Let's Dream Big

LDB 2024 Annual Report

Our Cover

The cover of our 2024 Annual Report depicts all things in progress and things we dream about, as we launch a new tagline, Let's Dream BIG.

"**Let's Dream BIG**" is our outlook emboldened in hope and inspiration, aiming to encourage our customers, employees and partners to aspire for greater things.

LDB commits to be your financial partner in envisioning your future and realizing your dreams.

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About LDB

Luzon Development Bank (LDB) is one of the pioneering thrift banks in the country. Founded in May 1961 as Laguna Development Bank with a license granted by the Bangko Sentral ng Pilipinas, it has transformed into a well-recognized bank in CALABARZON.

Combined with a strong company culture and heritage, LDB’s strategy and vision guide the management and employees, providing a strong foundation for further development and growth.

The Bank has 39 branches across Metro Manila and North and South Luzon. With the strategic priority to drive loan growth, the Bank focused on establishing presence in the growing provincial areas and cities in Metro Manila in line with our commitment to make financial services more accessible to more Filipinos.

LDB relies on highly skilled, passionate and loyal employees, who are able to transform their business knowledge into value-adding solutions for our customers.

We grow our resources through a family-focused approach that contributes to greater financial inclusion by encouraging more Filipinos to adopt the habit of saving and empowering them to start on their dreams – be it their own home through a housing loan, their first car through an auto loan, or their business startup through a commercial loan.

With this, LDB continues to create jobs while also building talent and competencies in banking industry. Impeccable customer satisfaction and loyal customer relationships are the cornerstone of the Bank and are considered a prerequisite for further growth.

Our Mission

We are committed on our role in nation building and its progress based on the free individual citizen working in a free economy. We will help bring the community together and to develop the individuals with the community.

We aim to provide our valued customers with quality banking services. Our personalized service will be quick and friendly, with prudence in handling all assets entrusted to us. We will support our customers in all aspects of their business because we recognize that our growth is directly dependent on our customers.

We will provide our employees with professional and personal development through productive, efficient and challenging work, a fair merit system, development programs and competitive compensation that reflects the amount of quality of their work.

We pledge to our stockholders a fair return on their investment and to safeguard their capital through prudent policies and practices. In all our undertakings, we will act with fairness and in honor. Our goal is quality service to the people we serve—out customers, our stockholders our community.

Our Vision

To strengthen leadership in regional development banking by providing the community we serve with efficient, responsive and excellent quality of products and services.

Business Model

As one of the pioneering thrift banks in the country, Luzon Development Bank (LDB) has created a niche market in Region IV-A, Region III and NCR, delivering best-fit banking products and services to its customers.

It provides cost efficiencies that allow for pricing advantages for its deposits and loan products. Combined with a strong company culture and heritage, LDB's strategy and vision guide the management and employees, providing a strong foundation for further development and growth.

With the strategic priority to drive loan growth, the Bank focuses on establishing presence in the growing provincial areas and cities in Metro Manila in line with our commitment to make

financial services more accessible to more Filipinos. The Bank is supported by 244 employees.

Our employees are trained to provide trusted and expert advice to help customers achieve their dreams and aspirations. To understand their customers better, they are regularly updated of the changing needs and preferences of the different segments of the market the Bank caters to. They are kept abreast of the economic, social and political developments here and abroad. They go through extensive product orientation, service and sales skills seminars and regulatory briefings. The Bank plans for career advancement and skills-building, advocates diversity and wellness, and promotes the importance of life-work balance.

LDB continually and carefully adapts emerging technologies into developing both of its internal processes and customer-facing services to provide conveniences that matter most to its customers.

Our Brand

LDB has unveiled its inspiring new tagline, "Let's Dream BIG," marking a bold step in its commitment to helping customers realize their grandest ambitions. This tagline isn't just a marketing slogan—it represents a renewed promise from the Bank to stand beside individuals, families, and businesses as they pursue goals that once felt out of reach. With this launch, LDB reaffirms its role not just as a financial institution, but as a partner in growth and possibility.

The heart of "Let's Dream BIG" lies in LDB's belief that dreams, no matter how large or ambitious, deserve the right support to become reality. Whether it's a young couple purchasing their first home, an entrepreneur launching a startup, or a company expanding expanding its operations and reach, LDB is dedicated to offering the right tools, guidance, and financial backing. The Bank's innovative products and tailored services are designed to meet the diverse needs of dreamers at every stage of life.

Personal aspirations often start with a spark—a child's college education, a long-awaited world trip, or a peaceful retirement by the sea. LDB helps turn these personal dreams into attainable goals through strategic savings plans, accessible loans, and financial education.

Our personalized approach ensures that customers are not just heard, but genuinely understood, allowing their dreams to be approached with clarity and confidence.

On the commercial front, "Let's Dream BIG" speaks to the visionaries building the future. LDB empowers small and large businesses alike, providing capital solutions, market insights, and strategic partnerships. By supporting innovation, sustainability, and growth, the Bank plays a vital role in shaping thriving communities and robust economies. Its commitment to commercial success reflects a deeper belief in the ripple effect of bold dreams realized.

Through "Let's Dream BIG," LDB invites customers to reimagine what's possible. It's more than a tagline—it's a shared journey of ambition, perseverance, and achievement. As the world changes and dreams evolve, LDB remains steadfast in its mission: to be the financial force behind every big dream, guiding and empowering each step along the way.

Message from the Chairman

Over the past 64 years, LDB has stood strong on the values of trustworthiness, teamwork and tenacity. As we launch our new campaign, “Let’s Dream BIG,” I am filled with deep gratitude and renewed optimism that our institution serves as catalyst for growth and a steward of dreams.

The “Let’s Dream Big” campaign captures the spirit that has guided us from humble beginnings to becoming a vital financial partner for countless individuals, families, and small businesses. From helping a young couple purchase their first home, to supporting local entrepreneurs in expanding their ventures, we take pride in being part of the dreams that shape lives and build futures.

To our customers, thank you for continuing to place your trust in us. Your loyalty inspires us to reach higher and to serve better. We understand that behind every account is a story—a dream in the making—and we are honored to be part of that journey. Our products and services are designed with you in mind, and we remain focused on providing accessible, reliable, and forward-looking solutions that adapt to your evolving needs.

To our dedicated employees, you are the heartbeat of this bank. Your passion, professionalism, and unwavering service have brought “Let’s Dream Big” to life in ways that numbers alone cannot capture. Every kind gesture, every well-handled transaction, every thoughtful piece of advice strengthens the bonds we have built with our customers and communities. Thank you for embodying our mission every day.

And to our partners and stakeholders, we are grateful for your collaboration and continued confidence. Together, we have cultivated a shared vision of sustainable growth and meaningful impact. As we look ahead, let us continue to dream big—not just for ourselves, but for the people we serve and the communities we call home. With shared purpose and enduring partnership, I am confident the best is yet to come.

Felix K. Limcaoco III

Felix K. Limcaoco III
Chairman

Gerardo T. Auson, Jr.

President &
Chief Executive Officer

President's Report

2024 marked LDB's continuous path to post-pandemic recovery. The Bank's revenues improved with nearly 6% increase in interest income at ₱472 million compared to ₱446 million in 2023. This resulted to a net income of ₱41.79 million manifesting our less dependency on ROPA sales.

Our total resources had a slight decrease from the previous year as we decided to become less aggressive in defending our deposit portfolio in order to better manage our cost. With this stance, we were able to decrease the percentage of high-cost deposit from 69% in 2023 to 65% in 2024.

We also made significant operational improvements in 2024 as we shortened the turnaround time for loan processing. Credit Committee's approving authority has been also upgraded from ₱5 million to ₱10 million to facilitate faster loan approval. New products introduced to the market created new revenue streams for the Bank. More trainings were also provided to our employees which up-skilled them in delivering services to the satisfaction of our customers and to the fulfillment of the Bank's economic objectives.

For 2025, LDB aims to achieve a loan target level of ₱3.55 billion, deposit level of ₱5.58 billion, NPL ratio of 8.63%, and a net income of ₱46.98 million. These goals will be made possible by onboarding new account officers, accrediting more loan brokers and auto/motor dealerships, facilitating credit trainings, and aligning the Branch Managers focus areas toward our strategic objectives.

As we embark on a new year of optimism and challenges, we encourage our customers, employees and other stakeholders to dream big and achieve bigger things. LDB remains driven as your partner in transforming obstacles to opportunities and creating lasting value for our customers.

Together, Let's Dream Big.

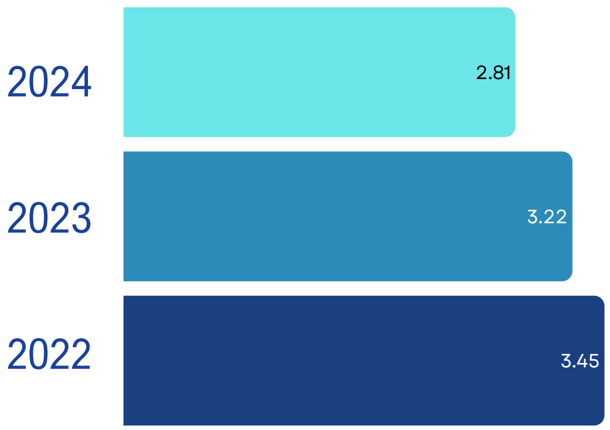
Gerardo T. Auson, Jr.

Financial Highlights

Resources

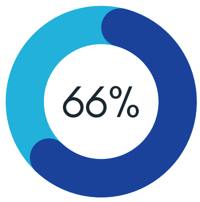
Deposits

Loans



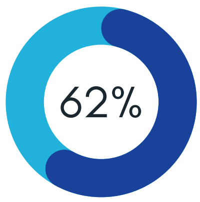
Empowering Enterprises

Business loans comprise 66% of our loan portfolio (based on amount)



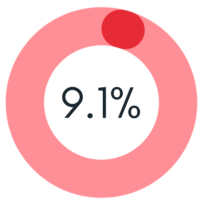
Big Branches

24 out of 39 LDB branches are categorized as big branches based on deposit portfolio



Non-Performing Loans

NPL ratio has been significantly reduced to 9.11% from 13.04% in 2022 and 32.21% in 2020



Financial Summary

	2024	2023 *as re-stated*
Profitability		
Total Interest Income	471,844,800	446,278,903
Total Non-Interest Income	96,956,447	95,662,677
Total Non-Interest Expenses	357,329,155	325,268,417
Allowance for Credit Losses	2,193,130	15,622,169
Net Income	41,787,145	51,444,835
Balance Sheet		
Liquid Assets	1,881,026,931	2,061,081,127
Gross Loans	3,071,937,202	3,500,077,661
Total Assets	6,630,821,687	6,911,940,021
Deposits	5,480,750,596	5,766,846,250
Total Equity	868,517,654	826,753,518
Financial Ratios		
Return on Equity	4.93%	6.43%
Return on Assets	0.62%	0.77%
CET 1 Capital Ratio	11.20%	5.81%
Tier 1 Capital Ratio	14.52%	13.74%
Capital Adequacy Ratio	15.26%	14.42%
Capital Requirements for Credit Risk	458,373,804.30	468,421,102.60
Capital Requirements for Market Risk	-	-
Capital Requirements for Operational Risk	49,622,461.30	46,551,326.47
Common Share		
Net Income per share	5.14	9.17
Basic	5.14	9.17
Diluted	4.27	5.29
Book Value	85.61	71.88
Others		
Cash dividend declared	-	-
Headcount	244	226
Officers	158	141
Staff	86	85

Capital Structure

Risk-based Capital Adequacy Ratios of 31 December 2024

Calculation of Qualifying Capital

Net Tier 1 Capital	737,682,849.20
Net Tier 2 Capital	37,590,288.64
Total Qualifying Capital	775,273,137.84

Calculation of Risk-Weighted Assets

Credit Risk-Weighted Assets	4,583,738,043.42
Operational Risk-Weighted Assets	496,224,613.00
Market Risk-Weighted Assets	0.00
Total Risk-Weighted Assets	5,079,962,656.02
Risk-Based Capital Adequacy Ratio	15.26%

Tier 1 Capital

Paid up common stock	785,305,800.00
Deposit for common stock subscription	0.00
Paid-up perpetual and non-cumulative preferred stock	183,044,400.00
Retained earnings	(113,792,578.00)
Sub-total	854,557,622.00
Deductions from Core Tier 1 Capital	116,874,772.80
Total Tier 1 Capital	**737,682,849.20**

Tier 2 Capital

Paid-up perpetual and cumulative preferred stock	14,500,000.00
General loan loss provision	23,090,288.64
Deductions from Upper Tier 2 Capital	0.00
Total Deductions	0.00
Total Upper Tier 2 Capital	**37,590,288.64**
Lower Tier 2 Capital	0.00
Deductions from Lower Tier 2	0.00
Total Lower Tier 2 Capital	**0.00**

Major Stockholders

As of December 31, 2024, the following are known to Luzon Development Bank (LDB) to be direct or indirect beneficial owners of more than 5% of the bank's voting securities:

Name of Stockholder	Citizen-ship	Title of Class	Number of Shares	Amount Subscribed	Paid-Up Capital	Ratio to Total Voting
1. F. Limcaoco Foundation, Inc.	Filipino	Common and Preferred A, C & D	1,052,880	105,288,000	105,288,000	10.873
2. Juno Foods, Inc.	Filipino	Common and Preferred D	759,154	75,915,400	75,915,400	7.84
3. Automation Resources Corporation	Filipino	Common and Preferred A, B, & C	737,995	74,269,900	74,269,900	7.67
4. Springbrook, Inc.	Filipino	Common and Preferred D	724,655	72,465,500	72,465,500	7.483
5. Shaw Automotive Resources, Inc.	Filipino	Common and Preferred D	648,045	64,804,500	64,804,500	6.692
6. LICA Management. Inc.	Filipino	Common and Preferred C	634,809	63,480,900	63,480,900	6.556
7. Tetra Sales and Services, Inc.	Filipino	Common	534,500	53,450,000	53,450,000	5.52

Employee

Training	Training Provider
AML Refresher Course and Regulatory Compliance	In-House
Basic Accounting on GL.net & Webloan System	In-House
Basic Credit Training	In-House
Basic Verification of Titles and Tax Declarations of Property Collaterals	In-House
Bayad Center Operations Training	In-House
Breakthrough: A Webinar on Cultivating a Digital Mindset for the Future-Driven Financial Institution	Globe Telecom
BSP-CTB Training Program on Risk Management and Compliance Risk Management	Bangko Sentral ng Pilipinas & Chamber of Thrift Banks
BSP-CTB Virtual Training Program on AMLA Updates	Bangko Sentral ng Pilipinas & Chamber of Thrift Banks
Collection Management Training	In-House
Collection Management Webinar Training	PH Training and Consultancy
CTB Virtual Training on the Foundations of Information System Auditing	Bangko Sentral ng Pilipinas & Chamber of Thrift Banks
Financial Consumer Protection Framework Training	In-House
HR MANAGEMENT 101: Mastering Talent Recruitment, Selection, and Onboarding	MSTConnect
Leadership Development Workshop	Mr. Roy P. Chavez
Loan Documentation Training	In-House
Managing the Implementation of KaiserCheck Solution	64ai
Records Management and Document Control Training	In-House
Records Management and Document Control Training	Mr. Erwin E. Gregorio, CTRP, CHRP, CLC of PH Training Consultancy
Signature Verification and Forgery Detection	Ms. Elsa Reataza-Morales (NBI)
Signature Verification and Forgery Detection, Counterfeit Detection	Ms. Elsa Reataza-Morales (NBI)
Social Media Management for Effective Marketing	MSTConnect
Social Media Management for Effective Marketing	In-House
Basic Identification Documents, Business Documents, and Income Documents Verification Training	Bankers Institute of the Philippines, Inc.
User's Training for Watchlist Screening	64ai
Writing Effective Audit Reports Training	Mr. Saturnino Nicanor, Jr. of Institute of Internal Auditors
Writing Effective Audit Reports Training	In-House

Trainings

58%

More than half of our employee trainings were conducted by external providers

59%

More employees from the branches than the Corporate Office have undergone trainings in 2024

69%

69% of training participants were bank officers while 31% were rank-and-files

Nurturing Lifelong Learning

With “Total Personnel Care” as one of its corporate values, LDB believes that employee trainings are among the most significant contributors to empower our employees to perform their roles effectively, to adapt to the dynamism of the banking industry, and to ultimately benefit the institution’s success and customer satisfaction.

Training topics cover relevant domains including management leadership, emerging technologies, risk management and specialized technical skills for banking. Trainings are delivered through the most suitable format, either onsite or online.

Products
& Services

Best-Fit Products

Our wide line-up of products are designed to suit our customers' specific needs

Innovative Services

Customers' convenience is our top priority in deploying emerging banking services

Services

- LDB Mobile App
- Instapay Receiving
- Instapay Multi-Proxy Service
- ATM Acquiring and Issuing
- Bills Payment
- Corporate Payroll
- eGov for Pag-IBIG
- LRA Satellite Office

Deposit Products

Savings Accounts
- Regular Savings (Passbook)
- Regular Savings (ATM)
- Regular Savings (Passbook + ATM)
- iSavers (ATM)
- Depositong Pang-Masa (Basic Deposit)
- Payroll Account (ATM)
- SAVings MAXimizer (SaveMax)
- Young Earner Savings
- Happy Earners Savings
- Business Savings Account (BSA)

Checking Accounts
- Regular Checking
- Tseke ni Juan

Time Deposit
- Regular Time Deposit
- Five-Year Time Deposit

Loan Products

Commercial / Business
- Revolving Credit Line
- Term Loan
- Industrial Loan
- Agricultural Loan
- Back-to-Back Loans
- Bills Purchased Line

Consumer
- Auto Loan
- Motorcycle Loan
- Multi-Purpose Loan
- Home Loan
- Property Equity Loan

Deposit Products

Scan the QR codes for more information

Loan Products

Board of

Felix K. Limcaoco III

Chairman

Gerardo T. Auson, Jr.

President & Chief Executive Officer

Atty. Rene K. Limcaoco

Director

Dr. Leonido C. Castillo

Director

Alexander L. Dimacuha

Independent Director

Directors

Oscar S. Ramirez

Director

Jose Marie L. Ramos

Director

Eduardo E. Orozco

Independent Director

Rolando V. Robinol

Independent Director

Jose Andres A. Limcaoco

Corporate Secretary

Directors' Profiles

MR. FELIX K. LIMCAOCO III, 61, Filipino, is the Chairman of the Board of Directors. He is the present Managing Director of LICA Management, Inc. and Tetra Trading Corporation and other affiliates of the Bank. He finished Bachelor in Mathematics at the University of California in 1984 and Masters in Computer Science at Stanford University in 1988.

MR. GERARDO T. AUSON, JR., 69, Filipino, is the President and Chief Executive Officer of the Bank. Prior to joining LDB in 2014, he worked at Producers Savings Bank Corporation as Vice President and Area Head and in Tanay Rural Bank as President. He also worked at United Coconut Planters Bank for 30 years handling various positions being Vice President as last position. He finished AB Literature at Lourdes Seminary and BSC Major in Business Administration at University of Sto. Tomas in 1975 and 1977 respectively. He pursued Masters in Business Administration at Pamantasan ng Lungsod ng Maynila in 1984.

DR. LEONIDO C. CASTILLO, 78, Filipino, he finished Doctor of Medicine at University of the East – Ramon Magsaysay Memorial in 1972. He is presently working as Consultant at De La Salle University Medical Center, Dasmariñas Medical Center and Medical Center Manila.

MR. ALEXANDER L. DIMACUHA, 54, Filipino, is an Independent Director of the Bank. He finished Applied Statistics in Polytechnic University of the Philippines in 1990. He attended several trainings and seminars relative to banking industry. He was a Region Head/Vice President of United Coconut Planters Bank from 2016-2022

MR. EDUARDO E. OROZCO, 64, Filipino, is also an Independent Director of the Bank. He finished Agricultural Engineering at University of the Philippines Los Baños (UPLB) in 1982. He has attended different trainings and seminars in banking. He was the First Vice President of the Robinsons Bank Corporation.

ATTY. RENE K. LIMCAOCO, 60, Filipino, is a Director/Vice Chairman of the Board. He is also a director of LICA Management, Inc. and other affiliates of the Bank. He finished AB Economics at Stanford University in 1986 and Bachelor of Law at Ateneo De Manila University in 1990.

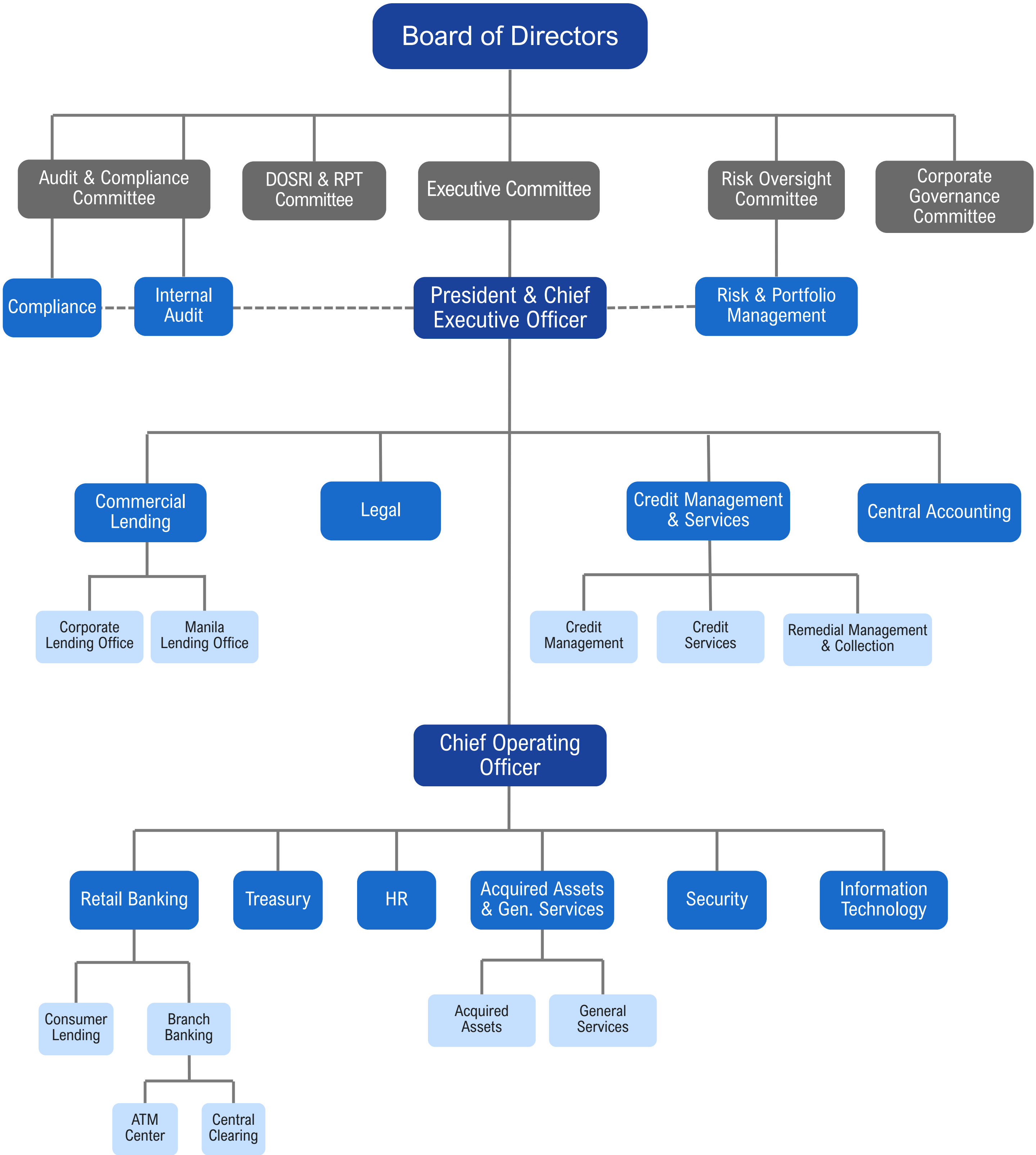
MR. JOSE MARIE L. RAMOS, 62, Filipino, is the current Corporate Treasurer of the Bank. He graduated at University of Texas in 1985 with Bachelor's degree in Business Administration Major in Finance and pursued Master in Business Administration at the University of the Philippines in 1996. He is also a present director of Montero Development Corp. and Tamaraw Rural Bank, Inc.

MR. OSCAR S. RAMIREZ, 77, Filipino, has more than 52 years in the banking industry. He held various positions in different banks like Bank of America and Philippine Amanah Bank since 1968. Prior to being a director of LDB, he became the President of the Bank in 2006. He graduated at University of the East in 1966 with the degree of Bachelor of Science in Business Administration.

MR. ROLANDO V. ROBIÑOL, 67, Filipino, is also an Independent Director of the Bank. He finished Business Administration at the University of the East – Recto in 1979. He also completed Masters in Business Administration at Ateneo De Manila University in 2001. Currently, he is a member of the Board of Directors/Part-time Consultant of Reinlab Corporation since 2020.

MR. JOSE ANDRES A. LIMCAOCO (Corporate Secretary), 72, Filipino, is the Corporate Secretary of the Bank. He finished BS in Management at Ateneo De Manila in 1974. He also took Masters in Economics at University of Manchester- England in 1989.

Table of Organization



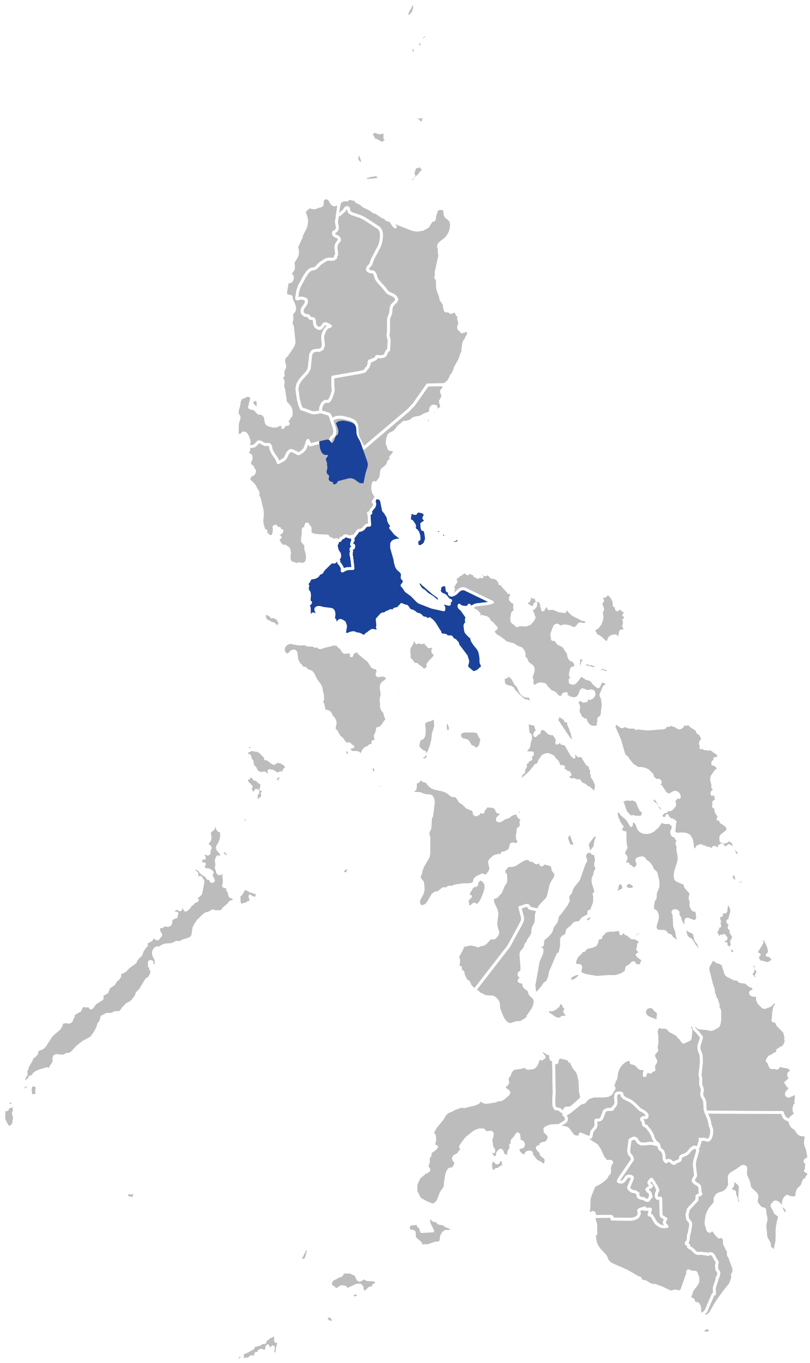
Senior

Officer	Current Position	Previous Positions with Other Companies	Course / Titles
Gerardo T. Auson, Jr. 47 years of banking experience	President / Chief Executive Officer	• President/Chief Executive Officer at Tanay Rural Bank • Vice President/Region Head at United Coconut Planters Bank	BS in Commerce – Business Administration MBA
Ylette D. Rentero 38 years of banking experience	Senior Vice-President / Chief Operating Officer	• New Accounts Teller at Security Bank and Trust Company	AB Economics
Luningning C. Belen 43 years of banking experience	Vice-President / Chief Compliance Officer	• Manager of Audit Department at Planters Development Bank • Manager of Central Operations & Processing Department – ATM Unit at Planters Development Bank	BS in Commerce Major in Economics and Accounting, Certificate Course in Compliance
Raymund P. Villavicencio 39 years of banking experience	Vice-President / Chief Risk Officer	• Credit Administration Department Head at Philippine Bank of Communications (PBCOM) • Credit Risk Officer at Philippine Bank of Communications (PBCOM)	MBA (certain units) at the University of the Philippines in the Visayas (UPV) Bachelor of Science in Business Management (BSBM)
Jeffrey T. Tantiado 30 years of banking experience	Vice-President / Head of Information Technology Division	• Vice President/Head of the IT Department/Chief Information Officer at Citystate Savings Bank, Inc. • Head of IT Department at Queen City Development Bank	BS Computer Science
Michael B. Chong 24 years of banking experience	Vice-President / Head of Treasury Department	• Treasury Head at Citystate Savings Bank, Inc.	BS Accountancy, Certified Money Market Dealer
Mercedes B. Margallo 10 years of banking experience	Senior Assistant Vice-President / Chief Legal Counsel / Head of Legal and Human Resource Division		BS in Accountancy, Bachelor of Law
Melissa M. Baro 27 years of banking experience	Senior Assistant Vice-President / Head of Legal Documentation / Assistant Corporate Secretary	None	AB Political Science, Bachelor of Law
Guido Dennis M. Baltazar 29 years of banking experience	Senior Assistant Vice-President / Head of Central Accounting Department	• Internal Audit Examiner at PCDP Bank • Head of Loans Department at Citystate Savings Bank, Inc.	BS in Commerce Major in Accounting, Master of Business Administration (MBA)
Mark Angelo M. Abelgas 5 years of banking experience	Senior Assistant Vice President / Head of Credit Management and Services Department	• Credit and Collection Group Head at LICA Management, Inc. • President at Lloyd's Financing Corporation	BS Computer Science, Master of Business Administration (MBA)
Gilbert A. Doria 30 years of banking experience	Senior Assistant Vice President / Area Head	• Credit Supervisor and Administrative Officer at Biñan Rural Bank, Inc.	BS Commerce Major in Marketing
Ferdinand A. Ocsit 16 years of banking experience	Senior Assistant Vice-President / Project Manager	• Program Manager at CARD MRI Information Technology, Inc. • IT Officer at CARD Bank, Inc.	BS Computer Science, ITIL

Management

Officer	Current Position	Previous Positions with Other Companies	Course / Titles
Andres S. Parolan 44 years of banking experience	Assistant Vice President / Head of Internal Audit Department	• Cluster Head/Branch Head at Metrobank • Auto Loans Marketing Officer at Bank of the Philippine Islands	BS Business Administration Major in Accounting, Certified Public Accountant (CPA)
Sheryl A. Derequito 26 years of banking experience	Assistant Vice President / Area Head	• Assistant Branch Manager at Planbank	BS Commerce Major in Management
Crisanto D. Pantonial 23 years of banking experience	Assistant Vice President / Head of Branch Operations	• Officer-In-Charge at Express Savings Bank	BS Commerce Major in Management
Charyl A. Ceneta 28 years of banking experience	Assistant Vice President / AML Officer	• Assistant Manager / Compliance Analyst at Maximum Savings Bank	BS Computer Engineering
Remiesol D. Navarro 26 years of banking experience	Assistant Vice President / Operational Risk Officer	• Chief Risk Officer at Mount Carmel Rural Bank, Inc. • Credit Operations Group Head at Mount Carmel Rural Bank, Inc.	BS Computer Science
Jenelyn R. Petate 19 years of banking experience	Assistant Vice President / Head of Batangas Lending Office / Account Officer	None	BS Agriculture Master in Public Administration
Roisell Ann Marie M. Castro 14 years of banking experience	Assistant Vice President / Officer-In-Charge of Commercial Lending Division	• Quality Assurance (Home Lending) at JP Morgan Chase Bank • Claims Analyst at Accenture, Inc.	BS Financial Management
Deanna Jean K. Enciso	Assistant Vice President / Head of Cavite Lending Office	• Manager/Lending Center Head – Calabarzon at Producers Savings Bank • Manager/Account Management Division Head at World Partners Bank	BS Commerce Major in Financial Management
Simeon Clarin 40 years of banking experience	Assistant Vice President / Head of Credit Services Department	• Head of Appraisal and C.I. Department at UCPB and UCPB Savings Bank	BSBA in Accounting, Licensed Appraiser
Liberty L. Caracuel 35 years of banking experience	Manager / Head of Human Resource Department	• Customer Service Officer at Security Bank Corporation • Bank Teller at Security Bank Corporation	BS Agriculture
Jabes Rovie V. Capugan 7 years of banking experience	Head of Acquired Assets Department	• Credit Counselor at Bank of Makati, Account Officer at BDO Network Bank	BS in Business Administration major in Marketing Management BS in Real Estate Management

Our Branches



Branches per Province	
Metro Manila	7
Batangas	8
Cavite	6
Laguna	13
Nueva Ecija	1
Quezon	3
Rizal	1

Main Branch

Ground Floor, Checkpoint Mall
Paciano Rizal, Calamba City, Laguna
main@ldb.ph
0917 830 4022

METRO MANILA

Makati Branch
G/F Salud and Consuelo Bldg.
912 A. Arnaiz Avenue, Makati City
makati@ldb.ph
0920 960 4137

Taguig Branch
Lower G/F, Brittany Hotel, McKinley Parkway, Bonifacio Global City, Taguig City
taguig@ldb.ph
0918 900 7503

Las Piñas Branch
577-A Alabang-Zapote Road, Almanza Uno, Las Piñas City
laspinas@ldb.ph
0998 989 0515

Muntinlupa Branch
CAC Building, National Road, Tunasan, Muntinlupa City
muntinlupa@ldb.ph
0917 829 0579

Marikina Branch
337 Mamerta Building, J.P.Rizal Street, Bgy. Sta Elena, Marikina City
marikina@ldb.ph
(02) 7118 7251

Pateros Branch
AJ Building, 38 M. Almeda Street corner Martirez del 96, Pateros
pateros@ldb.ph
0939 989 5782

Parañaque Branch
Unit A-1 Jaka Plaza, 8288 Dr. A. Santos Ave. San Antonio Valley 1, Sucat, Parañaque City
paranaque@ldb.ph
0917 832 0877

BATANGAS

Bauan Branch
26 Binay corner San Rafael Streets Poblacion III, Bauan, Batangas
bauan@ldb.ph
0939 930 2086

Batangas City Branch
Zenaida Arcade, M. H. del Pilar Street Batangas City
batangas@ldb.ph
0917 829 0685

Lemery Branch
Ilustre Avenue corner Gen. Luna Street, Lemery
lemery@ldb.ph
0998 989 1867

Lipa Branch
T.M. Kalaw corner Mabini Streets Lipa City
lipa@ldb.ph
0917 829 2821

Padre Garcia Branch
Z&A Bldg., J.P. Rizal Street, Poblacion, Padre Garcia, Batangas
padregarcia@ldb.ph
0998 990 8151

Sto. Tomas Branch
Gen. Malvar Avenue, Sto. Tomas Batangas
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0917 804 8382

San Jose Branch
Unit 3 &4, AV Building, Banay-Banay I San Jose, Batangas
sanjose@ldb.ph
0917 829 0795

Tanauan Branch
Mabini Street, Tanauan City
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0908 815 4707

LAGUNA

Alaminos Branch
Alaminos Public Market, Del Pilar Street, Alaminos, Laguna
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0998 881 9713

Biñan Branch
J. Gonzales Street, Poblacion, Biñan City
binan@ldb.ph
(049) 511 6350

Calamba Branch
370 J. P. Rizal Street
Brgy. 6, Calamba City
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0919 066 2704

Cabuyao Branch
F.B. Bailon Street, Rosario Village, Bgy. Sala, Cabuyao City
cabuyao@ldb.ph
0998 555 9846

Calauan Branch
QDYN Bldg., Marfori Avenue
Calauan, Laguna
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0917 829 0948

Canlalay Branch
LMA Building,159 National Highway, Canlalay, Biñan City
canlalay@ldb.ph
0917 829 0977

Canlubang Branch
Carmel Mall, Jose Yulo Blvd., Canlubang, Calamba City
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(049) 549 7257

Los Baños Branch
Villegas Compound, Victoria M. Ela Avenue, UPLB, Los Baños
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0917 858 4065

Pacita Branch
Unit D, Block 6 Lot 50/52, Pacita Avenue, Pacita Complex 1, San Pedro City
pacita@ldb.ph
0908 893 9502

San Pablo Branch
Lot No. 29969 A-2 Mabini Avenue
Brgy. V-B, San Pablo City
sanpablo@ldb.ph
0917 829 0931

San Pedro Branch
J. Luna corner A. Mabini Streets
Poblacion, San Pedro City
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0998 864 3619

Sta. Rosa Branch
Rizal Boulevard, Brgy. Tagapo, Sta. Rosa City
starosa@ldb.ph
(049) 303 2379

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RIZAL

Cainta Branch
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0917 813 6220

NUEVA ECIJA

Gapan Branch
DGSM Bldg., Jose Abad Santos Avenue, San Nicolas, Gapan City, Nueva Ecija
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0917 829 0842

CAVITE

Bacoor Branch
Addio Center, Aguinaldo Highway Talaba, Bacoor City
bacoor@ldb.ph
0917 829 0647

Carmona Branch
ALV Building, J.M. Loyola Street, Barangay 4, Carmona, Cavite
carmona@ldb.ph
0920 913 5542

Dasmariñas Branch
Gov. Dominador Mangubat Avenue, Dasmariñas City
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General Trias Branch
Gov. Luis Ferrer Avenue, General Trias City
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0917 829 0920

Tanza Branch
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tanza@ldb.ph
0917 810 0207

Trece Martires Branch
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0919 006 6147

QUEZON

Candelaria Branch
National Highway corner Gonzales Street, Candelaria, Quezon
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0917 829 5974

Sariaya Branch
Gen. Luna Street, Sariaya, Quezon
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Tiaong Branch
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Corporate Governance

Corporate Governance Framework

Corporate governance is the framework of rules, systems and processes in the corporation that governs the performance of their respective duties and responsibilities to stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community to which it operates.

The Board is the governing body elected from and among the stockholders of the Bank, exercises corporate powers of the Bank. Conducts all its businesses and control and holds its properties.

Compliance with the principles of good corporate governance shall start with the Board of Directors. It shall be the Board's responsibility to foster the long-term success of the Bank and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of the Bank, its shareholders and other stakeholders. The Board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities.

The corporate powers of an institution shall be exercised, its business conducted, and all its resources controlled through its board of directors. The powers of the board of directors as conferred by law are original and cannot be revoked by the stockholders. The directors shall hold their office charged with the duty to exercise sound and objective judgment for the best interest of the institution.

The Board of Directors shall have the management of the business of the Bank and such powers and authorities are herein conferred by the Bank's By-Laws or by statutes of the Philippine Republic.

The Board of Directors and Management, employees and shareholders, believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness within the organization as soon as possible.

THE BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Responsibility for good governance lies with the Board. It is responsible for providing effective leadership and overall direction to foster the long-term success of the Bank. It oversees the business affairs of the Bank, reviews the strategic plans and performance targets, financial plans and budgets, key operational initiatives, capital expenditures, acquisitions and divestments, annual and interim financial statements, and corporate governance practices.

It oversees management performance, enterprise risk management framework, internal control system, financial reporting and compliance, related party transactions, continuing director education, and succession plans for the Board. It considers sustainability issues related to the environment and social factors as part of its sustainable banking practices.

The Board is composed of nine (9) members, who are all professionals with expertise in banking, accounting and finance, law, merchandise marketing, strategy formulation, bank regulations and risk management. It is being led by the Chairman. There are 6 directors and 3 independent directors who chaired the board level committees including Executive Committee, Audit and Compliance Committee, Compensation and Nomination Committee, DOSRI and RPT Committee, Risk Oversight Committee, Corporate Governance Committee and IT Steering Committee.

They provide independent and objective judgment on significant corporate matters and ensure that key issues and strategies are objectively reviewed, constructively challenged, thoroughly discussed and rigorously examined.

The Board of Directors determines the appropriate number of its members to ensure that the number thereof is commensurate to the size and complexity of the Bank's operations.

The oversight functions include the review of operational and financial performance of senior management and work of the various committees in accordance with their mandates.

The Board of Directors and Management, employees and shareholders, believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness within the organization as soon as possible.

The Board of Directors and Management, i.e. officers and staff, of Luzon Development Bank hereby commit themselves to the principles and best practices expected of a bank as defined by Bangko Sentral ng Pilipinas (BSP) to sustain the resiliency and stability of the financial system.

The Board of Directors establishes a code of conduct and ethical standards in the Bank and shall institutionalize a system that will allow reporting of concerns or violations to an appropriate body. They are also responsible for approving bank's objectives and strategies and in overseeing management's implementation thereof, responsible for approving and overseeing implementation of the bank's corporate governance framework and approving bank's risk governance framework and overseeing management's implementation thereof.

SELECTION PROCESS FOR THE BOARD AND SENIOR MANAGEMENT

The directors approve the selection of the CEO and key members of senior management and control functions and oversee their performance. They have the fiduciary responsibility to the bank and all its shareholders including minority shareholders. They approve and oversee the implementation of strategies to achieve corporate objectives and the implementation of the risk governance framework and the systems of checks and balances. They establish a sound corporate governance framework. The selection is spearheaded by the Nomination and Compensation Committee with the prior recommendation of the management team based on its performance and the approval of a sound remuneration and other incentives policy for personnel.

Annually, there is an election of Board of Directors during its stockholders meeting. After the selection of the nine (9) posts, the elected directors will nominate for the position in the Board including Chairman, Vice Chairman, President, etc.

Each year, the composition of the Board and board committees including the skills and competencies of its members is reviewed to ensure appropriate balance of skills and experience, and alignment with the new regulations. Considering the changes done, complexity and scope of the Bank's business, the Board believes that its current size and composition provide sufficient diversity among its directors that fosters critical discussion and promotes balanced decision making by the Board. It views diversity at the Board level which includes difference in skills, experience, gender, age, education, race, business and other related experience as an essential element in maintaining an effective board for strong corporate governance.

The Nomination and Compensation Committee recommends the most suitable candidate to the Board for appointment or election as director. For re-election of incumbent directors, the Nomination Committee also considers the results of the most recent self-assessments of the Board and peer evaluation, attendance record in meetings, participation in Board activities and overall contributions to the functioning of the Board.

In evaluating the suitability of an individual board member and promoting diversity in the composition of the Board, the Nomination Committee takes into account the relevant qualifications of every candidate nominated for election such as, among others, physical/mental fitness, relevant educational and professional background, personal track record,

Board Composition

Board of Director	Type of Directorship	Tenure Served as Director	Direct Shares		Indirect Shares		Percentage of Shares Held to Total Outstanding Shares of the Bank
			Number	Percentage	Number	Percentage	
Felix K. Limcaoco III	Chairman	17 years	295,522	3.05%	1,560,206.46	16.11%	19.16%
Atty. Rene K. Limcaoco	Director / Vice-Chairman	24 years	295,522	3.05%	1,552,667.37	16.03%	19.09%
Jose Marie L. Ramos	Director / Corporate Treasurer	21 years	57,282	0.59%	112.66	0.00%	0.59%
Gerardo T. Auson, Jr.	Director / President / CEO	6 years	28	0.00%	-	-	0.00%
Oscar S. Ramirez	Director	18 years	3,652	0.04%	-	-	0.04%
Dr. Leonido C. Castillo	Director	24 years	8,326	0.09%	-	-	0.09%
Alexander L. Dimacuha	Independent Director	1 year & 9 months	1	0.00%	-	-	0.00%
Rolando V. Robiñol	Independent Director	1 year & 9 months	1	0.00%	-	-	0.00%
Eduardo E. Orozco	Independent Director	1 year & 4 months	1	0.00%	-	-	0.00%

experience/training, commitment to contribute, willingness to serve and interest to remain engaged and involved without regard to race, gender, ethnic origin, religion, age or sexual orientation.

The Board is also responsible for approving the selection and appointment of a competent executive management led by the President and COO including the heads of units who will exercise control functions i.e. Chief Compliance Officer, Chief Risk Officer and Chief Internal Auditor. Fit and proper standards are applied in the selection of key officers and utmost consideration is given to their integrity, technical expertise, and banking industry experience.

Chairman of the Board

The Chairman is primarily responsible for leading the Board and ensuring its effectiveness. He provides independent leadership to the Board, fosters constructive relationships between Directors, promotes an open environment for critical discussions and constructive debate on key issues and strategic matters, and ensures that the Board of Directors exercises strong oversight over the Bank’s business and performance of senior management. He takes a lead role in ensuring that the Board provides effective governance of the Bank and continues to operate at a very high standard of independence with the full support of the directors.

QUALIFICATIONS OF DIRECTORS AND INDEPENDENT DIRECTORS

- He must be fit for the position of a director. In determining whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity; physical/mental fitness; relevant education/ financial literacy/ training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities.
- In assessing a director's integrity/probity, consideration shall be given to the director’s market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.
- He must have attended a seminar on corporate governance for board of directors. A director shall submit to the BSP a certification of compliance with the BSP prescribed syllabus on corporate governance for first time directors and documentary proof of such compliance.
- There is no retirement age of the directors as long as they will be able to meet the qualifications mentioned above.

Independent Directors

In selecting independent and non-executive directors, the number and types of entities where the candidate is likewise elected as such, shall be considered to ensure that he will be able to devote sufficient time to effectively carry out his duties and responsibilities. In this regard, the following shall apply:

- A non-executive director may concurrently serve as director in a maximum of five (5) publicly listed companies. In applying this provision to concurrent directorship in entities within a conglomerate, each entity where the non-executive director is concurrently serving as director shall be separately considered in assessing compliance with this requirement; and
- An independent director of a BSFI may only serve as such for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from serving as independent director in the same BSFI, but may continue to serve as regular director. The nine (9) year maximum cumulative term for independent directors shall be reckoned from 2012.

BOARD-LEVEL COMMITTEES

Executive Committee

Chairman: Atty. Rene K. Limcaoco
Members: Mr. Felix K. Limcaoco III
Mr. Gerardo T. Auson, Jr.

Responsibilities and Function
Acts as the main approving body for Bank exposures, particularly approval and confirmation of credit proposals, investment and acquisitions as well as credit-related issues from P10,000,001 to P50.0 million to its delegated authority, property-related proposals, technology-related projects or such other initiatives to enhance the Bank's operating and service delivery capabilities, and operating policies and/or manuals including amendments thereto as may recommended by Management. Approves loans and credit facilities, leases and sale of acquired assets, credit policies, and write-offs, resolutions of remedial/problem accounts, leases and acquisitions of branch sites within its Board-delegated authority.

Audit and Compliance Committee

Chairman: Mr. Alexander L. Dimacuha
Members: Mr. Rolando V. Robiñol
Mr. Oscar S. Ramirez

Responsibilities and Function
This committee shall oversee the financial reporting framework, monitor and evaluate the adequacy and effectiveness of the internal control system, oversee the internal audit function, oversee the external audit function, oversee implementation of corrective actions, investigate significant issues/concerns raised and establish whistleblowing mechanism. It is also in-charged in the overall compliance of the Bank in the rules and regulations in the governing bodies as well as in the internal policy and sees to it that all the Department is fully complied with the policies and procedures stipulated in the manual.

Risk Oversight Committee

Chairman: Mr. Rolando V. Robiñol
Members: Mr. Alexander L. Dimacuha
Mr. Oscar S. Ramirez

Responsibilities and Function
The committee oversees the enterprise risk management framework and ensures that there is periodic review of the effectiveness of the risk management systems and recovery plans. It shall ensure that corrective actions are implemented to address risk management concerns and shall ensure that the current and emerging risk exposures are consistent with the bank's strategic direction and overall risk appetite. It shall assess the overall status of adherence to the risk appetite based on the quality of compliance with the limit structure, policies, and procedures relating to risk management and control, and performance of management, among others and oversee the risk management functions.

Corporate Governance Committee

Chairman: Mr. Eduardo E. Orozco
Members: Mr. Alexander L. Dimacuha
Mr. Oscar S. Ramirez

Responsibilities and Function
This committee shall oversee the nomination process for members of the board of directors and for positions appointed by the board of directors, oversee the continuing education program for the board of directors and shall ensure allocation of sufficient time, budget and other resources for the continuing education of directors, and draw on external expertise as needed. It shall also oversee the performance evaluation process. Oversee the design and operation of the remuneration and other incentives policy. Moreover, it shall monitor and review the remuneration and other incentives policy including plans, processes and outcomes to ensure that it operates and achieves the objectives as intended.

DOSRI and RPT Committee

Chairman: Mr. Eduardo E. Orozco
Members: Mr. Alexander L. Dimacuha
Mr. Rolando V. Robiñol

Responsibilities and Function
Evaluate on an ongoing basis 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 (from non-related to related and vice versa) are captured. Report to the board of directors on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties. Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process, and oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

Meeting Attendance

Board of Directors' Meetings

Position	Name	Attendance/ Meetings	Percentage Present
Chairman	Felix K. Limcaoco III	12/12	100%
Director	Atty. Rene K. Limcaoco	9/12	75%
Director	Jose Marie L. Ramos	12/12	100%
Director	Gerardo T. Auson, Jr.	12/12	100%
Director	Oscar S. Ramirez	12/12	100%
Director	Dr. Leonido C. Castillo	8/12	67%
Independent Director	Alexander L. Dimacuha	12/12	100%
Independent Director	Rolando V. Robinol	12/12	100%
Independent Director	Eduardo E. Orozco	12/12	100%

Board Committee

Committee	Position	Name	Attendance/ Meetings	Percentage Present
Corporate Governance Committee	Chairman	Eduardo E. Orozco	6/6	100%
	Member	Alexander L. Dimacuha	6/6	100%
	Member	Oscar S. Ramirez	6/6	100%
Audit & Compliance Committee	Chairman	Alexander L. Dimacuha	8/8	100%
	Member	Oscar S. Ramirez	8/8	100%
	Member	Rolando V. Robinol	8/8	100%
Risk Oversight Committee	Chairman	Rolando V. Robinol	11/11	100%
	Member	Alexander L. Dimacuha	11/11	100%
	Member	Oscar S. Ramirez	10/11	91%
DOSRI & RPT Committee	Chairman	Eduardo E. Orozco	11/11	100%
	Member	Alexander L. Dimacuha	11/11	100%
	Member	Oscar S. Ramirez	11/11	100%

- *Independent Directors, Mr. Alexander L. Dimacuha, Mr. Eduardo E. Orosco, and Mr. Rolando V. Robiñol were elected and appointed as independent directors on 26 April 2024*
- *There was no Executive Committee Meeting held in 2024.*

PERFORMANCE ASSESSMENT PROGRAM

ASSESSMENT POLICY

1. OBJECTIVE
The objective of this policy is to adopt the Performance Management Cycle as the frame-work in managing the performance of Officers. The framework covers setting of unit and individual performance objectives that are aligned with the Bank's goals and objectives, monitoring and review of officers' work outputs versus their set objectives, and providing possible opportunities for growth and learning.

2. PERFORMANCE APPRAISAL
Performance appraisal of the Bank has 3 components. These are planning and setting of objectives, regular review and calibration process.

2.a. Planning and Setting of Objectives

Objective Setting
Every last quarter of the year, all Division Heads shall attend a strategic planning session to discuss the Bank's objectives for the coming year. Each Division Head shall use these objectives as basis in crafting the objectives of their respective units. Objectives set should be SMART- Specific, Measurable, Attainable, Realistic and Time Bound. (Refer to Attachments 1-4 for samples of SMART objectives)

Alignment of Objectives
Each Division Head shall cascade and discuss with his/her officers and staff the objectives of the Bank. At this point, the entire division must come up with a participative and proactive process to create SMART objectives aligned with the Bank's goals and objectives. These objectives shall be the basis in determining the Key Result Area (KRA) of each Division Head and his/her subordinates. The KRAs shall be the key inputs in the balanced scorecard of the Division Head and his/her subordinates.

Finalizing Objectives
By January to February, the division and employees' objectives (contained in their balanced scorecards) shall be finalized and agreed upon by both manager and subordinate.

3. REGULAR REVIEW
To ensure that the performance of each division is always aligned with the goals and objectives of the Bank, performance of each officer must be reviewed every semester.

First Trimester Performance Review happens in July. The review aims to assess the initial accomplishments of the officers based on their given objectives.

Second Semester of Year-End Performance Review happens in January. By this time, officers should have achieved their objectives.

By the end of this review, officers shall have the opportunity to: identify their strong points and how to capitalize on them; identify their weaknesses and how to improve on them; come-up with individual development plans to prepare them for higher positions. The result of the officers' performance shall form part of their performance history.

4. CALIBRATION
A Calibration meeting shall be conducted to compare officers' performance against their respective peer group or defined benchmark. This is done from November to December, simultaneously with the Year-End Review. Calibration shall be conducted in a constructive and objective way to ensure fairness among officers. Calibration may impact the performance ratings of the officers.

Levels of Calibration
Following are the levels of calibration:
- Senior Management (Functional Heads reporting to CEO): CEO, HR and the President
- Department Heads (Reporting to Functional Heads): HR, Functional Head and CEO
- Area Heads: HR, Division Head and CEO
- Branch Managers: HR, Area Head, Division Head, CEO

5. PRINCIPLES FOR DIFFERENTIATING PERFORMANCE

5.a. Principles for Managing Underperformance

Underperformance is defined as failure to perform the duties of the role or failure to perform them to the standard required by the Bank. This shall be reflected by a qualitative rating of "Did Not Meet Expectations" in the officer's scorecard.

Underperformance Management
By the time mid-year review is conducted, officers must have an overview on how they are performing to meet their objectives. The Self-assessment tool can help officers to estimate if they are under performance or not. Upon getting the indicative ratings (refer to the calibration matrix) the raters must explain the basis of the ratings to the officers. Should the officers have any question or clarification regarding their rating, hey should immediately communicate this to their respective heads.

5.b. Reporting

The objective of performance management is to ensure that all officers are able to consistently achieve what is expected of them by establishing parameters aligned with the Bank's goals and objectives. It also aims to develop the officers' talents, manage their weak points, and to guide them through their career growth.

The Roles
This section shall define the roles of Managers, Department Heads, Functional Heads and Senior Management in planning, review and calibration.

Planning and Setting of Objectives
The planning and setting of the Bank's goals and objectives for the year is the role of Senior Management

Division Heads and Area Heads. They shall discuss these with their department heads, managers and staff. Department heads and managers shall participate in finalizing these objectives. They should fully understand and must acknowledge these objectives for these shall be the basis of their KRAs for the year.

5.c. Managing the Performance and Regular Review

Each officer is responsible for managing his/her performance on a day-to-day basis to ensure achievement of objectives set for the whole year. Officers' performance shall be reviewed at least four times a year. Following is a table showing rater-ratee relationships.

ORIENTATION AND EDUCATION PROGRAM

1. OBJECTIVES
The purpose of this policy is to set out specific procedures and performance standards to ensure quality training and development of employees. This policy provides for the:

- Identification and documentation of specific employee training needs.
- Documentation of financial resources available and utilized for employee training and development.
- Investigation and approval of specific training programs.
- Identification and documentation of work-related improvements achieved from training.

This policy applies to all probationary and regular employees and all job level positions in the Bank.

2. TRAINING NEEDS ANALYSIS (TNA)
Training needs analysis identifies training needs at employee, departmental or organizational level in order to help employees perform effectively. The aim of training needs analysis is to find out required skills, competence, and attitude in the performance of the job. It supports management objectives and is delivered in an effective and cost-efficient manner.

Training needs analysis involves:
- Monitoring current performance using techniques such as observation, interviews and questionnaires.
- Anticipating future shortfalls or problems.
- Identifying the type and level of training required and analyzing how this can best be provided.

When results of the TNA reveal the need for a training intervention, the Training Officer shall:

- Design, develop and implement appropriate in-house and external training programs that are tailor-fitted to actual training requirements.
- Identify other training manuals/kits, internal and external subject matter experts or consultants who are capable of running the program due to expertise, specialization and competence.
- Prioritize all programs offering based on business objectives and operational requirements.
- Coordinate the administrative requirements as well as training reports.

3. PRIORITIZATION OF TRAINING

Training is a responsibility of the individual and their managers to support the attainment of organizational goods of the Bank. LDB's Human Resources facilitates the implementation of necessary training programs. It shall provide employees the opportunities to grow and widen their knowledge and skills in accordance with business and operational objectives with a view for career enhancement with the company. Thus, the prioritization of training will depend on the result of the Training Needs Analysis and the needs of the employees/department in enhancing their knowledge, attitudes, skills, and habits of work.

4. REQUIRED TRAINING PROGRAMS

All employees are required to attend the following training/seminar programs:

i. New Employees Induction Program
ii. Anti-Money Laundering Act (AMLA)
iii. Product Specific Training
iv. Bank Security Training
v. Risk Management Training
vi. Information Technology Training

5. HOLISTIC APPROACH

The bank will adapt a holistic approach to workforce development through cohesive programs that will balance economic development, human services, and training program by adopting workplace programs that support healthy diet, regular exercise, social connectedness and healthy lifestyles. Mental, physical, emotional, spiritual and social well-being is found linked to achieve well-rounded individuals in the organization.

Training is just one component of the holistic approach to building increased capability. By examining and analyzing the organizational requirements, the Training Officer will recommend learning and development interventions to help the bank achieve its goals.

RETIREMENT AND SUCCESSION POLICY

1. NORMAL RETIREMENT

The Normal Retirement Date of a Member shall be the first day of the month coincident with or next following his sixtieth (60th) birthday. The Member's Normal Retirement Benefit shall be a sum determined in accordance with the Retirement Benefit of the Bank, as follows:

From Fund A, a sum equal to a percentage of Plan Salary for every year of Credited Services in accordance with the benefit schedule below:

Years of Service	Percentage
5 to 10 years	60%
10 years & 1 day to 15 years	125%
15 years & 1 day to 20 years	150%
Over 20 years	200%

Straight computation shall apply for all periods of service.

From Fund B, a sum equal to the Member's Account subject to the operating Rules.

7. OPTIONAL / EARLY RETIREMENT

With the consent of the Bank, a Member may voluntarily retire prior to his Normal Retirement Date provided he has completed at least five (5) years of Credited Service. The Member's Early Retirement Benefit shall be a sum determined in accordance with the Optional / Early Retirement Benefit of the Bank, as follows:

Years of Service	Percentage
5 to 10 years	60%
10 years & 1 day to 15 years	125%
15 years & 1 day to 20 years	150%
Over 20 years	175%

Straight computation shall apply for all periods of service.

A Member who voluntarily retires from the Bank shall be entitled to receive sum from Fund A equivalent to a Percentage of Plan Salary for every year of Credited Service in accordance with the vesting schedule above plus the Member's Account in Fund B, if any. However, Members resigning with less than five (5) years of service shall be entitled only to the Member's Account in Fund B, if any.

8. LATE RETIREMENT

A Member who is allowed by the Bank to continue to work on a yearly extension basis beyond his Normal Retirement Date up to age sixty-five (65) shall continue to be a Member of the Plan up to his Late Retirement Date. The Late Retirement Date of a Member shall be the first day of the month after attaining his Normal Retirement Date. The Member's Late Retirement Benefit shall be a sum determined in accordance with the Retirement Benefit Schedule discussed in "A".

9. DISABILITY BENEFIT

In the event that a Member is retired by the Bank due to permanent total incapacity or disability, as determined by a competent physician appointed by the Bank, his disability retirement benefit shall be the Member's Account in Fund B only.

10. SEVERANCE BENEFIT

A Member who is separated by the Bank due to a retrenchment program or causes not due to his own fault shall be entitled to the Member's Account from Fund B plus whatever benefits he is entitled under the law of applicable benefit under the Plan, if greater, to be taken from Fund A.

11. DISMISSAL FOR CAUSE

A Member who is dismissed by the Bank for cause shall not be entitled to any benefits under Fund A but shall be entitled only to the reimbursement of his personal contributions plus ten (10) percent earnings thereon from Fund B less whatever accountability he may have with the Bank.

12. FORFEITURES

The portion of the amount standing to the credit of a separated Member which is not paid to him by virtue of the limitations specified in this Plan shall be retained in the Fund and shall be used to reduce future contributions of the Bank.

SUCCESSION PLANNING

The Bank recognizes the need to establish a succession plan to ensure continuity in leadership in the organization and avoid costly executive search to fill-up leadership positions.

The succession plan is designed to identify and develop high performing and high potential employees who can occupy key management positions in the future.

Officers from the level of the President down to the Section Heads shall accomplish the Succession Plan Form every semester (June and December) of each year.

The candidate or the identified successor is rated based on the following:

1. Knowledge of banking operations or related functions
2. Ability to motivate others
3. Critical thinking ability
4. Managing change
5. Ability to plan and implement

The identified successor's readiness to assume the higher role is gauged from less than six (6) months to five (5) years.

In case the incumbent or the identified successor files resignation or retirement from the Bank any time before each semester, the head of the resigning/retiring employee shall accomplish the Succession Plan Form.

The identified successor, based on the accomplished Succession Plan Form, shall hold/assume the vacated position.

However, if the identified successor(s) do not meet the expectations of the said position, the Management may look for more qualified candidate within the department or external sources.

REMUNERATION POLICY

Compensation and Benefits

1. Introduction
Compensation Management is an important function of Human Resource because having a competitive rewards program can be an effective strategy in attracting and retaining qualified and competent employees. An employee is paid in accordance with his/her job-relevant qualifications and the number of people in the labor force who possess similar qualifications.

2. Salary Scales
The salary scales refer to the rates, which are paid by the Bank for the various job functions. This complements the job classification plan as specific price ranges are made to complement the different job

at each level of hierarchy.

- The salary scale establishes pay rates for each job grade in terms of hiring, minimum and upper limit rates.
- The mid-point of the range is considered fair pay for the experienced and fully qualified employee satisfactorily performing all duties of a position.
- All jobs falling in the same minimum and upper limit rates although employees in this job grade may receive varying individual rates within the minimum to upper limit range depending upon their relative performance and seniority.
- As a general rule, no employee is paid more than the upper limit of the range established for his/her position unless:
  - He/she is being paid more than the upper limit rate at the time the program is implemented.
  - He/she qualifies for an increase under the policy because of exceptional performance.
  - Management decides that unusual circumstances, such as, tight labor market competition and pressing operating needs justify an exception to this policy.
- The upper limit serves as the signal to management to assess opportunities for promotion or higher responsibilities for employees nearing the upper limit.
- The upper limit alerts HRD to review and redesign the existing pay scale whenever a majority of the employees receive rates that are near or at the prescribed upper limit of the range.

3. Salary Regulations

Salary regulations cover three major aspects: personnel movements, such as, hiring, promotions, and transfers; movements within the range; and adjustments above the upper limit rate.

a. Hiring New Employees

- A new employee is given the hiring or probationary rate of the position in accordance with internal relativity and salary range of the job level, and existing salary of the candidate. The starting salary may be below the minimum rate of the respective job grade, but not lower than the government mandated minimum rate.
- After successfully completing the probationary period of 180 calendar days, the new employee is given the minimum rate for the job.
- Exception to the above is given to a new employee who has a considerable work experience in the function that he/she has been hired to do and has demonstrated the competencies required to perform his/her job.
- The recommendation and approval of the salary is guided by a recruitment matrix.

b. Transfer

- A lateral transfer is a change from one position to another in the same job grade of the Job Classification Plan.
- Since the job in the same job grade has approximately the same difficulty and responsibility requirements, the transferred employee retains his /her salary in the former job.

c. Promotion

- A promotion is a change from the current position of an employee to an available higher position in the plantilla. An employee is given a promotion in terms of rank and designation.
- Promotion constitutes a form of rewarding employee for his/her consistent superior performance. This is only given to an employee who satisfactorily meets the minimum requirements of the higher position. As a matter of policy, a promotion always entails a salary adjustment.
- If a vacancy in a managerial position occurs, the Bank gives a chance to the next-in-line union member who is qualified and willing to assume or be promoted to the vacant position for a period of three (3) months. However, if the union member does not meet the standards established by the Bank, the employee can revert back to his/her former position without losing seniority status and membership with the Union. An appropriate training program for at least one (1) month shall be provided to the employee prior to his/her appointment to the new position in acting capacity. The employee shall hold the new position in an acting capacity for a maximum period of nine (9) months, except when there are special circumstances that require him/her to be on acting capacity for more than 9 months.
- A rank-and-file employee who is recommended for promotion to a managerial position shall be evaluated by the Compensation & Nomination Committee. If the promotion is approved by the Committee, this shall be endorsed to the Board of Directors for confirmation.
- Promotions shall be given twice a year - every January and July. Thus, recommendation shall be forwarded to HRD and processed based on the timeline below:
- An employee who has been promoted is not allowed to apply for any other post within a period of 6 months from the effectivity date of his/her promotion.

d. Demotions

In instances where employees are transferred to lower-classification or lower-ranked positions because of changes in the volume of work or introduction of technological changes, there shall be no reduction in pay for the affected employees.

When an employee is unable to perform his/her assignment in a satisfactory manner or if he/she receives a “Below Average” performance rating, he/she undergoes a 6-month “probationary” period. During that period, the employee is given the opportunity to improve his/her performance. Failure to do so shall mean a transfer to a position in a lower grade level but without any decrease in pay.

This policy discourages use of demotion as personnel action since it is counterproductive.

e. Temporary Transfer

- An employee who is temporarily transferred to another position in an acting capacity shall have no change in his/her salary. The same policy applies in cases where, in addition to the employee’s normal functions, he/she is required to temporarily take on the duties and responsibilities of an associate who is on leave of absence.

- An employee who is temporarily assigned to a higher position is allowed to occupy such position for 6 months. This can be extended for another 6 months, if needed.

f. Merit Increases

The basic objective behind merit increases is to motivate, recognize and reward exemplary performance. Merit increase is given to reward meritorious performance.

- The amount of merit increases for a qualified employee depends on the performance rating, financial position of the Bank, the overall industry salary increase and other economic factors.
- The merit increase is given after the result of the performance appraisal covering a 12-month period under the Performance Evaluation Program.
- The merit increase is integrated into the basic pay upon its effectivity.
- The merit increase is given on top of the economic adjustment or cost of living allowance.
- No merit increase is granted to an employee or officer during the probationary period of his/her employment or while undergoing the qualification period after promotion.
- On top of the CBA mandated salary increases, an employee may be granted a merit increase only if his/her performance is superior.

REMUNERATION AND COMPENSATION POLICY FOR BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration policy of Luzon Development Bank for the Board of Directors and the Senior Management is comprised of principles for provision of remuneration for the Board of Directors as well as general guidelines for provision of remuneration and incentive pay for the Senior Management. The "Senior Management" consists of the members of management who are respective heads of the department/division of the Bank.

The Nomination & Compensation Committee oversees the design and implementation of the remuneration and other incentives policy of the directors and officers. It designates the amount of remuneration and fringe benefits, which shall be sufficient to attract and retain directors and officers who are needed to run the Bank successfully. The said committee also ensures the alignment of interests between the Bank's Board of Directors, Senior Management and shareholders, to attract and retain qualified members of both Boards and with the object of constantly maintaining the motivation of both Boards for achieving the targets set by the Bank.

Board of Directors

The Board of Directors approved a fixed monthly compensation for the Chairman Felix K. Limcaoco III, Vice Chairman Atty. Rene K. Limcaoco, Treasurer Jose Marie L. Ramos and Corporate Secretary Jose Andres A. Limcaoco. The total per diem given to the Board, as well as the total compensation of the President/Chief Executive Officer and the said four (4) members of the Board of Directors and Officer, is disclosed in the Audited Financial Statements (AFS).

Each member of the Board of Directors receives a per diem whenever they attend the monthly meeting including transportation allowance.

Participation in the Board-level Committee Meeting entitles the director of per diem per meeting.

Should a director assume specific ad-hoc tasks other than attending the Board of Directors meetings and board-level committee meetings, the director is entitled also of per diem.

The Board of Directors shall not receive any incentive pay.

Senior Management

Each member of the Senior Management is entitled to receive a fixed monthly salary paid by the Bank for the various job functions including benefits. This complements the job classification plan as specific price ranges are made to complement the different job at each level of hierarchy.

Like all regular Bank personnel, members of Senior Management are receiving 1) rice allowance per month, 2) annual office uniforms, 3) entitlement to sick leave, vacation leave and emergency leave, 4) group health insurance benefits, 5) inclusion in the group life insurance benefits, 6) provident plan of 1.02% of the monthly basic pay and 7) Christmas Bonus.

The Bank also provides service vehicles to some officers including gasoline and toll fee allowances and mobile load stipend.

When the officer is promoted, he is entitled to a 10% increase in monthly salary subject for the approval of the Nomination and Compensation Committee and Board of Directors.

RELATED PARTY TRANSACTIONS

In compliance with BSP Circular 895, the Related Party Transaction policy applies to Luzon Development Bank, its subsidiaries and affiliates, as applicable and intended, to ensure that every Related Party Transaction is conducted in a manner that will protect the Bank from conflict of interest which may arise between the Bank and its Related Parties. The policy also seeks to ensure that all RPTs are conducted at arm's length basis and that appropriate oversight and control are being implemented.

Related Party transactions are transactions or dealings with related parties of the bank, including its trust department, regardless of whether or not a price is charged. These shall include, but not limited to the following:

- On-and off-balance sheet credit exposures and claims and write-offs;
- Investments and/or subscriptions for debt/equity issuances;
- Consulting, professional, agency and other service arrangements/contracts;
- Purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks and license agreements);
- Construction arrangements/contracts;
- Lease arrangements/contracts;
- Trading and derivative transactions;
- Borrowings, commitments, fund transfers and guarantees;
- Sale, purchase or supply of any goods and materials; and
- Establishment of joint venture entities.

Transactions that were previously entered with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in the policy provided that there is no alteration to the terms and conditions, or increase in exposure level otherwise procedures applicable to related party transactions must be adhered.

GUIDELINES IN ENSURING ARM's LENGTH TERMS

To ensure that all related party transactions are being done "at arm's length" basis that is favorable to the bank and its stakeholders, the following procedures shall be followed when applicable to the nature of the transaction:

- Loans, advances and other credit accommodations; whether grant, renewal, extension or increase, provided to DOSRI and other related parties shall be done in the regular course of business and whose terms and conditions are not more favorable to what is being offered to other loan borrowers.
- Fair pricing shall always be applied for all loan transactions with DOSRI and other related parties in consideration with the prevailing market trend. Deviations from the board rates, but still within the prime rates, shall only be given with due justification (credit worthiness, competitive rates offered by peer banks, length of relationship with the customer, repeat loan) as reviewed by RPT Committee and must be approved by the Board. Approval shall be documented.
- Pricing on loans covered by deposit shall range from 2% - 5% spread over the deposit rate, based on approved Board Rates as of March 27, 2017. If with advance interest for the entire term of the loan, the spread can be recommended to as low as 2%, otherwise a minimum of 5% spread will be required. Deviation is subject for review by RPT Committee and approval by the Board. Approval shall be documented. Succeeding changes /amendments in the board rates after March 27, 2017 will be followed, as applicable.
- All assets available for sale (including ROPA) shall be disclosed in the bank's website, displayed in conspicuous place inside the branches, and
- All foreclosed motor vehicles shall be made available to interested bidders in accordance with the policies and procedures defined in Section 37.9 of the Credit Policy Manual on Disposal of Repossessed / Acquired Motor Vehicles.
- Securities and collaterals offered by DOSRI and other related parties shall be considered acceptable based on the Appraisal Valuation Guidelines issued by Credit Management and Services Division (Memorandum CSMD-2017-03, March 3, 2017). Appraisal value of the collateral must always be greater than the loan amount otherwise the loan must be adjusted accordingly or additional collateral must be required subject to the recommendation by CRECOM, reviewed by RPT Committee and final approval by the Board. Approval shall be documented. These collaterals must be enforceable, realizable and marketable to be considered as valid collaterals.
- All assets (except land) under mortgage must be covered by fire insurance with acts of nature; commercial and residential buildings situated along known fault lines must have full earthquake insurance; motor vehicles as well as other movable items must have comprehensive insurance with acts of nature; and individual borrowers must be covered by MRI. Insurances must be endorsed in favor of the bank. Insurance coverages must be renewed immediately after expiration of the policy for as long as still under mortgage with the bank.
- Interest rates on deposit granted to DOSRI and other related parties shall be within the applicable board rates. Granting of higher interest rates must be justified, reviewed by RPT Committee and approved by the Board. Approval shall be documented.
- Procurement of goods and services by the bank shall be subjected to proper bidding procedures such as but not limited to purchase of office equipment and supplies, construction and renovation, repairs and maintenance. Bids and Awards Committee shall ensure transparency by informing interested suppliers and contractors to participate in the bidding process. Just and fair evaluation of both technical and financial proposals shall be conducted to ensure the awarding of the contract to the winning bidder. The bidding process shall be documented. All procurements shall be within the approved budget.
- Binding contracts shall be executed in full between the bank and the contractor stating the agreed terms and conditions. Progress monitoring and evaluation of accomplished works shall be performed by the bank to ensure timely completion of the construction / renovation and to determine if disbursements are within the allotted budget. Evaluation shall be documented.
- Service Level Agreements shall be implemented between the bank and the service provider to ensure that services are being delivered as stated in the SLA.

Conflicts of Interest

If an actual or potential conflict of interest arises on the part of the directors, officers or stockholders of the bank on any transaction with related parties, whether involvement is direct or indirect or on behalf of a third party, they are mandated to fully and immediately disclose the extent of their participation and financial interest.

Any member of the Board or any officer who has a financial interest in the transaction with related parties shall not participate in the discussion and shall abstain from voting on the approval of the transaction.

Review of Related Party Transactions

The RPT Committee is vested with the authority to review any credit and noncredit transaction with a related party that is within the specified materiality threshold prior to the approval of the Board. To fulfill its mandate, the Committee shall conduct a comprehensive review of the transactions focusing on the terms and conditions, the business purpose, the justifications in entering into these transactions and compliance with the rules and regulations on Related Party Transactions. In determining whether to ratify or not a Related Party Transaction, the Committee shall consider the following factors, among others, to the extent relevant to the proposed Related Party Transaction:

- Whether the terms of the Related Party Transaction are fair and on arm's length basis to the Bank;
- Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;
- Whether the Related Party Transactions would present an improper conflict of interest for any director or senior officers of the Bank, taking into account the size of the transaction and the significant influence of the senior officer in the outcome of the transaction;
- The availability of other sources of comparable products or services; and
- The material facts of the proposed RPT, including the proposed aggregate value of such transaction;

After considering all these factors, the Committee shall decide if the transaction is in the ordinary course of business and meets the arm's length requirements. It shall then be endorsed to the Board for approval.

SELF-ASSESSMENT FUNCTION

Internal Audit Department's Structure

As of 31 December 2024, Internal Audit Department's plantilla is composed of seven (7) personnel with six of them currently filled in: one Department Head, four Audit Officers and one Audit Examiner. The IT Audit Officer position is vacant.

Internal Audit Role and Authority

As specified in the LDB Internal Audit Charter, the role of the internal audit department is to assist the Audit and Compliance Committee in ensuring that the bank maintains a sound system of internal controls by regularly monitoring key controls and procedures and ensuring their effectiveness and efficiency, undertaking investigations as directed by the audit committee or requested by management, and conducting regular in-depth audits of high- risk areas. The bank's internal audit functions are serviced in-house by the internal audit department.

The main responsibility of the internal audit department is to conduct a review of the effectiveness of the institution's internal controls, including financial, operational and compliance controls, and risk management at least annually.

The internal audit function must be independent of the activities audited and from day-to-day internal control process. It must be free to report audit results, findings, opinions, appraisals and other information to the appropriate level of management. It shall have authority to directly access and communicate with any officer or employee, to examine any activity or entity of the institution, as well as to access any records, files or data whenever relevant to the exercise of its assignment.

Audit Reporting Process

1. Exit conference: A formal exit meeting is being conducted with business/support unit management prior to leaving the field to present risk/control issues noted during the audit, as well as audit recommendations for improving controls.
2. Executive Summary: The Executive Summary is being prepared which contains summary of actionable risk/control issues and unit action taken/plan and the audit rating. This report is being submitted to the Audit and Compliance Committee Chairperson, copy furnished are Head of Business/Support Unit audited, Chief Compliance Officer, Chief Risk Officer, Chief Operating Officer and the President.
3. Report to Audit and Compliance Committee: The Audit and Compliance Committee Chairperson was given copy of Agenda and Audit Summary one (1) week prior to the Audit and Compliance Committee meeting. Regular meeting is being done on a quarterly basis, prior to Board meeting. There were issues already being resolved at the committee level and there were also issues that are being discussed to full board.
4. Monitoring of Management final response and issues resolution tracking.
5. Feedback and final actions are being monitored through formal follow-ups and the statuses are reported to the next audit committee meeting.

Compliance Department Structure

As of 31 December 2024, Compliance Department is composed of four (4) personnel namely Chief Compliance Officer, AML Officer, Regulatory Compliance Officer and Junior AML Officer.

Compliance Function

An independent function that identifies, assesses, advises on, monitors and reports on the Bank's compliance risks.

Goals and Mission of the Compliance Office

1. Provide bank-wide support to ensure full compliance with all regulatory requirements;

2. Promote well managed communication with regulators and internal customers;
3. Improve monitoring systems of all internal and external requirements to avoid penalties and other inefficiencies;
4. Develop training programs that will harness bank employees' skills in compliance, anti-money laundering and corporate governance.
5. Conduct Compliance Testing and Compliance Risk Assessment

The mission of Compliance is to ensure that the relevant Philippine laws and regulations are identified, the corresponding risks of non-compliance are analyzed and the compliance risks are prioritized. Through a systematic and disciplined approach, the compliance function helps the Bank achieves its objectives by evaluating and improving the effectiveness of the compliance program and risk management, control and governance processes. Likewise, to ensure that appropriate controls and systems are implemented to identify compliance problems and assess performance.

Independence and Authority

The compliance function is independent from the business activities of the institution.

1. It carries out its responsibilities on its own initiative in all units or departments where compliance risk exists and provided with sufficient resources to carry out its responsibilities effectively;
2. It is free to report to Senior Management and the Board of Directors or to the Audit and Compliance Committee and Corporate Governance Committee on any irregularities or breaches of laws, rules and standards discovered, without fear of retaliation or disfavor from management or other affected parties;
3. It has access to all operational areas as well as any records or files necessary to carry out its duties and responsibilities;
4. It has the right to conduct investigations of possible breaches of the compliance policy;
5. It has the right of direct access to the Board of Directors or to the Audit and Compliance Committee and the Corporate Governance Committee.

Scope and Responsibilities

The scope of compliance function includes the periodic compliance testing with applicable legal and regulatory requirements. Testing frequency shall be commensurate with identified risk levels. It also provides for the reporting of compliance findings noted to appropriate levels of management.

The Bank, through its Chief Compliance Officer (CCO), consults the regulatory agencies for additional clarification on specific provisions of laws and regulations and/or discusses compliance findings with the regulatory authorities. The principal function is to oversee and coordinate the implementation of the compliance system. It also includes the identification, monitoring and controlling compliance risk.

Accountability

The CCO shall provide appropriate guidelines and direction to the Bank on the development, implementation and maintenance of the Compliance Program as approved by the Board of Directors:

1. The Compliance Program shall enable the bank to identify the relevant Philippine laws and regulations, analyze the corresponding risk of non-compliance, and prioritize the compliance risks
2. The program shall provide for periodic compliance testing with applicable legal and regulatory requirements. Testing frequency shall be commensurate with identified risks levels. It shall also provide for the reporting of compliance findings noted to appropriate levels of management
3. The program shall establish the duties and responsibilities of the CCO and other personnel (if any) involved in a compliance function
4. A Compliance Program shall have written approval of the Board of Directors
5. The program shall be updated at least annually to incorporate changes in laws and regulations. Any changes in the program shall likewise be approved by the Bank's Board of Directors.

Board of Directors' Review Process

The Audit and Compliance Committee/Board are taking all necessary measures to ensure that appropriate resources, staffing, including the necessary trainings that would enable internal audit and compliance to achieve its objectives are provided.

The Board of Directors are responsible for approving and periodically reviewing the overall strategies and significant policies of the bank; understanding the major risks run by the bank, setting acceptable levels for these risks and ensuring that senior management is monitoring the effectiveness of the internal control system. The board of directors is ultimately responsible for ensuring that an adequate and effective system of internal controls is established and maintained.

Through the different committees, the Board of Directors often request presentations and performance reports that enable them to review the bank's progress toward its goal. For example, the Board may review reports showing actual financial results to date vs. the budget.

DIVIDEND POLICY

LDB's dividend are generally declared and paid in the fiscal year following the year to which they relate. The Bank pays dividend upon recommendation of its Board of Directors and approval by majority of the shareholders at the annual general meeting of the shareholders. The shareholders have the right to decrease but not to increase the dividend amount recommended by the Board of Directors.

While adopting this policy, LDB reiterates its commitment to its shareholders to maximize shareholders' value, which will be represented as Dividend Payout Ratio or the percentage of earning paid to shareholders in dividends.

Shareholders shall have the right to receive dividends subject to the discretion of the Board.

The Bank shall declare dividends when its retained earnings is in excess of 100% of its paid-in capital stock, except: a) when justified by definite corporate expansion projects or programs approved by the Board or b) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Corporation, such as when there is a need for special reserve for probable contingencies.

CONSUMER PROTECTION PRACTICES

The Role of Board and Senior Management

The Board of Directors and Senior Management play an important role in overseeing the consumer protection policies. According to Consumer Protection under Compliance Program, the Board of Directors and Senior Management are responsible for the following:

a. Board of Directors:
- Responsible for approving and overseeing the implementation of the bank's consumer protection policies as well as the mechanism to ensure compliance with said policies.
- Responsible for monitoring and overseeing the performance of Senior Management in managing the day-to-day consumer protection activities of the bank

b. Senior Management:
- Responsible for the implementation of the consumer protection policies approved by the Board.
- Manage the day-to-day consumer protection activities of the bank.
- Other duties and responsibilities delegated by the Board.

Consumer Protection Risk Management System

The bank established Consumer Risk Management Framework to manage the risk inherent with its consumer related activities.

Based on the Consumer Protection Risk Management System the bank identified four (4) key characteristics of a successful consumer protection program which are the following:

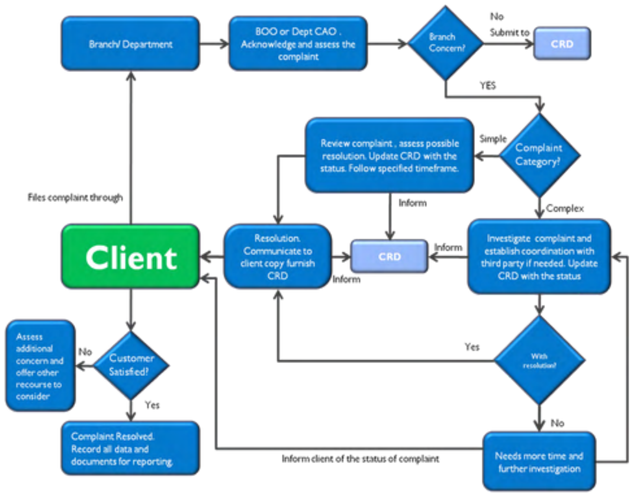
- Gaining leadership buy-in: Leadership buy-in needs to occur at all levels of the organization, from the executive leadership, to heads of lines of business and support functions, and to all levels staff members.
- Being proactive: LDB will be proactive in identifying issues before they are identified by the regulators. This not only helps solve issues before they affect customers, but mitigates issues before they come to regulators' attention.
- Staying well-informed: LDB will compile data that is easily accessible, objective, accurate and timely. We will use key risk indicators (KRIs) in giving senior management the ability to understand what is happening and to take the appropriate actions.
- Establishing a coordinated process: Coordination helps reduce costs and increases efficiency while addressing issues in a timely fashion. Issues are dealt with no matter where they are identified—whether by a line of business, by a regulator or by a customer.

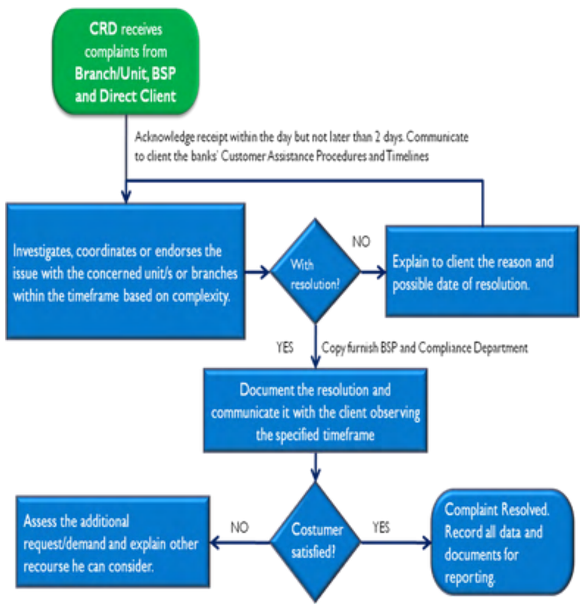
To monitor the feedback received by the Bank, a feedback report from all of its branches, business centers and other departments with direct transaction to customers is submitted and being consolidated. The report is submitted to the senior management and board of directors.

Description of Consumer Assistance Management System

The Bank, in its initiative to professionally use the feedback from the consumers, developed a Consumer Assistance Management System to guide Customer Assistance Officer in Charge in resolving complaints.

The following is the process of resolving concern:





Sustainable Finance Framework

The Banko Sentral ng Pilipinas (BSP) has issued Circular 1085 that integrates sustainability principles including those covering Environmental and Social Risk areas, in the Corporate Governance and Risk Management framework as well as the strategic objectives and operations of the bank. In order to align with the requirement of this circular, the bank formulated the framework.

The objective of the framework aims to institutionalize the adoption of sustainability principles, including those covering Environmental and Social Risk areas. The bank is mindful that climate change and other environmental and social risk could pose financial stability concerns considering their significant impact on the bank's operation and financial interest. This framework also aims to define the bank's strategy that will serve as its guide towards financial sustainability and resiliency.

SUSTAINABLE FINANCE COMMITTEE

The Sustainable Finance Committee is composed of Credit Management and Services Division Head as the Chairman, Risk Management Head as Vice Chairman, Commercial Lending Division Head/Alternate, Information Technology Head/Alternate, Retail Banking Group Head/Alternate, Treasury Department Head/Alternate, and Legal Department Head/Alternate as Members. Their mission is to achieve strategic resilience by incorporating sustainability in the way the bank conducts business; integrate environmental, social and governance ("ESG") and sustainability principles in financial products and services; embed sustainability principles when making decisions, assessing relationships and creating products.

Risk Management Framework

The Board of Directors exercises its risk oversight through the Risk Oversight Committee (ROC). The ROC establishes and maintains LDB's sound risk management system, defines guidelines, and regularly reviews our risk structures, limits, and exposures, ensuring alignment with regulatory requirements and industry best practices.

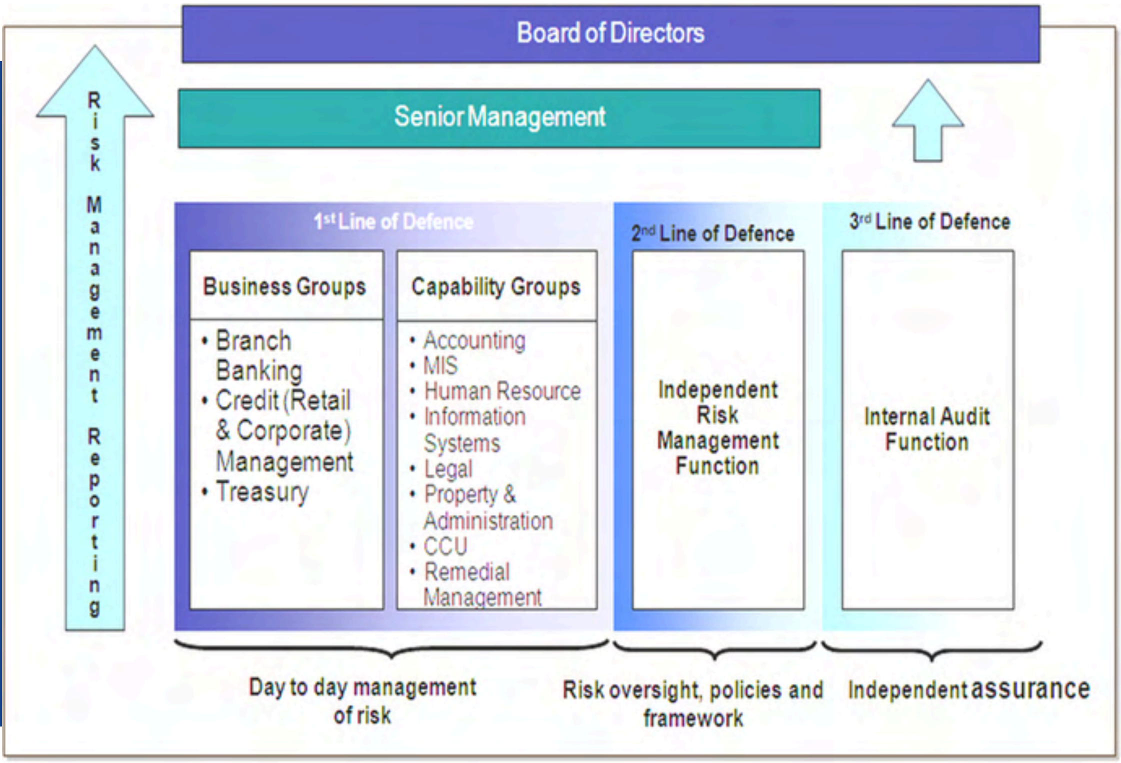
LDB's risk management approach employs the three lines of defense model:

1. **Risk-Taking Units (RTUs)**: Own and manage the day-to-day risks inherent in their respective business activities.
2. **Risk Management Department (RMD)**: Establishes the bank-wide risk management framework, developing tools and methodologies for effective risk identification, measurement, control, and monitoring.
3. **Internal Audit Department (IAD)**: Provides independent assurance on the effectiveness of our risk management framework and its application.

LDB's independent RMD reports directly to the ROC, overseeing all risks inherent in our operations and businesses. RMD promotes enterprise-wide risk awareness and supports the effective implementation of risk management frameworks.

Our principal risk exposures are:

1. **Credit Risk**: The risk of loss from borrower default. This is managed through our Credit Policy Manual and regular credit reviews of the Bank's loan portfolio by the Portfolio Management Department. We utilize an Expected Credit Loss (ECL) model, compliant with BSP and PFRS 9 standards, and continually enhance credit scorecards to align with our risk appetite.
2. **Market and Liquidity Risk**: Governed by a framework for identifying, measuring, controlling (via limits), and monitoring exposures in trading and non-trading activities. Our liquidity policy ensures sufficient funds to meet credit demands and client withdrawals, supported by a robust contingency plan for adverse conditions.
3. **Operational Risk**: Operational Risk is the potential for loss arising from inadequate or failed internal processes, human error or misconduct, system failures, or external events.



At LDB, Risk-Taking Units (RTUs) are primarily responsible for managing operational risks within their respective areas. To ensure effective framework implementation and consistent application, Operations Risk Coordinators are designated within each business, support, and control function.

LDB utilizes tools such as the ABC risk cube for bank-wide operational risk mapping. This aids the Board and Senior Management in identifying priority risk issues and informing strategic decisions. Our risk mitigation strategies are guided by the "Four Ts" approach: Tolerate, Treat, Transfer, or Terminate. Operational risk monitoring results are regularly reported to the Board of Directors through the Risk Oversight Committee.

Furthermore, our Enterprise Business Continuity Plan (e-BCP) enhances LDB's resilience against disruptions. This comprehensive plan involves scenario-based guidelines, systematic testing, employee training, and continuous improvement. A critical component, the Business Impact Analysis (BIA), identifies essential processes and their acceptable downtimes, ensuring prioritized recovery efforts during adverse events.

AML Governance and Risk Framework

Luzon Development Bank (LDB) has developed sound risk management policies and practices to ensure that risks associated with ML/TF are identified, assessed, monitored, mitigated and controlled, as well as to ensure effective implementation and that the Bank will not be used as a vehicle to legitimize proceeds of unlawful activity or to facilitate or finance terrorism.

Board and Senior Management Oversight

It shall be the ultimate responsibility of the Board of Directors and Senior Management to fully comply with the provisions of these rules, the AMLA, as amended, and its RIRR. For this reason it shall ensure that oversight on the Bank’s compliance management is adequate.

The AML Committee is composed of Senior Management that reviews and recommends internal policies and guidelines pertaining to reporting of Suspicious Transaction Reports, including criteria or basis on what comprise a suspicious transaction. It evaluates and deliberates on the evidence or findings gathered on account suspected of money laundering as referred by branch or department. Based on the findings/reports of the branch/business unit, the Committee shall decide whether there is reasonable basis for considering a covered transaction or suspicious transaction or any other illegal or unlawful activity and whether a report will be made to the Anti-Money Laundering Council or evaluates the report and determines if the suspicion is based on reasonable grounds. Where a report will be filed with the AMLC, the official STR shall be prepared by the Branch/Department Head and approved by the Group/Area Head and the Compliance Officer.

The Committee reviews and approves system requirements, policies and procedures to ensure Bank's AMLA compliance. Review and define scenarios that may result to a suspicious transaction trigger or alerts. It also coordinates with AMLC regarding updates and other Anti-Money Laundering issues that need to be communicated within Luzon Development Bank.

It also recommends revisions of the Money Laundering and Terrorist Financing Prevention Program (MTPP) for submission to the Board of Directors to ensure full compliance to the Anti-Money Laundering Revised Implementing Rules and Regulations.

Money Laundering and Terrorist Financing Prevention Program (MTPP)

The Bank has adopted the risk-based MTPP which is geared toward the promotion of high ethical standards and the prevention of the Bank being used, intentionally or unintentionally, for money laundering and terrorism financing. The MTPP is consistent with the AMLA, as amended, and the provisions set out in these rules and designed according to the Bank's corporate structure and risk profile.

The updated MTPP, consistent with the AML laws, rules and regulations was approved by the Board of Directors in its meeting on 16 February 2024.

The MTPP includes the detailed procedures on customer identification, periodic updating of customer information, transaction monitoring, alert investigation, covered and suspicious transaction reporting, record keeping and retention, and training.

The Compliance Department thru the AML Officer is conducting an annual AML Refresher Course to ensure that the Board, Management and all employees are informed of the ML/TF risks and regularly updated of the new regulatory issuances and be constantly reminded of their respective responsibilities. The AML Officer is also giving orientation for new hires.

Monitoring and Reporting Tools

The Bank has an in-house system called Anti-Money Laundering System (AMLS), which is responsible for generating Covered Transaction Reports (CTRs) bank-wide. LDB has also an AML Monitoring System or High-Risk Client Database monitoring system when dealing with high-risk profiled clients and customer transactions monitoring.

As part of the Bank's internal processes, the branches regularly monitor and review customer transactions which include checking/review of generated transaction monitoring reports, KYC documents and transaction records to determine any unusual pattern of transactions and presence of red flags that may warrant investigation; and conduct of enhanced due diligence for possible reporting of suspicious transactions to AMLC.

Internal Control and Audit

Internal Audit Department, which functionally reports to the Board of Directors through the Audit and Compliance Committee is responsible in the conduct of periodic and independent evaluation on soundness of risk management, degree of adherence to internal control mechanisms related to KYC and due diligence policies and procedures, covered and suspicious transaction reporting, record keeping and retention, efficiency of the electronic money laundering transactions monitoring system's functionalities and effectiveness of other existing controls on AML/CFT, among others.
The exceptions noted related to AML/CFT form part of the Audit Report on Business Units issued to the Board through the Branch Banking Division and Audit and Compliance Committee. The same is likewise communicated by Internal Audit Department for monitoring of corrective actions and reporting to AML Committee.

The Compliance Department is also conducting a Compliance Testing in the branches and corporate office to review if the branch has performed the required Due Diligence to identify the legal existence of the customer, verify that the branch's procedures and processes include comprehensive program for identifying customers who open an account, review on high risk areas, CTRs and STRs, Customer Identification Process and Customer Acceptance Policy and to ensure compliance with the existing anti-money laundering laws, rules and regulations, including internal policies and procedures.

Audited Financial Statements

LUZON DEVELOPMENT BANK
CALAMBA CITY, LAGUNA - PHILIPPINES

FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **LUZON DEVELOPMENT BANK** (the "Bank"), is responsible for the preparation and fair presentation of financial statements including the schedules attached therein, for the years ended December 31, 2024 and 2023, in accordance with the prescribed financial reporting framework indicated therein, and such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Alas, Oplas & Co., CPAs, the independent auditor appointed by the stockholders for the years ended December 31, 2024 and 2023, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

FELIX K. LIMCAOCO III
Chairman of the Board

GERARDO T. AUSON, JR.
Chief Executive Officer

JOSE MARIE L. RAMOS
Corporate Treasurer

Signed this 14th day of April, 2025

INDEPENDENT AUDITORS' REPORT

7/F Philippine AXA Life Centre
1286 Sen. Gil Puyat Avenue
Makati City, Philippines 1200
Phone: (632) 7116-4366
Email: aocheadoffice@alasoplas.com
Website: www.alasoplascpas.com

Offices:

Makati Alabang Ortigas Paranaque Cavite
Bulacan Isabela Nueva Ecija Bacolod Iloilo
Legazpi La Union Laguna

To the Stockholders and the Board of Directors
LUZON DEVELOPMENT BANK
LDB Corporate Center, National Highway
Paciano Rizal, Calamba City, Laguna

Opinion

We have audited the financial statements of **LUZON DEVELOPMENT BANK** (the "Bank") which comprise the statements of financial position as of December 31, 2024 and 2023, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including material accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, the *Code of Ethics for Professional Accountants in the Philippines*, and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The Supplementary Information Required under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 and Revenue Regulations Nos. 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 36, and Revenue Regulations Nos. 15-2010 on taxes, duties and license fees paid or accrued during the taxable year in Note 35 to the financial statements, are presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of **LUZON DEVELOPMENT BANK** The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ALAS, OPLAS & CO., CPAs
BOA Registration No. 0190, valid from February 19, 2025, to February 18, 2028
BIR A.N. 08-001026-000-2024, issued on January 5, 2024; effective until January 4, 2027
SEC A.N. (Firm) 0190-SEC, Group A, issued on October 21, 2021; valid for 2021 to 2025 audit period
TIN 002-013-406-000

By:

RYAN A. SABUG
Partner
CPA License No. 0111183
BOA Registration No. 0190/P-004, valid from February 19, 2025, to February 18, 2028
BIR A.N. 08-001026-004-2023, issued on February 9, 2023; effective until February 8, 2026
SEC A.N. (Individual) 111183-SEC, Group A, issued on February 4, 2021; valid for 2020 to 2024 audit period
TIN 232-158-286-000
PTR No. 10466283, issued on January 2, 2025, Makati City

April 14, 2025
Makati City, Philippines

LUZON DEVELOPMENT BANK
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2024 AND 2023
In Philippine Peso

	Notes	2024	2023 As restated	2022 As restated
ASSETS				
Cash and other cash items	8	**161,926,937**	137,490,752	127,527,689
Due from Bangko Sentral ng Pilipinas	8	**1,598,531,462**	1,701,527,528	895,229,757
Due from other banks	8	**120,568,532**	172,136,878	148,282,440
Securities purchased under resale agreements	8	**–**	49,925,969	153,940,843
Held-to-collect financial assets	9	**102,323,424**	52,386,445	54,463,428
Loans and other receivables – net	10	**2,811,586,573**	3,227,972,491	3,453,393,229
Bank premises, furniture, fixtures and equipment – net	11	**144,589,456**	148,479,998	149,817,354
Right-of-use assets – net	12	**63,883,655**	68,835,798	60,113,907
Investment properties	13	**1,348,366,923**	1,088,285,715	1,124,646,634
Intangible assets – net	14	**31,668,395**	33,036,134	34,869,323
Investment in associate	15	**23,487,792**	19,743,481	18,797,900
Deferred tax assets – net	29	**126,323,002**	117,553,757	113,078,385
Other assets – net	16	**97,565,536**	94,565,075	172,505,671
TOTAL ASSETS		**6,630,821,687**	6,911,940,021	6,506,666,560
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit liabilities	17	**5,480,750,596**	5,766,846,250	5,339,455,145
Manager's checks	18	**5,024,131**	10,140,478	17,102,838
Lease liabilities	22	**78,985,904**	83,146,835	73,355,668
Bills payable	19	**–**	–	46,830,773
Accrued interest and other expenses	20	**52,821,163**	51,443,187	73,143,041
Income tax payable		**–**	2,371,941	2,691,050
Retirement benefit obligation	23	**41,656,593**	46,011,196	45,580,192
Other liabilities	21	**103,065,646**	125,226,616	134,230,640
Total Liabilities		**5,762,304,033**	6,085,186,503	5,732,389,347
EQUITY				
Share capital	24	**968,350,200**	968,350,200	800,000,000
Deposit for future stock subscription	24	**–**	–	168,350,200
Treasury stock – preferred	24	**–**	–	(50,300)
Surplus reserves	24	**5,304,528**	5,304,528	5,304,528
Deficit		**(113,792,578)**	(155,579,723)	(207,024,558)
Accumulated actuarial gain on post-employment defined benefit obligation	23	**8,655,504**	8,678,513	7,697,344
Total Equity		**868,517,654**	826,753,518	774,277,214
TOTAL LIABILITIES AND EQUITY		**6,630,821,687**	6,911,940,021	6,506,666,561

See Notes to Financial Statements.

LUZON DEVELOPMENT BANK
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023
In Philippine Peso

	Notes	**2024**	2023 As restated
INTEREST INCOME			
Loans and other receivables	10	**362,180,801**	375,432,708
Due from BSP and other banks	8	**104,582,781**	69,002,816
Held-to-collect financial assets	9	**5,081,218**	1,843,379
		471,844,800	446,278,903
INTEREST EXPENSE			
Deposit liabilities	17	**(149,225,148)**	(133,046,758)
Bills payable	19	**–**	(1,606,440)
Lease liabilities	22	**(4,892,501)**	(4,545,322)
		(154,117,649)	(139,198,520)
NET INTEREST INCOME		**317,727,151**	307,080,383
OTHER INCOME	25	**96,956,447**	95,662,677
TOTAL OPERATING INCOME		**414,683,598**	402,743,060
OPERATING EXPENSES	26	**(357,329,155)**	(325,268,417)
NET OPERATING INCOME BEFORE PROVISIONS		**57,354,443**	77,474,643
PROVISION FOR CREDIT LOSSES	27	**(2,193,130)**	(15,622,169)
PROFIT BEFORE SHARE IN NET INCOME OF ASSOCIATE AND INCOME TAX		**55,161,313**	61,852,474
SHARE IN NET INCOME OF ASSOCIATE	15	**3,744,311**	945,581
PROFIT BEFORE TAX		**58,905,624**	62,798,055
INCOME TAX EXPENSE	29	**(17,118,479)**	(11,353,220)
PROFIT		**41,787,145**	51,444,835

See Notes to Financial Statements.

LUZON DEVELOPMENT BANK
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023
In Philippine Peso

	Notes	**2024**	2023 As restated
PROFIT		**41,787,145**	51,444,835
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will not be reclassified subsequently to profit or loss			
Actuarial losses on remeasurement of post-employment defined benefit plan	23	**(30,679)**	1,308,226
Tax benefit (expense)	23	**7,670**	(327,057)
		(23,009)	981,169
TOTAL COMPREHENSIVE INCOME		**41,764,136**	52,426,004

See Notes to Financial Statements.

LUZON DEVELOPMENT BANK
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023
In Philippine Peso

	Common Stock (Note 24)	**Preferred Stock** (Note 24)	**Treasury Stock – Preferred** (Note 24)	**Surplus Reserves** (Note 24)	**Deposit for future stock subscription** (Note 24)	**Deficit**	**Other comprehensive income** (Note 23)	**Total**
Balance at December 31, 2022, as previously reported	376,955,600	423,044,400	(50,300)	5,304,528	168,350,200	(208,652,198)	7,697,344	772,649,574
Prior period adjustment	–	–	–	–	–	1,627,640	–	1,627,640
Balance at December 31, 2022 as restated	376,955,600	423,044,400	(50,300)	5,304,528	168,350,200	(207,024,558)	7,697,344	774,277,214
Transaction with owners								
Reclassification of deposit for future stock subscription	168,350,200	–	–	–	(168,350,200)	–	–	–
Reissuance of treasury stock	–	–	50,300	–	–	–	–	50,300
Total transaction with owners	168,350,200	–	50,300	–	(168,350,200)	–	–	50,300
Total comprehensive income for the year, as previously reported	–	–	–	–	–	46,874,739	981,169	47,855,908
Prior period adjustment	–	–	–	–	–	4,570,096	–	4,570,096
Total comprehensive income for the year, as restated	–	–	–	–	–	51,444,835	981,169	52,426,004
Balance at December 31, 2023 as restated	**545,305,800**	**423,044,400**	**–**	**5,304,528**	**–**	**(155,579,723)**	**8,678,513**	**826,753,518**
Transaction with owners								
Conversion of preferred stock to common stock	240,000,000	(240,000,000)	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	41,787,145	(23,009)	41,764,136
Balance at December 31, 2024	**785,305,800**	**183,044,400**	**–**	**5,304,528**	**–**	**(113,792,578)**	**8,655,504**	**868,517,654**

See Notes to Financial Statements.

LUZON DEVELOPMENT BANK
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023
In Philippine Peso

	Notes	2024	2023 As restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**58,905,624**	62,798,055
Adjustments for:			
Interest income – cash and cash equivalents	8	**(104,582,781)**	(69,002,816)
Depreciation and amortization	26	**70,380,934**	72,432,164
Gain on sale of non-financial assets	25	**(22,289,544)**	(54,166,551)
Loss on foreclosure	16	**11,021,440**	4,287,076
Impairment loss	13,26	**5,539,732**	–
Interest income – held-to-collect financial assets	9	**(5,081,218)**	(1,843,379)
Interest expense on lease liability	22	**4,892,501**	4,545,322
Retirement benefit expense	23,26	**4,502,094**	2,851,158
Share in net income of associate	15	**(3,744,311)**	(945,581)
Loss on appraisal increment	26	**3,398,016**	4,530,687
Provision for credit losses	27	**2,193,130**	15,622,169
Gain on lease pre-termination	25	**(456,850)**	–
Loss in disposal of BPFFE	11,26	**122,435**	37,199
Operating income before working capital changes		**24,801,202**	41,145,503
Decrease (Increase) in operating assets:			
Loans and other receivables		**55,265,904**	179,611,363
Other assets		**(44,631,639)**	43,812,974
Increase (decrease) in operating liabilities:			
Deposit liabilities		**(286,095,654)**	427,391,105
Manager’s check		**(5,116,347)**	(6,962,360)
Accrued interest and other expenses		**1,377,976**	(21,699,855)
Other liabilities		**(22,160,971)**	(9,004,023)
Cash generated from (used in) operations		**(276,559,529)**	654,294,707
Interest received		**109,727,020**	70,973,178
Income tax paid		**(25,633,429)**	(16,359,040)
Benefits paid	23	**(8,887,375)**	(1,111,928)
Net cash generated from (used in) operating activities		**(201,353,313)**	707,796,917
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of held-to-collect financial assets	9	**(100,000,000)**	–
Proceeds from sale of investment property	13	**81,213,721**	78,204,148
Redemption of held-to-collect financial assets	9	**50,000,000**	1,950,000
Proceeds from sale of other properties acquired	16	**20,509,033**	24,722,400
Acquisition of bank premises, furniture fixture and equipment	11	**(4,671,710)**	(5,448,677)
Acquisition of intangible asset	14	**–**	(84,000)
Proceeds from sale of assets held for sale	16	**135,252**	38,695
Net cash generated from investing activities		**47,186,296**	99,382,566
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of lease liability	22	**(25,887,179)**	(24,298,612)
Payments of bills payable	19	**–**	(46,830,773)
Reissuance of treasury stock	24	**–**	50,300
Net cash used in financing activities		**(25,887,179)**	(71,079,085)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(180,054,196)**	736,100,398
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR			
Cash and other cash items		**137,490,752**	127,527,689
Due from Bangko Sentral ng Pilipinas		**1,701,527,528**	895,229,757
Due from other banks		**172,136,878**	148,282,440
Securities purchased under resale agreements		**49,925,969**	153,940,843
		2,061,081,127	1,324,980,729
CASH AND CASH EQUIVALENTS AT THE END OF YEAR			
Cash and other cash items	8	**161,926,937**	137,490,752
Due from Bangko Sentral ng Pilipinas	8	**1,598,531,462**	1,701,527,528
Due from other banks	8	**120,568,532**	172,136,878
Securities purchased under resale agreements	8	**–**	49,925,969
		1,881,026,931	2,061,081,127

See Notes to Financial Statements.

1. CORPORATE INFORMATION

LUZON DEVELOPMENT BANK (the "Bank") was incorporated in the Philippines on March 13, 1961 and operates as a private development bank and provides services such as deposits, loans and domestic and foreign fund transfers through a network of 39 branches as of December 31, 2024 and 2023.

As a banking institution, the Bank's operations are regulated and supervised by the BSP. In this regard, the Bank is required to comply with the rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitute and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Bank's activities are subject to the provisions of the General Banking Law of 2000 [Republic Act (R.A.) No. 8791] and other related banking laws.

The Bank's registered office address, which is also its principal place of business, is located at LDB Corporate Center, National Highway, Paciano Rizal, Calamba City, Laguna.

2. BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.01 Statement of Compliance

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) Accounting Standards. PFRS Accounting Standards are adopted by the Financial and Sustainability Reporting Standards Council (FSRSC) from the pronouncements issued by the International Accounting Standards Board (IASB) and approved by the Philippine Board of Accountancy.

PFRS Accounting Standards include all applicable PFRSs, Philippine Accounting Standards (PASs), and Interpretations issued by the Philippine Interpretations Committee – IFRIC as approved by the FSRSC and adopted by the SEC.

2.02 Basis of Preparation

The financial statements are prepared on a going concern basis under the historical cost convention, except for financial assets and financial liabilities at fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI) and investment properties at fair value.

2.03 Presentation and Functional Currency

Items included in the financial statements of the Bank are measured using Philippine Peso, the currency of the primary economic environment in which the Bank operates (the "functional currency"). All presented financial information has been rounded to the nearest Peso, except when otherwise specified.

2.04 Use of Judgments and Estimates

The preparation of the Bank's financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the Bank's financial statements and accompanying notes.

Judgments are made by management in the development, selection and disclosure of the Bank's significant accounting policies and estimates and the application of these policies and estimates.

The estimates and assumptions are reviewed on an on-going basis. These are based on management's evaluation of relevant facts and circumstances as of the reporting date. Actual results could differ from such estimates.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2.05 Going Concern Assumption

The Bank is not aware of any significant uncertainties that may cast doubts upon the Bank's ability to continue as a going concern.

2.06 Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents statement of comprehensive income separate from the statement of income.

3. ADOPTION OF NEW AND AMENDED ACCOUNTING STANDARDS

3.01 New and Amended Standards and Interpretations Effective on January 1, 2024

The Bank applied for the first-time the following standards and amendments, which are effective for annual periods beginning on or after 1 January 2024, unless otherwise stated.

- Classification of Liabilities as Current or Non-current (Amendments to PAS 1)
- Liability in a Sale and Leaseback (Amendments to PFRS 16)
- Supplier Finance Arrangements (Amendments to PAS 7 and PFRS 7)
- Non-current Liabilities with Covenants (Amendments to PAS 1)

These amendment has no impact on the Banks's financial statements.

3.02 Standards Issued but Not Yet Effective (Effective Beginning on or After January 1, 2025)

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

3.02.01 PFRS 17 Insurance Contracts
PFRS 17 'Insurance Contracts' is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. PFRS 17 replaces PFRS 4 'Insurance Contracts'. PFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them as well as to certain guarantees and financial instruments with discretionary participation features; a few scope exceptions will apply.
The overall objective of PFRS 17 is to provide a comprehensive accounting model for insurance contracts that is more useful and consistent for insurers, covering all relevant accounting aspects. PFRS 17 is based on a general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is originally effective for annual periods beginning January 1, 2023. However, the Financial Reporting Standards Council has approved, on December 15, 2021, the amendment of PFRS 17 which defers the date of initial application by two years to annual periods beginning on or after January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two years after its effective date as decided by the IASB.

The Bank does not expect the standard to have a material impact on its operations or financial statements.

3.02.02 Lack of Exchangeability (Amendments to PAS 21)
In August 2023, the IASB amended PAS 21 to help entities to determine whether a currency is exchangeable into another currency, and which spot exchange rate to use when it is not.

The amendment is effective for reporting periods beginning on or after January 1, 2025. The Bank does not expect these amendments to have a material impact on its operations or financial statements.

3.02.03 Annual Improvements to PFRS Accounting Standards – Volume 11
In July 2024, the IASB published 'Annual Improvements to PFRS Accounting Standards – Volume 11'. A summary of improvements is set out below:

- PFRS 7 'Financial Instruments: Disclosures' – Gain or loss on derecognition
- PFRS 7 'Financial Instruments: Disclosures' Implementation Guidance – Disclosure of differences between the fair value and the transaction price and disclosures on credit risk
- PFRS 9 'Financial Instruments' – Transaction price and lessee derecognition of lease liabilities
- PFRS 10 'Consolidated Financial Statements' – Determination of a 'de facto agent'
- PAS 7 'Statement of Cash Flows' – Cost method

The amendments will be effective for annual reporting periods beginning on or after January 1, 2026. Early application is permitted but will need to be disclosed. The Bank does not expect these amendments to have a material impact on its operations or financial statements.

3.02.04 Amendments to the Classification and Measurement of Financial Instruments (Amendments to PFRS 9 and 7)
On May 30, 2024, the IASB issued targeted amendments to PFRS 9 and PFRS 7 to respond to recent questions arising in practice, and to include new requirements not only for financial institutions but also for corporate entities. These amendments:

- clarify the date of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system;
- clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (SPPI) criterion;
- add new disclosures for certain instruments with contractual terms that can change cash flows (such as some financial instruments with features linked to the achievement of environment, social and governance targets); and
- update the disclosures for equity instruments designated at fair value through other comprehensive income (FVOCI).

The amendments will be effective for annual reporting periods beginning on or after January 1, 2026. Early adoption is permitted but will need to be disclosed. The Bank does not expect these amendments to have a material impact on its operations or financial statements.

3.02.05 PFRS 18 'Presentation and Disclosure in Financial Statements'
PFRS 18 will replace PAS 1, *Presentation of Financial Statements*, introducing new requirements that will help to achieve comparability of the financial performance of similar entities and provide more relevant information and transparency to users. Even though PFRS 18 will not impact the recognition or measurement of items in the financial statements, its impacts on presentation and disclosure are expected to be pervasive, in particular those related to the statement of financial performance and providing management-defined performance measures within the financial statements.

Management is currently assessing the detailed implications of applying the new standard on the Bank's financial statements.

The Bank will apply the new standard from its mandatory effective date of January 1, 2027. Retrospective application is required, and so the comparative information for the financial year ending December 31, 2026 will be restated in accordance with PFRS 18.

3.02.06 PFRS 19 'Subsidiaries without Public Accountability: Disclosures'
Issued in May 2024, PFRS 19 allows for certain eligible subsidiaries of parent entities that report under PFRSs to apply reduced disclosure requirements.

PFRS 19 will become effective for reporting periods beginning on or after January 1, 2027, with early application permitted. The Bank does not expect the standard to have a material impact on its operations or financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

Principal accounting and financial reporting policies applied by the Bank in the preparation of its financial statements are enumerated below and are consistently applied to all the years presented, unless otherwise stated.

4.01 Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, 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 of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

4.01.01 Classification, Measurement and Reclassification of Financial Assets
The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets can be classified as financial assets at amortized cost, at fair value through profit or loss (FVTPL) or at fair value through other comprehensive income (FVOCI) depending on the business model and cash flow characteristics. The financial asset classification applicable to the Bank is financial asset at amortized cost.

Financial assets are measured at amortized cost if both of the following conditions are met:
- the financial asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any allowance for expected credit loss (ECL).

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Securities Purchased Under Resale Agreements (SPURA), Held-To-Collect (HTC) Financial Assets, Loans and Other Receivables, and Due from other banks – restricted under Other Assets account.

For purposes of cash flows reporting and presentation, cash and cash equivalents include Cash and Other Cash Items, Due from BSP, Due from Other Banks and SPURA. These financial assets cover cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Also included in this category are securities purchased under repurchase agreements wherein the Bank enters into short-term purchases of securities under reverse repurchase agreements of substantially identical securities with the BSP. The difference between the sale and repurchase price is recognized as interest and accrued over the life of the agreements using the effective interest method.

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2024 and 2023, the Bank has not made such designation.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Bank's business model will be effected only at the beginning of the next reporting period following the change in the business model.

4.01.02 Recognition of Interest Income Using Effective Interest Rate Method
Interest income on financial assets at amortized cost is calculated 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 those that are purchased or originated credit-impaired assets.

The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The effective interest rate is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of effective interest rate. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the instrument; hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset with an increase or reduction in interest income.

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.

The interest earned is recognized as part of Interest Income account in the statements of income.

4.01.03 Impairment of Financial Assets
The Bank recognizes allowances for ECL on a forward-looking basis associated with its financial assets at amortized cost.

The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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 Bank 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 Bank 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 Bank'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.

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.

Also, the Bank applies a simplified ECL approach for its accounts receivables wherein the Bank uses a provisioning 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 Bank's lending activities. For these instruments, the Bank measures the loss allowance of an amount equal to lifetime ECL.

4.01.04 Derecognition of Financial Assets

(i) Modification of Loans

When the Bank derecognizes a financial asset through renegotiation or modification of contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;

- Whether any substantial new terms are introduced that will affect the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; and/or,
- Insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments.

Differences in the carrying amount are as gain or loss on derecognition of financial assets in profit or loss. As to the impact on ECL measurement, the expected fair value of the "new" asset is treated as the final cash flow from the existing financial asset at the date of derecognition; such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in 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 other than Modification of Loans

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 Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

4.02 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less any impairment loss. As no finite useful life for land can be determined, related carrying amount is not depreciated. All other bank premises, furniture, fixtures and equipment are carried at acquisition costs 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.

Construction in progress (CIP) represents property and equipment under construction or in development and is stated at cost. Cost includes direct costs of construction, applicable borrowing costs, and other related expenditures necessary to prepare the asset for its intended use.

CIP is not depreciated. Depreciation begins only when the construction is completed and the asset is available for use, at which point the asset is transferred to the appropriate property and equipment account and depreciated over its estimated useful life.

Depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the assets as presented below.

Building and improvements	–	20 to 30 years
Furniture, fixtures and equipment	–	3 to 5 years

Leasehold improvements are amortized using the estimated useful life of 5 to 10 years or the remaining term of the lease 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. The residual values, estimated useful lives and method of depreciation and amortization of bank premises, furniture, fixtures and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

Fully depreciated and fully amortized assets are retained in the accounts until these are no longer in use and no further charge for depreciation and amortization is made in respect of those assets. An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation, accumulated amortization and impairment losses, if any, 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.

4.03 Investment Properties

Investment properties represent properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in providing services or for administrative purposes.

The Bank adopted the cost model in measuring its investment properties; hence, these are stated at cost less accumulated depreciation and any impairment in value. The cost of an investment property comprises its purchase price and directly attributable costs incurred. For these assets, the cost is recognized initially at the lower of the outstanding loan balance, bid price or appraised value of the property.

Loss on foreclosure of investment properties and other properties acquired is recognized upon derecognition of existing receivables through foreclosure of assets used as collateral and is determined that the fair value of the foreclosed asset is lower than the net carrying amount of the receivable settled.

Direct operating expenses such as repairs and maintenance and real estate taxes are charged against current operations during the period in which these costs are incurred. Investment properties, except land, are depreciated using the straight-line basis over the estimated useful life of the asset ranging from three to ten years. 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.

Investment properties including the related accumulated depreciation and any impairment losses are derecognized upon disposal or when no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss and is presented as part of Gain on sale of non-financial assets – net under Other Income in the statements of income in the year of retirement or disposal.

4.04 Intangible Assets

Intangible assets include branch licenses, which arose from acquisition of branches by the Bank, Philippine Clearing House Corporation (PCHC) membership and acquired software costs, which are accounted for under the cost model.

The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

Capitalized costs from acquired software costs are amortized on a straight-line basis over the estimated useful life (ranging from one to five years) as the lives of these intangible assets are considered finite. In addition, this kind of intangible asset is subject to impairment testing.

Branch licenses and PCHC membership, on the other hand, were determined to have indefinite useful lives and are therefore not amortized. The useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis. Branch licenses and PCHC membership are tested for impairment annually either individually or at the cash-generating unit (CGU) level.

4.05 Assets Held-for-Sale

Assets held-for-sale pertain to chattel mortgage properties, presented under Other Assets account in the statement of financial position, acquired through repossession or foreclosure which the Bank intends to sell within one year from the date of classification as held for sale and remains committed to immediately dispose the assets through an active marketing plan.

The Bank classifies an asset 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 Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset.

Assets held-for-sale are measured at the lower of their carrying amounts, immediately prior to their classification as held for sale, and their fair value less costs to sell. These assets are not subject to depreciation. If the Bank has classified an asset as held-for-sale or disposal group, but the criteria for it to be recognized as held-for-sale or disposal group are no longer satisfied, the Bank shall cease to classify the asset as such.

The Bank recognizes an impairment loss for any initial or subsequent write-down of the assets held-for-sale and disposal group 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 to 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.

Assets that cease to be classified as held-for-sale is recognized as Other properties acquired – net under other assets account in the statement of financial position and 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 as determined by the Bank's internal appraisers. 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.

Other properties acquired are carried at cost, which is the fair value at acquisition date, less accumulated depreciation and any impairment value. The Bank applies cost model in accounting for other properties acquired. Depreciation is computed on a straight-line basis over the estimated useful life of five years.

The gain or loss arising from the sale or re-measurement of assets held-for-sale or disposal group is recognized in profit or loss and is included in the Gain on sale of non-financial assets – net account under other income in the statement of income.

4.06 Investment in Associate

Associates are those entities over which the Bank is able to exert significant influence but which are neither subsidiaries nor interests in joint venture. Investment in an associate is initially recognized at cost and subsequently accounted for using the equity method. Under the equity method, the Bank recognizes in profit or loss its share in the net earnings or losses of the associate. The cost of the investment is increased or decreased by the Bank's equity in net earnings or losses of the associate since the date of acquisition. Dividends received are accounted for as reduction in the carrying value of the investment.

Acquired investments in an associate is subject to purchase method of accounting. 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 Bank's share in the associate is included in the amount recognized as investment in an associate. All subsequent changes to the ownership of interest in the equity of the associate are recognized in the Bank's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are credited against Share in Net Income (Loss) of an Associate account in the Bank's statements of income. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities. Changes resulting from 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 of the Bank as applicable.

When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank 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 investor 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 Bank and its associate are eliminated to the extent of the Bank's interest in the associate.

Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the assets that were transferred. Accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Bank.

The Bank 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.

4.07 Other Assets

Other assets pertain to assets that are controlled by the Bank 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 Bank and the asset has a cost or value that can be measured reliably.

4.08 Financial Liabilities

Financial liabilities, which include deposit liabilities, manager's checks, lease liabilities, bills payable, accrued interest and other expenses, deposit for future stock subscription, and other liabilities (except tax-related payables), are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in profit or loss under the caption Interest Expense in the statement of income.

Deposit liabilities are recorded or stated at amounts in which they are to be paid, which approximate their fair values. Financial liabilities are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments. Dividend distributions to shareholders are recognized as financial liabilities when the dividends are declared by the Bank and are approved by the Board of Directors.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

4.09 Offsetting of Financial Instruments

Financial assets and financial 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 set-off 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 a 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.

4.10 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.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

4.11 Revenue and Expense Recognition

Revenue is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may partially be within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the Bank first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these 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.

The Bank also earns service fees and commissions on various banking services, and gains on sale of properties, which are supported by contracts and approved by the parties involved. These revenues are accounted for by the Bank in accordance with PFRS 15.

For revenues arising from various banking 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:

4.11.01 Service Charges and Fees

a) Commission and fees – these fees arising from loans, deposits, and other banking transactions are recognized as income based on agreed terms and conditions with customers which are generally when the services has been performed.
b) Service charges – these pertain to charges related to loans receivable and demand deposits which are recognized as income upon the occurrence of the transaction.
c) Late payment fees – these are billed on late payments of loans and are recognized as income upon occurrence of the late payment event.

d) Referral fees – these pertain to fees earned from insurance referrals involving loan accounts.
e) Penalties – these are charges from deposit accounts that fall under dormancy or maintaining balance. These fees are recognized at the time of dormancy.

Service charges and fees are included as part of other income account in the statement of income.

4.11.02 Interest income
Interest income are recognized in the statements of comprehensive income for all interest-bearing financial instruments using the effective interest rate method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, the net carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are integral part of the effective interest rate. The change in carrying amounts is recorded as "interest income".

In the case of past due accounts, interest income is recognized only upon the actual collection, as provided under existing BSP regulations.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Unearned discount is recognized as income over the terms of the receivables using the effective interest rate method and shown as deduction from loans.

4.11.03 Gain on Sale of Non-financial Assets
Gain on sale of non-financial assets arise from the disposals of bank premises, furniture, fixtures and equipment, investment properties, assets held-for-sale and other properties acquired. The Bank recognizes the gain on sale at the time the control of the assets is transferred to the buyer, when the Bank 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 sale of non-financial assets is presented under other income account in the statement of income. Collections from accounts, which did not qualify from revenue recognition, are treated as customers' deposits and are included as part of Accounts payable under Other Liabilities account in the statement of financial position.

4.12 Leases

The Bank accounts for its leases as follows:

4.12.01 The Bank as Lessee
For any new contracts entered into, the Bank considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

To apply this definition, the Bank assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank 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 Bank recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

Subsequently, the Bank 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 Bank also assesses the right-of-use asset for impairment when such indicators exist.

4.12.02 The Bank as Lessor
Leases wherein the Bank substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Bank's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Bank's net investment outstanding in respect of the finance lease. 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.

4.13 Impairment of Non-financial Assets

The Bank's investment in an associate, bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties, intangible assets, asset held-for-sale, other properties acquired, and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. Branch licenses and PCHC membership with an indefinite useful life 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 (CGUs). As a result, some assets are tested individually for impairment, and some are tested at CGU level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each 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 Bank'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.

4.14 Employee Benefits

The Bank provides post-employment benefits to employees through defined benefit plan and other employee benefits which are recognized as presented below.

4.14.01 Post-employment Defined Benefit Plan
A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies.

The Bank's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise.
Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments.

Past service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

4.14.02 Termination Benefits
Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

4.14.03 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 reported as part of accrued Interest and other expenses account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

4.15 Income Taxes

Tax expense or income 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, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax assets and liabilities reflect the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in 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 are offset if the Bank has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority

4.16 Related Party Transactions and Relationships

Related party transactions are transfer of resources, services or obligations between the Bank and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual; and, (d) the Bank's funded retirement plan.

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

Further, Section 131 of the MORB states that related parties shall cover the BSFI's subsidiaries as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the BSFI exerts direct/indirect control over or that exerts direct/indirect control over the BSFI; the BSFI's DOSRI, and their close family members, as well as corresponding persons in affiliated companies. These shall also include such other person/juridical entity whose interests may pose potential conflict with the interest of the BSFI, hence, is identified as a related party.

The above definition shall also include direct or indirect linkages to a BSFI identified as follows:

(1) Ownership, control or power to vote, of ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa;
(2) Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the borrowing corporation;
(3) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the BSFI and ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity; or
(4) Permanent proxy or voting trusts in favor of the BSFI constituting ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.

Related party transactions (RPTs) shall refer to transactions or dealings with related parties of the BSFI, including its trust department regardless of whether or not a price is charged. These shall include, but not limited to the following:

(1) On- and off-balance sheet credit exposures and claims and write-offs;
(2) Investments and/or subscriptions for debt/equity issuances;
(3) Consulting, professional, agency and other service arrangements/contracts;
(4) Purchases and sales of assets, including transfer of technology and intangible items (e.g., research and development, trademarks and license agreements);
(5) Construction arrangements/contracts;
(6) Lease arrangements/contracts;
(7) Trading and derivative transactions;
(8) Borrowings, commitments, fund transfers and guarantees;
(9) Sale, purchase or supply of any goods or materials; and
(10) Establishment of joint venture entities.

RPTs shall be interpreted broadly to include not only transactions that are entered into with related parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

4.17 Equity

Capital stock represents the nominal value of shares that have been issued.

Deposit on future stock subscription refers to the amount of money or property received by the Bank with the purpose of applying the same as payment for future issuance of stocks which may or may not materialize.

As adopted from SEC Financial Reporting Bulletin No. 006 issued in 2012 and amended in 2013 and 2017, the Bank does not consider a deposit for future subscription as an equity instrument unless all of the following elements are present:

(i) The unissued authorized capital of the entity is insufficient to cover the amount of shares indicated in the contract;
(ii) There is BOD’s approval on the increase in authorized capital stock (for which a deposit was received by the Bank);
(iii) There is stockholders’ approval of said proposed increase; and,
(iv) The application for the approval of the proposed increase has been presented for filing or has been filed with the SEC.

If any or all of the foregoing elements are not present, the transaction should be recognized as a liability. The amount of deposits for future stock subscription will be reclassified to equity account when the Bank meets the foregoing criteria.

Treasury shares are stated at cost of reacquiring such shares and are deducted from equity attributable to the Bank's equity holders until the shares are cancelled, reissued or disposed of.

Remeasurement gain on net defined benefit liability pertains to remeasurements of post-employment defined benefit plan.

Surplus reserves represent amount appropriated for the future plan and unforeseen expenditure.

Deficit includes all current and prior period results of operations as reported in the statements of income and which are available and not restricted for use by the Bank, reduced by the amounts of dividends declared, if any.

In pursuant to BSP Circular No. 1011, *Guidance on the Adoption of PFRS 9*, the Bank is required to set up general loan loss provision (GLLP) equivalent to 1.00% of all outstanding 'Stage 1' on-balance sheet loan accounts. GLLP pertains to the appropriation of the Surplus account, brought about by the cases when the allowance for credit losses on 'Stage 1' loan accounts computed under the requirement of PFRS 9 is less than the 1.00% GLLP required by the BSP. No appropriation was made in 2023 and 2022 since the ECL for 'Stage 1' loan accounts is more than 1.00% of the GLLP required by BSP.

4.18 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

5. SIGNIFICANT ACCOUNTING JUDGMENTS ESTIMATES

The preparation of the financial statements in compliance with PFRS Accounting Standards requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances at the end of the reporting period. Actual results could differ materially from such estimates.

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.

5.01 Critical Judgments in Applying Accounting Policies

In the process of applying the Bank's accounting policies, management has made the judgments that follow, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements.

5.01.01 Going Concern Assessment
The Bank's management has made an assessment of the Bank's ability to continue as a going concern entity. Management believes that the Bank has adequate resources to continue its business for the foreseeable future. Accordingly, the financial statements as at December 31, 2024 and 2023 are prepared on a going concern basis in accordance with PFRS Accounting Standards without material uncertainty over the Bank's ability to continue as a going concern entity.

5.01.02 Evaluation of Business Model Applied in Classifying Financial Instruments
The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for investment activities consistent with its risk appetite.

The Bank's business models reflect how it manages its portfolio of financial instruments. The Bank's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument), except for designation of equity instruments at FVOCI.

In determining the classification of a financial instrument, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those related to the Bank's investment and lending strategies.

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessary inconsistent with a held-to-collect business model if the Bank can explain the reasons for those sales and why those sales do not reflect a change in the Bank's objective for the business model.

5.01.03 Testing the Cash Flow Characteristics of Financial Assets
In determining the classification of financial assets, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are 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 SPPI test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria.

In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

5.01.04 Determination of ECL on Loans and Other Receivables
The Bank uses the loss rate approach to calculate ECL for its loans and other receivables. The allowance for ECL is based on the ECLs associated with the PD 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. This is where significant management judgment is required.

The Bank has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has significantly increased since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

5.01.05 Distinguishing Investment Properties and Owner-occupied Properties
The Bank determines whether a property qualifies as investment property. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by the Bank. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in its banking operations.

The Bank classifies its acquired properties as bank premises, furniture, fixtures and equipment if used in operations or as investment properties if the Bank intends to hold the properties for capital appreciation or for rental.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in its banking operation and services or for administrative purposes. If a portion can be sold separately (or leased out separately under finance lease), the Bank accounts for the portion separately. If a portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in its banking operation or services or for administrative purposes.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making its judgment.

5.01.06 Determination of Branch Licenses and PCHC Membership Having Indefinite Useful Lives
The Bank's branch licenses and PCHC membership 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 Bank. 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.

5.01.07 Determination of Lease Term
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The Bank did not include renewal options as part of the lease term as the terms are renewable upon mutual agreement of both parties. The lease term is reassessed if an option is actually exercised or not exercised or the Bank becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Bank.

5.01.08 Recognition of Provisions and Contingencies
Judgment is exercised by management to distinguish between provisions and contingencies.

5.02 Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period are presented in the succeeding pages.

5.02.01 Determination of Appropriate Discount Rate in Measuring Lease Liabilities
The Bank measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Bank's incremental borrowing rate. 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.

5.02.02 Estimation of Allowance for ECL on Financial Assets
The Bank has assessed that the ECL on cash and cash equivalents and held-to-collect financial assets is not material because the transactions with respect to these financial assets were entered into by the Bank only with reputable banks and counterparties with good credit standing and relatively low risk of defaults. Accordingly, no provision for ECL on these financial assets was recognized in 2024 and 2023.

For other financial assets at amortized cost such as loans and other receivables, and due from other banks – restricted under other assets, the measurement of the allowance for ECL is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of the issuer defaulting and the resulting losses).

5.02.03 Determining the Fair Value Measurement for Financial Instruments
Fair value measurements for financial assets are generally based on listed or quoted market prices. Where active market quotes are not available, management applies valuation techniques to determine the fair value of financial instruments. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying values of the Bank's held-to-collect financial assets as of December 31, 2024 and 2023 are disclosed in Note 9.

5.02.04 Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Assets, Investment Properties, Computer Software, and Other Properties Acquired
The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties, computer software and other properties acquired based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties, computer software, and other properties acquired are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties, computer software and other properties acquired are presented in Notes 11, 12, 13,14 and 16, respectively. Based on management's assessment as of December 31, 2024 and 2023, there is no change in the estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

5.02.05 Determination of Fair Value Measurement of Investment Properties
The Bank's investment properties consist of parcels of land and buildings, including improvements thereon, which are held for capital appreciation or held under operating lease agreements, and are measured using the cost model. The estimated fair value of the investment properties is determined on the basis of appraisals conducted by professional appraisers applying the relevant valuation methodologies as discussed in Note 7.

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 an adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

5.02.06 Determining Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The Bank did not recognize deferred tax assets on certain temporary differences in 2024 and 2023.

Management assessed that the carrying amount of deferred tax assets recognized in the statements of financial position as disclosed in Note 29 can be utilized in the coming years or within their prescriptive period.

5.02.07 Estimating Impairment Losses on Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a CGU based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment losses were recognized for bank premises, furniture, fixtures and equipment, right-of-use assets, intangible assets, and other properties acquired. Impairment losses recognized on the Bank's investment properties are disclosed in Note 13.

5.02.08 Valuation of Post-Employment Defined Benefits

The determination of the Bank's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and expected rate of salary increase. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 23.

5.02.09 Classifying and Determining Fair Value of Acquired Properties

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets held-for-sale presented under the Other Resources account if the Bank expects that the properties will be recovered through sale rather than use, as Investment Properties if held for currently undetermined future use and is regarded as held for capital appreciation, or as financial assets in accordance with PFRS 9.

At initial recognition, the Bank determines the fair value of acquired properties through internally and externally generated appraisal. The appraised value is determined based on the current economic and market conditions, as well as the physical condition of the property.

The Bank provides additional criterion for recognizing personal and chattel properties as Assets held-for-sale such that the personal and chattel properties should have a ready buyer, or the Bank is committed to dispose the properties through active marketing and disposal program in case the sale will not happen within one year. Accounts with no ready buyers were classified as investment properties for real properties and as other properties acquired under other assets account for other properties.

For assets acquired in settlement of loans, notwithstanding the classification, it is regulatory expectation to dispose the properties immediately.

6. RISK MANAGEMENT OBJECTIVES AND POLICIES

6.01 Risk Management Framework

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the Bank's strategic planning process.

6.01.01 Risk Management Structure
The BOD is ultimately responsible for the formulation of written policies and procedures relating to the management of risks throughout the Bank. The risk management policy includes: a comprehensive risk management approach; a detailed structure of limits; guidelines and other parameters used to govern risk-taking; a clear delineation of lines of responsibilities for managing risks; an adequate system for measuring risks; and effective internal controls and a comprehensive risk-reporting process.

6.01.02 Risk Management Committee
The Risk Management Committee (RMC) has the overall responsibility for the development and oversight of the Bank's Risk Management Program and development of the risk management strategies geared towards loss prevention or minimization to preserve the Bank's earnings and capital in the short-term, increase shareholder value in the medium term and capital allocation across all risk-taking activities in the long-term.

6.01.03 Risk Management
The initial activity in identifying and facilitating the activities to undertake its risk management program development and oversight function rests with RMC.

6.01.04 Bank Treasury
Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also responsible for the funding and liquidity risks of the Bank.

6.01.05 Internal Audit
Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures, adequacy of the Bank's internal control and compliance with existing laws, rules and regulations. Internal audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

As at December 31, 2024 and 2023, the responsibility for risk management was given to the Audit Committee of the Bank.

In Philippine Peso

6.02 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default and arises from lending, trade finance and other activities undertaken by the Bank. The Bank manages its credit risk and loan portfolio through the BOD, which undertakes several functions with respect to credit risk management.

The Bank's accounts with other banks and loans and receivables, are actively monitored to avoid significant exposures to unwarranted credit risk. Loans are subject to approval by the credit committee, executive committee and BOD, depending on the amounts.

Exposure to credit risk is managed through regular analysis of the ability of the borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Bank has adopted a no-business policy with customers lacking an appropriate credit history where credit records are available.

6.02.01 Credit Quality of Financial Assets
The table below shows the credit quality by class of financial assets as of December 31, 2024 and 2023.

2024

	Neither past due nor impaired			
	High Grade	**Standard Grade**	**Past Due and Individually Impaired**	**Total**
Cash and other cash items*	161,507,674	–	–	161,507,674
Due from BSP	1,598,531,462	–	–	1,598,531,462
Due from other banks	120,568,532	–	–	120,568,532
HTC financial assets	102,323,424	–	–	102,323,424
Loans and other receivables (gross)	2,605,675,564	207,094,873	268,955,306	3,081,725,743
Other assets**	–	–	29,560,099	29,560,099
	4,588,606,656	**207,094,873**	**298,515,405**	**5,094,216,934**

2023

	Neither past due nor impaired			
	High Grade	Standard Grade	Past Due and Individually Impaired	Total
Cash and other cash items*	137,076,860	–	–	137,076,860
Due from BSP	1,701,527,528	–	–	1,701,527,528
Due from other banks	172,136,878	–	–	172,136,878
SPURA	49,925,969	–	–	49,925,969
HTC financial assets	52,386,445	–	–	52,386,445
Loans and other receivables (gross)	2,905,310,953	281,623,777	323,350,731	3,510,285,461
Other assets**	–	–	29,560,099	29,560,099
	5,018,364,633	281,623,777	352,910,830	5,652,899,240

**excluding petty cash amounting to ₱419,263 and ₱413,892 as of December 31, 2024 and 2023, respectively*
***pertains to due from other banks – restricted*

The Bank is able to manage the credit risk arising from its deposits with other banks as the banks where these deposits are made have high reputation and good credit standing. Moreover, due from other banks are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of ₱0.5 million for every depositor per banking institution, as provided for under R.A. 9576, Amendment to Charter of PDIC.

The Due from BSP account represents the aggregate balance of interest-bearing and noninterest-bearing deposit accounts in local currency maintained by the Bank with the BSP primarily to meet reserve requirements and to serve as clearing account for interbank claims; hence, no significant credit risk is anticipated for this account.

Investments held at amortized cost exposed to credit risk as of December 31, 2024 and 2023 pertain to quoted government debt securities.

Generally, accounts are classified by the Bank based on the loan credit quality as follows:

(i) Unclassified

These are individual credits that do not have a greater-than-normal risk and do not possess the characteristics of adversely classified loans as defined below. These are credits that have the apparent ability to satisfy their obligations in full and therefore, no loss in ultimate collection is anticipated. These are adequately secured by readily marketable collateral or other forms of support security or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

(ii) Loans Especially Mentioned (LEM)

Accounts classified as LEM are individual credits that have potential weaknesses particularly on documentation or credit administration that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment prospects of the loan and thus heighten the credit risk to the Bank.

A credit may also be classified as LEM if there is evidence of weakness in the borrower's financial condition or credit worthiness, or the credit is subject to an unrealistic repayment program or inadequate source of funds.

(iii) Substandard

Accounts classified as “Substandard” are individual credits or portions thereof, which appear to involve a substantial and unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. There exists in such accounts the possibility of future loss to the Bank unless given closer supervision. Those classified as “Substandard” must have a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.

(iv) Doubtful

Accounts classified as “Doubtful” are individual credits or portions thereof which have the weaknesses inherent in those classified as “Substandard”, with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable. Positive and vigorous action is required to avert or minimize losses.

(v) Loss

Accounts classified as “Loss” are individual credits or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure, and it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

In Philippine Peso

These loan classifications are also used by the Bank as inputs and basis in determining the impairment losses as described in Note 4. The carrying amount of financial assets recognized in the financial statements, represents the Bank's maximum exposure to credit risk without taking into account the value of any collateral obtained and allowance for impairment recognized.

The credit quality of receivables from customers, net of unearned discount and capitalized interest, as of December 31, 2024 and 2023 are as follows:

2024	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and other receivables				
Performing:				
Current	₱ 2,617,758,472	₱ –	₱ –	₱ 2,617,758,472
Past due	–	172,579,732	–	172,579,732
Non-performing				
Past due	–	–	52,498,785	52,498,785
Items in litigation	–	–	229,100,213	229,100,213
	2,617,758,472	172,579,732	281,598,998	3,071,937,202
Expected credit loss allowance	(28,734,243)	(11,356,390)	(220,259,996)	(260,350,629)
Carrying amount	**₱ 2,589,024,229**	**₱ 161,223,342**	**₱ 61,339,002**	**₱ 2,811,586,573**
HTC financial assets				
Carrying amount	**₱ 102,323,424**	**₱ –**	**₱ –**	**₱ 102,323,424**

2023	Stage 1	Stage 2	Stage 3	Total
Loans and other receivables				
Performing:				
Current	₱ 3,135,940,056	₱ –	₱ –	₱ 3,135,940,056
Past due	–	93,267,459	–	93,267,459
Non-performing				
Past due	–	–	66,616,709	66,616,709
Items in litigation	–	–	204,253,437	204,253,437
	3,135,940,056	93,267,459	270,870,146	3,500,077,661
Expected credit loss allowance	(29,401,448)	(1,148,101)	(241,555,621)	(272,105,170)
Carrying amount	₱ 3,106,538,608	₱ 92,119,358	₱ 29,314,525	₱ 3,227,972,491
HTC financial assets				
Carrying amount	₱ 52,386,445	₱ –	₱ –	₱ 52,386,445

6.02.02 Credit Risk Assessment

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 Bank'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, 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, EAD, and LGD, for purposes of measuring ECL.

The Bank determines any evidence of potential deterioration in the quality of an instrument that take into consideration both quantitative and qualitative criteria. 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 Bank 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 provision for ECL for individually assessed exposures shall reflect consideration of the facts and circumstances that affect the repayment of each individual loan as of evaluation date. A periodic assessment of credit quality may improve the borrower's weighted score or it could lead to one or more scoring downgrades over time; hence could lead to the transfer of credit exposure in different stages of impairment.

6.02.03 Assessment of Significant Increase in Credit Risk (SICR)
In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank assesses the change in the risk of a default occurring over the remaining life of the financial instrument. In making this assessment, the Bank assesses on a periodic basis both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information as appropriate.

The Bank's ECL model follows a three-stage impairment approach in determining the loss allowance to be recognized in the financial statements:

i. Stage 1 – these are credit exposures that are considered 'performing' and with no SICR since initial recognition or with low credit risk. The loss allowance is determined based on a 12-month ECL.
ii. Stage 2 – these are credit exposures that are considered 'under performing' and with SICR since initial recognition. A lifetime ECL is recognized for these credit exposures.
iii. Stage 3 – these are credit exposures with objective evidence of impairment and considered 'non-performing'. The Bank recognizes a lifetime ECL for all credit impaired financial assets.

The Bank 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 POCI 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 Bank's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. 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 products of the Bank, 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 Bank 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 Bank's definition of curing period.

6.02.04 Definition of Default

(i) For loans and receivables

The Bank 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. As part of a qualitative assessment of whether a customer is in default, the Bank 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 Bank, for economic or legal reasons relating to the borrower's financial difficulty, on terms that the Bank would not consider otherwise; or, (c) it becoming probable that the borrower will enter bankruptcy or other financial reorganization. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted. 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 within which the borrower shall make consecutive payments. 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 Bank.

(ii) HTC financial assets

Investments in debt securities is assessed as credit-impaired (Stage 3) 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.

6.02.05 ECL Measurement Inputs
Integral in the Bank'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 FLI as appropriate.

(i) Key inputs and assumptions in the ECL model

The key elements used in the calculation of ECL are presented below.

- 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. In determining PD, the Bank performed segmentation of its credit exposures based on homogenous characteristics. PD of individually assessed credit exposures is determined based on the historical losses incurred over total exposure while PD of collectively assessed credit exposure is determined based on the net flow rate which is developed from historical movements between one days past due bucket to the next.
- LGD pertains to estimate of loss related to the amount that may not be recovered after the borrower defaults. The Bank 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.
- EAD represents the gross carrying amount of the exposure in the event of default which include the amortized cost 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.

(ii) Overlay of forward-looking information

The Bank incorporates FLI in its assessment of SICR and calculation of ECL. The Bank has performed historical analysis and has identified the key macroeconomic variables (MEVs) impacting credit risk associated with its borrowers.

The MEVs and their associated impact on the PD, LGD and EAD vary by financial instrument. The impact of these MEVs 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 Bank includes economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority). Accordingly, the Bank has identified key drivers for credit risk for each portfolio. Using an analysis on historical data, the Bank 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 Bank considers these forecasts to represent its best estimate of the possible outcomes.

In Philippine Peso

6.02.06 Allowance for ECL

The table below and in the succeeding page shows the reconciliation of the loss allowance for ECL by class of financial instruments at the beginning and end of 2024 and 2023.

Loans and receivables

2024	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance , beginning	₱ 29,401,448	₱ 1,148,101	₱ 241,555,621	₱ 272,105,170
Transfers from				
Stage 1 to Stage 2	9,539,496	(9,539,496)	–	–
Stage 1 to Stage 3	829,817		(829,817)	–
Stage 2 to Stage 1	(101,174)	101,174	–	–
Stage 2 to Stage 3	–	4,142,558	(4,142,558)	–
Stage 3 to Stage 1	–	–	–	–
Stage 3 to Stage 2	–	–	–	–
Changes in PDs/LGDs/EADs	(10,935,344)	15,504,053	(16,323,250)	(11,754,541)
	(667,205)	10,208,289	(21,295,625)	(11,754,541)
Balance, ending	**₱ 28,734,243**	**₱ 11,356,390**	**₱ 220,259,996**	**₱ 260,350,629**

2023	Stage 1	Stage 2	Stage 3	Total
Balance , beginning	₱ 57,954,845	₱ 7,379,871	₱ 347,733,740	₱ 413,068,456
Transfers from				
Stage 1 to Stage 2	(520,493)	520,493	–	–
Stage 1 to Stage 3	(121,941)	–	121,941	–
Stage 2 to Stage 1	1,471,131	(1,471,131)	–	–
Stage 2 to Stage 3	–	(266,123)	266,123	–
Stage 3 to Stage 1	1,801,970	–	(1,801,970)	–
Stage 3 to Stage 2	–	22,106	(22,106)	–
Changes in PDs/LGDs/EADs	(31,184,064)	(5,037,115)	(104,742,107)	(140,963,286)
	(28,553,397)	(6,231,770)	(106,178,119)	(140,963,286)
Balance, ending	₱ 29,401,448	₱ 1,148,101	₱ 241,555,621	₱ 272,105,170

No ECL was recognized for HTC financial assets as of December 31, 2024 and 2023 as the amount of ECL is not significant.

6.02.07 Changes in Gross Carrying Amount affecting Allowance for ECL

The table below and in the succeeding page provide information on how the significant changes in the gross carrying amount of financial instruments in 2024 and 2023 contributed to the changes in the allowance for ECL.

Loans and receivables (gross of allowance for impairment)

2024	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance, beginning	₱ 3,135,940,056	₱ 93,267,459	₱ 270,870,146	₱ 3,500,077,661
Transfers from				
Stage 1 to Stage 2	(116,857,876)	116,857,876	–	–
Stage 1 to Stage 3	(1,612,807)	–	1,612,807	–
Stage 2 to Stage 1	9,801,218	(9,801,218)	–	–
Stage 2 to Stage 3	–	(6,195,103)	6,195,103	–
Stage 3 to Stage 1	–	–	–	–
Stage 3 to Stage 2	–	–	–	–
Changes in PDs/LGDs/EADs	(403,145,379)	(26,153,160)	1,158,080	(428,140,459)
	(511,814,844)	74,708,395	8,965,990	(428,140,459)
Balance, ending	**₱ 2,624,125,212**	**₱ 167,975,854**	**₱ 279,836,136**	**₱ 3,071,937,202**

In Philippine Peso

2023	Stage 1	Stage 2	Stage 3	Total
Balance, beginning	₱ 3,210,512,829	₱ 157,360,059	₱ 498,588,797	₱ 3,866,461,685
Transfers from				
Stage 1 to Stage 2	(51,753,602)	51,753,602	–	–
Stage 1 to Stage 3	(12,095,436)	–	12,095,436	–
Stage 2 to Stage 1	146,492,717	(146,492,717)	–	–
Stage 2 to Stage 3	26,568,305	(26,568,305)	–	–
Stage 3 to Stage 1	140,351,491	–	(140,351,491)	–
Stage 3 to Stage 2	–	1,453,617	(1,453,617)	–
Changes in PDs/LGDs/EADs	(324,136,248)	55,761,203	(98,008,979)	(366,384,024)
	(74,572,773)	(64,092,600)	(227,718,651)	(366,384,024)
Balance, ending	₱ 3,135,940,056	₱ 93,267,459	₱ 270,870,146	₱ 3,500,077,661

6.03 Liquidity Risk

Liquidity risk is the risk that sufficient funds may not be available to adequately meet the credit demands of the Bank’s customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio which is repriced on a regular basis. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate and exchange rate opportunities when they arise.

As of December 31, 2024 and 2023, required minimum liquidity ratio of the Bank is 38.54% and 38.83%, respectively.

In Philippine Peso

The table below summarizes maturity profile of the Bank's financial assets and liabilities as of December 31, 2024 and 2023 based on undiscounted contractual cash flows.

2024	**On Demand**	**Due Within 1 Year**	**Due Beyond 1 Year**	**Total**
Financial Assets:				
Cash and other cash items*	₱ 161,507,674	₱ –	₱ –	₱ 161,507,674
Due from BSP	62,531,462	1,536,000,000	–	1,598,531,462
Due from other banks	120,568,532	–	–	120,568,532
HTC financial assets	–	–	102,323,424	102,323,424
Loans and other receivables – net	40,587,629	1,103,612,074	1,667,386,870	2,811,586,573
Other assets**	–	–	29,560,099	29,560,099
	₱ 385,195,297	**₱ 2,639,612,074**	**₱ 1,799,270,393**	**₱ 4,824,077,764**

**excluding petty cash*
***pertaining to due from other banks – restricted*

Financial Liabilities:				
Deposit liabilities	₱ 4,771,200,677	₱ 194,659,783	₱ 514,890,136	₱ 5,480,750,596
Managers check	–	5,024,131	–	5,024,131
Lease liabilities	–	20,776,928	58,208,976	78,985,904
Accrued interest and other expenses*	–	48,569,018	–	48,569,018
Other liabilities**	–	99,922,217	–	99,922,217
	₱ 4,771,200,677	**₱ 368,952,077**	**₱ 573,099,112**	**₱ 5,713,251,866**

**excluding accrued taxes payable*
***pertaining to accounts payable, dividends payable and others*

In Philippine Peso

2023 As restated	On Demand	Due Within 1 Year	Due Beyond 1 Year	Total
Financial Assets:				
Cash and other cash items*	₱ 137,076,860	₱ –	₱ –	₱ 137,076,860
Due from BSP	132,527,528	1,569,000,000	–	1,701,527,528
Due from other banks	172,136,878	–	–	172,136,878
SPURA	–	49,925,969	–	49,925,969
HTC financial assets	–	–	52,386,445	52,386,445
Loans and other receivables – net	105,554,700	720,483,460	2,401,934,331	3,227,972,491
Other assets**	–	–	29,560,099	29,560,099
	₱ 547,295,966	₱ 2,339,409,429	₱ 2,483,880,875	₱ 5,370,586,270

*excluding petty cash
**pertaining to due from other banks – restricted

Financial Liabilities:				
Deposit liabilities	₱ 4,917,959,023	₱ 258,431,468	₱ 590,455,759	₱ 5,766,846,250
Managers check	–	10,140,478	–	10,140,478
Lease liabilities	–	18,396,121	64,750,714	83,146,835
Accrued interest and other expenses*	–	48,290,338	–	48,290,338
Other liabilities**	–	121,610,950	–	121,610,950
	₱ 4,917,959,023	₱ 456,869,355	₱ 640,460,706	₱ 6,030,034,851

*excluding accrued taxes payable
**pertaining to accounts payable, dividends payable and others

6.04 Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

The Bank's policy is to minimize interest rate cash flow risk exposures. The Bank's cash flow interest rate risk relates primarily to the possible changes in the prevailing interest rates of due from other banks, loans and other receivables, bills payable and deposit liabilities. The volatility in the interest rates of these financial instruments will result to an increase or decrease of the Bank's interest spread, and consequently will affect its financial performance. All other financial assets and financial liabilities have fixed rates or the potential effects on net profit or loss before tax and equity will be immaterial.

6.05 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 RMC of the Bank assists management in meeting its responsibility to understand and manage operational risk exposures. The RMC applies a number of techniques to efficiently manage operational risks. Among these are enumerated below.

- Each major business line has an embedded operational risk management 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 RMC to keep them up-to-date with different operational risk issues, challenges and initiatives.
- With RMC's bottom up self-assessment process, which is conducted at least annually, areas with high risk potential are highlighted and reported, and control measures are identified. The results of said self-assessment exercise also serve as one of the inputs in identifying specific key risk indicators (KRIs).
- KRIs are used to monitor the operational risk profile of the Bank and of each business unit, and alert the management of impending problems in a timely fashion.
- Internal loss information is collected, reported and utilized to model operational risk.

The RMC reviews product and operating manuals, policies, procedures and circulars, thus allowing the embedding of desired operational risk management practices in all business units.

(a) Reputational Risk

Reputation risk is the risk to earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services, or to continue servicing existing relationships. This risk can expose the Bank 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 Bank's earnings or impairs its capital. This risk is present in activities such as asset management and regulatory compliance. The Bank adopted a reputation risk monitoring and reporting framework to manage public perception.

(b) Legal Risk and Regulatory Risk Management

Changes in laws and regulations and fiscal policies could adversely affect the Bank's operations and financial reporting. 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 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 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 Program, 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 Officer 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 Committee and the BOD.

7. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

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

7.02 Fair Value Determination

Basis or assumptions in determining the fair value of financial instruments are disclosed below:

7.02.01 Due from BSP, Other Banks, and SPURA
The estimated fair value of fixed interest-bearing deposits is made based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

7.02.02 Held-to-Collect Financial Assets
The fair value for HTM financial assets is based on market prices. Where this information is not available, the fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics or through valuation techniques using discounted cash flow analysis.

7.02.03 Loans and Other Receivables
Loans and other receivables are net of provisions for credit losses. The estimated fair value of loans and other receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at original rates to determine fair value.

7.02.04 Deposit Liabilities
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 other deposits represents the estimated cash flows expected to be paid which are discounted at the current market rates.

7.02.05 Accrued Interest and Other Expenses, and Other Liabilities
Due to their short duration, the carrying amounts of accrued interest and other expenses and other liabilities in the statement of financial position are considered to be reasonable approximations of their fair values.

7.02.06 Bills Payable
Bills payable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method for those with maturities beyond one year, less settlement payments.

7.03 Fair Value Measurement for Non-Financial Assets

The fair value of the Bank's investment properties and asset-held-for-sale presented as part of other assets are categorized as Level 3 wherein inputs are not based on observable market data.

The fair value of the Bank's investment properties is determined on the basis of the appraisals performed by various internal and external appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and building and improvements, and the comparable prices in the corresponding property location. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Bank's non-financial assets indicated above is their current use.

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The Level 3 fair values of the land and building and Improvements under investment properties were determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by the Bank during the year for its non-financial asset. Also, there were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in 2024 and 2023.

8. CASH AND CASH EQUIVALENTS

The account consists of the following:

		2024		2023
Cash and other cash items:				
Cash on hand	₱	**160,385,771**	₱	135,842,031
Checks and other cash items		**1,541,166**		1,648,721
		161,926,937		137,490,752
Due from Bangko Sentral ng Pilipinas		**1,598,531,462**		1,701,527,528
Due from other banks		**120,568,532**		172,136,878
SPURA		**–**		49,925,969
	₱	**1,881,026,931**	₱	2,061,081,127

Cash account consists primarily of funds in the form of Philippine currency notes and coins in the Bank'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 include demand deposits and special deposits. Demand deposits represents the aggregate balance of deposit accounts maintained with the BSP primarily to meet reserve requirements and to serve as clearing account for interbank claims. Special deposits pertain to overnight and time deposit accounts. The BSP demand deposit account is interest-free while the special deposit account earned average annual interest of 5.81% for 2024 and 6% for 2023.

Due from other banks earn average annual interest ranging from 0.05% to 0.125% in 2024 and 2023.

SPURA pertains to the Bank's placements with the BSP with a term of one to five days and earns annual interest rate from 5.75% to 6.42% in 2024 and 6.5% in 2023. SPURA qualified as part of cash and cash equivalents due to its relatively short-term maturity (original maturities of three months or less from dates of placement) and has insignificant risk of changes in value.

The total interest income earned on due from BSP, due from other banks and SPURA amounted to ₱104,582,781 and ₱69,002,816 in 2024 and 2023, respectively.

In Philippine Peso

9. HELD-TO-COLLECT FINANCIAL ASSETS

The account consists of the following:

		2024		2023
Balance, beginning	₱	**52,386,445**	₱	54,463,428
Addition		**100,000,000**		–
Redemption		**(50,000,000)**		(1,950,000)
Amortization of premium		**(63,021)**		(126,983)
Balance, ending	₱	**102,323,424**	₱	52,386,445

This account is composed of government debt securities with maturities ranging from one to 7 years in 2024 and from one to 8 years in 2023.

These quoted debt securities have effective annual interest rates ranging from 3.95% to 8% and 3.43% to 4.50% in 2024 and 2023, respectively. The total interest income earned from financial assets held at amortized cost including amortization of premiums, amounted to ₱5,081,218 and ₱1,843,379 in 2024 and 2023, respectively.

10. LOANS AND OTHER RECEIVABLES – net

The account consists of the following:

		2024		2023
Loans receivables:				
Commercial	₱	**1,689,279,235**	₱	1,826,697,559
Consumption		**230,980,157**		868,894,125
Real estate		**208,918,719**		215,187,441
Industrial		**88,239,724**		192,896,571
Agricultural		**147,130,729**		150,441,391
Others		**558,817,157**		6,709,841
Total loans receivable		**2,923,365,721**		3,260,826,928
Sales contract receivable		**98,355,609**		174,226,548
Accrued interest receivable		**15,517,097**		23,584,062
Accounts receivable		**38,163,998**		47,076,830
Domestic bills		**6,323,318**		4,571,093
Loans and other receivables – gross		**3,081,725,743**		3,510,285,461
Unamortized discount		**(9,788,541)**		(10,207,800)
		3,071,937,202		3,500,077,661
Allowance for credit losses				
Loans and accrued interest receivable		**(229,776,831)**		(243,213,317)
Sales contract receivable		**(15,049,196)**		(20,243,299)
Accounts receivable		**(15,524,602)**		(8,648,554)
		(260,350,629)		(272,105,170)
Loans and other receivables – net	₱	**2,811,586,573**	₱	3,227,972,491

The Bank's loan accounts are stated at the outstanding balance, reduced by estimated allowance for credit losses and unearned interest and discounts.

Total earned interest on loans and other receivables amounted to ₱362,180,801 and ₱375,432,708 for the years ended December 31, 2024 and 2023, respectively.

In Philippine Peso

The movement of the expected credit losses on loans and other receivables at December 31, 2024 and 2023 are summarized as follows:

	Note		2024		2023
Balance, January 1		₱	**272,105,170**	₱	413,068,456
Provision			**2,193,130**		12,500,000
Transfer	16		**4,818,145**		(27,847,058)
Reversal/Adjustment			**(11,273,485)**		6,873,139
Write-off			**(7,492,331)**		(132,489,367)
Balance, December 31		₱	**260,350,629**	₱	272,105,170

Breakdown of allowance for expected credit losses on loans receivables as of December 31, 2024 and 2023 are summarized as follows:

		2024		2023
General (Stage 1)	₱	**23,090,289**	₱	20,436,542
Specific (Stages 2 and 3)		**206,686,542**		222,776,775
Balance, December 31	₱	**229,776,831**	₱	243,213,317

With the foregoing level of allowance for impairment losses, management believes that the Bank has sufficient allowance to manage any risk from non-collection or non-collateral of the Bank's loans and other receivables.

10.01 Past Due Loans

Past due loans of a bank shall, as a general rule, refer to all accounts in its loan portfolio, all receivable components of trading account securities and other receivables, which are not paid at maturity.

BSP Manual of Regulations for Banks, Sec. 304, defined the classification of past due loans as follows:

As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual date, in which case, the total outstanding balance thereof shall be considered past due.

Installment refers to principal and/or interest amortizations that are due on several dates as indicated in the loan documents. The allowance for loan losses is the estimated amount of losses in the Bank's loan portfolio, based on evaluation of the collectability of loans and prior loss experience.

Any amounts set aside in respect of losses on loans and advances in addition to those losses that have been specifically identified or potential losses which experience indicates to be present in the portfolio of loans and advances are accounted for as appropriations from retained earnings. Any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period.

The allowance is increased by provisions charged to expenses and reduced by write-offs and reversals.

10.02 Non-Performing Loans

As of December 31, 2024 and 2023, non-performing loans (NPLs) not fully covered by allowance for credit losses are as follows (amounts in thousands):

	2024	2023
Total Non-performing loans	₱ **266,368**	₱ 295,839
Less: Non-performing loans covered by allowance for credit losses	**195,649**	169,742
	₱ **70,719**	₱ 126,097

Information regarding the Bank's non-performing loans (based on Section 304 of the MORB) are as follows:

	2024	2023
Ratio of gross NPLs to gross TLP (%)	**9.11%**	9.07%
Ratio of net NPLs to gross TLP (%)	**2.42%**	3.87%
Ratio of total allowance for credit losses to gross NPLs (%)	**86.26%**	82.21%
Ratio of specific allowance for credit losses on gross TLP to gross NPLs (%)	**77.59%**	75.30%

Section 304 of the MORB defined non-performing loans (NPLs) as follows:

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

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

In Philippine Peso

11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT – net

A reconciliation of the carrying amounts at the beginning and end of years 2024 and 2023, and the gross carrying amounts and accumulated depreciation of bank premises, furniture, fixtures and equipment are shown below:

2024	**Land**	**Buildings and improvements**	**Furniture fixtures and equipment**	**Leasehold improvements**	**Building under construction**	**Total**
Carrying amount, beginning	₱ 32,877,171	₱ 91,631,025	₱ 14,327,743	₱ 8,484,860	₱ 1,159,199	₱ 148,479,998
Additions	–	–	3,209,641	1,204,199	257,870	4,671,710
Disposals, net of accumulated depreciation	–	–	(122,435)	–	–	(122,435)
Depreciation (Note 26)	–	(2,388,400)	(5,262,360)	(1,877,240)	–	(9,528,000)
Reclassification from ROPA	–	–	1,088,183	–	–	1,088,183
Carrying amount, ending	**₱ 32,877,171**	**₱ 89,242,625**	**₱ 13,240,772**	**₱ 7,811,819**	**₱ 1,417,069**	**₱ 144,589,456**

2023	Land	Buildings and improvements	Furniture fixtures and equipment	Leasehold improvements	Building under construction	Total
Carrying amount, beginning	₱ 32,877,171	₱ 94,247,562	₱ 13,497,880	₱ 9,194,741	₱ –	₱ 149,817,354
Additions	–	17,000	2,873,515	279,579	2,278,583	5,448,677
Disposals, net of accumulated depreciation	–	–	(37,199)	–	–	(37,199)
Depreciation (Note 26)	–	(2,633,537)	(5,961,708)	(2,108,844)	–	(10,704,089)
Reclassification	–	–	–	1,119,384	(1,119,384)	–
Reclassification from ROPA		–	3,955,255	–	–	3,955,255
Carrying amount, ending	₱ 32,877,171	₱ 91,631,025	₱ 14,327,743	₱ 8,484,860	₱ 1,159,199	₱ 148,479,998

Management believes that there are no indications of impairment in the value of its bank premises, furniture, fixtures and equipment as of December 31, 2024 and 2023. Acquisition of bank premises, furniture, fixtures and equipment for 2024 and 2023 were paid in cash.

There were no consideration from disposal of bank premises, furniture, fixtures and equipment in 2024 and 2023. Therefore, a loss equivalent to the carrying amount of the disposed assets was recognized as disclosed in Note 26.

No bank premises, furniture, fixture and equipment were used as collateral for liabilities as of December 31, 2024 and 2023.

As of December 31, 2024 and 2023, the cost of fully depreciated bank premises, furniture, fixtures and equipment still in use amounted to ₱78.13 million and ₱68.52 million, respectively.

As of December 31, 2024 and 2023, the Bank has no commitment to purchase bank premises, furniture, fixtures and equipment.

12. RIGHT-OF-USE ASSETS – net

The Bank has leases for its branches and equipment. Each lease is reflected on the statements of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liability and right-of-use asset.

Each lease generally imposes a restriction that, unless there is a contractual right for the Bank to sublet the asset to another party, the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. 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 Bank is prohibited from selling or pledging the underlying leased assets as security. For leases over the branches, the Bank must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

In 2024, the Bank has 34 right-of-use assets leased with remaining lease term ranging from one to 18 years; while in 2023 the Bank has 34 right-of-use assets leased with remaining lease term ranging from one to 19 years. These leased assets do not have any enforceable extension options, options to purchase and termination options.

In Philippine Peso

The carrying amounts of the Bank's right-of-use assets as of December 31, 2024 and 2023 are as follow:

2024		**Offices**		**Furniture, fixtures and equipment**		**Total**
Cost:						
Balance, beginning	₱	128,270,952	₱	23,099,512	₱	151,370,464
Additions		18,064,868		–		18,064,868
Derecognitions		(7,823,373)		–		(7,823,373)
Pre-termination		–		(1,523,071)		(1,523,071)
Balance, ending		**138,512,447**		**21,576,441**		**160,088,888**
Accumulated depreciation:						
Balance, beginning		61,371,425		21,163,242		82,534,667
Depreciation (Note 26)		21,081,739		1,161,000		22,242,739
Derecognitions		(7,823,373)		–		(7,823,373)
Pre-termination		–		(748,800)		(748,800)
Balance, ending		**74,629,791**		**21,575,442**		**96,205,233**
Carrying amount	**₱**	**63,882,656**	**₱**	**999**	**₱**	**63,883,655**

2023		Offices		Furniture, fixtures and equipment		Total
Cost:						
Balance, beginning	₱	103,197,418	₱	23,099,512	₱	126,296,930
Additions, as previously reported		12,517,120		–		12,517,120
Prior period error		17,027,337		–		17,027,337
Additions, as restated		29,544,457		–		29,544,457
Derecognitions		(4,470,923)		–		(4,470,923)
Balance, ending, as restated		128,270,952		23,099,512		151,370,464
Accumulated depreciation:						
Balance, beginning		45,768,581		20,414,442		66,183,023
Depreciation, as previously reported (Note 26)		18,243,157		748,800		18,991,957
Prior period error		1,830,609		–		1,830,609
Depreciation, as restated (Note 26)		20,073,766		748,800		20,822,566
Derecognitions		(4,470,923)		–		(4,470,923)
Balance, ending, as restated		61,371,424		21,163,242		82,534,666
Carrying amount	₱	66,899,528	₱	1,936,270	₱	68,835,798

In Philippine Peso

In 2024, right-of-use asset with carrying amount of ₱774,271 were derecognized in the books due to pre-termination of lease contract. Related lease liability amounted to ₱1,231,121, as disclosed in Note 22, resulting to a gain on lease pre-termination amounting to ₱456,850, as disclosed in Note 25.

13. INVESTMENT PROPERTIES – net

The gross carrying amounts, accumulated depreciation and allowance for impairment of investment properties at the beginning and end of 2024 and 2023 are shown below:

2024	Land	Building	Total
Cost:			
Balance, beginning	₱ 909,867,283	₱ 349,111,656	₱ 1,258,978,939
Additions	308,291,869	54,856,102	363,147,971
Disposals	(11,765,038)	(51,566,186)	(63,331,224)
Amortization of appraisal increment (Note 26)	(1,462,619)	(1,164,539)	(2,627,158)
Balance, ending	**1,204,931,495**	**351,237,033**	**1,556,168,528**
Accumulated depreciation:			
Balance, beginning	–	135,986,141	135,986,141
Depreciation (Note 26)	–	31,464,715	31,464,715
Disposals	–	(436,462)	(436,462)
Amortization of appraisal increment (Note 26)	–	540,396	540,396
Balance, ending	–	**167,554,790**	**167,554,790**
Allowance for impairment:			
Balance, beginning	–	34,707,083	34,707,083
Impairment loss (Note 26)	5,539,732	–	5,539,732
Balance, ending	5,539,732	34,707,083	40,246,815
Carrying amount	**₱ 1,199,391,763**	**₱ 148,975,160**	**₱ 1,348,366,923**

In Philippine Peso

2023	Land	Building	Total
Cost:			
Balance, beginning	₱ 915,712,294	₱ 349,287,867	₱ 1,265,000,161
Additions	24,084,924	5,794,997	29,879,921
Disposals	(27,979,777)	(4,418,489)	(32,398,266)
Amortization of appraisal increment (Note 26)	(1,950,158)	(1,552,719)	(3,502,877)
Balance, ending	909,867,283	349,111,656	1,258,978,939
Accumulated depreciation:			
Balance, beginning	–	105,646,444	105,646,444
Depreciation (Note 26)	–	31,193,312	31,193,312
Disposals	–	(1,574,142)	(1,574,142)
Amortization of appraisal increment (Note 26)	–	720,527	720,527
Balance, ending	–	135,986,141	135,986,141
Allowance for impairment:			
Balance, beginning	–	34,707,083	34,707,083
Reversals	–	–	–
Balance, ending	–	34,707,083	34,707,083
Carrying amount	₱ 909,867,283	₱ 178,418,432	₱ 1,088,285,715

Gain on sale of investment properties amounted to ₱18,318,959 and ₱47,380,024 in 2024 and 2023, respectively, and is presented as part of gain on sale of non-financial assets – net in Note 25. Cash proceeds from the sale amounted to ₱81,213,721 and ₱78,204,148 for the years ended December 31, 2024 and 2023, respectively.

The aggregate market value of Investment Properties as at December 31, 2024 and 2023 amounted to ₱2,193.42 million and ₱1,543.92 million, respectively. The investment properties are regularly appraised based on valuations made by independent and/or in-house appraisers.

Investment properties include the Checkpoint Mall (CPM) that was previously acquired from MARESCO in 2019.

On January 25, 2021, the Bank's management agreed to dispose CPM, which was approved by the Board of Directors on February 2, 2021. This was filed for approval of the BSP and was approved on July 1, 2021, with a condition that the disposal will be executed within a period of one year from the date of BSP approval.

On a letter dated July 4, 2022, relative to the Bank's request for extension of time to dispose Checkpoint Mall/Building and the reconsideration on imposed monetary sanctions, the Monetary Board (MB), in its Resolution No. 942 dated June 29, 2022, denied such request. As a result of the MB's denial of request for extension to dispose/sell CPM, the Bank continues to be in violation, as of December 31, 2024 and 2023, of the prescribed ceiling on investments in real estate and improvements, until the subject property is sold/disposed.

In Philippine Peso

14. INTANGIBLE ASSETS – net

This account consists of the following:

		2024		2023
Branch licenses	₱	**18,550,000**	₱	18,550,000
PCHC membership		**10,033,734**		10,033,734
Software costs		**3,084,661**		4,452,400
	₱	**31,668,395**	₱	33,036,134

Branch licenses represent the rights granted by the BSP to the Bank 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 cash generating unit level, as appropriate when circumstances indicate that the intangible asset may be impaired. The recoverable amounts of the CGUs for impairment testing of the branch licenses have been determined based on its value in use. As of December 31, 2024 and 2023, the Bank has assessed that the value in use is higher than the carrying value of CGU; hence, no impairment loss is required to be recognized in the statements of income.

Software costs are subject to amortization. The movements in software costs follow:

	Note		2024		2023
Cost:					
Balance, beginning		₱	**15,603,685**	₱	15,519,685
Additions			**–**		84,000
Balance, ending			**15,603,685**		15,603,685
Accumulated amortization:					
Balance, beginning			**11,151,285**		9,234,096
Amortization	26		**1,367,739**		1,917,189
Balance, ending			**12,519,024**		11,151,285
Carrying value		₱	**3,084,661**	₱	4,452,400

15. INVESTMENT IN ASSOCIATE

The Bank has a 40.02% interest in Makiling Realty Sales and Development Corporation (MARESCO), which is primarily engaged in real estate development and in connection therewith, to own, acquire, purchase, hold, subdivide, dispose, sell, lease and otherwise deal in real estate, including, but not limited to, construction and disposition of commercial, residential, dormitories, farm lots, hotels, tourist facilities and all kinds of building facilities and other improvements. MARESCO is not listed on any public exchange. The primary place of business of MARESCO is at Checkpoint Mall, Paciano Rizal, Calamba City, Laguna.

In Philippine Peso

Movement of the account is as follows:

		2024		2023 As restated
Acquisition cost	₱	**10,335,800**	₱	10,335,800
Accumulated equity in net earnings:				
Balance at beginning of year, as previously reported	₱	**9,407,681**	₱	6,834,460
Prior period error		**–**		1,627,640
Balance at beginning of year, as restated		**9,407,681**		8,462,100
Share in net earnings for the year		**3,744,311**		945,581
		13,151,992		9,407,681
	₱	**23,487,792**	₱	19,743,481

The latest summarized statement of financial position of its associate as of December 31, 2024 is as follows:

		2024		2023
Total assets	₱	**442,486,734**	₱	278,072,619
Total liabilities		**107,220,837**		127,634,719
Equity		**335,265,897**		150,437,900
Carrying values of investment		**23,487,792**		19,743,481

Based on management's assessment as at December 31, 2024 and 2023, no impairment loss is required to be recognized on the Bank's investment in an associate.

16. **OTHER ASSETS** – net

This account consists of the following:

		2024		2023
Dealer's incentive	₱	**40,520,867**	₱	55,976,806
Due from other banks – restricted		**29,560,099**		29,560,099
Other properties acquired – net		**20,382,086**		23,958,322
Prepaid income tax		**16,877,444**		–
Prepayments		**8,777,739**		4,241,266
Supplies		**2,417,072**		2,711,379
Shortages		**443,300**		425,543
Assets held-for-sale		**31,497**		3,626,413
Miscellaneous		**24,962,892**		25,290,852
		143,972,996		145,790,680
Allowance for credit and impairment losses		**(46,407,460)**		(51,225,605)
	₱	**97,565,536**	₱	94,565,075

Dealer's incentive is being amortized by the Bank using the effective interest method over the term of the loan receivable and the related amortization is netted against interest income from loan receivable.

In Philippine Peso

Movement for allowance for credit and impairment losses:

	Note		2024		2023
Balance, January 1		₱	**51,225,605**	₱	20,256,378
Provision			**–**		3,122,169
Transfer	10		**(4,818,145)**		27,847,058
Balance, December 31		₱	**46,407,460**	₱	51,225,605

Assets held-for-sale and other properties acquired represent chattel mortgages foreclosed from loan borrowers. Sale of assets held-for-sale and other properties acquired resulted to a gain of ₱3,970,585 and ₱6,786,527 in 2024 and 2023, respectively, as disclosed in Note 25. Cash proceeds from the sale are detailed below:

		2024		2023
Other properties acquired	₱	**20,509,033**	₱	24,722,400
Assets held for sale		**135,252**		38,695
	₱	**20,644,285**	₱	24,761,095

The total fair values of assets held for sale as of December 31, 2024 and 2023 approximate their carrying amounts.

Movements of other properties acquired are disclosed below:

	Notes		2024		2023
Cost:					
Balance, beginning		₱	**35,001,322**	₱	39,037,466
Additions			**16,257,255**		25,239,240
Disposals			**(23,379,562)**		(24,922,429)
Transfers from assets held for sale			**2,952,109**		–
Transfer to furniture, fixtures and equipment			**(1,141,024)**		(4,168,636)
Amortization of appraisal increment	26		**(138,239)**		(184,319)
Balance, ending			**29,551,861**		35,001,322
Accumulated depreciation:					
Balance, beginning			**11,043,000**		10,818,598
Depreciation	26		**5,777,741**		7,795,008
Disposals			**(6,846,315)**		(6,997,960)
Transfer to furniture, fixtures and equipment			**(896,874)**		(695,610)
Amortization of appraisal increment	26		**92,223**		122,964
Balance, ending			**9,169,775**		11,043,000
Carrying value		₱	**20,382,086**	₱	23,958,322

In Philippine Peso

Movement of assets-held-for sale is as follows:

		2024		2023
Beginning, beginning	₱	**3,626,413**	₱	570,358
Additions		**341,679**		3,588,383
Disposals		**(140,453)**		(50,099)
Transfer to furniture, fixtures and equipment		**(844,033)**		(482,229)
Transfers to other properties acquired – net		**(2,952,109)**		–
Balance, ending	₱	**31,497**	₱	3,626,413

Loss on foreclosure of asset held-for-sale and other properties acquired amounted to ₱11,021,440 and ₱4,287,076 in 2024 and 2023, respectively, as disclosed in Note 26.

The Bank believes that the sale of assets classified as held-for-sale is highly probable within 12 months from the end of the reporting period.

Due from other banks – restricted include garnished deposits on a collection case with prayer for preliminary attachment and damages due to the Bank's nonpayment of nine certificates of deposits worth ₱28.60 million. In a decision dated November 11, 2022, the Court of Appeals ruled in favor of the plaintiff. The Bank filed a Motion for Reconsideration of the said decision which remains pending as of December 31, 2024 and 2023.

Miscellaneous assets pertain to sundry debits, deposits, and returned checks and other cash items.

17. DEPOSIT LIABILITIES

This account consists of the following:

		2024		2023
Demand deposits	₱	**160,847,732**	₱	141,944,795
Savings deposits		**4,588,096,889**		4,776,014,228
Time certificate of deposits		**731,805,975**		848,887,227
	₱	**5,480,750,596**	₱	5,766,846,250

Deposit liabilities generally earns annual fixed interest rates ranging from 0.10% to 5.50% and from 0.10% to 6.25% in 2024 and 2023, respectively.

Interest expense on deposit liabilities for the year ended December 31, 2024 and 2023 amounted to ₱149,225,148 and ₱133,046,758, respectively.

Under BSP Circular No. 1201 and BSP Circular No. 1175, thrift banks are required to maintain reserves equivalent to 1% and 2%, respectively, of its demand deposits, savings deposits, and time deposits for 2024 and 2023. As of December 31, 2024 and 2023, the Bank satisfactorily complies with such reserve requirement.

The Bank's reserves are maintained in the form of Due from BSP.

18. MANAGER'S CHECKS

This account represents checks issued by the Bank, payable to a payee as indicated by the person who purchases the manager's check. This was introduced upon the Bank's membership with BancNet and PCHC. Manager's checks are expected to be settled within one year from the end of the reporting period.

In Philippine Peso

As of December 31, 2024 and 2023, the Bank has manager's checks payable amounting to ₱5,024,131 and ₱10,140,478, respectively.

19. BILLS PAYABLE

This account pertains to borrowings from the Bank of the Philippine Islands (BPI) as a result of the Bank's assumption of the loan obligation of its associate with BPI. This is payable monthly until 2023, subject to interest rate of 7.13% in both years and is being repriced annually.

Movements of the account are disclosed below:

	2024	2023
Balance, beginning	₱ –	₱ 46,830,773
Payments	–	(46,830,773)
Balance, ending	₱ –	₱ –

For the years ended December 31, 2024 and 2023, interest expense related to bills payable amounted to nil and ₱1,606,440, respectively.

20. ACCRUED INTEREST AND OTHER EXPENSES

This account consists of the following:

	2024	2023
Accrued rent expenses	₱ **9,517,164**	₱ 10,672,919
Accrued interest payable	**9,244,886**	6,441,602
Accrued dealer's incentives	**4,578,484**	3,979,067
Accrued expenses – employees	**2,248,712**	3,521,762
Accrued taxes payable	**4,252,145**	3,152,849
Accrued management and professional fees	**206,536**	246,536
Accrued other expenses	**22,773,236**	23,428,452
	₱ **52,821,163**	₱ 51,443,187

Accrued other expenses include accruals for PDIC insurance of deposits and security services. Accrued interest and other expenses are all expected to be settled within one year from the end of the reporting period.

21. OTHER LIABILITIES

This account consists of:

	2024	2023
Accounts payable	₱ **63,378,733**	₱ 87,829,074
Taxes payable	**3,143,429**	3,615,668
Dividends payable	**1,209,128**	1,209,128
Others	**35,334,356**	32,572,746
	₱ **103,065,646**	₱ 125,226,616

Accounts payable includes liabilities to insurance companies for premiums collected from borrowers, salary and benefits payable to resigned employees and capital gains tax payable.

In Philippine Peso

Taxes payable includes withholding taxes payable and documentary stamp tax (DST) payable.

Dividends payable pertains to cash dividends previously declared by the Bank in 2014 to its preferred stockholders which remains to be unpaid as of December 31, 2024 and 2023.

Other liabilities include stale checks and payable arising from loss on lawsuit settlements against the Bank.

Other liabilities are all expected to be settled within one year from the end of the reporting period.

22. LEASE LIABILITIES

The details of the Bank's lease liabilities and their carrying amounts are as follows:

	Note	**2024**	2023 As restated
Balance, beginning		**₱ 83,146,835**	₱ 73,355,668
Additions		**18,064,868**	29,544,457
Interest expense		**4,892,501**	4,545,322
Payments		**(25,887,179)**	(24,298,612)
Pre-termination	12	**(1,231,121)**	–
Balance, ending		**₱ 78,985,904**	₱ 83,146,835

The maturity analysis of lease liabilities as at December 31, 2024 and 2023 is as follows:

2024	**Lease Payments**	**Finance Charges**	**Net Present Values**
Within 1 year	₱ 24,450,987	₱ 3,674,059	₱ 20,776,928
1 – 2 years	19,736,353	2,599,161	17,137,192
2 – 3 years	14,500,848	1,775,515	12,725,333
3 – 4 years	11,075,554	1,145,743	9,929,811
4 – 5 years	3,908,262	813,641	3,094,621
More than 5 years	20,463,146	5,141,127	15,322,019
Total	**₱ 94,135,150**	**₱ 15,149,246**	**₱ 78,985,904**

2023 As restated	Lease Payments	Finance Charges	Net Present Values
Within 1 year	₱ 22,322,320	₱ 3,926,199	₱ 18,396,121
1 – 2 years	20,444,460	2,810,830	17,633,630
2 – 3 years	15,529,501	1,940,318	13,589,183
3 – 4 years	10,083,653	1,346,924	8,736,729
4 – 5 years	6,437,517	975,554	5,461,963
More than 5 years	25,282,338	5,953,129	19,329,209
Total	₱ 100,099,789	₱ 16,952,954	₱ 83,146,835

In Philippine Peso

23. RETIREMENT BENEFIT OBLIGATION

23.01 Characteristics of Defined Benefit Plan

The Bank has a funded, non-contributory defined benefit retirement plan covering all its permanent officers and regular employees. Under this retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The retirement plan provides a retirement benefit equal to one hundred percent (100.00%) of the employee's final salary per month for every year of credited service. Under the existing regulatory framework, R.A. No. 7641, Retirement Pay Law, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. As of December 31, 2024 and 2023, the Bank has met the minimum requirement of R.A. No. 7641.

23.02 Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made every two years to update the post-employment benefit costs and the amount of contributions. All amounts presented in the succeeding page are based on the actuarial valuation report obtained from an independent actuary.

The funding status of the retirement benefit plan is disclosed below:

	2024	2023
Present value of defined benefit obligation	₱ **60,679,032**	₱ 67,535,270
Fair value of the plan assets	**(19,022,439)**	(21,524,074)
Net retirement benefit liability	₱ **41,656,593**	₱ 46,011,196

The movements in present value of the post-employment benefit obligation are as follows:

	2024	2023
Balance, beginning	₱ **67,535,270**	₱ 69,380,802
Current service cost	**1,153,407**	1,347,012
Benefits paid from plan asset	**(3,187,893)**	(3,171,347)
Benefits paid from book reserves	**(8,887,375)**	(1,111,928)
Interest cost	**4,065,623**	2,289,566
Actuarial gain – changes in financial assumptions	**–**	(7,648,584)
Actuarial loss – experience	**–**	6,449,749
Balance, ending	₱ **60,679,032**	₱ 67,535,270

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.

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

In Philippine Peso

The movements in fair value of plan assets are presented below:

		2024		2023
Balance, beginning	₱	**21,524,074**	₱	23,800,610
Interest income		**716,936**		785,420
Benefits paid from plan asset		**(3,187,893)**		(3,171,347)
Gain (Loss) on plan asset		**(30,679)**		109,391
Balance, ending	₱	**19,022,438**	₱	21,524,074

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

		2024		2023
Cash and cash equivalents	₱	**11,688,964**	₱	11,505,281
Long-term investments:				
Debt securities		**1,448,752**		2,685,961
Equity securities		**5,874,454**		995,087
Other investments		**–**		6,272,117
Loans and receivables		**–**		73,042
Other assets		**10,268**		36,723
Liabilities		**–**		(44,137)
Balance, ending	₱	**19,022,438**	₱	21,524,074

Retirement benefit expense recognized in profit or loss is as follows:

		2024		2023
Current service cost	₱	**1,153,407**	₱	1,347,012
Interest expense on defined benefit obligation		**4,065,623**		2,289,566
Interest income on plan asset		**(716,936)**		(785,420)
	₱	**4,502,094**	₱	2,851,158

Amounts recognized in other comprehensive income (OCI) in respect of these retirement benefit plans are as follows:

		2024		2023
Beginning OCI in equity	₱	**8,678,513**	₱	7,697,344
Actuarial gain – DBO		**–**		1,198,835
Remeasurement gain (loss) – plan assets		**(30,679)**		109,391
Total		**(30,679)**		1,308,226
Tax effect		**7,670**		(327,057)
Defined benefit cost in comprehensive income		**(23,009)**		981,169
Ending OCI in equity	₱	**8,655,504**	₱	8,678,513

In determining the amounts of the post-employment obligation, the following significant actuarial assumptions were used:

	2024	2023
Discount rate	**6.09%**	6.02%
Salary increase rate	**3.00%**	3.00%

In Philippine Peso

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working life of an individual retiring at the age of 60 is 39.89 years and 39.39 years as of December 31, 2024 and 2023, respectively. 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 a zero-coupon government bond with terms to maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

Maturity analysis: 10-year projection of expected future benefits payments is as follow:

	2024	2023
Within 1 year	₱ **36,997,144**	₱ 14,582,830
More than one year to five years	**14,582,830**	36,997,144
More than five years	**106,316,341**	120,899,171
	₱ **157,896,315**	₱ 172,479,145

23.03 Risks Associated with the Retirement Plan

The Bank is exposed to a number of risks through its defined benefit plan. The most significant risks are detailed below:

23.03.01 Volatility Risk
The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The plan hold savings deposits and unit investment trust funds which is expected to at least match corporate bonds in the long term while providing volatility and risk in the short term.

As the plan mature, the Bank intends to reduce the level of investment risk by investing more in assets that better match with the liabilities.

23.03.02 Investment Risk
Investment risk is the risk that investments on plan assets will result to lower return than originally expected. This risk emanates on the premise that funded defined benefit plans should be arranged on the basis of Asset-Liabilities Matching principle. Thus, plan assets and future contributions are invested in such a way that it will generate return to cover-up future payments of defined benefit obligations and interest costs. These plan activities expose the Bank to sensitivity in investment risks that would result to lower plan assets and higher defined benefit obligations should the performance of the investment portfolio falls below the inflation rate, interest rates and other economic conditions.

Investment risk is mitigated through proper investment planning and concentration of investments.

23.03.03 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

23.03.04 Inflation Risk
Inflation risk is the risk that the equivalent purchasing power of the plan assets will not be able to match the recorded liabilities.

Payments for the defined benefit plan of the Bank are not linked to inflation, this, the exposure to this risk is immaterial.

In Philippine Peso

24. EQUITY

24.01 Capital Stock

Details of the Bank's capital stock are as follows:

		2024		2023
Common stock	₱	**785,305,800**	₱	545,305,800
Preferred stock		**183,044,400**		423,044,400
	₱	**968,350,200**	₱	968,350,200

Shown below are the details of common stock:

	2024		2023	
	Shares	**Amount**	Shares	Amount
Authorized capital at ₱100 par value	**8,169,556**	**₱ 816,955,600**	5,769,556	₱ 576,955,600
Issued and fully paid at ₱100 par value	**7,853,058**	**₱ 785,305,800**	5,453,058	₱ 545,305,800

Ordinary shares carry one (1) vote per share and a right to dividends.

Shown below are the details of preferred stock:

	2024			2023		
	Shares		**Amount**	Shares		Amount
Authorized						
Class A at ₱100 par value	**145,000**	₱	**14,500,000**	145,000	₱	14,500,000
Class B at ₱5,000 par value	**1,100**		**5,500,000**	1,100		5,500,000
Class C at ₱100 par value	**30,444**		**3,044,400**	30,444		3,044,400
Class D at ₱100 par value	**1,600,000**		**160,000,000**	4,000,000		400,000,000
	1,776,544	₱	**183,044,400**	4,176,544	₱	423,044,400
Issued and fully paid						
Class A	**145,000**	₱	**14,500,000**	145,000	₱	14,500,000
Class B	**1,100**		**5,500,000**	1,100		5,500,000
Class C	**30,444**		**3,044,400**	30,444		3,044,400
Class D	**1,600,000**		**160,000,000**	4,000,000		400,000,000
	1,776,544	₱	**183,044,400**	4,176,544	₱	423,044,400

The Preferred Class A shares, which are made available to the Development Bank of the Philippines, are entitled to voting privileges and cumulative dividends of 10.00% per annum. As at December 31, 2024 and 2023, dividend in arrears on preferred class A shares amounted to ₱11.76 million and ₱10.31 million, respectively.

The Preferred Class B shares are available to the public, non-voting and entitled to noncumulative dividends of 14.00% per annum.

The Preferred Class C shares have no voting privilege and are entitled to noncumulative dividends of 15.00% per annum. These shares shall be convertible to common shares at the option of the Preferred C stockholders with each one share convertible to one common stock. The Bank shall have the option to redeem the Preferred Class C shares at par after three years from date of issuance. As of December 31, 2024 and 2023, the option to redeem has already expired.

The Preferred Class D shares shall be entitled to a noncumulative dividend of 10% per annum with voting privileges. The Bank has the option to redeem the shares after five years from date of issuance.

24.02 Treasury Stock

In 2014, the Bank exercised its option to redeem Preferred C shares from certain stockholders. The Bank redeemed a total of 895 shares at par which amounted to ₱89,500.

In 2023, 503 treasury shares with total par value of ₱50,300 has been re-issued.

In 2022, 392 treasury shares with total par value of ₱39,200 has been re-issued.

As of December 31, 2024 and 2023, treasury stock amounted to nil for both years.

24.03 Surplus Reserves

As at December 31, 2024 and 2023, surplus reserves amounting to ₱5,304,528, pertain to the reserve established by the Bank for self-insurance on robbery and theft and for treasury stock.

24.04 Deposit for Future Stock Subscription

In 2019, the Bank received ₱168,350,200 from the Bank's existing stockholders as deposits on future stock subscriptions on the Bank's plan to increase its authorized capital stock from ₱800 million to ₱1 billion, which was initially filed for application with the BSP on December 20, 2019.

Since the requirement to consider the deposits for future stock subscriptions was not met as of December 31, 2021, the related deposit was presented as a separate line item in the liability section of statement of financial position.

The BSP has approved the application on May 12, 2022, and the Bank initially submitted the application to SEC on September 16, 2022. It was resubmitted for review of the SEC examiner on October 2022 after it was returned for some corrections on the attachments. The final revised documents were resubmitted on November 8, 2022.

Based on the foregoing, since the requirement to consider the deposits for future stock subscriptions was met as of December 31, 2022, the related deposit was presented as a separate line item in the equity section of statement of financial position.

On November 14, 2023, the SEC approved the amendment of the Bank's Articles of Incorporation regarding the increase in authorized capital stock. Therefore, the deposit for future stock subscription was reclassified to share capital during 2023.

On July 18, 2024, the SEC approved the amendment of the Bank's Articles of Incorporation regarding the conversion of preferred Class D stock to common stock.

24.05 Capital Management, Objectives, Policies and Procedures

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

In Philippine Peso

24.06 Regulatory Capital

The Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is regularly accounted for and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing, and the advantages and security afforded through a sound capital position.

The Bank manages its capital structure, which is composed of paid-up capital and surplus reserve, and makes adjustments to these ratios in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities.

Based on MORB Section 121, the Bank qualifies as a thrift bank with head office in all other areas outside National Capital Region (with 11 to 50 branches). This type is required to meet ₱400,000,000 minimum capitalization. As of December 31, 2023, the Bank is compliant with the minimum capitalization requirement.

The minimum capital ratios shall be expressed as a percentage of capital to risk-weighted assets as shown below:

Minimum Capital Ratio	Capital	% of Risk-Weighted Assets
Common Equity Tier 1 (CET1) Ratio	CET1	at least 6.0%
Tier 1 Ratio	Tier 1	at least 7.5%
Capital Adequacy Ratio (CAR)	Qualifying Capital	at least 10.0%

A capital conservation buffer (CCB) of two and a half percent (2.5%), comprised of CET1 capital, shall likewise be imposed.

The minimum capital ratios based on the new compositions and the CCB shall take effect starting January 1, 2023

Qualifying capital consists of the following elements, net of required deductions:

a) Tier 1 Capital, which is composed of:
   i. CET1 Capital; and
   ii. Additional Tier 1 (AT1) Capital

b) Tier 2 Capital

CET1 Capital consists of:

a) Paid-up common stock
b) Surplus
c) Other comprehensive income
d) Reserve for self insurance
e) Other surplus reserves
f) Undivided profits

Subject to deductions/regulatory adjustments for:
i. Deferred tax asset, net of deferred tax liability
ii. Intangible assets
iii. Retirement benefit assets (obligation)

In Philippine Peso

AT1 Capital consists of:

a) Paid-up perpetual and non-cumulative preferred stock

Tier 2 Capital consists of:

a) Paid up perpetual and cumulative preferred stock
b) General loan loss provision

Additionally, CCB is meant to promote the conservation of capital and build-up of adequate cushion above the minimum level that can be drawn down by banks to absorb losses during periods of financial and economic stress. The buffer is on top of the minimum capital requirements. The capital must first be used to meet the minimum CET1 ratio before the remainder can contribute to the CCB.

Where a bank does not have positive earnings, has CET1 ratio of lower than eight and a half percent (8.5%) [CET1 ratio of six percent (6%) plus conservation buffer of two and a half percent (2.5%)], and has not complied with other minimum capital ratios, the Bank would then be restricted from making distribution of earnings.

Information regarding the Bank's qualifying capital as of December 31, 2024 is shown below:

	2024	2023 As restated
	In (000,000's)	In (000,000's)
CET1 Capital	**₱ 569.14**	₱ 299.13
AT1 Capital	**168.54**	408.54
Tier 1 Capital	**737.68**	707.67
Tier 2 Capital	**37.59**	34.94
Qualifying capital	**775.27**	742.61
Total risk-weighted assets	**₱ 5,079.96**	₱ 5,149.72
CET1 Ratio	**11.20%**	5.81%
CCB	**5.20%**	-0.19%
Tier 1 Capital Ratio	**14.52%**	13.74%
Total CAR	**15.26%**	14.42%

As of December 31, 2023, the Bank is not compliant with minimum CET1 Ratio and CCB.

The Bank's leverage ratio, computed as total capital over total assets, is 11.06% and 10.13%, as of December 31, 2024 and 2023, respectively.

In Philippine Peso

25. OTHER INCOME – net

This account consists of the following:

	Note		2024		2023
Gain on sale of non-financial assets – net		₱	**22,289,544**	₱	54,166,551
Commission and fees			**10,798,282**		10,773,382
Service charges			**8,706,559**		9,850,386
Gain on lease pretermination	12		**456,850**		–
Rental income			**–**		1,031,500
Others			**54,705,212**		19,840,858
		₱	**96,956,447**	₱	95,662,677

Breakdown of gain on sale of non-financial assets is disclosed below:

	Notes		2024		2023
Investment properties	13	₱	**18,318,959**	₱	47,380,024
Other properties acquired and assets held for sale	16		**3,970,585**		6,786,527
		₱	**22,289,544**	₱	54,166,551

Others include income from sale of checkbook, appraisal and inspection fees, loan cancellation fee and remittance fees.

In Philippine Peso

26. OPERATING EXPENSES

Details of operating expenses are shown below:

	Notes	2024	2023 As restated
Compensation and employee benefits		₱ **99,560,419**	₱ 92,608,365
Depreciation and amortization		**70,380,934**	72,432,164
Security, messengerial and janitorial services		**28,855,039**	26,522,796
Taxes and licenses	35	**22,514,682**	17,348,733
Occupancy and other equipment-related costs		**21,871,010**	18,383,995
Legal and foreclosure expenses		**15,294,265**	21,378,746
Insurance		**13,844,128**	13,666,154
Fines and penalties		**11,502,951**	3,177,989
Loss on foreclosure	16	**11,021,440**	4,287,076
Transportation and travel		**9,554,363**	9,090,461
Information technology		**9,337,776**	8,981,232
Impairment loss on land	13	**5,539,732**	–
Fuel and lubricants		**3,857,376**	3,488,159
Appraisal increment write-off		**3,398,016**	4,530,687
Office supplies		**3,249,045**	3,363,161
Communication		**2,262,549**	2,325,268
Directors' fees		**2,175,821**	1,560,263
Supervision fees		**2,100,000**	2,025,000
Management and professional fees		**2,051,150**	2,077,500
Entertainment, amusement and recreation		**914,115**	1,048,898
Membership fees and dues		**517,987**	679,229
Advertising and publicity		**149,649**	33,810
Loss on disposal of BPFFE	11	**122,435**	37,199
Periodicals and magazines		**12,000**	21,562
Donation		**9,131**	25,591
Others		**17,233,142**	16,174,379
		₱ **357,329,155**	₱ 325,268,417

Compensation and employee benefits consists of:

	Note	2024	2023
Salaries and wages		₱ **66,559,173**	₱ 62,189,424
Other employee benefits		**13,940,370**	13,282,845
Government contributions		**7,887,052**	7,010,644
Retirement benefit expense	23	**4,502,094**	2,851,158
Medical, dental and hospitalization		**6,671,730**	7,274,294
		₱ **99,560,419**	₱ 92,608,365

In Philippine Peso

Breakdown of appraisal increment write-off is as follows:

	Notes		2024		2023
Investment properties – cost	13	₱	**2,627,158**	₱	3,502,877
Investment properties – accumulated depreciation	13		**540,396**		720,527
Other properties acquired – cost	16		**138,239**		184,319
Other properties acquired – accumulated depreciation	16		**92,223**		122,964
		₱	**3,398,016**	₱	4,530,687

Depreciation and amortization consist of:

	Notes		2024		2023 As restated
Bank premises, furniture, fixtures and equipment	11	₱	**9,528,000**	₱	10,704,089
Right-of-use asset	12		**22,242,739**		20,822,566
Investment properties	13		**31,464,715**		31,193,312
Intangible assets	14		**1,367,739**		1,917,189
Other properties acquired	16		**5,777,741**		7,795,008
		₱	**70,380,934**	₱	72,432,164

Others include utilities, transportation fees, photocopy, fees paid to external appraisers and credit investigators and meals during meetings.

27. PROVISION FOR CREDIT LOSSES

Provision for credit losses presented in the statements of income for the years ended December 31, 2024 and 2023 are as follows:

	Notes		2024		2023
Loans and other receivables	10	₱	**2,193,130**	₱	12,500,000
Other assets	16		**–**		3,122,169
Total		₱	**2,193,130**	₱	15,622,169

28. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has loans and other transactions with certain directors, officers, stakeholders and related interests (DOSRI). Under the Bank’s policy, these loans and other transactions are made substantially on the terms as with other individuals and businesses of comparable risks.

28.01 DOSRI Loans

The General Banking Act and BSP regulations limit the amount of the loans to each DOSRI as follows:

a. The individual ceiling for credit accommodations of a bank to each of its DOSRI shall be equivalent to his outstanding deposits and book value of his paid-in capital in the lending bank. The unsecured credit accommodations to each of the Bank’s directors and officers shall not exceed 30% of his total credit accommodations.

In Philippine Peso

b. The aggregate ceiling for credit accommodations, whether direct or indirect, to DOSRI of a bank shall not exceed 15% of the total loan portfolio of the Bank or its combined capital accounts net of deferred income tax, unbooked valuation reserves and other capital adjustments required by the BSP, whichever is lower. The total unsecured direct and indirect borrowings of directors and officers shall not exceed 30% of the aggregate ceiling or the outstanding direct/indirect credit accommodations thereto, whichever is lower.

The summary of the Bank's significant transactions with its related parties as of December 31, 2024 and 2023 is as follows:

2024	**DOSRI loans**	**Related party loans**
Outstanding DOSRI/related party accounts	**₱ 232,265,930**	**₱ 232,265,930**
Percent of DOSRI/related party accounts to total loan portfolio	**7.95%**	**7.95%**
Percent of unsecured DOSRI/related party accounts to total DOSRI/related party accounts	**–**	**–**
Percent of past due DOSRI/related party accounts to total DOSRI/related party accounts	**–**	**–**
Percent of non-performing DOSRI/related party accounts to total DOSRI/related party accounts	**–**	**–**

2023	DOSRI loans	Related party loans
Outstanding DOSRI/related party accounts	₱ 182,955,217	₱ 182,955,217
Percent of DOSRI/related party accounts to total loan portfolio	5.61%	5.61%
Percent of unsecured DOSRI/related party accounts to total DOSRI/related party accounts	–	–
Percent of past due DOSRI/related party accounts to total DOSRI/related party accounts	–	–
Percent of non-performing DOSRI/related party accounts to total DOSRI/related party accounts	–	–

As of December 31, 2024 and 2023, the Bank is in full compliance with the General Banking Act and the Bangko Sentral ng Pilipinas (BSP) regulations on DOSRI loans.

Based on management's assessment as of December 31, 2024 and 2023, no impairment loss is required to be recognized on the Bank's loans receivable from DOSRI and related parties.

The Bank provided general loan loss provision on the DOSRI loans as of December 31, 2024 and 2023. Total allowance for credit losses recognized as of December 31, 2024 and 2023 amounted to ₱2,322,659 and ₱1,829,552, respectively.

28.02 DOSRI Deposits

The Bank has deposit liabilities to related parties amounting to ₱168,951,294 and ₱170,372,695 as of December 31, 2024 and 2023, respectively, which are presented as part of Deposit Liabilities in the statements of financial position. The interest rates on these deposits range from 0.1% to 3% per annum for both 2024 and 2023. These transactions are made substantially on the same terms as transactions entered into with other third-party individuals and businesses of comparable risks.

In Philippine Peso

28.03 Remuneration of Key Management Personnel

The key management compensation for the years ended December 31, 2024 and 2023 are composed of:

		2024		2023
Key management personnel compensation, salaries, and other benefits	₱	**11,859,129**	₱	8,622,852

28.04 Transactions with Retirement Fund

The Bank's retirement benefit fund is being maintained by UnionBank Investment Management and Trust Corporation, Security Bank Corporation and BPI Wealth – A Trust Corporation. The total fair value of the funds amounted to ₱19,022,438 and ₱21,524,074 as at December 31, 2024 and 2023, as disclosed in Note 23.

The fund is invested in a diversified portfolio of fund types. For the years ended December 31, 2024 and 2023, the Bank made benefit payments from the fund as disclosed in Note 23.

29. INCOME TAX

Under Philippine tax laws, the bank is subject to percentage and other taxes (included in taxes and licenses in the comprehensive income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax. The bank's liability will be based on regulations to be issued by tax authorities.

Income taxes include the corporate income tax, discussed below, and final tax paid which represents the final withholding tax on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as provision for income tax in the statements of income.

Under current tax regulations, the applicable income tax rate is thirty percent (30%). Interest allowed as a deductible expense is reduced by an amount equivalent to thirty three percent (33%) of interest income subjected to final tax. Also, entertainment, amusement and recreation (EAR) expense is limited to one percent (1%) of net revenues, as defined, for sellers of services beginning September 1, 2002. The current regulations also provide for MCIT of 2% on modified gross income and allow a three year NOLCO. Any excess of the MCIT over the regular income tax is deferred and can be used as a tax credit against future income tax liability while NOLCO can be applied against taxable income, both in the next three years from the year of occurrence.

The Bank's liability for income tax is based on existing tax laws and BIR regulations. However, income tax expense as shown on the statement of comprehensive income is determined under the provision of PAS 12 *Income Taxes*. Under PAS 12, income tax expense is the sum of current tax expense computed under tax laws and deferred tax expense determined through the use of balance sheet liability method. Deferred tax expense is the sum of changes in deferred tax asset and deferred tax liability. The balance sheet liability method focuses on temporary differences. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In Philippine Peso

29.01 Income Tax Recognized in Profit

Components of income tax expense (benefit) are as follows:

		2024		2023 As restated
Income tax expense – current	₱	**5,131,495**	₱	4,364,465
Income tax benefit – deferred		**(8,761,576)**		(4,802,427)
Final tax expense		**20,748,560**		11,791,182
	₱	**17,118,479**	₱	11,353,220

A numerical reconciliation between tax expense and the product of accounting profit (loss) multiplied by the tax rate in 2024 and 2023 is as follows:

		2024		2023 As restated
Accounting profit	₱	**55,161,313**	₱	62,798,055
Tax expense at 25%		**13,790,328**		15,699,514
Interest subjected to lower tax rates		**(6,667,440)**		(5,920,367)
Non-deductible expenses		**9,732,021**		6,473,438
Non-taxable income		**(27,020)**		(236,395)
Reversal of unrecognized deferred tax		**–**		(5,795,642)
Unrecognized deferred tax		**290,590**		1,132,672
	₱	**17,118,479**	₱	11,353,220

29.02 Deferred Tax Assets – net

Details of the Bank's deferred tax assets, net of deferred tax liability, as presented in the statements of financial position are shown below:

		2024		2023 As restated
Deferred tax assets				
Allowance for credit losses and impairment	₱	**86,751,227**	₱	89,509,464
Accumulated depreciation of investment properties and other properties acquired		**25,739,904**		19,544,877
NOLCO		**17,649,788**		17,066,682
MCIT		**9,495,960**		4,364,465
Retirement benefit obligation		**6,439,576**		7,528,227
Excess of lease liability over ROU asset		**3,775,561**		3,577,759
Unamortized service cost		**351,479**		401,690
		150,203,495		141,993,164
Deferred tax liability:				
Gain on foreclosure of investment properties and other properties acquired		**(23,880,493)**		(24,439,407)
	₱	**126,323,002**	₱	117,553,757

In Philippine Peso

Below are the movements in the net deferred tax asset as reflected in the statements of income (P&L) and statements of comprehensive income (OCI):

	2024		2023 As restated	
	P&L	**OCI**	P&L	OCI
Deferred tax assets:				
Allowance for credit losses and impairment	₱ **2,758,238**	₱ **–**	₱ 23,696,996	₱ –
Accumulated depreciation of investment properties and other properties acquired	**(6,195,027)**	**–**	(6,416,361)	–
NOLCO	**(583,106)**	**–**	(17,066,682)	–
MCIT	**(5,131,495)**	**–**	(4,364,465)	
Unamortized service cost	**50,211**	**–**	50,211	–
Excess of lease liability over ROU asset	**(197,803)**	**–**	(267,319)	–
Retirement benefit obligation	**1,096,320**	**(7,670)**	(434,807)	327,057
	(8,202,662)	**(7,670)**	(4,802,427)	327,057
Deferred tax liability:				
Gain on foreclosure of investment properties and other properties acquired	**(558,914)**	**–**	–	–
	₱ **(8,761,576)**	₱ **(7,670)**	₱ (4,802,427)	₱ 327,057

29.03 Unrecognized Deferred Tax

The Bank did not recognize the deferred tax assets arising from temporary differences since it does not expect to have sufficient taxable profit against which the deferred tax assets can be utilized. The breakdown of the unrecognized deferred tax assets are as follows:

	2024	2023
NOLCO	₱ **14,853,232**	₱ 14,853,232
Accumulated depreciation of investment properties and other properties acquired	**13,921,417**	13,921,417
Retirement benefit obligation	**3,974,572**	3,974,572
	₱ **32,749,221**	₱ 32,749,221

29.04 Minimum Corporate Income Tax (MCIT)

Section 27(E) of the National Internal Revenue Code of 1997 provides that an MCIT of two percent (2%) of the gross income as of the end of the taxable year is imposed on a taxable corporation beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operation, when the MCIT is greater than RCIT for the taxable year. The Company was incorporated on March 13, 1961, thus, the Company is subject to MCIT.

Details of Company's excess MCIT over RCIT which can be claimed as tax credits against regular income tax are as follows:

Year Incurred	Amount	Applied	Expired	Unapplied	Expiry Date
2024	₱ 5,131,495	₱ –	₱ –	₱ 5,131,495	2027
2023	4,364,465	–	–	4,364,465	2026
2022	4,532,798	–	–	4,532,798	2025
	₱ **14,028,758**	₱ **–**	₱ **–**	₱ **14,028,758**	

In Philippine Peso

29.05 Net Operating Loss Carry-Over (NOLCO)

Under Section 34(D)(3) of the National Internal Revenue Code (NIRC) of 1997, as amended, the net operating loss of the business or enterprise for any taxable year immediately preceding the current taxable year which had not been previously offset as deduction from gross income shall be carried over as a deduction from gross income for the next three (3) consecutive taxable years immediately following the year of such loss.

Details of the Bank's NOLCO are as follows:

Year Incurred	Amount	Applied	Expired	Unapplied	Expiry Date
2024	₱ 2,332,425	₱ –	₱ –	₱ 2,332,425	2027
2023	68,266,727	–	–	68,266,727	2026
2022	59,412,929	–	–	59,412,929	2025
	₱ 130,012,081	**₱ –**	**₱ –**	**₱ 130,012,081**	

29.06 Republic Act No. 11534, otherwise known as the "Corporate Recovery and Tax Incentives for Enterprises (CREATE)" Act

On February 03, 2021, the final provisions of Senate Bill No. 1357 and House Bill No. 4157 or the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill, which seeks to reform corporate income taxes and incentives in the country, had been ratified by the Senate and the House of Representatives of the Philippines.

Under the proposed law, effective July 1, 2020, the corporate income tax will be reduced from the current 30% to 20% for domestic corporations with total assets not exceeding P100 million, excluding land, and total net taxable income of not more than ₱5 million. The corporate income tax of all other corporations (domestic and resident foreign), meanwhile, will be lowered to 25%.

30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following table shows the reconciliation analysis of liabilities arising from financing activities for the years ended December 31, 2024 and 2023:

	2023	Cash inflow	Cash outflow	Non-cash changes	2024
Lease liabilities*	83,146,835	–	(25,887,179)	21,726,248	78,985,904
Dividends payable	1,209,128	–	–	–	1,209,128
	84,355,963	**–**	**(25,887,179)**	**21,726,248**	**80,195,032**

**pertains to payment of principal amounting to ₱20,994,678 and interest amounting to ₱4,892,501.*

	2022	Cash inflow	Cash outflow	Non-cash changes	2023 As restated
Bills payable	46,830,773	–	(46,830,773)	–	–
Lease liabilities*	73,355,668	–	(24,298,612)	34,089,779	83,146,835
Dividends payable	1,209,128	–	–	–	1,209,128
	121,395,569	–	(71,129,385)	34,089,779	84,355,963

**pertains to payment of principal amounting to ₱19,753,290 and interest amounting to ₱4,545,322.*

In Philippine Peso

31. RESTATEMENT OF PRIOR PERIOD ERRORS

In 2024, the Bank restated its financial statements as of and for the years ended December 31, 2023 and 2022 to reflect certain prior period adjustments on share of net income in its Investment in Associate, to record additional right-of-asset and lease liabilities and to correct the related deferred tax assets. These adjustments affect the investment in associate, right-of-use asset – net, lease liabilities, deferred tax assets, surplus free, share net income of associate, interest expense on lease liabilities, operating expenses and income tax expense.

The analysis of the affected line items in the statement of financial position of the Bank as of December 31, 2022 is shown below:

		As previously reported Dr (Cr)		Adjustments Dr (Cr)		As restated Dr (Cr)
Changes in assets:						
Investment in associate [a]	₱	17,170,260	₱	1,627,640	₱	18,797,900
Decrease in total assets				**1,627,640**		
Change in equity:						
Surplus free[b]	₱	208,652,198	₱	(1,627,640)	₱	207,024,558
Decrease in total equity				**(1,627,640)**		

a. Restatement on investment in associate – pertains to share of net income of MARESCO for 2022 financial year.
b. Restatement on surplus free – pertains to share of net income of MARESCO for 2022 financial year.

The analysis of the affected line items in the statement of financial position of the Bank as of December 31, 2023 is shown below:

		As previously reported Dr (Cr)		Adjustments Dr (Cr)		As restated Dr (Cr)
Changes in assets:						
Right-of-use assets – net [a]	₱	53,639,070	₱	15,196,728	₱	68,835,798
Investment in associate [b]		18,797,900		945,581		19,743,481
Deferred tax assets – net [c]		113,066,351		4,487,406		117,553,757
Decrease in total assets				**20,629,715**		
Change in liabilities:						
Lease liabilities [d]	₱	(67,087,216)	₱	(16,059,619)	₱	(83,146,835)
Decrease in total liabilities				**(16,059,619)**		
Change in equity:						
Surplus free[e]	₱	160,149,819	₱	(4,570,096)	₱	155,579,723
Decrease in total equity				**(4,570,096)**		

In Philippine Peso

The analysis of the affected line items in the statement of comprehensive income of the Bank for the year ended December 31, 2023 is shown below:

	As previously reported Dr (Cr)	Adjustments Dr (Cr)	As restated Dr (Cr)
Share in net income of associate[f]	₱ –	₱ (945,581)	₱ (945,581)
Interest expense on lease liabilities[g]	3,914,473	630,849	4,545,322
Operating expenses[h]	325,036,376	232,041	325,268,417
Income tax expense[i]	15,840,625	(4,487,405)	11,353,220
		(4,570,096)	

a. Restatement on right-of-use assets – net – pertains to recognition of additional right-of-use for newly entered /renewed contracts.
b. Restatement on investment in associate – pertains to share of net income of MARESCO for 2023 financial year.
c. Restatement on deferred tax assets – pertains to recognition of additional deferred tax on excess of lease liabilities of ROU and MCIT.
d. Restatement on lease liabilities – pertains to share of net income of MARESCO for 2023 financial year,
e. Restatement on surplus free – pertains to depreciation expense on right-of-use asset and interest expense on lease liabilities for newly entered/renewed contracts and reversal of the related rent expense, and deferred tax on excess of lease liabilities of ROU and MCIT.
f. Restatement on share in net income of associate – pertains to share of net income of MARESCO for 2023 financial year.
g. Restatement on interest expense on lease liabilities – pertains to additional interest expense on lease liabilities for newly entered/renewed contracts.
h. Operating expenses – pertains to additional depreciation expense on right-of-use asset for newly entered/renewed contracts and the reversal of the related rent expense.
i. Income tax expense – pertains to additional deferred tax on excess of lease liabilities of ROU and MCIT.

32. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are other commitments and contingent liabilities that arise in the normal course of the Bank's operations, which are not reflected in the financial statements. These pertain to several other suits and claims filed by and against the Bank as of December 31, 2024 and 2023. These include litigations involving labor complaints of various resigned employees, tax assessments, claims of alleged deposits by various depositors and contested foreclosures. Management believes that any loss arising from these suits and claims will not have a material effect on the Bank's financial position or results of operations.

33. EVENTS AFTER THE REPORTING DATE

No events after the end of the reporting date were identified in these financial statements that provide evidence of conditions that existed at the reporting date (adjusting events after reporting date), and that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

In Philippine Peso

34. APPROVAL OF FINANCIAL STATEMENTS

These financial statements for the year ended December 31, 2024 was approved and authorized for issue by the Board of Directors (BOD) on April 14, 2025.

35. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS 15-2010

Revenue Regulations (RR) No. 21-2002 prescribing additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying income tax returns was amended under RR 15-2010. The amendment that became effective on December 28, 2010 requires the inclusion in the notes to financial statements, information on taxes and license fees paid or accrued during the year in addition to what is required under the Philippine Financial Reporting Standards and such other standards and/or conventions.

Below are the additional information required by RR 15-2010. This information is presented for purposes of filing with the BIR and is not a required disclosure under PFRS.

35.01 Gross Receipts Tax

In lieu of the value-added tax (VAT), the Bank is subject to the gross receipts tax (GRT) imposed on all banks and non-bank financial intermediaries performing quasi-banking functions pursuant to Section 121 of the Tax Code, as amended. In 2024 and 2023, the Bank reported total GRT as shown below:

	2024	2023
Gross receipts tax paid	₱ **10,442,325**	₱ 9,487,999
Gross receipts tax payable	**4,252,145**	3,152,849
	₱ **14,694,470**	₱ 12,640,848

35.02 All Other National and Local Taxes

All other local and national taxes paid by the Bank and presented as part of operating expenses for the years ended December 31, 2024 and 2023 consist of:

	2024	2023
Gross receipts tax	₱ **14,694,470**	₱ 12,640,848
Documentary stamp taxes	**1,831,808**	2,506,393
Local taxes and business permits	**2,936,854**	2,156,822
Real property taxes	**3,051,550**	44,670
	₱ **22,514,682**	₱ 17,348,733

35.03 Withholding Taxes

Withholding taxes paid or accrued for the years ended December 31, 2024 and 2023 consist of:

2024	**Paid**	**Accrued**	**Total**
Withholding tax on compensation	₱ 1,623,977	₱ 169,431	₱ 1,793,408
Final withholding tax	22,669,275	1,825,060	24,494,335
Expanded withholding tax	1,870,281	108,236	1,978,517
	₱ **26,163,533**	₱ **2,102,727**	₱ **28,266,260**

2023	Paid	Accrued	Total
Withholding tax on compensation	₱ 1,440,073	₱ 138,860	₱ 1,578,933
Final withholding tax	18,618,198	2,202,014	20,820,212
Expanded withholding tax	601,819	86,399	688,218
	₱ 20,660,090	₱ 2,427,273	₱ 23,087,363

35.04 Tax Assessments

The Bank has no outstanding tax assessments as of December 31, 2024 and 2023.

35.05 Tax Cases

As of December 31, 2024 and 2023, the Bank does not have any final deficiency tax assessments from the BIR does not have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open years.

36. SUPPLEMENTARY INFORMATION REQUIRED UNDER BSP CIRCULAR NO. 1074

On January 8, 2020, the Monetary Board (MB), through Resolution No. 48, approved the amendments to the relevant provisions of the MORB. Subsequently, on February 7, 2020, the BSP issued Circular No. 1074 requiring banks to include the following information in their audited financial statements:

36.01 Basic Quantitative Indicators of Financial Performance

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

	2024	2023 As restated
Return on average equity	**4.93%**	6.43%
Return on average assets	**0.62%**	0.77%
Net interest margin	**6.32%**	6.07%

36.02 Capital Instrument Issued

The description of the capital instruments issued by the Bank is disclosed in Note 24.

36.03 Significant Credit Exposures

The Bank concentration of credit as to the industry/economic sector are as follows (amounts in thousands except for percentages):

	2024			2023		
	Peso Amount	**%**	**% to Tier 1**	Peso Amount	%	% to Tier 1
Wholesale and retail trade, business services	**866,842**	**29.65%**	**117.51%**	1,037,188	31.81%	146.58%
Other community, social and personal services	**368,348**	**12.60%**	**49.93%**	716,785	21.98%	101.30%
Real estate, renting and business activities	**493,287**	**16.87%**	**66.87%**	287,758	8.82%	40.67%
Agriculture, hunting and forestry and fishing	**189,530**	**6.48%**	**25.69%**	187,848	5.76%	26.54%
Manufacturing	**118,391**	**4.05%**	**16.05%**	246,934	7.57%	34.89%
Financial intermediaries	**91,430**	**3.13%**	**12.39%**	41,162	1.26%	5.82%
Others	**795,538**	**27.22%**	**107.84%**	743,152	22.79%	105.03%
	2,923,366	**100.00%**		3,260,827	100.00%	

The BSP considers the concentration of credit exists when the total loan exposure to a particular industry or economic sector exceeds 30% of the total loan portfolio or 10% of Tier 1 Capital, which is equivalent to ₱73.77 million and ₱70.77 million as of December 31, 2024 and 2023, respectively.

In 2024, the Bank is not exposed to any industry which is amounting to more than 30% of the total loan portfolio. The Bank is also exposed to the following sectors in which total loan exposure exceeded 10% of Tier 1 Capital: wholesale and retail trade, business services, other community, social and personal services, real estate, renting and business activities, and manufacturing.

In 2023, the Bank is exposed to wholesale and retail trade, business services, amounting to more than 30% of the total loan portfolio. The Bank is also exposed to the following sectors in which total loan exposure exceeded 10% of Tier 1 Capital: wholesale and retail trade, business services, other community, social and personal services, real estate, renting and business activities, manufacturing, and agriculture, hunting and forestry and fishing.

36.04 Breakdown of Total Loans

34.04.01 As to Security
Breakdown of loans as to secured and unsecured, and secured loans as to type of security: (amounts in thousands)

		2024		2023
Secured by real estate mortgage	₱	**1,957,722**	₱	2,020,084
Secured by deposit hold-out		**174,687**		157,840
Other collateral		**654,833**		900,446
Secured		**2,787,242**		3,078,370
Unsecured		**136,124**		182,457
	₱	**2,923,366**	₱	3,260,827

Other collateral includes chattel mortgage.

36.04.02 As to Status
Breakdown of loans as to performing and non-performing status per product is as follows (amounts in thousands):

2024		Performing		Non-Performing		Total
Commercial	₱	1,504,373	₱	184,906	₱	1,689,279
Consumption		227,469		3,511		230,980
Industrial		88,240		–		88,240
Real estate		188,883		20,036		208,919
Agricultural		144,751		2,379		147,130
Others		503,282		55,536		558,818
	₱	**2,656,998**	₱	**266,368**	₱	**2,923,366**

In Philippine Peso

2023		Performing		Non-Performing		Total
Commercial	₱	1,598,967	₱	227,731	₱	1,826,698
Consumption		812,351		56,544		868,895
Industrial		192,896		–		192,896
Real estate		206,002		9,185		215,187
Agricultural		148,062		2,379		150,441
Others		6,710		–		6,710
	₱	2,964,988	₱	295,839	₱	3,260,827

36.05 Information of Related Party Loans

Information on the Bank's related party loans is disclosed in Note 28.

36.06 Aggregate Amount of Secured Liabilities and Assets pledge as Security

There are no assets pledged to secure the Bank's liabilities as of December 31, 2024 and 2023.

36.07 Nature and Amount of Contingencies and Commitments

In the normal course of the Bank's operations, there are various commitments to extend credit which are not reflected in the Banking financial statements. As at December 31, 2024 and 2023, management believes that liabilities or losses, if any, arising from these commitments will not have a material effect on the financial position and results of operations of the Bank.

Let's Dream BIG

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