

**LUZON DEVELOPMENT BANK**  
**CALAMBA CITY, LAGUNA - PHILIPPINES**

**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2024 AND 2023**

## CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY .....	3
SUPPLEMENTARY STATEMENT .....	4
INDEPENDENT AUDITORS' REPORT .....	5
STATEMENTS OF FINANCIAL POSITION .....	6
STATEMENTS OF INCOME .....	7
STATEMENTS OF COMPREHENSIVE INCOME .....	8
STATEMENTS OF CHANGES IN EQUITY .....	9
STATEMENTS OF CASH FLOWS.....	10
NOTES TO FINANCIAL STATEMENTS .....	11

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

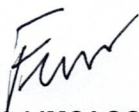
The Management of **LUZON DEVELOPMENT BANK** (the "Bank"), is responsible for the preparation and fair presentation of financial statements including the schedules attached therein, for the years ended December 31, 2024 and 2023, in accordance with the prescribed financial reporting framework indicated 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.

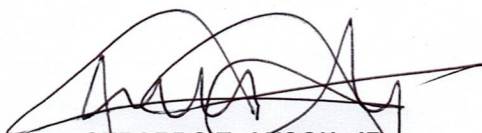
The Board of Directors is responsible for overseeing the Bank's financial reporting process.

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 14<sup>th</sup> day of April, 2025

# Alas Oplas & Co., CPAs

## INDEPENDENT AUDITORS' REPORT

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

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

### Offices:

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



# Alas Oplas & Co., CPAs

## 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.



# Alas Oplas & Co., CPAs

## **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
<b>ASSETS</b>				
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
<b>TOTAL ASSETS</b>		<b>6,630,821,687</b>	<b>6,911,940,021</b>	<b>6,506,666,560</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
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
<b>Total Liabilities</b>		<b>5,762,304,033</b>	<b>6,085,186,503</b>	<b>5,732,389,347</b>
<b>EQUITY</b>				
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
<b>Total Equity</b>		<b>868,517,654</b>	<b>826,753,518</b>	<b>774,277,214</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>6,630,821,687</b>	<b>6,911,940,021</b>	<b>6,506,666,561</b>
<i>See Notes to Financial Statements.</i>				

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

	Notes	2024	2023 As restated
<b>INTEREST INCOME</b>			
Loans and other receivables	10	<b>362,180,801</b>	375,432,708
Due from BSP and other banks	8	<b>104,582,781</b>	69,002,816
Held-to-collect financial assets	9	<b>5,081,218</b>	1,843,379
		<b>471,844,800</b>	446,278,903
<b>INTEREST EXPENSE</b>			
Deposit liabilities	17	<b>(149,225,148)</b>	(133,046,758)
Bills payable	19	<b>—</b>	(1,606,440)
Lease liabilities	22	<b>(4,892,501)</b>	(4,545,322)
		<b>(154,117,649)</b>	(139,198,520)
<b>NET INTEREST INCOME</b>		<b>317,727,151</b>	307,080,383
<b>OTHER INCOME</b>	25	<b>96,956,447</b>	95,662,677
<b>TOTAL OPERATING INCOME</b>		<b>414,683,598</b>	402,743,060
<b>OPERATING EXPENSES</b>	26	<b>(357,329,155)</b>	(325,268,417)
<b>NET OPERATING INCOME BEFORE PROVISIONS</b>		<b>57,354,443</b>	77,474,643
<b>PROVISION FOR CREDIT LOSSES</b>	27	<b>(2,193,130)</b>	(15,622,169)
<b>PROFIT BEFORE SHARE IN NET INCOME OF ASSOCIATE AND INCOME TAX</b>		<b>55,161,313</b>	61,852,474
<b>SHARE IN NET INCOME OF ASSOCIATE</b>	15	<b>3,744,311</b>	945,581
<b>PROFIT BEFORE TAX</b>		<b>58,905,624</b>	62,798,055
<b>INCOME TAX EXPENSE</b>	29	<b>(17,118,479)</b>	(11,353,220)
<b>PROFIT</b>		<b>41,787,145</b>	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
<b>PROFIT</b>		<b>41,787,145</b>	51,444,835
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<b>Item that will not be reclassified subsequently to profit or loss</b>			
Actuarial losses on remeasurement of post-employment defined benefit plan	23	<b>(30,679)</b>	1,308,226
Tax benefit (expense)	23	<b>7,670</b>	(327,057)
		<b>(23,009)</b>	981,169
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>41,764,136</b>	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**

	<b>Common Stock (Note 24)</b>	<b>Preferred Stock (Note 24)</b>	<b>Treasury Stock – Preferred (Note 24)</b>	<b>Surplus Reserves (Note 24)</b>	<b>Deposit for future stock subscription (Note 24)</b>	<b>Deficit</b>	<b>Other comprehensive income (Note 23)</b>	<b>Total</b>
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
<b>Balance at December 31, 2023 as restated</b>	<b>545,305,800</b>	<b>423,044,400</b>	<b>–</b>	<b>5,304,528</b>	<b>–</b>	<b>(155,579,723)</b>	<b>8,678,513</b>	<b>826,753,518</b>
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
<b>Balance at December 31, 2024</b>	<b>785,305,800</b>	<b>183,044,400</b>	<b>–</b>	<b>5,304,528</b>	<b>–</b>	<b>(113,792,578)</b>	<b>8,655,504</b>	<b>868,517,654</b>

*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
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
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 BPFEE	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
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
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
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
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)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(180,054,196)</b>	<b>736,100,398</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR</b>			
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
		<b>2,061,081,127</b>	<b>1,324,980,729</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>			
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
		<b>1,881,026,931</b>	<b>2,061,081,127</b>

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.

## 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.

<b>2024</b>				
	<b>Neither past due nor impaired</b>		<b>Past Due and Individually Impaired</b>	<b>Total</b>
	<b>High Grade</b>	<b>Standard Grade</b>		
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
	<b>4,588,606,656</b>	<b>207,094,873</b>	<b>298,515,405</b>	<b>5,094,216,934</b>
<b>2023</b>				
	<b>Neither past due nor impaired</b>		<b>Past Due and Individually Impaired</b>	<b>Total</b>
	<b>High Grade</b>	<b>Standard Grade</b>		
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
	<b>5,018,364,633</b>	<b>281,623,777</b>	<b>352,910,830</b>	<b>5,652,899,240</b>

\*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.

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
<b>Loans and other receivables</b>				
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)
<b>Carrying amount</b>	<b>₱ 2,589,024,229</b>	<b>₱ 161,223,342</b>	<b>₱ 61,339,002</b>	<b>₱ 2,811,586,573</b>
<b>HTC financial assets</b>				
<b>Carrying amount</b>	<b>₱ 102,323,424</b>	<b>₱ –</b>	<b>₱ –</b>	<b>₱ 102,323,424</b>
2023	Stage 1	Stage 2	Stage 3	Total
<b>Loans and other receivables</b>				
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)
<b>Carrying amount</b>	<b>₱ 3,106,538,608</b>	<b>₱ 92,119,358</b>	<b>₱ 29,314,525</b>	<b>₱ 3,227,972,491</b>
<b>HTC financial assets</b>				
<b>Carrying amount</b>	<b>₱ 52,386,445</b>	<b>₱ –</b>	<b>₱ –</b>	<b>₱ 52,386,445</b>

#### 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 unlikelihood 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.

#### 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

<b>2024</b>	<b>Stage 1</b>		<b>Stage 2</b>		<b>Stage 3</b>		<b>Total</b>
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)
<b>Balance, ending</b>	<b>₱</b>	<b>28,734,243</b>	<b>₱</b>	<b>11,356,390</b>	<b>₱</b>	<b>220,259,996</b>	<b>₱ 260,350,629</b>
<b>2023</b>	<b>Stage 1</b>		<b>Stage 2</b>		<b>Stage 3</b>		<b>Total</b>
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)

<b>2024</b>	<b>Stage 1</b>		<b>Stage 2</b>		<b>Stage 3</b>		<b>Total</b>
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)
<b>Balance, ending</b>	<b>₱</b>	<b>2,624,125,212</b>	<b>₱</b>	<b>167,975,854</b>	<b>₱</b>	<b>279,836,136</b>	<b>₱ 3,071,937,202</b>

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.

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.

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*

2023						
As restated		On Demand		Due Within 1 Year		Due Beyond 1 Year
						Total
Financial Assets:						
Cash and other cash items*	₱	137,076,860	₱	–	₱	–
Due from BSP		132,527,528		1,569,000,000		–
Due from other banks		172,136,878		–		–
SPURA		–		49,925,969		–
HTC financial assets		–		–		52,386,445
Loans and other receivables – net		105,554,700		720,483,460		2,401,934,331
Other assets**		–		–		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
Managers check		–		10,140,478		–
Lease liabilities		–		18,396,121		64,750,714
Accrued interest and other expenses*		–		48,290,338		–
Other liabilities**		–		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.

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
	<b>161,926,937</b>	<b>137,490,752</b>
Due from Bangko Sentral ng Pilipinas	<b>1,598,531,462</b>	1,701,527,528
Due from other banks	<b>120,568,532</b>	172,136,878
SPURA	—	49,925,969
	<b>₱ 1,881,026,931</b>	<b>₱ 2,061,081,127</b>

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.

## 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.

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	<b>₱ 266,368</b>	₱ 295,839
Less: Non-performing loans covered by allowance for credit losses	<b>195,649</b>	169,742
	<b>₱ 70,719</b>	₱ 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 (%)	<b>9.11%</b>	9.07%
Ratio of net NPLs to gross TLP (%)	<b>2.42%</b>	3.87%
Ratio of total allowance for credit losses to gross NPLs (%)	<b>86.26%</b>	82.21%
Ratio of specific allowance for credit losses on gross TLP to gross NPLs (%)	<b>77.59%</b>	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.

**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:

<b>2024</b>		<b>Land</b>		<b>Buildings and improvements</b>		<b>Furniture fixtures and equipment</b>		<b>Leasehold improvements</b>		<b>Building under construction</b>		<b>Total</b>
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
<b>Carrying amount, ending</b>	<b>₱</b>	<b>32,877,171</b>	<b>₱</b>	<b>89,242,625</b>	<b>₱</b>	<b>13,240,772</b>	<b>₱</b>	<b>7,811,819</b>	<b>₱</b>	<b>1,417,069</b>	<b>₱</b>	<b>144,589,456</b>

<b>2023</b>		<b>Land</b>		<b>Buildings and improvements</b>		<b>Furniture fixtures and equipment</b>		<b>Leasehold improvements</b>		<b>Building under construction</b>		<b>Total</b>
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
<b>Carrying amount, ending</b>	<b>₱</b>	<b>32,877,171</b>	<b>₱</b>	<b>91,631,025</b>	<b>₱</b>	<b>14,327,743</b>	<b>₱</b>	<b>8,484,860</b>	<b>₱</b>	<b>1,159,199</b>	<b>₱</b>	<b>148,479,998</b>



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.

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

<b>2024</b>		<b>Offices</b>		<b>Furniture, fixtures and equipment</b>		<b>Total</b>
<b><u>Cost:</u></b>						
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)
<b>Balance, ending</b>		<b>138,512,447</b>		<b>21,576,441</b>		<b>160,088,888</b>
<b><u>Accumulated depreciation:</u></b>						
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)
<b>Balance, ending</b>		<b>74,629,791</b>		<b>21,575,442</b>		<b>96,205,233</b>
<b>Carrying amount</b>	<b>₱</b>	<b>63,882,656</b>	<b>₱</b>	<b>999</b>	<b>₱</b>	<b>63,883,655</b>
<b>2023</b>		<b>Offices</b>		<b>Furniture, fixtures and equipment</b>		<b>Total</b>
<b><u>Cost:</u></b>						
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
<b><u>Accumulated depreciation:</u></b>						
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
<b>Carrying amount</b>	<b>₱</b>	<b>66,899,528</b>	<b>₱</b>	<b>1,936,270</b>	<b>₱</b>	<b>68,835,798</b>

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:

<b>2024</b>	<b>Land</b>	<b>Building</b>	<b>Total</b>
<u>Cost:</u>			
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	<b>1,204,931,495</b>	<b>351,237,033</b>	<b>1,556,168,528</b>
<u>Accumulated depreciation:</u>			
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	–	<b>167,554,790</b>	<b>167,554,790</b>
<u>Allowance for impairment:</u>			
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	<b>₱ 1,199,391,763</b>	<b>₱ 148,975,160</b>	<b>₱ 1,348,366,923</b>

2023	Land	Building	Total
<u>Cost:</u>			
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
<u>Accumulated depreciation:</u>			
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
<u>Allowance for impairment:</u>			
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.

#### 14. INTANGIBLE ASSETS – net

This account consists of the following:

	2024	2023
Branch licenses	<b>₱ 18,550,000</b>	₱ 18,550,000
PCHC membership	<b>10,033,734</b>	10,033,734
Software costs	<b>3,084,661</b>	4,452,400
	<b>₱ 31,668,395</b>	₱ 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
<u>Cost:</u>			
Balance, beginning		<b>₱ 15,603,685</b>	₱ 15,519,685
Additions		<b>–</b>	84,000
Balance, ending		<b>15,603,685</b>	15,603,685
<u>Accumulated amortization:</u>			
Balance, beginning		<b>11,151,285</b>	9,234,096
Amortization	26	<b>1,367,739</b>	1,917,189
Balance, ending		<b>12,519,024</b>	11,151,285
Carrying value		<b>₱ 3,084,661</b>	₱ 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.

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.

Movement for allowance for credit and impairment losses:

	Note	2024	2023
Balance, January 1		<b>₱ 51,225,605</b>	₱ 20,256,378
Provision		<b>–</b>	3,122,169
Transfer	10	<b>(4,818,145)</b>	27,847,058
Balance, December 31		<b>₱ 46,407,460</b>	₱ 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	<b>₱ 20,509,033</b>	₱ 24,722,400
Assets held for sale	<b>135,252</b>	38,695
	<b>₱ 20,644,285</b>	₱ 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
<u>Cost:</u>			
Balance, beginning		<b>₱ 35,001,322</b>	₱ 39,037,466
Additions		<b>16,257,255</b>	25,239,240
Disposals		<b>(23,379,562)</b>	(24,922,429)
Transfers from assets held for sale		<b>2,952,109</b>	–
Transfer to furniture, fixtures and equipment		<b>(1,141,024)</b>	(4,168,636)
Amortization of appraisal increment	26	<b>(138,239)</b>	(184,319)
Balance, ending		<b>29,551,861</b>	35,001,322
<u>Accumulated depreciation:</u>			
Balance, beginning		<b>11,043,000</b>	10,818,598
Depreciation	26	<b>5,777,741</b>	7,795,008
Disposals		<b>(6,846,315)</b>	(6,997,960)
Transfer to furniture, fixtures and equipment		<b>(896,874)</b>	(695,610)
Amortization of appraisal increment	26	<b>92,223</b>	122,964
Balance, ending		<b>9,169,775</b>	11,043,000
Carrying value		<b>₱ 20,382,086</b>	₱ 23,958,322

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.



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.

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		<b>₱ 83,146,835</b>	₱ 73,355,668
Additions		<b>18,064,868</b>	29,544,457
Interest expense		<b>4,892,501</b>	4,545,322
Payments		<b>(25,887,179)</b>	(24,298,612)
Pre-termination	12	<b>(1,231,121)</b>	—
Balance, ending		<b>₱ 78,985,904</b>	₱ 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
<b>Total</b>	<b>₱ 94,135,150</b>	<b>₱ 15,149,246</b>	<b>₱ 78,985,904</b>

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
<b>Total</b>	<b>₱ 100,099,789</b>	<b>₱ 16,952,954</b>	<b>₱ 83,146,835</b>

## 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	<b>₱ 60,679,032</b>	₱ 67,535,270
Fair value of the plan assets	<b>(19,022,439)</b>	(21,524,074)
Net retirement benefit liability	<b>₱ 41,656,593</b>	₱ 46,011,196

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

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

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%

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.

## 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
<b>Authorized</b>				
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
<b>Issued and fully paid</b>				
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.

## 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)



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:

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

**25. OTHER INCOME – net**

This account consists of the following:

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

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

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

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

## 26. OPERATING EXPENSES

Details of operating expenses are shown below:

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

Compensation and employee benefits consists of:

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

Breakdown of appraisal increment write-off is as follows:

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

Depreciation and amortization consist of:

	Notes	2024	2023 As restated
Bank premises, furniture, fixtures and equipment	11	<b>₱ 9,528,000</b>	₱ 10,704,089
Right-of-use asset	12	<b>22,242,739</b>	20,822,566
Investment properties	13	<b>31,464,715</b>	31,193,312
Intangible assets	14	<b>1,367,739</b>	1,917,189
Other properties acquired	16	<b>5,777,741</b>	7,795,008
		<b>₱ 70,380,934</b>	₱ 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	<b>₱ 2,193,130</b>	₱ 12,500,000
Other assets	16	<b>–</b>	3,122,169
Total		<b>₱ 2,193,130</b>	₱ 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:

- 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.

- 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:

<b>2024</b>	<b>DOSRI loans</b>	<b>Related party loans</b>
Outstanding DOSRI/related party accounts	<b>₱ 232,265,930</b>	<b>₱ 232,265,930</b>
Percent of DOSRI/related party accounts to total loan portfolio	<b>7.95%</b>	<b>7.95%</b>
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	—	—
<b>2023</b>	<b>DOSRI loans</b>	<b>Related party loans</b>
Outstanding DOSRI/related party accounts	<b>₱ 182,955,217</b>	<b>₱ 182,955,217</b>
Percent of DOSRI/related party accounts to total loan portfolio	<b>5.61%</b>	<b>5.61%</b>
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.

### 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	<b>₱ 11,859,129</b>	<b>₱ 8,622,852</b>

### 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.

## 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

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
<b>Deferred tax assets:</b>				
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
	<b>(8,202,662)</b>	<b>(7,670)</b>	<b>(4,802,427)</b>	<b>327,057</b>
<b>Deferred tax liability:</b>				
Gain on foreclosure of investment properties and other properties acquired	(558,914)	-	-	-
	<b>₱ (8,761,576)</b>	<b>₱ (7,670)</b>	<b>₱ (4,802,427)</b>	<b>₱ 327,057</b>

### 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
	<b>₱ 32,749,221</b>	<b>₱ 32,749,221</b>

### 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
	<b>₱ 14,028,758</b>	<b>₱ -</b>	<b>₱ -</b>	<b>₱ 14,028,758</b>	



### 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
	<b>₱ 130,012,081</b>	<b>₱ –</b>	<b>₱ –</b>	<b>₱ 130,012,081</b>	

### 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
	<b>84,355,963</b>	<b>–</b>	<b>(25,887,179)</b>	<b>21,726,248</b>	<b>80,195,032</b>

\*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
	<b>121,395,569</b>	<b>–</b>	<b>(71,129,385)</b>	<b>34,089,779</b>	<b>84,355,963</b>

\*pertains to payment of principal amounting to ₱19,753,290 and interest amounting to ₱4,545,322.

### 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)
<i>Changes in assets:</i>			
Investment in associate <sup>a</sup>	₱ 17,170,260	₱ 1,627,640	₱ 18,797,900
<b>Decrease in total assets</b>		<b>1,627,640</b>	
<i>Change in equity:</i>			
Surplus free <sup>b</sup>	₱ 208,652,198	₱ (1,627,640)	₱ 207,024,558
<b>Decrease in total equity</b>		<b>(1,627,640)</b>	

- Restatement on investment in associate – pertains to share of net income of MARESCO for 2022 financial year.
- 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)
<i>Changes in assets:</i>			
Right-of-use assets – net <sup>a</sup>	₱ 53,639,070	₱ 15,196,728	₱ 68,835,798
Investment in associate <sup>b</sup>	18,797,900	945,581	19,743,481
Deferred tax assets – net <sup>c</sup>	113,066,351	4,487,406	117,553,757
<b>Decrease in total assets</b>		<b>20,629,715</b>	
<i>Change in liabilities:</i>			
Lease liabilities <sup>d</sup>	₱ (67,087,216)	₱ (16,059,619)	₱ (83,146,835)
<b>Decrease in total liabilities</b>		<b>(16,059,619)</b>	
<i>Change in equity:</i>			
Surplus free <sup>e</sup>	₱ 160,149,819	₱ (4,570,096)	₱ 155,579,723
<b>Decrease in total equity</b>		<b>(4,570,096)</b>	

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 <sup>f</sup>	₱ –	₱ (945,581)	₱ (945,581)
Interest expense on lease liabilities <sup>g</sup>	3,914,473	630,849	4,545,322
Operating expenses <sup>h</sup>	325,036,376	232,041	325,268,417
Income tax expense <sup>i</sup>	15,840,625	(4,487,405)	11,353,220
		<b>(4,570,096)</b>	

- Restatement on right-of-use assets – net – pertains to recognition of additional right-of-use for newly entered /renewed contracts.
- Restatement on investment in associate – pertains to share of net income of MARESCO for 2023 financial year.
- Restatement on deferred tax assets – pertains to recognition of additional deferred tax on excess of lease liabilities of ROU and MCIT.
- Restatement on lease liabilities – pertains to share of net income of MARESCO for 2023 financial year,
- 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.
- Restatement on share in net income of associate – pertains to share of net income of MARESCO for 2023 financial year.
- Restatement on interest expense on lease liabilities – pertains to additional interest expense on lease liabilities for newly entered/renewed contracts.
- 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.
- 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).

### 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

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.