( 15,731 ) |
| Net carrying amount | P 471,454 | P 17,748 | P 489,202 |

NPLs included in the total loan portfolio of the Group and the Parent Company as of December 31 as reported to the BSP are presented below.

| | **Group** | | **Parent Company** | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Gross NPLs | **P 21,397** | P 30,287 | **P 19,807** | P 28,917 |
| Allowance for impairment | **( 9,965)** | ( 11,952 ) | **( 9,232)** | ( 11,169 ) |
| | **P 11,432** | P 18,335 | **P 10,575** | P 17,748 |

Under banking regulations, loan accounts shall be considered non-performing, even without any missed contractual payments, when they are considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal or 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.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Moreover, NPLs shall 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 6 months; or (b) written-off. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after they have become past due.

As of December 31, 2022, gross and net NPL ratios of the Group and the Parent Company as reported to BSP were 3.75% and 2.00%, and 3.52% and 1.88%, respectively. As of December 31, 2021, gross and net NPL ratios of the Group and the Parent Company as reported to BSP were 5.45% and 3.30%, and 5.28% and 3.24%, respectively. Most of the NPLs are secured by real estate or chattel mortgages.

The breakdown of restructured receivables from customers follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Loans and discounts | **P 3,833** | P 1,604 | **P 1,021** | P 806 |
| Credit card receivables | **1** | 1 | **1** | 1 |
| | **P 3,834** | P 1,605 | **P 1,022** | P 807 |

Interest income from restructured receivables from customers amounted P18, P10, and P1 in 2022, 2021, 2020, respectively, for both the Group and the Parent Company.

(e) *Analysis of Loan Portfolio as to Type of Security*

The breakdown of the receivables from customers' portfolio as to secured and unsecured follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Secured: | | | | |
| Real estate mortgage | **P 169,253** | P 150,218 | **P 168,045** | P 149,530 |
| Chattel mortgage | **44,003** | 48,915 | **41,542** | 48,818 |
| Hold-out deposits | **11,001** | 7,464 | **10,941** | 7,457 |
| Other securities | **11,286** | 14,280 | **7,938** | 14,248 |
| | **235,543** | 220,877 | **228,466** | 220,053 |
| Unsecured | **307,803** | 291,854 | **307,110** | 284,880 |
| | **P 543,346** | P 512,731 | **P 535,576** | P 504,933 |

(f) *Information on Related Party Loans*

In the ordinary course of business, the Bank has loan transactions with each other, their other affiliates, and with certain DOSRI. Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Under the current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of the encumbered deposit and book value of the investment in the Bank and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Bank. However, non-risk loans are excluded in both individual and aggregate ceiling computation.

The following table shows the information relating to the loans, credit accommodations and guarantees to DOSRI, excluding loans granted as fringe benefits to officers which are excluded from the individual ceiling as of December 31 in accordance with BSP reporting guidelines:

| | Group | | | | Parent Company | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2022** | | 2021 | | **2022** | | 2021 |
| Total outstanding DOSRI loans | **P** | **-** | P | 97 | **P** | **-** | P | 97 |
| Unsecured DOSRI | | **-** | | 1 | | **-** | | 1 |
| Past due DOSRI | | **-** | | - | | **-** | | - |
| Non-accruing DOSRI | | **-** | | - | | **-** | | - |
| Percent of DOSRI loans to total loan portfolio | | **0.00%** | | 0.02% | | **0.00%** | | 0.02% |
| Percent of unsecured DOSRI loans to total DOSRI loans | | **0.00%** | | 0.70% | | **0.00%** | | 0.70% |
| Percent of past due DOSRI Loans to total DOSRI | | **0.00%** | | 0.00% | | **0.00%** | | 0.00% |
| Percent of non-accruing DOSRI loans to total DOSRI loans | | **0.00%** | | 0.00% | | **0.00%** | | 0.00% |

The following table shows the other information relating to the loans, other credit accommodations and guarantees granted to related parties (inclusive of DOSRI) as of December 31 as reported to the BSP:

| | Group | | | | Parent Company | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2022** | | 2021 | | **2022** | | 2021 |
| Total outstanding Related Party loans | **P** | **23,967** | P | 19,447 | **P** | **23,959** | P | 19,442 |
| Unsecured Related Party | | **16,765** | | 16,165 | | **16,763** | | 16,162 |
| Past due Related Party | | **1** | | 1 | | **1** | | 1 |
| Percent of Related Party loans to total loan portfolio | | **4.41%** | | 3.61% | | **4.47%** | | 3.66% |
| Percent of unsecured Related Party loans to total Related Party loans | | **69.95%** | | 83.12% | | **69.97%** | | 83.13% |
| Percent of past due Related Party loans to total Related Party loans | | **0.00%** | | 0.00% | | **0.00%** | | 0.00% |
| Percent of non-accruing Related Party loans to total Related Party loans | | **0.00%** | | 0.00% | | **0.00%** | | 0.00% |

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 10.0% of the Group's net worth, the unsecured portion of which shall not exceed 5.0% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.0% of the net worth of the Parent Company.

As of December 31, 2022, 2021 and 2020, the Group and Parent Company is in compliance with these regulatory requirements.

As of December 31, 2022, 2021 and 2020, the Group has not recognized impairment loss on loans and receivables from DOSRI.

*(g) Secured Liabilities and Assets Pledged as Security*

Assets pledged as security for liabilities of the Group and Parent Company are shown below.

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Aggregate amount of secured liabilities | **P** | **58,391** | P | 45,378 |
| Aggregate amount of resources pledged as security | **P** | **73,160** | P | 54,145 |

*(h) Contingencies and Commitments Arising from Off-balance Sheet Items*

The following is a summary of contingencies and commitments arising from transactions not given recognition in the statement of financial position, expressed at their equivalent peso contractual amounts as of December 31, 2022 and 2021:

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Trust Investment Group accounts | **P** | **142,479** | P | 146,769 |
| Outstanding guarantees issued | | **127,837** | | 79,927 |
| Derivative assets | | **111,212** | | 71,092 |
| Derivative liabilities | | **69,485** | | 50,251 |
| Inward bills for collection | | **18,451** | | 4,003 |
| Unused commercial letters of credit | | **17,242** | | 12,412 |
| Spot exchange bought | | **6,497** | | 6,170 |
| Spot exchange sold | | **6,493** | | 6,165 |
| Late deposits/payments received | | **642** | | 377 |
| Others | | **64** | | 58 |
| Outward bills for collection | | **27** | | 78 |

**HEAD OFFICE OF THE BANK**

**Rizal Commercial Banking Corporation**
8/F Yuchengco Tower
6819 Ayala Avenue, Makati City
Philippines

**ARRANGER**

**SMBC Nikko Securities (Hong Kong) Limited**
Suites 807-811, 8/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

**DEALERS**

**Citigroup Global Markets Limited**
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

**SMBC Nikko Securities (Hong Kong) Limited**
Suites 807-811, 8/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

**Standard Chartered Bank**
One Basinghall Avenue
London EC2V 5DD
United Kingdom

**Trustee**

**The Bank of New York Mellon, London Branch**
160 Queen Victoria Street
London EC4V 4LA
United Kingdom

**REGISTRAR**

**The Bank of New York Mellon SA/NV, Luxembourg Branch**
Vertigo Building Polaris
2-4 rue Eugene Ruppert
L-2453
Luxembourg

**PRINCIPAL PAYING AGENT, TRANSFER AGENT AND PAYING AGENT**

**The Bank of New York Mellon, London Branch**
160 Queen Victoria Street
London EC4V 4LA
United Kingdom

**LEGAL ADVISORS**

*To the Arranger and Dealers as to English Law*

**Allen Overy Shearman Sterling LLP**
50 Collyer Quay
#09-01 OUE Bayfront
Singapore 049321

*To the Arranger and Dealers as to Philippine law*

**Romulo, Mabanta, Buenaventura Sayoc & de los Angeles**
Corporate Banking & Finance Group
21st Floor AIA Tower
8767 Paseo de Roxas
1226 Makati City
Philippines

*To the Trustee as to English Law*

**Allen Overy Shearman Sterling LLP**
50 Collyer Quay
#09-01 OUE Bayfront
Singapore 049321

**INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

**Punongbayan & Araullo**
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

**LISTING AGENT**

**Allen Overy Shearman Sterling LLP**
50 Collyer Quay
#09-01 OUE Bayfront
Singapore 049321