



# **NOTICE OF STOCKHOLDERS' MEETING**



**BDO NETWORK BANK, INC.  
NOTICE OF ANNUAL STOCKHOLDERS' MEETING**

Dear Stockholder:

Please be informed that the Annual Stockholders' Meeting ("ASM") of **BDO NETWORK, INC.** ("BDONB" or the "Bank") will be held on **May 02, 2024**, Thursday, at **eleven o'clock in the morning**. The ASM will be conducted in hybrid format (a combination of in-person and remote attendance) and voting by BDONB stockholders of record ("Stockholders") will solely be in absentia, duly verified and validated by the BDONB. The in-person meeting will be held at Board Room, Sixth Floor, BDONB Corporate Center, Km. 9, Sasa, Davao City, and will be livestreamed for stockholders participating remotely.

The Agenda of the meeting is as follows:

- I. Call to order
- II. Proof of notice and determination of existence of quorum
- III. Approval of the minutes of the previous Annual Stockholders' Meeting held on April 28, 2023.
- IV. Report of the President and approval of the Audited Financial Statements of BDONB as of December 31, 2023.
- V. Open Forum
- VI. Approval and Ratification of all Acts of the Board of Directors, Board Committees and Management during their terms of office
- VII. Election of Directors
- VIII. Appointment of External Auditor
- IX. Approval of the Amendments to BDONB's Articles of Incorporation & By-Laws:
  - a. Seventh Article of the Articles of Incorporation
  - b. Article II Section 1 of the By-Laws
  - c. Article III Section 3 of the By-Laws
- X. Other business that may properly be brought before the meeting
- XI. Adjournment

Each agenda item for approval is explained in the Definitive Information Statement (DIS), with a brief description in the attached **Annex "1"**.

The Bank's Board of Directors has fixed **March 13, 2024** as the record date for the determination of Stockholders entitled to notice of, to participate, and to vote in absentia at such meeting and any adjournment thereof.



Stockholders of record who wish to participate in the meeting via remote communication and to cast their votes *in absentia* shall notify the Office of the Corporate Secretary at <corporate\_secretary@bdonetworkbank.com.ph> accordingly, and submit supporting documents no later than **April 22, 2024**. For the detailed registration and voting procedures, please visit <www.bdonetworkbank.com.ph/2024ASM> and refer to the **“Guidelines for Participation via Remote Communication and Voting in Absentia”**.

Stockholders of record who wish to appoint a proxy shall submit their duly executed and signed proxies together with other documentary requirements which are set forth in the **“Guidelines for Participation via Remote Communication and Voting in Absentia”** no later than **April 22, 2024** to the Office of the Corporate Secretary at 6th Floor, BDONB Corporate Center, 8000 Km.9 Sasa Davao City via courier delivery or by email to <corporate\_secretary@bdonetworkbank.com.ph>. Validation of proxies and documentary requirements is set on **April 26, 2024 at 11:00 a.m.**, at the 6th Floor, BDONB Corporate Center, 8000 Km.9 Sasa Davao City. Stockholders of record may download and print the proxy form from BDONB’s website <www.bdonetworkbank.com.ph/2024proxyform>.

Successfully registered stockholders can cast their votes and all documents and information submitted shall be subject to verification and validation by the Office of the Corporate Secretary.

For complete information on the annual meeting, please visit <www.bdonetworkbank.com.ph/2024ASM>.

A handwritten signature in blue ink, appearing to read "Joseph Jason M. Natividad".

**Atty. Joseph Jason M. Natividad**  
Corporate Secretary

## ANNEX "1"

### BRIEF DESCRIPTION OF AGENDA ITEMS

- I. **Call to order.** The Chairman, Mr. Nestor V. Tan, will formally open the 2024 Annual Stockholders' Meeting (ASM) of BDO Network Bank, Inc. (BDONB).
- II. **Proof of notice and determination of existence of quorum.** The Corporate Secretary, Atty. Joseph Jason M. Natividad, will certify that notice requirements for the 2024 Annual Stockholders' Meeting have been complied with in accordance with BDONB's Amended By-Laws, Revised Corporation Code of the Philippines, and issuances of the Securities and Exchange Commission (SEC), and will attest whether a quorum is present for the valid transaction of the ASM and all matters included in the Agenda.
- III. **Approval of the minutes of the previous Annual Stockholders' Meeting held on April 28, 2023.** Copy of the Minutes is available for examination during office hours at the Office of the Corporate Secretary and at BDONB's website <[www.bdonetworkbank.com.ph/2024ASMminutes](http://www.bdonetworkbank.com.ph/2024ASMminutes)>. Stockholders will be asked to approve the Minutes. Below is the text of the proposed resolution:

"RESOLVED, That the Stockholders of BDO Network Bank, Inc. approve, as they hereby approve, the Minutes of the Annual Stockholders' Meeting held on April 28, 2023."
- IV. **President's Report and approval of BDONB's Audited Financial Statements (AFS) as of December 31, 2023.** The Report presents the highlights of the performance and achievements of BDONB in 2023. It includes the summary of the AFS which is incorporated in the Definitive Information Statement (DIS) posted in BDONB's website <[www.bdonetworkbank.com.ph/2024DIS](http://www.bdonetworkbank.com.ph/2024DIS)>. Copies of the AFS are also submitted to the SEC and Bureau of Internal Revenue.
- V. **Open Forum.** Every stockholder may raise any relevant question or express any appropriate comment. Stockholders are given the opportunity to send their questions and/or remarks prior to the meeting by sending an email to <[corporate\\_secretary@bdonetworkbank.com.ph](mailto:corporate_secretary@bdonetworkbank.com.ph)> not later than 10:00 am of April 28, 2023. Questions which cannot be read and answered during the meeting will be replied to by BDONB through the Stockholders' email addresses.
- VI. **Approval and Ratification of all Acts of the Board of Directors, Board Committees and Management during their terms of office.** All actions and proceedings, criteria and process for the Board of Directors' evaluation as published in BDONB's website, including approvals of significant related parties' transactions, of the Board of Directors, the Board Committees, and the Management of BDONB from the last Annual Stockholders' Meeting of BDONB held on April 28, 2023, will be presented to the stockholders for their approval and ratification. These collective actions are the main keys to the impressive performance of BDONB in 2023.
- VII. **Election of Directors.** The Chairman of the Corporate Governance Committee will present to the stockholders the nominees for election as members of the Board of Directors of BDONB, including the independent directors. The profiles of the nominees to the Board of Directors are provided in the Definitive Information Statement (DIS) posted in BDONB's website <[www.bdonetworkbank.com.ph/2024DIS](http://www.bdonetworkbank.com.ph/2024DIS)> for reference of the stockholders.

- VIII. **Appointment of External Auditor.** The Board Audit Committee of BDONB would accept and screen the nominees for external auditor of BDONB. It will make the appropriate recommendation on the appointment of one auditing firm as external auditor of BDONB. The recommended external auditor will be presented to the stockholders for their approval.
- IX. **Approval of the Amendments to BDONB's Articles of Incorporation & By-Laws.**
- a. Seventh Article of the Articles of Incorporation
- The Seventh Article of the Articles of Incorporation of BDONB is proposed to be amended to reflect the removal of reference to pre-emptive rights. The Tenth Article was previously amended to expressly state that shareholders shall have no pre-emptive rights controls and pre-emptive rights mentioned in the Seventh Article.
- b. Article II Section 1 of the By-Laws
- Article II Section of the By-Laws is proposed to be amended to change the date fixed for the Annual Stockholders' Meeting of the Company.
- c. Article III Section 3 of the By-Laws
- Article III Section 3 of the By-Laws is proposed to be amended to allow vacancies in the Board of Directors, including emergency vacancies, to be filled at a regular stockholders' meeting.
- X. **Other business that may properly be brought before the meeting.** All other matters that arise after the Notice of Meeting and Agenda have been sent out or raised throughout the course of the meeting may be presented to the stockholders for consideration. Stockholders may raise such matters as may be relevant or appropriate to the occasion.
- XI. **Adjournment.** After consideration of all business, the Chairperson shall declare the meeting adjourned. This formally ends the 2024 Annual Stockholders' Meeting of BDONB.

**PROXY**

I/We, the undersigned stockholder/s of BDO NETWORK BANK, INC. (BDONB), hereby appoint/s \_\_\_\_\_ or in his/her absence, the Chairperson of the meeting, as my/our attorney and proxy, with power of substitution, to represent and vote \_\_\_\_\_ shares registered in my/our name, at the Annual Meeting of Stockholders of BDONB on May 02, 2024, and at any of the adjournments thereof, for the purpose of acting on the following matters:

1. Approval of minutes of previous Annual stockholders' meeting held on April 28, 2023.

Yes       No       Abstain

2. Approval of the Audited Financial Statements of BDO as of December 31, 2023

Yes       No       Abstain

3. Approval and Ratification of all Acts of the Board of Directors, Board Committees and Management during their terms of office

Yes       No       Abstain

4. Election of Directors

- |  |  |
|--|--|
| 1. Nestor V. Tan<br>_____ shares           | 6. Geneva T. Gloria<br>_____ shares                                  |
| 2. Jesus Antonio S. Itchon<br>_____ shares | 7. Evelyn Cristina A. Cam<br>(Independent Director)<br>_____ shares  |
| 3. Jaime C. Yu<br>_____ shares             | 8. Ma. Leonora V. de Jesus<br>(Independent Director)<br>_____ shares |
| 4. Rolando C. Tanchanco<br>_____ shares    |  |
| 5. Jovasky Wei Shen Pang<br>_____ shares   |  |

5. Appointment of External Auditor (Punongbayan & Araullo, Grant Thornton)

Yes       No       Abstain

6. Approval of the Amendments to BDONB's Articles of Incorporation & By-Laws

a) Seventh Article of the Articles of Incorporation

Yes       No       Abstain

b) Article II Section 1 of the By-Laws

Yes       No       Abstain

c) Article III Section 3 of the By-Laws

Yes       No       Abstain

7. At his/her discretion, the proxy named above is authorized to vote upon such other matters as may properly come before the meeting

Yes       No       Abstain

THIS PROXY SHOULD BE RECEIVED BY THE OFFICE OF THE CORPORATE SECRETARY ON OR BEFORE APRIL 22, 2024, MONDAY, THE DEADLINE FOR SUBMISSION OF PROXIES.

THIS PROXY IS NOT REQUIRED TO BE NOTARIZED, AND WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED 'FOR' THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

THIS PROXY SHALL CONTINUE UNTIL SUCH TIME THAT THE SAME IS WITHDRAWN BY ME/US THROUGH NOTICE IN WRITING DELIVERED TO THE OFFICE OF THE CORPORATE SECRETARY BEFORE THE DATE OF ANY SUCH MEETING OR ADJOURNMENT(S) THEREOF.

AS APPLICABLE, I/WE HEREBY CONSENT TO THE PROCESSING OF MY/OUR PERSONAL INFORMATION FOR PURPOSES OF THE BDONB ANNUAL STOCKHOLDERS' MEETING.

IN WITNESS WHEREOF, I/we have hereunto affixed my/our signature this

\_\_\_\_\_ day of \_\_\_\_\_,

20\_\_\_\_ at \_\_\_\_\_.

\_\_\_\_\_

Printed Name of Stockholder(s) / Date

\_\_\_\_\_  
Signature of Stockholder(s) / Authorized Signatory

**SECRETARY'S CERTIFICATE**

I, \_\_\_\_\_, Filipino, of legal age and with office address at \_\_\_\_\_, do hereby certify that:

1. I am the duly appointed Corporate Secretary of \_\_\_\_\_ (the "Corporation"), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with office address at \_\_\_\_\_;

2. As of record date, the Corporation holds \_\_\_\_\_ ( \_\_\_\_\_ ) shares in BDO Network Bank, Inc.;

3. Based on the records, during the lawfully convened meeting of the Board of Directors of the Corporation held on \_\_\_\_\_, the following resolution was passed and approved:

"RESOLVED, That \_\_\_\_\_ be authorized and appointed, as he is hereby authorized and appointed, as the Corporation's Proxy (the "Proxy") to attend all meetings of the stockholders of BDO Network Bank, Inc. ("BDONB"), whether the meeting is regular or special, or at any meeting postponed or adjourned therefrom, with full authority to vote the shares of stock of the Corporation held in BDO Network Bank, Inc. and to act upon all matters and resolution that may come before or presented during meetings, or any adjournments thereof, in the name, place and stead of the Corporation.

RESOLVED FURTHER, That BDO Network Bank, Inc. be furnished with a certified copy of this resolution and BDO Network Bank, Inc. may rely on the continuing validity of this resolution until receipt of written notice of its revocation."

4. The foregoing resolution has not been modified, amended or revoked, and is in accordance with the records of the Corporation presently in my custody. IN WITNESS WHEREOF, I have hereunto affixed my signature this \_\_\_\_\_ day of \_\_\_\_\_, 20 \_\_\_\_\_ at \_\_\_\_\_.

\_\_\_\_\_  
Printed Name and Signature of the Corporate Secretary

SUBSCRIBED AND SWORN TO before me this \_\_\_\_\_ day of \_\_\_\_\_, 20 \_\_\_\_\_ at \_\_\_\_\_, Affiant exhibited to me his Competent Evidence of Identity by way of \_\_\_\_\_ issued on \_\_\_\_\_ at \_\_\_\_\_.

NOTARY PUBLIC  
Doc. No.  
Page No.  
Book No.  
Series of 2024.

## **Definitive Information Statement**

**SECURITIES AND EXCHANGE COMMISSION**  
SEC FORM 20-IS  
**INFORMATION STATEMENT PURSUANT TO SECTION 20**  
**OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:  
[  ] Preliminary Information Statement  
[  ] Definitive Information Statement
2. Name of Registrant as specified in its charter: **BDO NETWORK BANK, INC.**
3. Country of Incorporation: **Philippines**
4. SEC Identification Number: **CS201109703**
5. BIR Tax Identification Code: **413-177-215-000**
6. Address of principal office: **BDONB Corporate Center, Km. 9, Sasa, Davao City**
7. Registrant's telephone number, including area code: **(082) 233 – 7777**
8. Date, time and place of the meeting of security holders: **May 2, 2024.**

**The meeting will be conducted in hybrid format (a combination of in-person and remote attendance) and voting by BDONB stockholders of record ("Stockholders") will solely be in absentia. The in-person meeting will be attended by BDONB Board of Directors, Management and stockholders of record, at the Board Room, Sixth Floor, BDONB Corporate Center, Km. 9, Sasa, Davao City, and will be livestreamed for stockholders participating remotely.**

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **April 7, 2024**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA:

<u>Title of Each Class</u>	<u>Number of Shares</u>
N/A	N/A

11. Are any or all of registrant's securities listed on a Stock Exchange?

Yes \_\_\_\_\_ No

**WE ARE NOT ASKING YOU FOR A PROXY AND  
YOU ARE REQUESTED NOT TO SEND US A PROXY.**

## **A. GENERAL INFORMATION**

### **Item 1. Date, Time and Place of Meeting of Security Holders**

- (a)     Date                 :         **May 2, 2024**
- Time                :         **11:00 AM**
- Place               :         **The meeting will be held at the Board Room, Sixth Floor, BDONB Corporate Center, Km. 9, Sasa, Davao City, and will be livestreamed for stockholders participating remotely**
- Mailing             :         **BDO NETWORK BANK, INC.**
- Address            :         **Office of the Corporate Secretary  
6/F, BDONB Corporate Center  
Km. 9, Sasa, Davao City 8000  
Philippines**
- (b)     Approximate date on which the Information Statement is first to be sent or given to security holders: **April 7, 2024**

### **Item 2. Rights of Shareholders; Dissenter’s Right of Appraisal**

BDO Network Bank, Inc. (**BDONB**) respects the inherent rights of shareholders in accordance with law. BDONB recognizes that all shareholders should be treated fairly and equally whether they are controlling or minority, local or foreign. To ensure this, the By Laws of BDONB provides that all shares of each class should carry the same rights, and any changes in the voting rights shall be approved by them.

When a proposed corporate action would involve a substantial and fundamental change in BDONB in the cases provided by law, a stockholder may exercise his appraisal right. Pursuant to Section 81 of the Revised Corporation Code of the Philippines (the “Corporation Code”), a stockholder may exercise his appraisal right by dissenting on any of the following corporate actions and demanding payment of the fair value of his shares:

- (1) Amendment to the articles of incorporation that has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
- (2) In case of lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code;
- (3) In case of merger or consolidation; or
- (4) In case of investment of corporate funds for any purpose other than the primary purpose of the corporation.

The procedure for the exercise of a stockholder’s appraisal right is as follows:

- (1) A stockholder shall have dissented to such corporate action;
- (2) Within thirty (30) days after the date on which the vote was taken, the dissenting stockholder shall make a written demand to BDONB for payment of the fair value of his shares.

Failure to make the demand within such period shall be deemed a waiver of the appraisal right.

- (3) Within ten (10) days after demanding payment for his shares, the dissenting stockholder shall submit to BDONB the certificate(s) of stock representing his shares for notation thereon that such shares are dissenting shares. His failure to do so shall, at the option of BDONB, terminate his appraisal right.
- (4) No demand for payment as aforesaid may be withdrawn by the dissenting stockholder unless BDONB consents thereto.
- (5) If the corporate action is implemented or effected, BDONB shall pay to such dissenting stockholder, upon surrender of the certificate(s) of stock representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of a merger if such be the corporate action involved.
- (6) If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the dissenting stockholder and BDONB cannot agree on the fair value of the shares, it shall be appraised and determined by three (3) disinterested persons, one of whom shall be named by the stockholder, another by BDONB, and the third by the two (2) thus chosen.
- (7) The findings of a majority of the appraisers shall be final, and their award shall be paid by BDONB within thirty (30) days after such award is made. No payment shall be made to any dissenting stockholder unless BDONB has unrestricted retained earnings in its books to cover such payment.
- (8) Upon payment of the agreed or awarded price, the stockholder shall forthwith transfer his shares to BDONB.

**No matter will be presented for shareholders' approval during the annual meeting which may give rise to the exercise of the right of appraisal.**

**Item 3. Interest of Certain Persons in or Opposition to Matters to be acted Upon**

- (a) No director or officer of BDONB since the beginning of the last fiscal year, or any nominee for election as director, nor any of their associates, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon at the meeting.
- (b) No director of BDONB has informed BDONB in writing that he intends to oppose any action to be taken by BDONB at the meeting.

## B. CONTROL AND COMPENSATION INFORMATION

### Item 4. Voting Securities and Principal Holders

(a) Voting securities entitled to be voted at the meeting:

Title of Each Class	Number of Shares	Number of Votes Outstanding
Common Shares	504,199,279	One (1) vote per share, except in the election of directors where one share is entitled to as many votes as there are directors to be elected.
Government Preferred "A" Shares	20, 560	
<b>Total</b>	<b>504,219,893</b>	

(b) Record date

Only stockholders of record in the books of BDONB as of the close of business on March 13, 2024 are entitled to notice of, and to vote at, the annual meeting.

(c) Election of Directors and Voting rights

Each shareholder holding Common Shares (each, a "**Voting Share**") as of record date March 13, 2024 is entitled to as many votes as there are directors to be elected. Thus, if there are eleven (11) directors to be elected, each Voting Share is entitled to eleven (11) votes. Such shareholder may cumulate and cast all his votes in favor of one candidate or distribute them among as many candidates as he shall see fit, provided that the total number of votes cast by him does not exceed the number of shares owned by him multiplied by the number of directors to be elected.

In accordance with the Corporation Code and the rules and regulations of the Securities and Exchange Commission (SEC), the ASM will be conducted in hybrid format (a combination of in-person and remote attendance) and voting by BDONB stockholders of record ("Stockholders") will solely be in absentia. The in-person meeting will be held at the Board Room, Sixth Floor, BDONB Corporate Center, Km. 9, Sasa, Davao City, and will be livestreamed for stockholders participating remotely. The details of which can be found in <[www.bdonetworkbank.com.ph/2024ASM](http://www.bdonetworkbank.com.ph/2024ASM)>. The Bank will record the video of the proceedings and maintain a copy with the Office of the Corporate Secretary. After the meeting, stockholders may access the recorded webcast of the ASM by sending an email request addressed to <[corporate\\_secretary@bdonetworkbank.com.ph](mailto:corporate_secretary@bdonetworkbank.com.ph)>.

For this year's Annual Stockholders' Meeting, BDONB will be allowing stockholders to participate in the meeting via remote communication and to vote in absentia.

The shareholder holding Voting Shares may nominate directors and vote by remote communication, *in absentia*, or by proxy. Stockholders of record may submit their registration for remote communication, or duly executed and signed proxies on or before April 22, 2024 at the Office of the Corporate Secretary, 6/F, BDONB Corporate Center, Km. 9, Sasa, Davao City 8000 via courier delivery or by email to <[corporate\\_secretary@bdonb.com.ph](mailto:corporate_secretary@bdonb.com.ph)>. Successfully registered stockholders of record opting to vote in absentia may access the ballot from BDONB's website <[www.bdonetworkbank.com.ph/ASMBallot](http://www.bdonetworkbank.com.ph/ASMBallot)> and submit by sending a JPG or PDF form to <[corporate\\_secretary@bdonetworkbank.com.ph](mailto:corporate_secretary@bdonetworkbank.com.ph)> no later than

April 22, 2024. Stockholders of record opting to vote by proxy may download and print the proxy form from BDO’s website <[www.bdonetworkbank.com.ph/2024proxyform](http://www.bdonetworkbank.com.ph/2024proxyform)>.

A forum for the validation of proxies chaired by the Corporate Secretary or Assistant Corporate Secretary shall be convened on April 26, 2024, 11:00 a.m., at the BDONB Corporate Center, Km. 9, Sasa, Davao City. Any questions and issues relating to the validity and sufficiency, both as to form and substance, of proxies shall only be raised during said forum and resolved by the Corporate Secretary. The Corporate Secretary’s decision shall be final and binding on the shareholders, and those not settled at such forum shall be deemed waived and may no longer be raised during the meeting.

The detailed guidelines for participation and voting for this meeting are set forth in the **“Guidelines for Registering, Participating via Remote Communication and Voting in Absentia”** appended to this Information Statement.

(d) Security ownership of certain record and beneficial owners and management:

**1. Security ownership of certain record/beneficial owners**

As of March 13, 2024, the following are known to BDONB to be directly or indirectly the record and/or beneficial owners of more than 5% of BDONB’s voting securities:

<b>Title of Class</b>	<b>Name, address of record owner and relationship with BDONB</b>	<b>Name of Beneficial Owner and Relationship with Record Owner</b>	<b>Citizenship</b>	<b>No. of Shares Held</b>	<b>Percent</b>
Common	BDO Unibank, Inc. BDO Corporate Center, 7899 Makati Avenue, Makati City	Nestor V. Tan President	Filipino	<b>*422,706,691</b>	<b>**83.84%</b>
Common	Osmanthus Investment Holdings Singapore 068906	Jovasky Wei Shen Pang	Singaporean	<b>75,629,891</b>	<b>15%</b>
<b>TOTAL (COMMON)</b>				<b>498,336,582</b>	<b>98.8%</b>

*\*The application for issuance of the Certificate Authorizing Registration to transfer 5,800,546 shares from various owners to BDO Unibank, Inc. in the records of the Bank is currently pending with the BIR.*

*\*\*Beneficial ownership of BDO Unibank, Inc.*

There are no voting trust shares or shares issued pursuant to a voting trust agreement registered with BDONB.

There are no arrangements which may result in a change of control of BDONB.

## 2. Security ownership of management

As of March 13, 2024, the directors of BDONB each own one (1) Common Share. The BDONB directors and officers own the following common shares of BDONB:

Title of Class	Name of Beneficial Owner	Position	Citizenship	Amount and Nature of Ownership	Percent of Class
Common	Nestor V. Tan	Chairman	Filipino	1 (Direct)	Nil
Common	Jaime C. Yu	Director	Filipino	1 (Direct)	Nil
Common	Jesus Antonio S. Itchon	Director/Vice Chairman and President	Filipino	1 (Direct)	Nil
Common	Rolando C. Tanchanco	Director	Filipino	1 (Direct)	Nil
Common	Evelyn Cristina A. Cam	Independent Director	Filipino	1 (Direct)	Nil
Common	Ma. Leonora V. De Jesus	Independent Director	Filipino	1 (Direct)	Nil
Common	Jovasky Wei Shen Pang	Director	Singaporean	1 (Direct)	Nil
Common	Geneva T. Gloria	Director	Filipino	1 (Direct)	Nil
Common	Joseph Jason M. Natividad	Corporate Secretary	Filipino	0	Nil
Common	Ma. Cecilia S. Santos	Assistant Corporate Secretary	Filipino	0	Nil
<b>TOTAL</b>				<b>8</b>	<b>Nil</b>

### Item 5. Directors and Executive Officers

#### (a) Directors and Corporate Officers

The Board of Directors has eleven (11) board seats and is currently composed of eight (8) directors with a combination of executive and non-executive directors which includes independent directors. All are professionals with competencies and experience in the fields of banking, accounting, economics, microfinance, law and agri-business.

The Board of Directors is empowered to direct, manage and supervise, under its collective responsibility, the affairs of BDONB. It is also responsible for the proper administration and management of BDONB's business. The/ members of the Board are elected specially by the stockholders to hold office for a term of one (1) year, and shall serve until their respective successors have been elected and qualified. In all cases,

subject to the approved qualification and disqualification criteria established under the Corporate Governance Committee, BSP's fit and proper rule and other existing laws and regulations.

The Board of Directors meets monthly or as may be necessary, to discuss BDONB's operations and approve matters requiring its approval. Materials containing matters to be taken up during the Board meeting are distributed to the directors at least five (5) days prior to the scheduled Board meeting.

Following is the list of the members of the Board, and the corporate officers and their business experience during the past five (5) years:

### **Directors' Profile**

#### **Nestor V. Tan**

Chairman

Non-Executive Director

Filipino, 66 years old

Nestor V. Tan is the Chairman and Director of BDONB. He was first elected as Director of BDONB on 18 August 2015. He is the President and Chief Executive Officer of BDO Unibank, Inc., and concurrently Chairman of BDO Strategic Holdings, Inc. He also holds the following positions in the BDO Group: Vice chairmanships and/or directorships in BDO Capital & Investment Corporation, BDO Finance Corporation, BDO Life Assurance Company, Inc., BDO Private Bank, Inc., and SM Keppel Land, Inc., and, Trusteeship of BDO Foundation, Inc.

In addition, he is currently the Chairman of Bancnet, the operator of the electronic payment system, InstaPay, and the ATM switching utility for Philippine banks, and; Chairman of Mastercard Asia Pacific Advisory Board. He is the past president, and current Director of the Bankers Association of the Philippines. He is currently Trustee of De La Salle Medical & Health Science Institute, and the former Chairman of the De La Salle University Board of Trustees.

Prior to joining BDO Unibank, Mr. Tan was Chief Operating Officer of the Financial Institutions Services Group of BZW, the investment-banking subsidiary of the Barclays Group. His banking career spans nearly four decades and includes posts at global financial institutions, among them Mellon Bank in Pittsburgh, PA; Bankers Trust Company in New York, NY; and the Barclays Group in New York and London. He holds a bachelor's degree in Commerce from De La Salle University and an MBA from the Wharton School, University of Pennsylvania.

#### **Jesus Antonio S. Itchon**

Vice Chairman and President

Executive Director

Filipino, 63 years old

Jesus Antonio S. Itchon is the President and Vice Chairman of BDONB and was elected Director of BDONB in 15 September 2017. Prior to joining BDONB, he served as Executive Vice President of Property Company of Friends, Inc., a low cost residential and estate developer, and as Independent Director of Paymaya Phils., Inc., subsidiary of Smart Communications, Inc. He has more than 30 years of experience in banking and finance, holding key positions such as Managing Director of Citibank N.A. and President of Citibank Savings,

Inc. He holds a bachelor's degree in Economics from De La Salle University and earned his MBA at the Johnson Graduate School of Management, Cornell University.

**Jovasky Wei Shen Pang**

Non-Executive Director  
Singaporean, 48 years old

Jovasky Wei Shen Pang is a Director of BDONB. He is likewise the Director and Chief Executive Officer of Archipelago Capital Partners Pte Ltd., a Singapore based fund that invests in small to mid-market companies in Southeast Asia, and a Director of Archipelago Asia Focus Investment VCC. Prior to Archipelago, Mr. Pang spent over a decade at Temasek and Fullerton Financial Holdings (FFH). As the Global Head of SME and Consumer Banking at FFH, the financial services investment arm of Temasek Holdings, he was responsible for FFH's investments into financial institutions and the strategy and management of these companies. In the initial years at Temasek, he was instrumental in the turnaround of Bank Danamon in Indonesia and building the microfinance and SME banking business models which were subsequently replicated regionally in other portfolio investments. He also served for six years as the CEO of BOC Fullerton Community Bank and built it up to become the largest village bank network in China. BOC Fullerton Community Bank had won numerous national awards for excellence in service and innovation, and Mr. Pang was named Banking CEO of the Year (small bank category by the Economic Observer).

Mr. Pang started his career at a global consulting firm, McKinsey & Company. He worked extensively with clients across many markets (e.g. Korea, China, Australia, Malaysia, Taiwan, etc.) and was one of the founders of McKinsey's Financial Institution Practice in South-east Asia. Mr. Pang holds a Bachelor of Arts (Hons) and a Master of Arts in Philosophy, Politics and Economics from Oxford University in the United Kingdom.

**Jaime C. Yu**

Non-Executive Director  
Filipino, 65 years old

Jaime C. Yu was elected to the Board of Directors of BDONB on August 18, 2015. He concurrently is also a Director of BDO Insurance Brokers, Inc. and BDO Life Assurance Company, Inc. He retired from BDO Unibank Inc. last March 31, 2023 as Senior Executive Vice President Group Head of Branch Banking Group, a position he has held for the last 25 years. He holds a Bachelor of Arts degree in Economics from the De La Salle University and is a MBA graduate from the Ateneo de Manila University. He has extensive experience in commercial, corporate and investment banking from the International Corporate Bank and Union Bank of the Philippines where he held various positions up to his appointment as First Vice President and Region Head for the Manila-Pasay area. He joined BDO in December 1997 and managed the banks entire branch network until his retirement.

**Rolando C. Tanchanco**

Non-Executive Director  
Filipino, 61 years old

Rolando C. Tanchanco is Senior Executive Vice President of BDO Universal Bank and Head of its Consumer Banking Group. His responsibilities cover all retail lending businesses (Home Mortgages, Auto Financing, Small Business Loans, Credit Cards and Personal Loans), Payment Channels, and Digital Banking. He currently sits on the board of BDO Network Bank Inc., BDO Insurance Brokers Inc. and TransUnion Phils

Inc. Mr. Tanchanco is a member of Visa Asia Pacific Client and Risk Councils, American Express Partner Advisory Council, and UnionPay SEA Regional Council.

Prior to joining BDO, Mr. Tanchanco was president of AIG Savings Bank and Managing Director of AIG Credit Card Company. He has extensive banking experience having worked in several multinational organizations like Citibank, HSBC and AIG. He holds a Bachelor's degree in Business Economics, cum laude from the University of the Philippines and a Master's degree from the Asian Institute of Management.

**Evelyn Cristina Ang Cam**

Independent Director

Filipino, 43 years old

Evelyn Cristina Ang Cam, CFA, is an Independent Director of BDONB since August 28, 2020. She is the Managing Director and Chief of Operations of Cam & Company, Inc. since 2015, a family owned and Davao-based corporation engaged in Agribusiness and Commercial Real Estate. Moreover, she holds ownership stakes in the following privately held companies, namely: 1.) Cam Marketing, Inc., a Davao-based corporation engaged in Mindanao distribution of veterinary and animal health products; 2.) Five Jewels Corporation, a Davao-based corporation engaged in the distribution of United Laboratories Products and B Meg Animal Feeds; 3.) South Sea Designs, Inc., a Davao-based corporation engaged in real estate and distribution of B Meg Animal Feeds for large farms; 5.) Phil Agro Industrial Corporation, a Bukidnon-based corporation engaged in the manufacture of cassava starch, and which also provides financing and technical assistance to cassava farmers; and 6.) FJC Farm, Inc., a Bukidnon-based corporation engaged in hog raising.

Ms. Cam holds a Bachelor of Arts in Management Economics from the Ateneo de Manila University and a Master's degree in Business Administration from the Tuck School of Business at Dartmouth College. She successfully passed Level 3 of the CFA (Chartered Financial Analyst) exam in 2010 and earned her charter thereafter. Ms. Cam is a current member of the CFA Philippine Society as well as the Hog Farmers Association of Davao City.

**Ma. Leonora V. De Jesus**

Independent Director

Filipino, 73 years old

Ma. Leonora V. De Jesus was elected as Independent Director of BDONB on May 19, 2018. She is presently the Chairperson of the Bank's Board Audit Committee, and a member of the Corporate Governance Committee, and Related Party Transactions Committee. She is also an Independent Director of STI Education Systems Holdings, Inc. and STI Education Services Group, Inc. Ms. De Jesus also serves as Director of Risks, Opportunities Assessment and Management (ROAM), Inc. In addition, she is an accredited SEC trainor on corporate governance. In the past, Ms. De Jesus was an Independent Director of Dominion Holdings, Inc (formerly BDO Leasing and Finance, Inc.), Equitable Savings Bank, PCI Capital Corporation, and BDO Elite Savings Bank, Inc. (formerly GE Money Bank, Inc.), and a Director of SM Development Corporation. She was formerly the University President of the Pamantasan ng Lungsod ng Maynila and was a professorial lecturer at the University of the Philippines, Diliman, and at the De La Salle Graduate School of Business and Governance. She attended a training on Portfolio Management at the New York Institute of Finance, and a Housing Finance course at the Wharton School of Business. She was also a member of the Board of Governors of the Philippine National Red Cross. Ms. De Jesus was a trustee of the Government Service Insurance System (GSIS) from 1998 until 2004, and was a member of the cabinet of Presidents Corazon C. Aquino, Fidel V. Ramos and Joseph E. Estrada. She holds bachelor's (cum laude), master's and doctorate degrees in Psychology from the University of the Philippines.

**Geneva T. Gloria**

Non-Executive Director

Filipino, 59 years old

Geneva T. Gloria holds the position of Senior Vice President & Head of Remittance-Transaction Banking Group at BDO Unibank, Inc. She was elected as a Director of BDO Network Bank, Inc. on January 4, 2020. She also assumes directorships in the following subsidiaries: Dominion Holdings, Inc., BDO Remit International Holdings B.V., BDO Remit (UK) Ltd., BDO Remit (Canada) Ltd., BDO Remit (Japan) Ltd., BDO Remit Limited, BDO Remit (USA), Inc., and BDO Remit (Macau) Limited.

Ms. Gloria's banking career spans more than three decades, with 25 years of experience in the remittance business. Her expertise encompasses business development, operations, project management, marketing, as well as both local and foreign remittance. She gained a deep understanding of the overseas Filipino market during her five-year tenure as an expatriate, where she operated remittance subsidiaries.

Under Ms. Gloria's leadership, BDO Unibank, Inc. consistently received the BSP's "Commercial Bank that Generated the Largest Overseas Filipino Remittances" Award from 2008-2010 and 2013-2019. She also supported various government projects for the overseas Filipinos. In 2014, Ms. Gloria and her team launched a grassroots marketing campaign across the country, alongside financial literacy programs for clients overseas. The on-ground activities and digital outreach strengthened the bank's commitment to financial inclusion.

Ms. Gloria received her Bachelor of Science degree in Business Administration from the University of the Philippines.

**Joseph Jason M. Natividad**

Corporate Secretary

Filipino, 51 years old

Joseph Jason M. Natividad is the Corporate Secretary of BDO Network Bank, Inc. since January 4, 2020. He concurrently holds the position of Corporate Secretary of Dominion Holdings, Inc. (formerly BDO Leasing and Finance, Inc.), the DSV/Agility Group of Companies in the Philippines, and serves as a member of the Board of Directors and Corporate Secretary of Gaia South, Inc. He is also the Assistant Corporate Secretary of BDO Insurance Brokers, Inc. He served as Assistant Corporate Secretary of Equitable PCI Bank from September 2006 to June 2007, prior to its merger with BDO Unibank, Inc., BDO Rental, Inc., and BDO Securities Corporation. He is also the Board Secretary of the Private Education Retirement Annuity Association (PERAA), a retirement fund administrator of private schools. Atty. Natividad is currently a partner at the Factoran and Natividad Law Offices. He has been in law practice for more than 25 years, mainly in the fields of corporate law and environmental law. He has a Bachelor's Degree in Management, major in Legal Management, from the Ateneo de Manila University, and obtained his Juris Doctor degree from the Ateneo de Manila University School of Law.

**Ma. Cecilia S. Santos**

Assistant Corporate Secretary

Filipino, 58 years old

Ma. Cecilia S. Santos is the Assistant Corporate Secretary of BDONB since September 26, 2015. She is concurrently the First Vice President and Alternate Corporate Information Officer of BDO Unibank, Inc. She

is the Corporate Secretary of BDO Finance Corporation, BDO Foundation, Inc., BDO Strategic Holdings, Inc., Ivory Homes, Inc., Averon Holdings Corporation, BDO Rental, Inc., Equimark-NFC Development Corporation, and Nashville Holdings, Inc. Further, she is also the Assistant Corporate Secretary of BDO Private Bank, Inc., and the Assistant Corporate Secretary as well as Alternate Corporate Information Officer of Dominion Holdings, Inc. (formerly BDO Leasing and Finance, Inc.). She was formerly the Corporate Secretary of BDO Nomura Securities, Inc., Armstrong Securities, Inc., and Director and Corporate Secretary of PCI Insurance Brokers, Inc., PCI Management Consultants, Inc., PCI Travel Corporation, The Executive Banclounge, Inc., and The Sign of the Anvil, Inc.

In addition, she is currently assigned at BDO Unibank Legal Services and Corporate Secretary Group as Head of two (2) Teams, to wit: IP/Legal Support Team providing legal assistance to BDO Unibank’s Support Groups and Subsidiaries and in managing the BDO Group’s Intellectual Property (BDO and BDO-related trademarks and domain names), and Corporate Secretariat Team providing corporate secretariat services to BDO Unibank and its Subsidiaries. In 2017, 2018, 2019, and 2020, she was featured in the World Trademark Review 300 as among the World’s Top 300 Leading Trademark Professionals. In 2023, she was included in the GC Powerlist Philippines 2023 - Legal 500. She holds a Bachelor of Arts degree major in Economics from University of Sto. Tomas and finished law at San Beda College of Law (Dean’s Lister).

The independent directors of the Bank are **Evelyn Cristina A. Cam** and **Ma. Leonora V. De Jesus**.

**Directorships in other reporting companies:**

During the last five (5) years, the following directors are also directors of other reporting companies as listed below:

Name of Director	Name of Reporting Company	Position Held
Nestor V. Tan	BDO Unibank, Inc.	Director/President & CEO
Geneva T. Gloria	Dominion Holdings, Inc. (formerly BDO Leasing and Finance, Inc.)	Non-Executive Director
Ma. Leonora V. De Jesus	STI Education Systems Holdings, Inc.	Independent Director

**Duties and Responsibilities**

The Board acts on behalf of the Bank and as such, it is vested with fiduciary duties, loyalty and care for which Board members should act on a fully informed basis, in good faith, with due diligence, and in the best interest of the Bank and the shareholders. They are collectively responsible for the sustainable long-term shareholder value of the institution, sustain its competitiveness, profitability and industry leading position in a manner consistent with its corporate objectives. It leads in establishing the tone and practices of good governance at the top. It sets the Bank’s corporate values and high ethical standards of business conduct for itself and members of the Bank. Through its oversight, monitoring and review of functions, the Board ensures that the Bank is being run in a sound and prudent manner on a going concern basis in order to fulfill its obligations to all majority and minority shareholders while upholding and protecting the interest of different constituencies. The board shall fulfill certain functions, including the following:

- Review and guide corporate strategy, risk management policies and procedures, Special budgets and business plans, and monitor their implementation;
- Set financial objectives, monitor implementation and corporate performance; and
- Approve the issuance of capital stocks, distribution of dividends, strategic plans, major capital expenditures, acquisitions, equity investments, fixed assets, mergers, joint ventures, divestments and material related party transactions.

The Bank recognizes that diversity among its directors will foster critical discussion and promote balanced decision by the Board by utilizing the differences in perspective of its directors. It views diversity at the Board level which includes differences in skills, experience, education, race, business, and other related expertise as an essential element in maintaining an effective board for strong corporate governance. The Bank also recognizes the important role of women with appropriate and relevant skills and experience that can contribute to the diversity of perspective in the Board. For 2024, women directors chaired three (3) of the board-level committees. The diversity representation of the Board is part of the Special performance and effectiveness evaluation of the board and committees.

The Board also acts on the composition and chairmanship of the various committees. It keeps under review the structure, size and composition of the Board, including the balance of skills, knowledge and experience and the independence of the non-executive Directors, including to any changes.

All directors are required to familiarize themselves with their statutory/fiduciary roles and responsibilities in the Board and Committees, BDONB's strategic plans, enterprise risks, group structures, business activities, compliance programs, Code of Business Conduct and Ethics, Personal Trading Policy and Corporate Governance Manual.

All directors are also encouraged to participate in continuing education programs at BDONB's expense to maintain a current and effective Board. The Board also received regular economic briefings. Below are the specific trainings each member of the Board had undergone:

All directors are also encouraged to participate in continuing education programs at BDONB's expense to maintain a current and effective Board. In 2023, all directors and key officers are given updates and briefings, and are required to attend a corporate governance seminar on appropriate topics to ensure that they are continuously informed of the developments in the business and regulatory environments, including emerging opportunities and risks in the banking industry. Directors of BDO Network Bank complied with the annual corporate governance training requirement of four (4) hours. All incumbent directors of BDO Network Bank, along with members of the Bank's senior management and key officers attended the corporate governance seminar held on August 2, 2023. Gartner, Inc., a global research and consulting firm, provided insights on global trends in banking technology and how BDO is fairing against these trends. They emphasized the importance of understanding the needs of customers through contextual engagement, as well as the increasing adoption of the "phygital (physical and digital) strategy" and generative artificial intelligence (AI) in enhancing customer experience, which are aligned with BDO's strategic plans. On the other hand, Boston Consulting Group (BCG), another global consulting firm, shared their insights about Generative AI and its disruptive impact in businesses. They examined the risks posed by generative AI and highlighted the crucial role of people in transforming the business.

## **Nomination of Directors:**

The following are nominated for election to the Board of Directors during this year's Annual Stockholders' Meeting:

1. Nestor V. Tan
2. Jesus Antonio S. Itchon
3. Jaime C. Yu
4. Rolando C. Tanchanco
5. Jovasky Wei Shen Pang
6. Geneva T. Gloria
7. Evelyn Cristina A. Cam (Independent Director)
8. Ma. Leonora V. De Jesus (Independent Director)

The nominees for independent directors for this year's Annual Stockholders' Meeting are Ms. Evelyn Cristina A. Cam, and Ma. Leonora V. De Jesus. Ms. Cam was nominated by Mary Anne P. Robedillo; while Ms. De Jesus was nominated by Alvin Secuya. The aforementioned nominating shareholders are stockholders of BDONB, and to BDONB's knowledge, there is no relationship between the nominees for independent directors and the nominating stockholders.

## **(b) Senior Executive Officers**

The members of senior management, subject to control and supervision of the Board, collectively have direct charge of all business activities of BDONB. They are responsible for the implementation of the policies set by the Board. The following is a list of BDONB's key officers, and their business experiences during the past five (5) years:

**Jaime A. Talingdan**, 56, Filipino, holds the position of Senior Vice President and Head of the Community Banking Network Group of BDONB. Prior to joining BDONB, he was an Area Head of Branch Banking Group of BDO Unibank with a rank of First Vice President. He started his career in the same institution in 1988 with 35 years of banking experience. He was a Branch Head for 16 years and rose from Assistant Manager to Senior Assistant Vice President before his previous assignment as Area Head. He finished his bachelor's degree in Commerce major in Accounting from St. Mary's University, Bayombong, Nueva Vizcaya and Master of Business Administration degree from De La Salle University, Manila.

**Karen L. Cua**, 44, Filipino, is the Head of Micro, Small & Medium Enterprise Business (MSME) Business Unit of BDONB with a rank of Senior Vice President. She was Consumer Banking Head, Marketing Head, and Project Management Office Head at BOC Fullerton Community Bank in China, a JV between Bank of China and Temasek. Before that, she was with McKinsey & Co. where she primarily served financial service clients in Asia Pacific. She holds a Masters in Business Administration degree from Wharton Business School and a BS Management Engineering degree from Ateneo de Manila University.

**Alberto O. Quiogue**, 58, Filipino, is the Group Head of Salary Loans and joined BDONB in April 2016 with a rank of Senior Vice President. He holds a Bachelor of Science degree in Business with a minor in Political Science from the University of Nevada. He started his career as a Management Associate for Citibank US before moving back to the Philippines in 1996. He has broad experience in various Retail Products having

worked for local and international banks in the Philippines and abroad where he held various positions in sales, credit risk, operations and project management.

**Milott B. Requillo, CPA, 43**, Filipino, is Senior Assistant Vice President of BDONB. She is the Chief Compliance Officer (CCO) and concurrently the Head for Legal and Compliance Department who administratively oversees both the Legal Services Unit and the Corporate Secretary's Office. She is also the Corporate Governance Officer of BDONB, and a Director of the Rural Bankers Association of the Philippines (RBAP) from 2018 to 2021 and Credit Information Corporation (CIC) since 2021 to 2022, representing both the BDONB and RBAP, respectively. Prior to her current position as CCO, she was previously an Internal Auditor of One Network Bank, Inc. for seven (7) years. All in all, she has been with BDONB for nineteen years since 2004. She earned her Bachelor's degree in Accounting from the University of the Immaculate Conception (UIC) in 2000 and thereafter obtained her license as a Certified Public Accountant (CPA), and earned her Juris Doctor Degree at St. Thomas College of Law in 2019.

**Emily G. Gamir, 59**, Filipino, is the head of the Operations Group of BDONB with a rank of Assistant Vice-President. She started her banking career when she joined One Network Bank in 1997. In her 24 years in BDONB, she gained experience in branch operations and management, product development and management, account management, business development, policy development and marketing communications. She holds a bachelor's degree in Business Administration from the University of the Philippines.

**Minda A. Lim, 63**, Filipino, is the Treasury Group Head of BDONB with a rank of Vice-President since May 16, 2012. She held the rank of Asst. Vice-President in Treasury Group of China Bank Corporation from 2010 to 2012, but was a senior trader from 1990-2009. She holds a bachelor's degree in Banking and Finance from the University of Mindanao.

**Niezl D. Gilvero, CPA, 38**, Filipino, is Senior Assistant Vice President. She is the Head of Comptrollership. Prior to this, she was the Chief Finance Officer of Rizal Microbank, Inc. (A Thrift Bank of RCBC), and Head of Audit and Risk Group of the Enterprise Bank, Inc. Ms. Gilvero finished her Bachelor's degree in Accountancy from the Cor Jesu College in year 2005.

**Ramil G. Tigley, 43**, Filipino, holds the position of Vice President- Head of Business Technology of BDONB. He has been leading digital transformations over the past 15 years. He started his career in the banking industry as an Accountant and later shifted to Information Technology. Prior to joining BDONB, he was a Technology Lead and Product Owner of UBX Phils. Corp. a fintech company of UnionBank. He also headed the IT Department of WealthBank and held various IT positions in CitySavings Bank and UnionBank.

He earned his Bachelor of Science degree in Commerce, major in Management Accounting from the University of San Recoletos in 2001.

**NOTE:** *BDONB is not dependent on the services of any particular employee and does not have any special arrangements to ensure that any employee will remain with BDONB and will not compete upon termination.*

## **(1) Significant Employees**

BDONB's senior executive officers are enumerated under Item 5 (b). BDONB has no employee who is not an executive officer expected to make a significant contribution to BDONB's business.

## **(2) Family Relationships**

No nominees to the Board have family relationships.

## **(3) Involvement of directors/executive officers in legal proceedings**

To BDONB's knowledge, none of the directors or executive officers is named or is involved during the last five (5) years in any legal proceedings which will have any material effect on BDONB, its operations, reputation, or financial condition.

To BDONB's knowledge, none of its directors and key officers has been subject of the following legal proceedings during the last five (5) years:

- (a) bankruptcy petition by or against any business of which such director was a general partner or executive officer either at the time of bankruptcy or within two (2) years prior to that time;
- (b) a conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign;
- (c) to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities;
- (d) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign Exchange or other organized trading, market or self-regulatory organization, to have violated the securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

## **(4) Certain Relationships and Related Transactions**

In the ordinary course of business, BDONB has transactions and arrangements involving BDONB's products and services, with certain directors, officers, stockholders and related interests (DOSRI), affiliates and other related parties. These loans and other transactions and arrangements involving BDONB's products and services, are made on substantially the same terms as those given to other non-related parties and businesses of comparable risks.

Policies and procedures have been put in place to manage potential conflicts of interests arising from related party transactions, such as credit accommodations, products or services extended by BDONB to directors or officers in their personal capacity or to their company and related interests and other related parties. BDONB's Management Committee initially approves related party transactions. With respect to material related party transactions, these are elevated to the Related Party Transaction Committee or RPTC which in turn, endorses them to the Board for approval. Regarding non-material related party transactions, these are submitted to the Board for confirmation. All directors, except the interested party, could scrutinize the details of the transactions to ensure that these are done on an arms-length basis and in accordance with regulations. The details of the deliberations are included in the minutes of the Board and Related Party Transaction Committee meetings. Approved related party transactions are properly tagged

for monitoring and reporting of exposures. On a quarterly basis, BDONB submits a report on its material related party transactions to the BSP in compliance with regulations.

The General Banking Law of 2000 and BSP regulations limit the amount of the loans granted by BDONB to the amount of individual loans to DOSRI, of which 70% must be secured, and should not exceed the amount of the deposit and book value of their investment in BDONB. In the aggregate, loans to DOSRI generally should not exceed the total capital funds or 15% of the total loan portfolio of BDONB, whichever is lower.

**(5) Disagreement with a Director**

No director has resigned or declined to stand for re-election to the Board of Directors since the date of the last Special shareholders' meeting because of a disagreement with BDONB on any matter relating to BDONB's operations, policies or practices.

**Item 6. Executive Compensation**

It is the objective of BDONB to attract, motivate and retain high-performing executives necessary to maintain its leadership position in the industry. To be competitive in the marketplace, BDONB offers a remuneration package composed of fixed salary, benefits and long-term incentives. Below are the aggregate compensation details of the directors and key executive officers of BDONB.

**(1) President and four (4) most highly compensated executive officers**

in million pesos	Year	Annual Compensation	Other Annual Compensation
President and four (4) most highly compensated executive officers"	2024 (estimate)	53.38	n.a.
	2023	51.83	n.a.
	2022	54.14	n.a.
Year	Name		Position/Title
2023	Jesus Antonio S. Itchon		President
	Karen L. Cua		Senior Vice President
	Alberto O. Quiogue		Senior Vice President
	Dulce Amor E. Alimbuyugen		First Vice President
	Nielex C. Tupas		First Vice President
2022	Jesus Antonio S. Itchon		President
	Ramon T. Militar		Senior Vice President
	Karen L. Cua		Senior Vice President
	Alberto O. Quiogue		Senior Vice President
	Dulce Amor E. Alimbuyugen		First Vice President

The above compensation includes the usual bonus paid to bank officers. Except for salaries, allowances, retirement benefits provided under BDONB’s retirement plan, and company-wide benefit extended to all qualified employees under BDONB’s stock option plan, there is no separate stock option, stock warrant or other security compensation arrangement between BDONB and its individual officers.

**(2) Compensation of directors and officers as a group**

in million pesos	Year	Annual Compensation	Other Annual Compensation
<b>Aggregate Officers (from senior vice presidents) &amp; Directors</b>	2024 (estimate)	163.74	None
	2023	158.97	None
	2022	146.80	None

Each external director, that is, those who are not holding executive positions in BDONB or its parent company, BDO Unibank, Inc., receives a reasonable *per diem* for attendance in every Board meeting and Board Level Committee meeting. The Parent’s Bank Compensation Committee is authorized to fix and/or increase the fees and other remuneration of any Director or any other officer of BDONB as may be deemed necessary, subject to Board approval. The Board of Directors of BDONB approves all compensation and remuneration schemes for all the executive directors and senior officers of BDONB. As provided by law, the total compensation of directors shall not exceed ten percent (10%) of the net income before income tax of BDONB during the preceding year.

Each external director receives a per diem allowance of ₱12,000 for attending board meetings and ₱12,000 for Board level committee meetings. There is no distinction on the fee for a committee chairman and member. The above table contains the details of the compensation of directors and officers of BDONB. In view of possible security risks, BDONB opted to disclose these on an aggregate basis as a group. Other than these fees, the non-executive directors do not receive any share options or profit sharing.

BDONB may grant to the directors any compensation other than *per diems* by the approval of the shareholders representing at least a majority of the outstanding capital stock.

**(3) Employment contracts and termination of employment and change-in-control arrangements**

There are no contracts of employment between BDONB and the named directors and executive officers, as well as compensatory plans or arrangements, including payment to be received from BDONB with respect to any named director or executive.

## **Item 7. Independent Public Accountants**

BDONB's present external auditor, Punongbayan & Araullo, Grant Thornton will be recommended to the shareholders for re-appointment as the external auditor for the ensuing year. Representatives of the said firm are expected to be present at the annual meeting, and they will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions from the shareholders.

Punongbayan & Araullo, Grant Thornton was first appointed external auditor of BDONB in 2011 and has not resigned, been dismissed, or its services ceased since its appointment. BDONB has had no material disagreement with Punongbayan & Araullo, Grant Thornton on any matter of accounting principle or practices or disclosures in BDONB's financial statements.

For 2016, BDONB engaged Mr. Ramilito L. Nañola, Partner of Punongbayan & Araullo, for the examination of BDONB's financial statements of the said year. BDONB engaged Mr. Romualdo V. Murcia III, Partner of Punongbayan & Araullo, for the examination of BDONB's financial statements starting year 2011 to 2015. Previously, BDONB engaged Mr. Ramilito L. Nañola, Partner of Punongbayan & Araullo, for the examination of BDONB's financial statements from 2006 to 2010 and 2016-2022. For 2023, BDONB engaged Mr. Yusoph Maute of Punongbayan & Araullo, for the examination of BDONB's financial statements. BDONB is compliant with the rotation requirement of its external auditor's certifying partner as required under the Revised SEC Rule 68, Paragraph II, Section 3 (b) (IX).

The Audit Committee endorses for approval of Board of Directors (BOD) the appointment and removal of BDONB's internal and external auditor.

### Audit and Audit-Related Fees

The aggregate fees billed for each of the last three (3) fiscal years for professional services rendered by the external auditor was 892,269.59 for the year 2023, P965,552.20 for the year 2022, and P1,135,551.77 for the year 2021. These fees cover services rendered by the external auditor for audit of the financial statements of BDONB and other services in connection with statutory and regulatory filings for fiscal years 2023, 2022 and 2021.

### Tax Fees and Other Fees

No tax fees and other fees were paid to Punongbayan & Araullo for the last three (3) fiscal years.

It is the policy of BDONB that all audit findings are presented to the Board Audit Committee which reviews and makes recommendations to the Board of Directors on actions to be taken thereon. The Board of Directors passes upon and approves the Audit Committee's recommendations.

The members of the Audit Committee of BDONB are as follows:

- |                            |                                      |
|----------------------------|--------------------------------------|
| 1. Ma. Leonora V. de Jesus | - Chairperson (Independent Director) |
| 2. Evelyn Cristina A. Cam  | - Member (Independent Director)      |
| 3. Vacant                  |                                      |

## **Item 8. Compensation Plans**

No action is to be taken with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

## **C. ISSUANCE AND EXCHANGE OF SECURITIES**

### **Item 9. Authorization or Issuance of Securities Other than for Exchange**

No action will be presented for shareholders' approval at this year's Annual stockholder's meeting which involves authorization or issuance of any securities.

### **Item 10. Modification or Exchange of Securities**

No action will be presented for shareholders' approval at this year's Special stockholders meeting which involves the modification of any class of BDONB's securities, or the issuance of one class of BDONB's securities in exchange for outstanding securities of another class.

### **Item 11. Financial and Other Information**

The Audited Financial Statements of BDONB as of December 31, 2023 is attached to the Definitive Information Statement as **Annex A**. The Management Report, incorporating the Management's Discussion and Analysis is attached as **Annex B**.

BDONB has had no material disagreement with Punongbayan & Araullo on any matter of accounting principle or practices or disclosures in BDONB's financial statements.

### **Item 12. Mergers, Consolidations, Acquisitions and Similar Matters**

No action will be presented for shareholders' approval at the ASM in respect of (1) the merger or consolidation of BDONB into or with any other person, or of any other person into or with BDONB, (2) acquisition by BDONB or any of its shareholders of securities of another person, (3) acquisition by BDONB of any other ongoing business or of the assets thereof, (4) the sale or transfer or all or any substantial part of the assets of BDONB, or (5) liquidation or dissolution of BDONB.

### **Item 13. Acquisition or Disposition of Property**

No action will be presented for shareholders' approval at this year's meeting in respect of any acquisition or disposition of property of BDONB.

#### Item 14. Restatement of Accounts

No action will be presented for shareholders' approval at this year's meeting which involves the restatement of any of BDONB's assets, capital or surplus account.

#### D. OTHER MATTERS

#### Item 15. Action with Respect to Reports and Other Proposed Action

At the annual meeting, shareholders will be asked to approve and ratify the acts of the Board of Directors during their term of office. The matters for stockholders' ratification are acts of the Board, its Committees and Management from the last annual stockholders' meeting held the previous year up to the date of the annual meeting which were entered into or made in the ordinary course of business, including significant related party transactions, as follows:

Date of Board of Directors Meeting	Subject
January 06, 2023	<ol style="list-style-type: none"><li>1. Renewal of Group Life Insurance Coverage for BDONB Employees with BDO Life Assurance Company, Inc.</li><li>2. Updated Service Agreement of BDO Unibank, Inc. and BDO Network Bank, Inc. (covering additional services and expanded volume of BDONB, with monthly service fee of Php 18,127,462.50 representing actual cost of resources with 5% markup)</li><li>3. Revisions to the Data Privacy Manual of BDO Network Bank, Inc.</li><li>4. Amendment to the Relocation Date of BDO Network Bank Pangasinan, Malasiqui Branch-Lite Unit</li><li>5. Application with BSP for New Sixty-Five (65) Branch-Lite Licenses</li><li>6. Disposal and Sale of Eight (8) Bank-Owned Motorcycles</li><li>7. Retirement of the Bank's Outstanding Government Preferred Stock "A"</li></ol>
January 27, 2023	<ol style="list-style-type: none"><li>1. 2023 Plan and 5-Year Annual Plan</li><li>2. Lease of Point-of-Sale (POS) Terminals by BDO Network Bank, Inc. (BDONB) from BDO Unibank, Inc. (BDO) Exceeding Materiality Threshold</li><li>3. Annual Report on Non-Material RPTs as of December 31, 2022</li><li>4. BDONB and BDO Life Assurance Company, Inc.'s Agreement for Creditor's Life Insurance for Loans Managed by the MSME Business Unit</li><li>5. Sale of Capital Asset</li><li>6. BDO Unibank, Inc. Cross-selling of BDONB Loans- Updates on Product Coverage</li><li>7. Closure of BDONB Laguna-Los Baños Branch-Lite Unit- Loan Office (BLU LO) &amp; Consolidation with BDONB CBNG Laguna, Bay Branch (New Branch)</li></ol>

	<ol style="list-style-type: none"> <li>8. Closure of BDONB Pampanga-Guagua Branch-Lite Unit- Loan Office (BLU LO) and Consolidation with BDONB CBNG Pampanga-Floridablanca Branch (Existing) (Branch)</li> <li>9. Closure of BDONB Metro Manila- Malabon (BLU LO) and Consolidation with BDONB Metro Manila-Caloocan (Existing) (BLU LO)</li> <li>10. Updating of Authorized Signatories of BDO Network Bank, Inc.</li> <li>11. Appointment of Community Banking Network Group Head (CBNG) of BDO Network Bank, Inc.</li> <li>12. Disposal of Bank Records which have reached the maximum retention period</li> <li>13. Date, Time, Venue, and Record Date of the 2023 Annual Stockholders' Meeting (ASM) of BDONB and Delegation of authority upon BDONB President to approve any change in the details of the 2023 ASM, including approval of manner of holding said meeting</li> </ol>
February 17, 2023	<ol style="list-style-type: none"> <li>1. RPT of Salary Loans Group Pabahay Loan with BDO Life Assurance Company, Inc. ("BDO Life")</li> <li>2. Purchase of SM or Sodexo Gift Certificate for 2023 Programs</li> <li>3. Extension of Services Agreement between Archipelago Capital Partners (ACP) and BDO Network Bank, Inc. (BDONB) dated July 28, 2017</li> <li>4. Approval on the relocation of approved but not yet opened Branch-Lite Units (Loan)</li> <li>5. Relocation of BDO Network Bank General Santos- Calumpang (Loan)</li> <li>6. Relocation of BDO Network Bank Batangas- Nasugbu (Loan)</li> <li>7. Authority of Roldan T. Galido to claim new license plates at LTO Office</li> <li>8. Disposal of Bank Records which have reached the maximum retention period</li> <li>9. Disposal and sale of three (3) bank-owned service vehicles</li> </ol>
March 24, 2023	<ol style="list-style-type: none"> <li>1. Proposed Adoption of the BDO Interlocking Policy</li> <li>2. BDO Unibank's cross selling of BDONB loan product- updates on product description of BDONB MSME Loans</li> <li>3. Php 500 Million Credit Line Renewal for Neuroncredit Financing Company, Inc. (NCFC)</li> <li>4. Relocation of BDO Network Bank Laguna- Sta. Rosa (Branch-Lite Loans)</li> <li>5. Extension of validity of licenses (26 Branch-Lite Branches &amp; 2 Branch-Lite Loans)</li> <li>6. Relocation of BDO Network Bank Nueva Ecija- Bongabon (Branch-Lite Branch)</li> <li>7. IT authorized signatories for leased line/ connectivity-related documents and proposals</li> <li>8. Sale of one (1) ROPA to Sps. Jimmy D. and Joy E. Reyes</li> <li>9. Amendment to Development Bank of the Philippines (DBP) Credit Facility</li> <li>10. Delegation of Board Authority to the BDONB President, Mr. Jesus Antonio S. Itchon</li> </ol>

<p>April 28, 2023</p>	<ol style="list-style-type: none"> <li>1. Lease Contract of BDONB (Lessee) with BDO Unibank, Inc. (Lessor) over a portion of 17th Floor BDO Corporate Center Ortigas with One (1) Parking Slot</li> <li>2. Sub-Lease Contract of BDONB (Sub-Lessee) with BDO Unibank, Inc. (Sub-Lessor) over a portion of 10th Floor, North Tower BDO Corporate Center Makati</li> <li>3. Proposed Revisions to the Money Laundering and Terrorism Financing Prevention Program (MTPP) Manual</li> <li>4. Nomination of the Board of Directors of BDO Network Bank, Inc. for 2023 (For notation)</li> <li>5. Proposed Revision to the Corporate Governance Manual</li> <li>6. Relocation of BDO Network Bank Davao del Norte – Carmen Branch</li> <li>7. Write-off of MSME Loan Accounts</li> <li>8. Relocation of BDO Network Bank Rizal – San Mateo (Branch-Lite Loan)</li> <li>9. Relocation of BDO Network Bank Pampanga – San Fernando City (Branch-Lite Loans)</li> <li>10. Disposal of Bank Records which have reached the maximum retention period (*Board approval is a BSP requirement)</li> <li>11. BDONB New Online Banking Platform (Mobile and Web)</li> </ol>
<p>May 26, 2023</p>	<ol style="list-style-type: none"> <li>1. Proposed Revision to the Risk Management Committee (RMC) Terms of Reference (TOR)</li> <li>2. Extension of Branch-lite Licenses (1 Branch-lite Branch and 1 Branch-lite Loan)</li> <li>3. Approval on the Relocation of Approved Twelve (12) Branch-lite licenses but not yet opened (8 Branch-lite Branches and 4 Branch-lite Loans)</li> <li>4. Write-off of Remedial Management Unit (RMU) accounts with total write-off amount of Php24,753,052.08.</li> <li>5. Disposal and Sale of Three (3) Bank-Owned Service Vehicles</li> <li>6. Write-off of the uncollected over withdrawn amount booked to A/R e-channel GL Account amounting to ₱10,836.78</li> <li>7. New BDO Online Banking Solution</li> <li>8. Approved Credit Facilities with Security Bank Corporation</li> </ol>
<p>June 23, 2023</p>	<ol style="list-style-type: none"> <li>1. Lease Contract of BDO Unibank (Lessee) with BDONB (Lessor) over the portion of Ground Floor, BDONB Building, Km. 9, Sasa, Davao City for BDO Unibank’s Contact Center</li> <li>2. Proposed Revisions to the Related Party Transactions Committee (RPTC) Terms of Reference (TOR)</li> <li>3. Proposed Revision to the Board Audit Committee (BAC) Terms of Reference (TOR)</li> <li>4. Write-off of Four Hundred Three (403) Salary Loan Accounts with total write-off amount of Php 52,700,541.89</li> <li>5. Conversion of the Php850 Million Remaining Balance of the Approved Rediscounting Line of BDONB to Revolving Promissory Note (Clean) Line with Development Bank of the Philippines (DBP)</li> </ol>

	<ol style="list-style-type: none"> <li>6. Approval of Authority of MSME Field Collection/Remedial Managers and Officers to File Small Claims cases and to serve summons when deputized by the Court</li> <li>7. Approval of Authority of MSME Group A and Group B Signatories to delegate their authority to file cases on behalf of BDONB including Small Claims cases and to serve summons when deputized by the Court</li> <li>8. Disposal of Bank Records which have reached the Maximum Retention Period</li> </ol>
August 18, 2023	<ol style="list-style-type: none"> <li>1. Review of Exposure Limits</li> <li>2. Review of Maximum Cumulative Outflow (MCO) and Interest Rate Gap (IRG) Limits</li> <li>3. Application and Establishment of an Additional Credit Facility with Landbank of the Philippines (LBP)</li> <li>4. Relocation of Trece Martires – Cavite Branch Lite Loan Office</li> <li>5. Relocation of Danao – Cebu Branch Lite Loan Office</li> <li>6. Write-off of One Thousand Eight Hundred Eighty-Three (1,583) MSME Loan Accounts with total write-off amount of Php 168,566,850.22,</li> <li>7. Disposal and Sale of Ten (10) Bank-owned Vehicles</li> </ol>
October 10, 2023	<ol style="list-style-type: none"> <li>1. Integration of Cash Management Services</li> <li>2. Proposed Revisions on Materiality Thresholds under the RPT Policy</li> <li>3. Sub-Lease Contract of BDONB (Sub Lessee) with BDO Unibank, Inc. (Sub Lessor) over a portion of 2/F of BDO Naga-Elias Angeles Branch Office</li> <li>4. Environmental and Social Risk Management System (ESRMS)</li> <li>5. Relocation of BDO Network Bank Branches (Branch &amp; Branch-Lite Unit)</li> <li>6. Conversion of Nineteen (19) Branch-Lite Units into Branches (Branch-Lite Branches)</li> <li>7. Relocation of Six (6) Branch- Lite Licenses (5 Branch-Lite Branches and 1 Branch-Lite Loans)</li> <li>8. Amendment to the Relocation Date of BDO Network Bank Pampanga, San Fernando City (Branch Lite-Loans)</li> <li>9. Relocation of BDO Network Bank Quezon-Calauag Sta. Maria (Branch-Lite Loan)</li> <li>10. Write-off of one hundred ninety-four (194) Salary Loan Accounts amounting to P25,667,661.35</li> <li>11. Write-off of the outstanding total booked exposure of P25,979,337.86 covering twenty-one (21) Remedial Management Unit (RMU) accounts</li> <li>12. Authorized Printer of BDONB Non-VAT Official Receipts</li> <li>13. Disposal and Sale of Seven (7) Bank-Owned Service Vehicles</li> <li>14. Authorized Representatives for BIR Transactions</li> </ol>
October 27, 2023	<ol style="list-style-type: none"> <li>1. Related Party Transaction between BDONB and BDO Life for Creditor’s Group Life Insurance for loans managed by the MSME Business Unit</li> <li>2. 2023 Audit Plan for BDONB as presented by Punongbayan &amp; Araullo Grant Thornton</li> <li>3. Rebranding of MSME Loan from “Kabayan Loan” to “Negosyante Loan”</li> <li>4. Disposal of Bank Records which have reached the maximum retention period</li> <li>5. Delegated Authority to Assign Representatives for BIR Transactions</li> </ol>

December 01, 2023	<ol style="list-style-type: none"> <li>1. BDONB Signatories for All Types of Bank Transactions, Contracts, Documents, MSME/ SLG Loans; Regulatory Reports (Revised)</li> <li>2. Sub-Lease Contract of BDONB (Sub-lessee) with BDO Unibank (Sub-lessor) over a portion of third floor of BDO Lucena branch office</li> <li>3. Approval of the Credit Facilities Granted by BDO Unibank</li> <li>4. write-off of one hundred thirty-one (131) Salary Loan accounts with an aggregate amount of twenty-two million five hundred seventy-seven thousand seven hundred sixty-eight and twenty-two centavos (Php22,577,768.22)</li> <li>5. Write-off of three hundred thirty-four (334) Salary Loan accounts with an aggregate amount of four million three hundred twenty thousand eighty-two and ninety-seven centavos (Php4,320,082.97)</li> <li>6. Write-off of eighty-eight (88) Salary Loan accounts with an aggregate amount of twenty-two million three hundred forty-six thousand four hundred thirty-two and seventy-three centavos (Php22,346,432.73)</li> <li>7. Write-off of one thousand twenty-three (1,023) MSME Loan accounts with an aggregate amount of one hundred seventeen million three hundred sixty-six thousand six hundred two and eight centavos (Php117,366,602.08)</li> <li>8. Relocation of BDO Network Bank Branches (Branch &amp; Branch-Lite Branch)</li> <li>9. Extension of Branch-Lite Units Licenses (Branch-Lite Branch)</li> <li>10. Disposal and Sale of Five (5) Bank-Owned Service Vehicles</li> </ol>
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**Item 16. Matters Not Required to be Submitted**

There is no action to be taken with respect to any matter which is not required to be submitted to a vote of security holders.

**Item 17. Amendment of Charter, By-laws or Other Documents**

Shareholders will be asked to approve and ratify the following acts of the Board of Directors:

1. Amendment of the Seventh Article of the Articles of Incorporation of the Company, removing the reference to pre-emptive rights, to reflect the previous shareholder approval to remove such right under the Tenth Article.

The amended Seventh Article of the Articles of Incorporation is proposed to read as follows:

Current	Proposed Amendment	Rationale
<p>SEVENTH. XXX</p> <p>The issuance of Private Preferred Stock and such other classes and series as the Board of Directors may hereinafter establish and</p>	<p>SEVENTH. XXX</p> <p>The issuance of Private Preferred Stock and such other classes and series as the Board of Directors may hereinafter establish and</p>	<p>The proposed amendment will reflect the removal of reference to pre-emptive rights. The Tenth Article was</p>

<p>approved by the Bangko Sentral ng Pilipinas and Securities and Exchange Commission shall be fully disclosed to all common stockholders on account of their pre-emptive rights and the Board of Directors and key executive officers of the bank shall sign a Deed of Undertaking to ensure that the issuance of such stock shall be in accordance with the terms and conditions of approval by the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission. XXX</p>	<p>approved by the Bangko Sentral ng Pilipinas and Securities and Exchange Commission shall be fully disclosed to all common stockholders <del>on account of their pre-emptive rights</del> and the Board of Directors and key executive officers of the bank shall sign a Deed of Undertaking to ensure that the issuance of such stock shall be in accordance with the terms and conditions of approval by the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission. XXX</p>	<p>previously amended to expressly state that shareholders shall have no pre-emptive rights controls and pre-emptive rights mentioned in the Seventh Article.</p>
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2. Amendment of Article II Section 1 of the By-laws of the Company, to change the date of the annual meeting of shareholders.

The amended Article II Section 1 of the By-laws is proposed to read as follows:

Current	Proposed Amendment	Rationale
<p><b>Section 1.</b> Annual / Regular Meetings – The annual / regular meetings of stockholders shall be held at the principal office of the Bank, or if not practicable, at any venue in the city or municipality where the principal office of the Bank is located as chosen by the Board of Directors.</p> <p>The annual meeting of the stockholders shall be held during business hours on any day after April 15 of each year as may be determined by the Board of Directors.</p>	<p><b>Section 1.</b> Annual / Regular Meetings – The annual / regular meetings of stockholders shall be held at the principal office of the Bank, or if not practicable, at any venue in the city or municipality where the principal office of the Bank is located as chosen by the Board of Directors.</p> <p>The annual meeting of the stockholders shall be held during business hours on <b><u>the first Friday of May</u></b> of each year, <b><u>if a legal holiday, then on the day following, or at such date the Board of Directors may deem appropriate.</u></b></p>	<p>The proposed amendment will change the date fixed for the Annual Stockholders’ Meeting of the Company.</p>

3. Amendment of Article III Section 3 of the By-Laws of the Corporation, allowing the filling of vacancies in the Board of Directors at a regular meeting.

The amended Article III Section 3 of the By-laws is proposed to read as follows:

Current	Proposed Amendment	Rationale
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<p><b>Section 3.</b> Vacancies – For regular vacancies or vacancies in the Board of Directors occurring during the year for any cause, other than removal or expiration of term, such vacancy may be filled for the unexpired term of their office by appointment made by the remaining directors, if still constituting a quorum, and the person so appointed shall hold office until his successor shall have been duly elected by the stockholders and qualified. Should the number of Directors be reduced to less than a quorum, vacancies in the Board of Directors shall be filled at a special stockholders’ meeting duly called for that purpose.</p> <p>However, for emergency vacancies or when the vacancy prevents the remaining directors from constituting a quorum and emergency action is required to prevent grave, substantial and irreparable loss or damage to the Bank, such vacancy may be temporarily filled from among the Senior Officers of the Bank by unanimous vote of the remaining directors. The action by the designated director shall be limited to the emergency action necessary, and the term shall cease within a reasonable time from the termination of the emergency or upon election for the replacement director at the special stockholders’ meeting duly called for the purpose in accordance with the preceding paragraph, whichever comes earlier. The Bank must notify the Securities and Exchange Commission within three (3) days</p>	<p><b>Section 3.</b> Vacancies – For regular vacancies or vacancies in the Board of Directors occurring during the year for any cause, other than removal or expiration of term, such vacancy may be filled for the unexpired term of their office by appointment made by the remaining directors, if still constituting a quorum, and the person so appointed shall hold office until his successor shall have been duly elected by the stockholders and qualified. Should the number of Directors be reduced to less than a quorum, vacancies in the Board of Directors shall be filled at a <b>regular or</b> special stockholders’ meeting duly called for that purpose.</p> <p>However, for emergency vacancies or when the vacancy prevents the remaining directors from constituting a quorum and emergency action is required to prevent grave, substantial and irreparable loss or damage to the Bank, such vacancy may be temporarily filled from among the Senior Officers of the Bank by unanimous vote of the remaining directors. The action by the designated director shall be limited to the emergency action necessary, and the term shall cease within a reasonable time from the termination of the emergency or upon election for the replacement director at the <b>regular or</b> special stockholders’ meeting duly called for the purpose in accordance with the preceding paragraph, whichever comes earlier. The Bank must notify the Securities and Exchange Commission within three (3) days from the creation of the emergency</p>	<p>The proposed amendment will allow vacancies in the Board of Directors, including emergency vacancies, to be filled at a regular stockholders’ meeting.</p>
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from the creation of the emergency board, stating therein the reason for its creation.	board, stating therein the reason for its creation.	
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**Item 18. Other Proposed Action**

Other than the matters indicated in the Notice and Agenda included in this Information Statement, there are no other actions proposed to be taken at the annual meeting.

**Item 19. Voting Procedures**

At the 2024 Annual Stockholders’ Meeting, holders of a majority of BDONB’s issued and outstanding voting shares who are present via remote communication or represented by proxy, shall constitute a quorum for the transaction of business. A majority of votes shall decide any matter submitted to the shareholders at the meeting, except in those cases where the law requires a greater number. In particular, the affirmative vote of stockholders of BDONB representing at least two-thirds (2/3) of the outstanding capital stock of the Company is required in accordance with Sections 15 and 47 of the Revised Corporation Code to approve the amendment of the Seventh Article of the Articles of Incorporation.

For the amendment of the By-Laws of BDONB, the affirmative vote of stockholders of BDONB representing at least majority of the outstanding capital is required in accordance with Section 47 of the RCC to approve the amendment of Article II Section 1 and Article III Section 3 of the By-Laws of the Company.

In the election of directors, the shareholders are entitled to cumulate their votes as discussed in Part B, Item 4(c) of this Information Statement. BDONB’s Corporate Secretary is tasked and authorized to count votes on any matter properly brought to the vote of the shareholders.

BDONB’s Corporate Secretary is tasked and authorized to count votes on any matter properly brought to the vote of the shareholders, including the election of directors. Punongbayan & Araullo, Grant Thornton, BDONB’s external auditor, an independent party, has been appointed to validate the votes.

Stockholders as of March 13, 2024 who have successfully registered their intention to participate in the special meeting via remote communication, and to vote *in absentia*, duly verified and validated by the BDONB, shall be provided with log-in credentials to securely access the voting portal.

*The detailed guidelines for participation and voting for this meeting are set forth in the “Guidelines for Participation via Remote Communication, In-Person, and Voting in Absentia” included in this Information Statement*

*(Signature page follows)*

**SIGNATURE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct.

This report is signed in Makati City on 04 April 2024.

**BDO NETWORK BANK, INC**

  
Joseph Jason M. Natividad  
Corporate Secretary

**BDO NETWORK BANK, INC.**  
**2024 ANNUAL STOCKHOLDERS' MEETING**  
**May 2, 2024 at 11:00 AM**

**Guidelines for Registering, Participating via Remote Communication and Voting in Absentia**

The 2024 Annual Stockholders' Meeting (**ASM**) of BDO Network Bank, Inc. (**BDONB**) is scheduled on **May 2, 2024, Thursday, at 11:00 a.m.**, with **March 13, 2024 as the record date** set by BDONB's Board of Directors for the determination of stockholders entitled to the notice of, to attend, and to vote at such meeting and any adjournment thereof.

The ASM will be broadcasted via livestreaming accessible to registered participants. Stockholders will be allowed to register, attend, participate and vote via remote communication or *in absentia* pursuant to Sections 23 and 57 of the Revised Corporation Code of the Philippines.

**Step 1. Pre-ASM Registration/ Validation/ Voting Procedures**

Stockholders must notify the Corporate Secretary of their intention to participate in the ASM via remote communication and to exercise their right to vote *in absentia* by sending the documentary requirements with transmittal letter addressed to the Office of the Corporate Secretary, 6/F, BDONB Corporate Center, Km. 9, Sasa, Davao City 8000 VIA COURIER/PERSONAL DELIVERY OR scanned copies of these documents by EMAIL to <corporate\_secretary@bdonetworkbank.com.ph> with return-receipt.

The following complete/accurate documentary requirements with transmittal letter MUST BE SENT TO AND RECEIVED by the Office of the Corporate Secretary no later than April 22, 2024.

- **For Certificated Individual Stockholders**

1. A clear copy of the stockholder's valid government-issued ID (such as passport, driver's license, or unified multipurpose ID) showing photo, signature and personal details, preferably with residential address
2. Stock certificate number/s
3. A valid and active e-mail address and contact number of stockholder
4. If appointing a proxy, duly accomplished and signed proxy. Proxy form can be downloaded from BDONB's website <www.bdonetworkbank.com.ph/2024proxyform>.

**If sending via email, attachment/s should be clear copies in JPG or PDF format, with each file size no larger than 2MB.**

- **For Certificated Multiple Stockholders or Joint owners**

1. A clear copy of the ALL stockholders' valid government-issued IDs (such as passport, driver's license, or unified multipurpose ID) showing photo, signature and personal details, preferably with residential address

2. Stock certificate number/s
3. A valid and active email-address and contact number of authorized representative
4. Proof of authority of stockholder voting the shares signed by the other registered stockholders, for shares registered in the name of multiple stockholders (need not be notarized)
5. If appointing a proxy, duly accomplished and signed proxy. Proxy form can be downloaded from BDONB's website <[www.bdonetworkbank.com.ph/2024proxyform](http://www.bdonetworkbank.com.ph/2024proxyform)>.

**If sending via email, attachment/s should be clear copies in JPG or PDF format, with each file size no larger than 2MB.**

• **For Certificated Corporate/Partnership Stockholders**

1. Secretary's Certification of Board resolution attesting to the authority of representative to participate by remote communication for, and on behalf of the Corporation/Partnership
2. Stock certificate number/s
3. A clear copy of the valid government-issued ID (such as passport, driver's license, or unified multipurpose ID) of stockholder's authorized representative showing photo, signature and personal details, preferably with residential address
4. A valid and active email-address and contact number of authorized representative
5. If appointing a proxy, duly accomplished and signed proxy. Proxy form can be downloaded from BDONB's website <[www.bdonetworkbank.com.ph/2024proxyform](http://www.bdonetworkbank.com.ph/2024proxyform)>.

**If sending via email, attachment/s should be clear copies in JPG or PDF format, with each file size no larger than 2MB.**

Stockholders will receive an e-mail reply from BDONB's Office of the Corporate Secretary. The Office of the Corporate Secretary's email reply will either confirm successful registration and provide the link/meeting details to BDONB's 2024 ASM OR require submission of deficient documents. If you have not received any email reply within three (3) business days from receipt, please call tel. nos. (082) 233 – 7777.

**Important Reminder: Please refrain from sending duplicate and inconsistent information/documents as this can result in failed registration. All documents/information shall be subject to verification and validation by the Corporate Secretary.**

**Step 2: Voting in Absentia Procedure**

Stockholders who have successfully registered shall be notified via email of their log-in credentials for the ASM. Stockholders can then cast their votes for specific items in the agenda by accessing and accomplishing BDONB's online ballot. The ballot form can be accessed from BDONB's website <[www.bdonetworkbank.com.ph/ASMBallot](http://www.bdonetworkbank.com.ph/ASMBallot)>.

1. Upon accessing the ballot, the stockholder can vote on each agenda item. A brief description of each item for stockholders' approval are appended as Annex "1" to the Notice of Meeting.

- 1.1. A stockholder has the option to vote “Yes”, “No”, or “Abstain” on each agenda item for approval.
2. Once the stockholder has finalized his vote, he can proceed to submit his vote by sending a JPG or PDF form to <corporate\_secretary@bdonetworkbank.com.ph> no later than April 29, 2024.

**If sending via email, should be clear scanned copies in JPG or PDF format, with each file size no larger than 2MB.**

### **Participation through Remote Communication**

The ASM will be livestreamed and stockholders who have successfully registered can participate via remote communication. Details of the meeting will be sent to stockholders in the emails provided to BDONB. Instructions on how to access the livestream will also be posted at <www.bdonetworkbank.com.ph/2024ASM>.

Video recordings of the ASM will be adequately maintained by BDONB and will be made available to participating stockholders upon request. Stockholders may access the recorded webcast of the ASM by sending an email request addressed to <corporate\_secretary@bdonetworkbank.com.ph>.

### **Open Forum**

During the virtual meeting, BDONB will have an Open Forum, during which, the meeting’s moderator will read and where representatives of BDONB shall endeavor to answer as many of the questions and comments received from stockholders as time will allow.

Stockholders may send their questions in advance by sending an email bearing the subject “ASM 2024 Open Forum” to <corporate\_secretary@bdonetworkbank.com.ph> not later than 10:00 a.m. of April 22, 2024. A section for stockholder comments/questions or a “chatbox” shall also be provided in the livestreaming platform.

Questions/comments received but not entertained during the Open Forum due to time constraints will be addressed separately by BDONB through the stockholders’ email addresses.

**For complete information on the ASM, please visit <www.bdonetworkbank.com.ph/2024ASM>.**

**For any clarification or other ASM-related queries, stockholders may contact BDONB at 082-233-7772 or send an email to the Office of the Corporate Secretary at <corporate\_secretary@bdonetworkbank.com.ph>.**

# **Audited Financial Statements**



P&A  
Grant Thornton

ANNEX A

FOR SEC FILING

Financial Statements and  
Independent Auditors' Report

**BDO Network Bank, Inc.**

December 31, 2023 and 2022

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


The management of **BDO NETWORK BANK, INC.** (the Bank) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2023 and 2022, in accordance with the prescribed financial reporting framework indicated therein, 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.

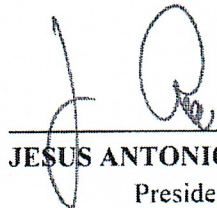
In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease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

Punongbayan & Araullo, the independent auditors, appointed by the stockholders, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

  
**NESTOR V. TAN**  
 Chairman of the Board

  
**JESUS ANTONIO S. ITCHON**  
 President

  
**NIEZL D. GILVERO**  
 Head, Comptrollership

Signed this 23<sup>rd</sup> day of February 2024.

SUBSCRIBED AND SWORN to before me on this 03 APR 2024 day of 2024, affiant exhibiting to me their Competent Evidence of Identity (CEI) as follows

Name	CEI Number	Date and Place of Issue
1. Nestor V. Tan	P5830111B	11-23-2020/NCR East
2. Jesus Antonio S. Itchon	P7922198B	10-19-2021/Manila
3. Niezl D. Gilvero	P2988528C	01-19-2023/Davao

Doc. No. 26;  
 Page No. 3;  
 Book No. 3;  
 Series No. 2024;

  
**ATTY. CAMILLE B. REMOROZA**

Notary Public for Davao City  
 Notarial Commission Serial No. 2024-278-2025  
 Valid until 31 December 2025

Roll of Attorneys No. 70533 • 06-04-2018

IBP O.R. No. 392978 • 01/03/2024

PTR O.R. No. 9347853C

6/F BDO Network Bank Inc., Km. 9, Sasa, Davao City  
 MCLE Compliance No. VII-0016484, issued on 04-28-22



## Report of Independent Auditors

**The Board of Directors and the Stockholders**  
**BDO Network Bank, Inc.**  
*(A Subsidiary of BDO Unibank, Inc.)*  
BDONB Center, Km. 9, Sasa, Davao City

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of BDO Network Bank, Inc. (the Bank), which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2023 and 2022, and its financial performance and its cash flows for each of the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

#### *Basis for Opinion*

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

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

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

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

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

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

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

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

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

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

### **Report on Other Legal and Regulatory Requirements**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the years ended December 31, 2023 and 2022 required by the Bangko Sentral ng Pilipinas as disclosed in Note 27 to the financial statements, and the supplementary information for the year ended December 31, 2023 by the Bureau of Internal Revenue as disclosed in Note 28 to the financial statements are presented for purposes of additional analysis and are not required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information are the responsibility of management. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### **PUNONGBAYAN & ARAULLO**

  
By: **Yusoph A. Maute**  
Partner

CPA Reg. No. 0140306  
TIN 415-417-641  
PTR No. 10076145, January 3, 2024, Makati City  
SEC Group A Accreditation  
Partner - No. 140306-SEC (until financial period 2026)  
Firm - No. 0002 (until financial period 2024)  
BIR AN 08-002551-046-2023 (until Jan. 24, 2026)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 23, 2024

## Supplemental Statement of Independent Auditors

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**Punongbayan & Araullo**  
20<sup>th</sup> Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 8988 2288

**The Board of Directors**  
**BDO Network Bank, Inc.**  
*(A Subsidiary of BDO Unibank, Inc.)*  
BDONB Center, Km. 9, Sasa, Davao City

We have audited the financial statements of BDO Network Bank, Inc. (the Bank) for the year ended December 31, 2023, on which we have rendered the attached report dated February 23, 2024.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Bank has a total number of 269 beneficial stockholders owning 100 or more shares each of the Bank's capital stock as at December 31, 2023.

### **PUNONGBAYAN & ARAULLO**

  
By: **Yusoph A. Maute**  
Partner

CPA Reg. No. 0140306  
TIN 415-417-641  
PTR No. 10076145, January 3, 2024, Makati City  
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Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 23, 2024

**BDO NETWORK BANK, INC.**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2023 AND 2022**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2023</u>	<u>2022</u>
<b><u>RESOURCES</u></b>			
CASH AND OTHER CASH ITEMS	6	<b>P 2,562,500,209</b>	P 2,186,619,439
DUE FROM BANGKO SENTRAL NG PILIPINAS	6, 7	1,202,258,989	690,117,513
DUE FROM OTHER BANKS	6, 8	8,028,511,190	5,770,790,647
INVESTMENT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - Net	9	4,938,452,761	4,758,551,931
INVESTMENT SECURITIES AT AMORTIZED COST	10	3,982,216,624	4,134,577,856
LOANS AND OTHER RECEIVABLES - Net	11	83,409,077,530	66,509,712,116
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	12	2,094,635,005	1,925,825,405
RIGHT-OF-USE ASSETS - Net	13	652,839,187	509,868,792
INVESTMENT PROPERTIES - Net	14	1,420,921	2,257,697
DEFERRED TAX ASSETS	24	343,047,607	438,276,179
PREPAYMENTS AND OTHER RESOURCES - Net	15	<u>770,421,041</u>	<u>303,200,195</u>
<b>TOTAL RESOURCES</b>		<b><u>P 107,985,381,064</u></b>	<b><u>P 87,229,797,770</u></b>
<b><u>LIABILITIES AND EQUITY</u></b>			
DEPOSIT LIABILITIES	17	<b>P 77,688,737,498</b>	P 67,110,649,688
BILLS PAYABLE	18	14,901,139,639	6,533,045,833
LEASE LIABILITIES	13	708,979,657	541,621,897
ACCRUED EXPENSES AND OTHER LIABILITIES	19	1,771,265,904	1,530,920,299
INCOME TAX PAYABLE		<u>90,864,364</u>	<u>4,060,793</u>
Total Liabilities		<b>95,160,987,062</b>	75,720,298,510
EQUITY	20	<u>12,824,394,002</u>	<u>11,509,499,260</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>P 107,985,381,064</u></b>	<b><u>P 87,229,797,770</u></b>

*See Notes to Financial Statements.*

**BDO NETWORK BANK, INC.**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF PROFIT OR LOSS**  
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**  
*(Amounts in Philippine Pesos)*

	Notes	2023	2022
<b>INTEREST INCOME</b>			
Loans and other receivables	11	<b>P 7,896,679,414</b>	P 5,725,204,320
Investment securities	9, 10	<b>406,431,972</b>	405,889,573
Deposits with other banks	8	<b>159,385,336</b>	66,441,229
Post-employment defined benefit obligation	23	<b>24,876,553</b>	-
		<b>8,487,373,275</b>	6,197,535,122
<b>INTEREST EXPENSE</b>			
Deposit liabilities	17	<b>1,788,917,328</b>	812,387,934
Bills payable	18	<b>573,402,877</b>	61,251,389
Lease liabilities	13	<b>57,794,270</b>	27,339,271
Post-employment defined benefit obligation	23	<b>-</b>	23,579,217
		<b>2,420,114,475</b>	924,557,811
<b>NET INTEREST INCOME</b>		<b>6,067,258,800</b>	5,272,977,311
<b>IMPAIRMENT LOSSES</b>	16	<b>725,071,871</b>	733,801,324
<b>NET INTEREST INCOME AFTER IMPAIRMENT LOSSES</b>		<b>5,342,186,929</b>	4,539,175,987
<b>OTHER INCOME</b>			
Service charges, fees and commissions	2	<b>3,814,585,380</b>	3,840,310,375
Others	22	<b>81,792,211</b>	96,735,441
		<b>3,896,377,591</b>	3,937,045,816
<b>OTHER OPERATING EXPENSES</b>			
Compensation and employee benefits	23	<b>3,783,109,926</b>	3,222,230,133
Taxes and licenses		<b>1,075,052,451</b>	876,442,507
Occupancy and equipment-related expenses	12, 13, 14, 15	<b>973,653,566</b>	806,893,064
Fees and commissions		<b>674,262,774</b>	545,126,024
Transportation and travel		<b>367,842,430</b>	304,442,655
Security, messengerial and janitorial services		<b>298,580,635</b>	259,257,731
Insurance		<b>227,791,451</b>	279,619,414
Stationery and supplies		<b>116,961,315</b>	84,063,256
Communications, telephone and telegraph		<b>82,308,970</b>	25,113,299
Advertising and publicities		<b>76,796,940</b>	69,368,389
Representation and entertainment		<b>35,570,069</b>	33,276,380
Management and other professional fees		<b>28,673,017</b>	93,860,752
Banking fees		<b>17,024,859</b>	11,297,513
Fuel and lubricants		<b>9,881,412</b>	12,327,893
Others	14	<b>37,089,002</b>	90,413,423
		<b>7,804,598,817</b>	6,713,732,433
<b>PROFIT BEFORE TAX</b>		<b>1,433,965,703</b>	1,762,489,370
<b>TAX EXPENSE</b>	24	<b>549,596,108</b>	628,439,668
<b>NET PROFIT</b>		<b>P 884,369,595</b>	P 1,134,049,702

*See Notes to Financial Statements.*

**BDO NETWORK BANK, INC.**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**  
*(Amounts in Philippine Pesos)*

	Notes	2023	2022
<b>NET PROFIT</b>		<b>P 884,369,595</b>	<b>P 1,134,049,702</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<b>Item that will not be reclassified subsequently to profit or loss:</b>			
Remeasurements of post-employment defined benefit obligation	23	( 266,832,254 )	41,426,736
Tax income (expense)	24	<u>66,708,064</u>	( <u>10,356,684</u> )
		( 200,124,190 )	31,070,052
<b>Item that will be reclassified subsequently to profit or loss:</b>			
Fair valuation of financial assets at fair value through other comprehensive income (FVOCI):			
Fair value gains (losses) during the year	9	<u>180,649,337</u>	( <u>424,785,517</u> )
<b>Other Comprehensive Loss - net of tax</b>		( <u>19,474,853</u> )	( <u>393,715,465</u> )
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P 864,894,742</b>	<b>P 740,334,237</b>

*See Notes to Financial Statements.*

**BDO NETWORK BANK, INC.**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**  
*(Amounts in Philippine Pesos)*

	<u>Note</u>	<u>Capital Stock</u>	<u>Additional Paid-in Capital</u>	<u>Other Reserves</u>	<u>Revaluation Reserves</u>	<u>Surplus</u>	<u>Total</u>
Balance at January 1, 2023		P 4,900,565,580	P 5,456,306,198	P 412,692,812	( P 853,885,111 )	P 1,593,819,781	P 11,509,499,260
Issuance of shares during the year	20	141,632,810	308,367,190	-	-	-	450,000,000
General loan loss appropriation	20	-	-	135,479,969	-	( 135,479,969 )	-
Appropriation for self-insurance	20	-	-	3,971,750	-	( 3,971,750 )	-
Total comprehensive income (loss) for the year		-	-	-	( 19,474,853 )	884,369,595	864,894,742
<b>Balance at December 31, 2023</b>		<b><u>P 5,042,198,390</u></b>	<b><u>P 5,764,673,388</u></b>	<b><u>P 552,144,531</u></b>	<b><u>( 873,359,964 )</u></b>	<b><u>P 2,338,737,657</u></b>	<b><u>P 12,824,394,002</u></b>
Balance at January 1, 2022		P 3,468,500,540	P 2,338,371,238	P 241,351,011	( P 460,169,646 )	P 631,111,880	P 6,219,165,023
Issuance of shares during the year	20	1,432,065,040	3,117,934,960	-	-	-	4,550,000,000
General loan loss appropriation	20	-	-	166,624,298	-	( 166,624,298 )	-
Appropriation for self-insurance	20	-	-	4,717,503	-	( 4,717,503 )	-
Total comprehensive income (loss) for the year		-	-	-	( 393,715,465 )	1,134,049,702	740,334,237
<b>Balance at December 31, 2022</b>		<b><u>P 4,900,565,580</u></b>	<b><u>P 5,456,306,198</u></b>	<b><u>P 412,692,812</u></b>	<b><u>( P 853,885,111 )</u></b>	<b><u>P 1,593,819,781</u></b>	<b><u>P 11,509,499,260</u></b>

*See Notes to Financial Statements.*

**BDO NETWORK BANK, INC.**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**  
*(Amounts in Philippine Pesos)*

	Notes	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>P 1,433,965,703</b>	P 1,762,489,370
Adjustments for:			
Impairment losses	16	725,071,871	733,801,324
Depreciation and amortization	12, 13, 14, 15	538,230,276	378,740,265
Interest amortization on lease liabilities	13	57,794,270	27,339,271
Gain on disposal of bank premises, furniture, fixtures and equipment	12, 22	( 6,038,403 )	( 25,539,912 )
Loss on sale of financial assets at fair value through other comprehensive income (FVOCI)		-	2,481,596
Income from disposal of investment properties	14, 22	( 1,196,196 )	( 1,269,456 )
Operating profit before changes in resources and liabilities		2,747,827,521	2,878,042,458
Increase in loans and other receivables		( 17,624,437,292 )	( 30,511,233,591 )
Increase (decrease) in prepayments and other resources		( 446,147,840 )	224,449,460
Increase in deposit liabilities		10,578,087,818	20,071,497,103
Increase in accrued expenses and other liabilities		558,606,652	575,461,875
Cash used in operations		( 4,186,063,141 )	( 6,761,782,695 )
Cash paid for income taxes		( 300,855,901 )	( 491,094,061 )
Net Cash Used in Operating Activities		( 4,486,919,042 )	( 7,252,876,756 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of bank premises, furniture, fixtures and equipment	12	( 466,306,879 )	( 495,459,678 )
Proceeds from matured financial assets at amortized cost	10	150,000,000	2,115,000,000
Acquisitions of software and other intangibles	15	( 18,675,188 )	( 7,509,881 )
Proceeds from disposal of bank premises, furniture, fixtures and equipment	12	9,789,424	43,644,910
Proceeds from disposal of investment properties	14	812,245	1,494,000
Proceeds from sale and maturity of FVOCI	9	300,000	2,685,636,404
Acquisitions of financial assets at amortized cost	10	-	( 3,900,000,000 )
Acquisitions of financial assets at FVOCI	9	-	( 1,568,118,000 )
Net Cash Used in Investing Activities		( 324,080,398 )	( 1,125,312,245 )
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from bills payable	18	18,625,000,000	7,100,000,000
Repayments of bills payable	18	( 10,325,000,000 )	( 600,000,000 )
Interest paid on bills payable		( 505,309,071 )	( 28,205,556 )
Proceeds from issuance of shares of stock	20	450,000,000	4,550,000,000
Repayments of lease liabilities	13	( 287,948,700 )	( 131,908,603 )
Net Cash From Financing Activities		7,956,742,229	10,889,885,841
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>3,145,742,789</b>	<b>2,511,696,840</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
Cash and other cash items	6	2,186,619,439	2,590,833,675
Due from Bangko Sentral ng Pilipinas		690,117,513	142,010,944
Due from other banks		5,770,790,647	3,402,986,140
		<b>8,647,527,599</b>	<b>6,135,830,759</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
Cash and other cash items	6	2,562,500,209	2,186,619,439
Due from Bangko Sentral ng Pilipinas		1,202,258,989	690,117,513
Due from other banks		8,028,511,190	5,770,790,647
		<b>P 11,793,270,388</b>	<b>P 8,647,527,599</b>

**Supplemental Information on Non-Cash Investing Activity —**

In 2023 and 2022, the Bank recognized right-of-use assets amounting to P385.8 million and P251.3 million, respectively, and lease liabilities amounting to P397.5 million and P224.0 million, respectively (see Note 13).

*See Notes to Financial Statements.*

**BDO NETWORK BANK INC.**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023 AND 2022**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE INFORMATION**

***1.1 Incorporation and Operations***

BDO Network Bank, Inc. (the Bank) was organized as a result of the consolidation of two rural banks, namely, One Network Rural Bank, Inc. (ONRBI) and Rural Bank of New Corella (Davao del Norte), Inc. (RBNCI). The Bank was incorporated in the Philippines and was registered with the Securities and Exchange Commission (SEC) on July 14, 2011 to engage and carry on the business of a rural bank as provided in the Rural Banks Act of 1992. The Bank started its commercial operations on September 1, 2011.

On April 18, 2012, a plan of merger was made and entered into by the Bank with Rural Bank of San Enrique (Iloilo), Inc. (RBSEI) doing business under the name and style of Banco San Enrique (a Rural Bank). On April 12, 2013, the SEC approved the merger of the Bank with RBSEI, with the former as the surviving entity.

On July 20, 2015, BDO Unibank, Inc. (BDO or the Parent Bank), with the approval of the Monetary Board (MB) of the Bangko Sentral ng Pilipinas (BSP), successfully acquired 99.59% of the Bank's outstanding capital stock making the Bank a member then of the BDO Group. As of December 31, 2023 and 2022, BDO is the beneficial owner of 84.91% and 87.37%, respectively, of the Bank's total issued and outstanding capital.

On September 29, 2018, the Parent Bank entered into an agreement with Osmanthus Investment Holdings Pte. Ltd. (Singapore), whereby the latter will acquire 15.00% ownership interest in the Bank. On May 16, 2019 and January 8, 2021, the latter acquired 10.00% and 5.00% ownership interest in the Bank, respectively.

On February 4, 2019, the Bank entered into an asset sale and purchase agreement with Rural Bank of Pandi (Bulacan), Inc. (RBPI) wherein the Bank purchased the recorded gross loan receivables, and assume the recorded deposit liabilities of RBPI. The purchase was completed on October 31, 2019.

On July 31, 2019, the SEC approved the Bank's application to change its corporate name from One Network Bank, Inc. (A Rural Bank of BDO) to BDO Network Bank, Inc.

On January 27, 2022, the BSP approved the application for the conversion of the Bank from a rural bank to a thrift bank, subject to the approval of the amended Articles of Incorporation (AOI) and By-laws by the SEC. The Bank has not yet received the Certificate to amend its AOI and By-laws as of the date the financial statements were authorized for issue.

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 substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Bank is subject to the provisions of the General Banking Law of 2000 or Republic Act (RA) No. 8791.

The registered head office of the Bank is located at BDONB Center, Km. 9, Sasa, Davao City. The Bank has the widest private banking network in Mindanao and the widest rural banking network in the country with its 393 branches and 121 loan processing offices as of December 31, 2023.

The Bank offers a complete array of products and services. It offers Deposit products (e.g., Savings Accounts - Young Pera Savers, ATM and Payroll Accounts, Kabayan Savings, and Optimum Savings; Checking Account; and, Time Deposit Account), has remained tolerant to micro deposits given the affordable opening requirements, and has also grown to include big banking financial product packages. The Bank likewise offers Loan Products for appropriate and timely credit for personal consumption as well as need-based cash flow financing packages that not only nurture small businesses in the countryside but also provide credit lines that cater to client's needs. Other services include convenient, quick and affordable collection and payment services bringing modern, value-added services closer to Bank's clientele, big and small.

### ***1.2 Impact of Russia – Ukraine Conflict on the Bank's Business and Continuing Impact of Coronavirus Disease 2019 (COVID-19) on Bank's Operations***

On February 24, 2022, Russia started its invasion of Ukraine, which caused far-reaching impact for economies, markets, and businesses. The ongoing military conflict has introduced a wide range of sanctions against Russia, including certain Russian entities and individuals and led to significant casualties, dislocation of population, damage to infrastructure, slowdown of business operations in both countries, disruption of supply chains and commodity flows that impact prices of items such as petroleum products, cereals, iron, and steel.

In principle, it cannot be ruled out that a prolonged conflict between Russia and Ukraine may result in a significant slowdown in the global and Philippine economy and therefore a potential consequential deterioration in the business outlook for the Philippines. However, as of December 31, 2023, the Bank, whose business is primarily in the Philippines, has not been affected in a material way by the Russia-Ukraine conflict, despite its inflationary impact on commodity prices, disruption in supply chains, and volatility in interest rates and foreign exchange rates. The Philippines remains a domestically-focused, import-dependent consumption economy, and despite the higher inflation resulting from the conflict, Philippine Gross Domestic Product (GDP) numbers remained strong and resilient in 2023. The reopening of the economy, the relaxation of mobility restrictions and the resurgence in consumption spending all contributed to this strong GDP performance. This in turn has led to improved loan growth, not just for the Bank, but for the industry in general.

The Bank continues to closely monitor developments in both the global and domestic markets. While the impact of the conflict has not been material so far, the Bank recognizes that a prolonged situation of high inflation and interest rates could eventually affect economic activity, resulting in slower growth and consumption. The Bank believes that its established business franchise and strong financial condition will allow it to weather near-term risks arising from the conflict.

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020 and its impact has been continuing until the date of the approval of these financial statements. In 2022, the country's economic status improved with the reopening of local and international travel and the easing of health and safety protocols and restrictions. Demand and supply of products continued to slowly return to pre-pandemic levels. As a result, the overall continuing impact of the COVID-19 pandemic to the Bank has considerably diminished and the Bank's operations have gone back to pre-pandemic levels.

With the reduced impact of pandemic-related issues in 2023, the Bank saw more normalized operations and increasingly positive results as the economy continued with its recovery, resulting to a net profit of P884.4 million.

Management will continue to monitor any potential risks arising from the pandemic, and will institute measures to mitigate these, as needed. Based on recent developments, management is optimistic that the Bank will continue to post positive results consistent with the country's economic recovery and will maintain sufficient liquidity to meet current obligations as they fall due. Accordingly, management has not determined any material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern due to the effects of the pandemic.

### ***1.3 Israel vs Hamas***

On October 7, 2023, Hamas militants from Gaza commenced simultaneous incursions into several areas in neighboring Israel, damaging housing and infrastructure, inflicting casualties and taking hundreds of hostages. Israel Defense Forces responded by turning back the attackers and mounting an invasion of Gaza, with the objective of addressing the Hamas threat and rescuing the hostages. The conflict is ongoing, resulting in significant destruction of Gaza and fatalities from both sides, including non-combatants.

A wider conflict in the Middle East (ME) poses a major risk to the Philippine economy, resulting from energy supply disruptions involving major oil-producing countries. In such a situation, the Philippines, which is a net energy importer, would be negatively impacted by higher oil prices and increased inflation, reduced consumer purchasing power, and overall uncertainties in the economic growth outlook. A wider ME conflict may also negatively impact OFW remittances from the region, which accounts for approximately 17% of the total. OFW remittances are a significant contributor to domestic consumption.

The Israel-Hamas conflict expanded beyond Gaza when Houthi rebels in Yemen, in solidarity with the Palestinians, began attacking merchant ships passing through the Red Sea. This forced shipping companies to suspend or re-route their vessels' operations on threat of being attacked. Vessels passing through the Red Sea account for an estimated 11% of global trade and 30% of global container shipping volume. The Red Sea crisis still persists, and renewed attacks will result in major shipping disruptions and higher freight costs, which will impact global trade and affect the country's economic activity.

The impact of the conflict has been negligible so far, and the Bank continues to closely monitor developments in this area.

#### ***1.4 Approval of Financial Statements***

The financial statements of the Bank as of and for the year ended December 31, 2023 (including the comparative financial statements as of and for the year ended December 31, 2022) were authorized for issue by the Board of Directors (BOD) of the Bank on February 23, 2024.

## **2. MATERIAL ACCOUNTING POLICY INFORMATION**

The material accounting policy information that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### ***2.1 Basis of Preparation of Financial Statements***

#### ***(a) Statement of Compliance with Philippine Financial Reporting Standards***

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

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

#### ***(b) Presentation of Financial Statements***

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

The Bank presents a third statement of financial position as of the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippines pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates.

**2.2 Adoption of New and Amended PFRS**

(a) *Effective in 2023 that are Relevant to the Bank*

The Bank adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2023:

PAS 1 and PFRS Practice Statement 2 (Amendments):	Presentation of Financial Statements – Disclosure of Accounting Policies
PAS 8 (Amendments)	: Definition of Accounting Estimates
PAS 12 (Amendments)	: Deferred Tax Related to Assets and Liabilities from a Single Transaction

Discussed below are the relevant information about these pronouncements.

- (i) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies*. The amendments replaced the requirement for entities to disclose their significant accounting policies with the requirement to disclose their material accounting policy information. The amendments also include guidance to help entities apply the definition of material in making decisions about accounting policy disclosures.

The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial, that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements and if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. The application of these amendments is reflected in the Bank's financial statements under Notes 2 and 3.

- (ii) PAS 8 (Amendments), *Definition of Accounting Estimates*. The amendments introduced a new definition of accounting estimate which is a monetary amount in the financial statements that are subject to measurement uncertainty. It also clarifies that a change in accounting estimate that results from new information or new developments is not a correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. The application of these amendments had no significant impact on the Bank's financial statements.

- (iii) PAS 12 (Amendments), *Deferred Tax Related to Assets and Liabilities from a Single Transaction*. The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). Management assessed that the application of such amendments had no significant impact on the Bank's financial statements.

(b) *Effective in 2023 that is not Relevant to the Bank*

Among the amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2023, the amendments to PAS 12, *International Tax Reform – Pillar Two Model Rules*, are not relevant to the Bank's financial statements.

(c) *Effective Subsequent to 2023 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2023, which are adopted by the FSRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and none of these are expected to have significant impact on the Bank's financial statements:

- (i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2024)
- (ii) PAS 1 (Amendments), *Presentation of Financial Statements – Non-current Liabilities with Covenants* (effective from January 1, 2024)
- (iii) PAS 7 (Amendments), *Cash Flow Statements* and PFRS 7 (Amendments), *Financial Instruments: Disclosures – Supplier Finance Arrangements* (effective from January 1, 2024)
- (iv) PFRS 16 (Amendments), *Leases – Lease Liability in a Sale and Leaseback* (effective from January 1, 2024)
- (v) PAS 21 (Amendments), *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability* (effective from January 1, 2025)

## 2.3 *Financial Instruments*

### (a) *Financial assets*

#### (i) *Classification, Measurement and Reclassification of Financial Assets*

The classification and measurement of financial assets of the Bank are described as follows:

##### *Financial Assets at Amortized Cost*

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent "solely payments of principal and interests" (SPPI). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement[see Note 3.1(c)].

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash and Cash Equivalents, Investment Securities at Amortized Cost, Loans and Other Receivables and Security deposits (presented as part of Prepayments and Other Resources).

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks. Loans and other receivables also include receivables from customers and other receivables.

##### *Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)*

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading or as mandatorily required to be classified as FVTPL. The Bank has no equity instruments as at the reporting periods.

#### (ii) *Effective Interest Rate Method and Interest Income*

Interest income on financial assets measured at amortized cost and all interest-bearing debt financial assets classified as at FVOCI, is recognized using the effective interest rate (EIR) method.

The EIR is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of EIR. 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 loan. 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 (negative) adjustment to the carrying amount of the asset in the balance sheet with an increase (reduction) in interest income. The adjustment is subsequently amortized through interest and similar income in the statement of profit or loss.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

For financial assets that have become credit-impaired subsequent to initial recognition [see Note 2.3(a)(iii)], interest income is calculated by applying the EIR to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted EIR 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 improves.

*(iii) Impairment of Financial Assets*

The Bank assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost and debt instruments measured at FVOCI. The Bank considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets. Recognition of credit losses is no longer dependent on the Bank's identification of a credit loss event.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments for which they are measured as 12-month ECL:

- debt securities that are identified to have 'low credit risk' at the reporting date; and,
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for credit losses is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments). 'Stage 2' financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. A lifetime ECL shall be recognized for 'Stage 3' financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit impaired (POCI) assets.

The Bank's definition of credit risk and information on how credit risk is mitigated by the Bank are disclosed in Note 4.3.

Measurement of ECL

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument. The Bank's detailed ECL measurement as determined by the management is disclosed in Note 4.3.5.

(iv) *Modification of Loans*

When the Bank renegotiates or otherwise modifies the 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 recognized in profit or loss as either gain or loss on derecognition of financial assets.

As to the impact on ECL measurement, the expected fair value of the "new" 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.

(b) *Financial Liabilities*

Financial liabilities, which include deposit liabilities, bills payable, and accrued expenses and other liabilities (except tax-related payables and post-employment defined benefit obligation), are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges incurred on financial liabilities are recognized as an expense in profit or loss under the caption Interest Expense in the statement of profit or loss.

**2.4 *Bank Premises, Furniture, Fixtures and Equipment***

Bank premises, furniture, fixtures and equipment, except for land, are carried at acquisition cost or construction cost less subsequent depreciation and amortization and any impairment losses. Land held for administration is stated at cost less any impairment losses.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Buildings	20-50 years
Furniture, fixtures and equipment	3-10 years

Leasehold improvements are amortized over the term of the lease or useful lives of the improvements of five years, whichever is shorter.

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

**2.5 *Investment Properties***

Investment properties include parcels of land and buildings and related improvements acquired by the Bank from defaulting borrowers not held for sale in the next 12 months. These are initially measured at acquisition cost which comprise the carrying amount of the related loan after adjustments for unamortized premium or discount less allowance for credit losses plus accrued interest and directly attributable costs. Subsequently, investment properties are stated at cost less accumulated depreciation (except for land) and any impairment in value (see Note 2.9).

**2.6 *Intangible Assets***

Intangible assets include software and other intangibles which are accounted for under the cost model.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired and branch licenses at the date of acquisition. Goodwill is classified as intangible asset with indefinite useful life and, thus, not subject to amortization but to an annual test for impairment (see Note 2.9). Goodwill is subsequently carried at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Capitalized costs of software and other intangibles are amortized on a straight-line basis over the estimated useful lives (ranging from three to ten years) as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.9. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software.

## **2.7 Other Income and Expense Recognition**

A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15, *Revenue from Contracts with Customers*. 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.

The Bank also earns service fees and commissions in various banking services, which are supported by contracts 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:

*Service charges, fees and commissions* – Revenue is generally recognized when the service has been provided, based on agreed terms and conditions.

- (a) *Service charges on loans* – Service charges are revenues arising primarily from processing of loans that are recognized at a point in time when the services have been provided and are taken up as income based on agreed terms and conditions.
- (b) *Service charges on ATM transactions* – are recognized as revenue at a point in time when the ATM transaction has been completed.
- (c) *Inter-branch fees* – Revenues arising from processing of deposits and withdrawals from other branches are recognized at a point in time upon crediting of deposits or disbursing of cash for withdrawals.

For other income outside the scope of PFRS 15, the following provides information about the nature and the related revenue recognition policies:

- (a) *Income from disposal of investment properties* – Income or loss from assets sold is recognized when the title to the properties is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is reported as part of Other Income in the statement of profit or loss.
- (b) *Recovery from accounts written off* – Income arising from collections on accounts or recoveries from impairment of items previously written off are recognized in the year of recovery. This is reported as part of Other Income in the statement of profit or loss.

## **2.8 Leases – Bank as Lessee**

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss.

On the statement of financial position, right-of-use assets and lease liabilities have been presented separately from bank premises, furniture, fixtures and equipment and other liabilities, respectively.

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

The Bank's bank premises, furniture, fixtures and equipment, right-of-use asset, investment properties, software and other intangibles and goodwill (both presented as part of Prepayments and Other Resources) are subject to impairment testing.

## **2.10 Employee Benefits**

The Bank provides post-employment benefits to employees through a defined benefit plan and defined benefit contribution plan, as well as bonus plans.

### *(a) Post-employment Defined Benefit Plan*

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

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

### *(b) Post-employment Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity, such as the Social Security System. The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

### *(c) 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.

### *(d) Bonus Plans*

The Bank recognizes a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Bank's shareholders after certain adjustments. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

### 3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates and the differences could be significant.

#### *3.1 Critical Management Judgments in Applying Accounting Policies*

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

##### *(a) Application of ECL to Financial Assets at Amortized Cost and Financial Assets at FVOCI*

The Bank uses a provision matrix to calculate ECL for all debt instruments carried at amortized cost and FVOCI, together with loan commitments and financial guarantee contracts. The allowance for impairment is based on the ECLs associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized. 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 increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

##### *(b) Evaluation of Business Model Applied in Managing 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 trading activities consistent with its risk appetite.

The Bank developed business models which 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).

In determining the classification of a financial instrument under PFRS 9, 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 relate to the Bank's investment, trading and lending strategies.

(c) *Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model*

In determining the classification of financial assets under PFRS 9, 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 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.

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 necessarily 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.

In 2022, the Bank disposed of certain debt securities from its HTC investment portfolio for funding purposes. Based on management's assessment, such disposals of debt securities are consistent with the Bank's business model with the objective of collecting contractual cash flows and have qualified under the permitted sale events set forth in the Bank's business model in managing financial assets manual and the requirements of PFRS 9. The disposal of investment securities was approved by the Investment Committee (IC) in compliance with the documentation requirements of the BSP.

(d) *Distinction between Investment Properties and Owner-occupied Properties*

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

(e) *Determination of Lease Term of Contracts with Renewal and Termination Options*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

For leases of offices, the factors that are normally the most relevant are (a) if there are significant penalties should the Bank pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Bank is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

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.

(f) *Recognition of 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. Similarly, possible outflows of economic benefits to the Bank that do not yet meet the recognition criteria of a liability are considered contingent liabilities, hence, are not recognized in the financial statements. Judgment is exercised by management to distinguish between provisions and contingencies. Relevant disclosures are presented in Note 25.

### ***3.2 Key Sources of Estimation Uncertainty***

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost and debt instruments measured at FVOCI is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 4.3.

The carrying value of financial assets at FVOCI, Investments securities at amortized cost and Loans and Other Receivables are shown in Notes 9, 10, and 11, respectively, and the analysis of the allowance for impairment on such financial assets are disclosed in Note 16.

(b) *Fair Value Measurement for Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. Valuation techniques are used to determine fair values which are validated and periodically reviewed by management. To the extent practicable, models used observation data, however, areas such as counterparty credit risk, volatilities and correlations require management to make estimates. Changes in assumptions could affect the reported fair value of financial instruments.

The carrying values of the Bank's financial assets at FVOCI and the amounts of fair value changes recognized during the years on those assets are disclosed in Note 9.

(c) *Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Assets, Investment Properties, and Software and Other Intangible Assets*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties, and software and other intangibles (presented as part of Prepayments and Other Resources account in the statements of financial position), 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, investment properties, and software and other intangibles 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. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

The Bank's goodwill was regarded as having an indefinite useful life 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 life 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.

Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

The carrying amounts of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties, and software and other intangibles are analyzed in Notes 12, 13, 14, and 15, respectively.

(d) *Determination of Assumptions for Management's Estimation of Fair Value of Investment Properties*

Investment properties are measured using the cost model. The fair value disclosed in Note 14 to the financial statements as determined by the Bank using the discounted cash flows valuation technique which are mainly based on existing market conditions and actual transactions at each reporting period, such as: selling price under installment sales; expected timing of sale; and appropriate discount rates. The expected selling price is determined by either an independent or internal appraiser on the basis of current appraised values of the properties or similar properties in the same location and condition (see Note 5.5).

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.

(e) *Determination of 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 assets to be utilized. Management assessed that the deferred tax assets recognized as of December 31, 2023 and 2022 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 24.

(f) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit 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 (see Note 2.9). 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 these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment loss is required on the bank premises, furniture, fixtures and equipment, investment properties, software and other intangibles, and goodwill accounts in 2023 and 2022.

(g) *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.

(h) *Valuation of Post-employment Defined Benefit Obligation*

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

The amounts of post-employment defined benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment defined benefit obligation as well as the significant assumptions used in estimating such obligation in the next reporting period are presented in Note 23.2.

#### 4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The BOD is responsible for establishing and maintaining a sound risk management system. The BOD assumes oversight over the entire risk management process and has the ultimate responsibility for all risks taken. It regularly reviews and approves the institution's tolerance for risks, as well as, its business strategy and risk philosophy.

The BOD has constituted the Risk Management Committee (RMC) as the Board-Level Committee responsible for the oversight of the risk management program. Considering the importance of appropriately addressing credit risk, the BOD has also constituted the Executive Committee and Credit Committee. The Executive Committee and Credit Committee is responsible for approving credit-specific transactions, while the RMC is responsible for approving risk appetite levels, policies and risk tolerance limits related to credit portfolio risk, market risk, liquidity risk, interest rate risk, operational risk (including business continuity risk, information technology (IT) risk, information security and cyber-security risk, data privacy risk, social media risk, consumer protection risk and environmental social risk to ensure that current and emerging risk exposures are consistent with the Bank's strategic direction and overall risk appetite.

Within Bank's overall risk management system is the Assets and Liabilities Committee (ALCO), which is responsible for managing the Bank's statement of financial position, including the Bank's liquidity, interest rate and foreign exchange related risks. In addition, ALCO formulates investment and financial policies by determining the asset allocation and funding mix strategies that are likely to yield the targeted financial results.

The Bank operates an integrated risk management system to address the risks it faces in its banking activities, including credit, market (foreign exchange, interest rate, and price risks), liquidity, and operational risks. The Risk Management Group (RMG) is mandated to adequately and consistently evaluate, manage, control, and monitor the overall risk profile of the Bank's activities across the different risk areas (i.e., credit, market, liquidity and operational risks) to optimize the risk-reward balance and maximize return on capital. RMG also has the responsibility for recommending to the appropriate body, risk policies across the full range of risks to which the Bank is exposed. RMG functionally reports to the RMC.

The evaluation, analysis, and control performed by the Risk Function, in conjunction with the Risk Takers, constitute the risk management process. The risk management process is applied at three levels: the transaction level, the business unit level, and the portfolio level. This framework ensures that risks are properly identified, quantified and analyzed, in the light of its potential effect on the Bank's business. The goal of the risk management process is to ensure rigorous adherence to the Bank's standards for precision in risk measurement and reporting and to make possible, in-depth analysis of the deployment of capital and the returns that are delivered to the shareholders.

In 2023, there was no significant change on the policies and process for managing the risk and the methods used to measure the risk of the Bank.

#### 4.1 Liquidity Risk

Liquidity risk is the risk that there could be insufficient funds available to repay depositors, to fulfill commitments to lend, or to meet any other liquidity commitments. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to meet funding requirements, manage liquidity gaps through Maximum Cumulative Outflow (MCO) limits, regular liquidity stress testing to ensure positive cashflow across all identified stress scenarios, and establishment of a Liquidity Contingency Plan, to ensure adequate liquidity under both business-as-usual and stress conditions.

The analysis of the maturity groupings of resources and liabilities as of December 31, 2023 and 2022 in accordance with account classification of the BSP is presented below. The amounts disclosed in the maturity analysis are the contractual cash flows using the primary contractual maturities or behavioral assumptions on core levels (e.g., core deposit liabilities and core deposit substitutes with maturities within one year have been classified under more than three years category), if the latter is more relevant for purposes of profiling the liquidity gap.

	2023				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Three Years	More Than Three Years	Total
<b>Resources:</b>					
Cash and other cash items	P 2,562,500,209	P -	P -	P -	P 2,562,500,209
Due from BSP and other banks*	8,338,401,988	9,398,572	2,755,122	880,214,497	9,230,770,179
Investment securities	-	100,302,150	654,461,577	8,165,905,658	8,920,669,385
Loans and other receivables – net	7,008,948,532	16,082,503,307	34,161,351,807	26,156,273,884	83,409,077,530
Other resources – net**	-	-	-	3,862,363,761	3,862,363,761
<b>Total Resources</b>	<b>17,909,850,729</b>	<b>16,192,204,029</b>	<b>34,818,568,506</b>	<b>39,064,757,800</b>	<b>107,985,381,064</b>
<b>Liabilities and Equity:</b>					
Deposit liabilities	15,717,594,519	469,928,597	137,756,100	61,363,458,282	77,688,737,498
Bills payable	800,000,000	4,850,000,000	9,251,139,639	-	14,901,139,639
Lease liabilities	708,979,657	-	-	-	708,979,657
Accrued expenses and other liabilities	1,862,130,268	-	-	-	1,862,130,268
<b>Total Liabilities</b>	<b>19,088,704,444</b>	<b>5,319,928,597</b>	<b>9,388,895,739</b>	<b>61,363,458,282</b>	<b>95,160,987,062</b>
Equity	-	-	-	12,824,394,002	12,824,394,002
<b>Total Liabilities and Equity</b>	<b>19,088,704,444</b>	<b>5,319,928,597</b>	<b>9,388,895,739</b>	<b>74,187,852,284</b>	<b>107,985,381,064</b>
Periodic Gap	( 1,178,853,715 )	10,872,275,432	25,429,672,767	( 35,123,094,484 )	-
Cumulative Total Gap	( P 1,178,853,715 )	P 9,693,421,717	P 35,123,094,484	P -	P -

\*Due from BSP and other banks – amounts presented are based on the percentage reserve requirements against core and volatile deposit liabilities instead of contractual maturities.

\*\*Other resources – net includes Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Assets, Investment Properties, Deferred Tax Assets and Prepayments and Other Resources.

	2022				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Three Years	More Than Three Years	Total
<b>Resources:</b>					
Cash and other cash items	P 2,186,619,439	P -	P -	P -	P 2,186,619,439
Due from BSP and other banks*	6,198,776,451	25,635,310	7,400,881	229,095,518	6,460,908,160
Investment securities	301,557	150,206,272	98,724,963	8,643,896,995	8,893,129,787
Loans and other receivables – net	6,043,089,840	13,350,285,422	26,549,588,748	20,566,748,106	66,509,712,116
Other resources – net**	-	-	-	3,179,428,268	3,179,428,268
<b>Total Resources</b>	<b>14,428,787,287</b>	<b>13,526,127,004</b>	<b>26,655,714,592</b>	<b>32,619,168,887</b>	<b>87,229,797,770</b>
<b>Liabilities and Equity:</b>					
Deposit liabilities	21,526,741,109	1,281,765,493	370,044,042	43,932,099,044	67,110,649,688
Bills payable	2,505,566,667	1,015,500,000	3,011,979,166	-	6,533,045,833
Lease liabilities	35,151,562	105,010,302	246,517,283	154,942,750	541,621,897
Accrued expenses and other liabilities	1,534,981,092	-	-	-	1,534,981,092
<b>Total Liabilities</b>	<b>25,602,440,430</b>	<b>2,402,275,795</b>	<b>3,628,540,491</b>	<b>44,087,041,794</b>	<b>75,720,298,510</b>
Equity	-	-	-	11,509,499,260	11,509,499,260
<b>Total Liabilities and Equity</b>	<b>25,602,440,430</b>	<b>2,402,275,795</b>	<b>3,628,540,491</b>	<b>55,596,541,054</b>	<b>87,229,797,770</b>

	2022				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Three Years	More Than Three Years	Total
Periodic Gap	(P 11,173,653,143)	P 11,123,851,209	P 23,027,174,101	(P 22,977,372,167)	P -
Cumulative Total Gap	(P 11,173,653,143)	(P 49,801,934)	P 22,977,372,167	P -	P -

\*Due from BSP and other banks – amounts presented are based on the percentage reserve requirements against core and volatile deposit liabilities instead of contractual maturities.

\*\*Other resources – net includes Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Assets, Investment Properties, Deferred Tax Assets and Prepayments and Other Resources.

The negative liquidity gap in the MCO is due to the timing difference in the contractual maturities of resources and liabilities. The MCO measures the maximum funding requirement the Bank may need to support its maturing obligations. To ensure that the Bank maintains a prudent and manageable level of cumulative negative gap, the Bank maintains a pool of highly liquid assets in the form of investment securities. Moreover, The BOD has approved the MCO limits with reflect the Bank’s overall appetite for liquidity risk exposure. This limit is reviewed every year. Compliance to MCO limits is monitored and reported to the BOD and senior management.

In case of breach in the MCO limit, the RMG elevates the concern to the BOD through the RMC for corrective action by senior management. Additional measures to mitigate liquidity risks include reporting of funding concentrations, short-term liquidity reporting, available funding sources, and liquid assets analysis. More frequent analysis of projected funding source and requirements as well as pricing strategies is discussed thoroughly during the ALCO meetings.

Pursuant to applicable BSP regulations, the Bank is required to maintain reserves against deposit liabilities which are based on certain percentages of deposits. The required reserves against deposit liabilities shall be kept in the form of deposits placed in the Bank’s demand deposit accounts with the BSP.

#### **4.1.1 Liquidity Risk Stress**

To augment the effectiveness of the Bank’s gap analysis, the Bank regularly assesses liquidity risk based on behavioral and hypothetical assumptions under stress conditions. Survivability and resilience of the Bank are assessed for a minimum stress period of 30 days for all crisis scenarios enumerated in BSP Circular No. 981, *Guidelines on Liquidity Risk Management*. The results of these liquidity stress simulations are reported to the RMC.

#### **4.2 Market Risk**

The Bank’s exposure to market risk, the risk of future loss from changes in the price of a financial instrument, relates primarily to its holdings in debt securities. The Bank manages its risk by identifying, analyzing and measuring relevant or likely market risks. The Risk Management Group recommends market risk limits based on relevant activity indicators for approval by the Bank’s RMC and the BOD.

##### **4.2.1 Foreign Exchange Risk**

Most of the Bank’s transactions are carried out in Philippine pesos, its functional currency. The Bank’s exposures to currency exchange rates may arise from deposits with other banks denominated in currencies other than the Philippine peso. As of December 31, 2023 and 2022 the Bank has no significant foreign currency risk exposure as it has no significant foreign currency-denominated deposits with other banks and deposit liabilities to depositors.

#### 4.2.2 Interest Rate Risk

The Bank prepares an interest rate gap analysis in the Banking Book to measure the sensitivity of its resources and liabilities to interest rate fluctuations. The Banking Book is a term for resources on a bank's statement of financial position that are expected to be held to maturity, usually consisting of customer loans to and deposits from retail and corporate customers.

The Banking Book can also include those derivatives that are used to hedge exposures arising from the Banking Book activity, including interest rate risk. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of the re-pricing profile of its interest sensitive resources and liabilities in the Banking Book.

An interest rate gap report is prepared by classifying all resources and liabilities into various time buckets according to contracted maturities if fixed or anticipated repricing dates if floating or based on behavioral assumptions if more applicable. In the interest rate gap presented, loans and investments are profiled based on next repricing if floating or contracted maturity if fixed rate while non-maturity deposit liabilities are considered non-rate sensitive. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The analyses of the groupings of resources and liabilities as of December 31, 2023 and 2022 based on the expected interest realization or recognition are shown below and in the succeeding page.

	2023					
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Non-rate Sensitive	Total
<b>Resources:</b>						
Cash and other cash items	P -	P -	P -	P -	P 2,562,500,209	P 2,562,500,209
Due from BSP and other banks	-	-	-	-	9,230,770,179	9,230,770,179
Investment securities	-	100,302,150	8,551,290,206	269,077,029	-	8,920,669,385
Loans and other receivables - net	280,421,392	3,137,332,087	65,769,649,479	12,219,634,952	2,002,039,620	83,409,077,530
Other resources - net*	-	-	-	-	3,862,363,761	3,862,363,761
<b>Total Resources</b>	<b>280,421,392</b>	<b>3,237,634,237</b>	<b>74,320,939,685</b>	<b>12,488,711,981</b>	<b>17,657,673,769</b>	<b>107,985,381,064</b>
<b>Liabilities and Equity:</b>						
Deposit liabilities	26,178,962,302	3,132,857,315	1,260,431,702	11,495,000	47,104,991,179	77,688,737,498
Bills payable	800,000,000	4,850,000,000	9,251,139,639	-	-	14,901,139,639
Lease liabilities	708,979,657	-	-	-	-	708,979,657
Accrued expenses and Other liabilities	-	-	-	-	1,771,265,904	1,771,265,904
Income tax payable	-	-	-	-	90,864,364	90,864,364
<b>Total Liabilities</b>	<b>27,687,941,959</b>	<b>7,982,857,315</b>	<b>10,511,571,341</b>	<b>11,495,000</b>	<b>48,967,121,447</b>	<b>95,160,987,062</b>
Equity	-	-	-	-	12,824,394,002	12,824,394,002
<b>Total Liabilities and Equity</b>	<b>27,687,941,959</b>	<b>7,982,857,315</b>	<b>10,511,571,341</b>	<b>11,495,000</b>	<b>61,791,515,449</b>	<b>107,985,381,064</b>
Periodic Gap	( 27,407,520,567)	( 4,745,223,078)	63,809,368,344	12,477,216,981	( 44,133,841,680)	-
Cumulative Total Gap	<b>(P27,407,520,567)</b>	<b>(P32,152,743,645)</b>	<b>P31,656,624,699</b>	<b>P 44,133,841,680</b>	<b>P -</b>	<b>P -</b>

\* Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.

	2022					
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Non-rate Sensitive	Total
<b>Resources:</b>						
Cash and other cash items	P -	P -	P -	P -	P 2,186,619,439	P 2,186,619,439
Due from BSP and other banks	-	-	-	-	6,460,908,160	6,460,908,160
Investment securities	301,557	150,206,272	6,354,302,218	2,388,319,740	-	8,893,129,787
Loans and other receivables - net	424,925,342	3,312,938,989	53,074,793,565	8,195,235,384	1,501,818,836	66,509,712,116
Other resources - net*	-	-	-	-	3,179,428,268	3,179,428,268
<b>Total Resources</b>	<b>425,226,899</b>	<b>3,463,145,261</b>	<b>59,429,095,783</b>	<b>10,583,555,124</b>	<b>13,328,774,703</b>	<b>87,229,797,770</b>
<b>Liabilities and Equity:</b>						
Deposit liabilities	24,938,978,659	2,330,482,715	1,613,290,049	3,900,000	38,223,998,265	67,110,649,688
Bills payable	2,500,000,000	1,000,000,000	3,033,045,833	-	-	6,533,045,833
Lease liabilities	-	-	-	-	541,621,897	541,621,897
Accrued expenses and other liabilities	-	-	-	-	1,530,920,299	1,530,920,299
Income tax payable	-	-	-	-	4,060,793	4,060,793
<b>Total Liabilities</b>	<b>27,438,978,659</b>	<b>3,330,482,715</b>	<b>4,646,335,882</b>	<b>3,900,000</b>	<b>40,300,601,254</b>	<b>75,720,298,510</b>
Equity	-	-	-	-	11,509,499,260	11,509,499,260
<b>Total Liabilities and Equity</b>	<b>27,438,978,659</b>	<b>3,330,482,715</b>	<b>4,646,335,882</b>	<b>3,900,000</b>	<b>51,810,100,514</b>	<b>87,229,797,770</b>
Periodic Gap	( 27,013,751,760)	132,662,546	54,782,759,901	10,579,655,124	( 38,481,325,811)	-
Cumulative Total Gap	( P27,013,751,760)	( P26,881,089,214)	P27,901,670,687	P 38,481,325,811	P -	P -

\* Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.

The Bank's market risk management uses Earnings-at-risk limits. The Bank computes the earnings-at-risk based on the repricing profile of the Banking Book and benchmarks against projected annual net interest income and capital.

	2023			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	<b>P 275,345,461</b>	<b>(P275,345,730)</b>	<b>P 137,672,730</b>	<b>(P137,672,730)</b>
As a percentage of the Bank's net interest income for 2023	<b>4.54%</b>	<b>( 4.54%)</b>	<b>2.27%</b>	<b>( 2.27%)</b>
<b>Earnings-at-risk</b>	<b>P1,268,268,570</b>			
	2022			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	<b>P 250,483,991</b>	<b>(P 250,483,991)</b>	<b>P 125,241,996</b>	<b>(P125,241,996)</b>
As a percentage of the Bank's net interest income for 2022	<b>4.75%</b>	<b>( 4.75%)</b>	<b>2.38%</b>	<b>( 2.38%)</b>
<b>Earnings-at-risk</b>	<b>P 646,435,003</b>			

### 4.2.3 Other Price Risk

The Bank's market price risk arises from its investments carried at fair value. The Bank manages exposure to price risk of financial assets at FVOCI by monitoring the changes in the market price of these investments and at some extent, diversifying the investment portfolio in accordance with the limit set by management.

The impact of 100 basis points decrease in prices on debt securities classified as financial assets at FVOCI on the Bank's other comprehensive income as of December 31, 2023 and 2022 is P171.9 million and P266.2 million, respectively.

### **4.3 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. RMG undertakes several functions with respect to credit risk management including credit analysis, risk ratings for corporate accounts, and development and performance monitoring of credit risk rating and scoring models for both corporate and consumer loans. It also ensures that the Bank's credit policies and procedures are adequate to meet the demands of the business.

RMG also subjects the loan portfolio to a regular portfolio quality review, credit portfolio stress testing, and rapid portfolio reviews based on specific and potential events that may affect borrowers in particular geographic locations or industries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review.

Approval for credit limits are secured from the Credit Committee. On the industry segments, set limits and exposures are monitored and reported to the RMC.

Exposure to credit risk is managed through regular analysis of the ability of 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 or corporate and personal guarantees.

#### **4.3.1 Credit Risk Assessment**

Loan classification and credit risk rating are an integral part of the Bank's management of credit risk. On an annual basis, loans are reviewed, classified as necessary, and rated based on internal and external factors that affect its performance. On a monthly basis, loan classifications of impaired accounts are assessed and the results are used as basis for the review of loan loss provision.

The Bank's definition of its loan classification and corresponding credit risk ratings are as follows:

- Pass/Current : Grades AAA to B
- Watchlisted : Grade B-
- Especially Mentioned : Grade C
- Substandard : Grade D
- Doubtful : Grade E
- Loss : Grade F

Once an account is Watchlisted or Adversely Classified, the resulting risk rating grade is aligned based on the above classification.

(a) *Pass/Current*

These are individual credits that do not have a greater-than-normal risk and do not possess the characteristics of adversely classified loans. 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.

(b) *Watchlisted*

Since early identification of troublesome or potential accounts is vital in portfolio management, a "Watchlisted" classification of credit accounts is maintained. These accounts are not adversely classified but they require more than normal attention to prevent these accounts from deteriorating to said category.

Past due or individually impaired financial assets comprise accounts under the following risk ratings:

(c) *Adversely Classified*

(i) *Especially Mentioned*

It is an adverse classification of loans/accounts that have potential weaknesses and deserves management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Bank.

(ii) *Substandard*

Accounts classified as "Substandard" are individual credits or portions thereof, that have well-defined weakness/(es) that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.

(iii) *Doubtful*

Accounts classified as "Doubtful" are individual credits or portions thereof which exhibit more severe weaknesses than those classified as "Substandard" whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however, the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors, which may strengthen the assets.

(iv) *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. This shall be viewed as a transitional category for loans and other credit accommodations, which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future.

In addition, credit portfolio review is another integral part of the Bank's management of credit risk. This exercise involves the conduct of periodic post approval review of individual credits whose main objective is to help monitor and maintain sound and health risk asset portfolio. Parameters of the credit portfolio review are structured so as to reflect both sides of the risk management equation such as credit quality and process. This function actuates the philosophy that credit quality is derived from sound risk management process. The credit quality of financial assets is managed by the Bank using internal credit ratings.

#### 4.3.2 Credit Quality Analysis

The table presented in the succeeding page sets out information about the credit quality of cash and cash equivalents, loans and other receivables, financial assets at FVOCI and investment securities measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts for loan commitments and other contingent accounts, the amounts in the table represent the amounts committed. As of December 31, 2023 and 2022, there are no purchased or originated credit impaired financial assets in the Bank's financial statements.

The tables below and in the succeeding page show the exposure to credit risk as of December 31, 2023 and 2022 for each internal risk grade and the related allowance for impairment.

	2023			
	Stage 1	Stage 2	Stage 3	Total
<b>Receivables from customers</b>				
- corporate				
Grades AAA to B : Current	P 127,077,190	P -	P -	P 127,077,190
Grade B - : Watchlisted	9,208,727	-	-	9,208,727
Grade C : LEM	51,169,627	-	-	51,169,627
Grade D : Substandard	-	22,908,656	-	22,908,656
Grade F : Loss	-	-	1,589,877	1,589,877
	<u>187,455,544</u>	<u>22,908,656</u>	<u>1,589,877</u>	<u>211,954,077</u>
Allowance for impairment	( 1,156,656 )	( 22,908,656 )	( 1,500,000 )	( 25,565,312 )
Carrying amount	<u>P 186,298,888</u>	<u>P -</u>	<u>P 89,877</u>	<u>P 186,388,765</u>
<b>Receivables from customers</b>				
- consumers				
Grades AAA to B : Current	P 82,415,014,770	P -	P -	P 82,415,014,770
Grade C : LEM	8,536,981	-	-	8,536,981
Grade D : Substandard	-	381,896,817	-	381,896,817
Grade E : Doubtful	-	-	238,798,610	238,798,610
Grade F : Loss	-	-	1,993,475,631	1,993,475,631
	<u>82,423,551,751</u>	<u>381,896,817</u>	<u>2,232,274,241</u>	<u>85,037,722,809</u>
Allowance for impairment	( 457,985,682 )	( 139,901,656 )	( 1,536,332,106 )	( 2,134,219,444 )
Carrying amount	<u>P 81,965,566,069</u>	<u>P 241,995,161</u>	<u>P 695,942,135</u>	<u>P 82,903,503,365</u>
<b>Other receivables</b>				
Grades AAA to B : Current	P 265,682,242	P -	P -	P 265,682,242
Grade C : LEM	-	11,066,248	-	11,066,248
Grade D : Substandard	-	-	4,430,789	4,430,789
Grade E : Doubtful	-	-	15,709,000	15,709,000
Grade F : Loss	-	-	58,368,254	58,368,254
	<u>265,682,242</u>	<u>11,066,248</u>	<u>78,508,043</u>	<u>355,256,533</u>
Allowance for impairment	( 871,189 )	-	( 35,199,944 )	( 36,071,133 )
Carrying amount	<u>P 264,811,053</u>	<u>P 11,066,248</u>	<u>P 43,308,099</u>	<u>P 319,185,400</u>
<b>Financial assets at FVOCI</b>				
Grades AAA to B : Current	P 4,938,452,761	P -	P -	P 4,938,452,761
Allowance for impairment	-	-	-	-
Carrying amount	<u>P 4,938,452,761</u>	<u>P -</u>	<u>P -</u>	<u>P 4,938,452,761</u>
<b>Investment securities at amortized cost</b>				
Grades AAA to B : Current	<u>P 3,982,216,624</u>	<u>P -</u>	<u>P -</u>	<u>P 3,982,216,624</u>

	2022			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers				
- corporate				
Grades AAA to B : Current	P 710,998,973	P -	P -	P 710,998,973
Grade B- : Watchlisted	23,410,574	-	-	23,410,574
Grade C : LEM	54,569,580	-	-	54,569,580
Grade F : Loss	-	-	1,977,047	1,977,047
	788,979,127	-	1,977,047	790,956,174
Allowance for impairment	( 14,513,819 )	-	( 1,887,169 )	( 16,400,988 )
Carrying amount	<u>P 774,465,308</u>	<u>P -</u>	<u>P 89,878</u>	<u>P 774,555,186</u>
Receivables from customers				
- consumers				
Grades AAA to B : Current	P 65,409,689,648	P -	P -	P 65,409,689,648
Grade D : Substandard	-	290,028,272	-	290,028,272
Grade E : Doubtful	-	-	161,899,397	161,899,397
Grade F : Loss	-	-	1,637,531,420	1,637,531,420
	65,409,689,648	290,028,272	1,799,430,817	67,499,148,737
Allowance for impairment	( 507,547,059 )	( 113,747,715 )	( 1,369,193,029 )	( 1,990,487,803 )
Carrying amount	<u>P 64,902,142,589</u>	<u>P 176,280,557</u>	<u>P 430,237,788</u>	<u>P 65,508,660,934</u>
Other receivables				
Grades AAA to B : Current	P 196,459,026	P -	P -	P 196,459,026
Grade C : LEM	-	3,012,377	-	3,012,377
Grade D : Substandard	-	-	3,137,730	3,137,730
Grade E : Doubtful	-	-	5,490,954	5,490,954
Grade F : Loss	-	-	58,796,412	58,796,412
	196,459,026	3,012,377	67,425,096	266,896,499
Allowance for impairment	( 165,420 )	-	( 40,235,083 )	( 40,400,503 )
Carrying amount	<u>P 196,293,606</u>	<u>P 3,012,377</u>	<u>P 27,190,013</u>	<u>P 226,495,996</u>
Financial assets at FVOCI				
Grades AAA to B : Current	P 4,758,651,139	P -	P -	P 4,758,651,139
Allowance for impairment	( 99,208 )	-	-	( 99,208 )
Carrying amount	<u>P 4,758,551,931</u>	<u>P -</u>	<u>P -</u>	<u>P 4,758,551,931</u>
Investment securities at				
amortized cost				
Grades AAA to B : Current	<u>P 4,134,577,856</u>	<u>P -</u>	<u>P -</u>	<u>P 4,134,577,856</u>

As of December 31, 2023 and 2022, the Bank held Cash and Other Cash Items, Due from Other Banks and Due from BSP totaling to P11,793.5 million and P8,647.5 million, respectively. The financial assets are held with the BSP and financial institution counterparties that are rated at least BBB to AAA+, based on Standard & Poor's ratings.

### 4.3.3 Concentration of Credit Risk

The Bank monitors concentrations of credit risk by sector only since for geographic location all are concentrated in the Philippines. An analysis of concentrations of credit risk (gross of allowance) at the reporting date is shown below.

	2023			2022		
	Cash and Cash Equivalents*	Receivables from Customers	Investment Securities	Cash and Cash Equivalents*	Receivables from Customers	Investment Securities
Concentration by sector:						
Financial and insurance activities	P11,793,270,388	P 5,848,409	P 8,820,367,235	P 8,647,527,599	P 504,397,875	P 8,794,404,823
Consumption	-	64,193,552,248	-	-	61,541,452,217	-
Wholesale and retail trade	-	4,971,192,454	-	-	4,005,283,520	-
Agriculture, forestry and fishing	-	14,788,881,881	-	-	731,019,303	-
Manufacturing	-	471,096,327	-	-	434,013,337	-
Accommodation and food service activities	-	103,735,412	-	-	194,582,570	-
Human health and social work activities	-	100,303,239	-	-	117,208,550	-
Construction	-	104,411,075	-	-	91,977,868	-
Transportation and storage	-	49,942,481	-	-	40,319,791	-
Real estate activities	-	18,429,784	100,302,150	-	22,536,471	98,824,172
Education	-	24,395,856	-	-	35,329,132	-
Administrative and support services	-	48,139,869	-	-	39,913,206	-
Mining and quarrying	-	24,360,098	-	-	21,206,775	-
Professional, scientific and technical services	-	19,891,531	-	-	19,529,870	-
Information and communication	-	16,982,544	-	-	11,688,194	-
Electricity, gas, steam and air-conditioning supply	-	3,857,480	-	-	2,309,926	-
Water supply, sewerage waste management and remediation activities	-	3,472,203	-	-	4,660,664	-
Arts, entertainment and recreation	-	2,967,606	-	-	2,113,455	-
Other service activities	-	298,216,389	-	-	470,562,187	-
	<u>P11,793,270,388</u>	<u>P85,249,676,886</u>	<u>P 8,920,669,385</u>	<u>P 8,647,527,599</u>	<u>P68,290,104,911</u>	<u>P 8,893,228,995</u>

\* Cash and cash equivalents include cash and other cash items, due from BSP and other banks

### 4.3.4 Collateral Held as Security and Other Credit Enhancements

The Bank holds collateral against credit exposures from customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated periodically, e.g., annually for real estate properties, as provided in the Parent Bank's Credit Policy Manual. Collateral generally is not held over due from other banks, interbank loans and investment securities, except when securities are held as part of reverse repurchase and securities borrowing activity. The Bank hold collateral against credit exposures in the form of property and hold-out deposits.

There is no significant change in the quality of the collateral and other security enhancements held against the credit exposures except for the fair value of the collaterals driven by the change in market conditions.

Estimate of the fair value of collateral and other security enhancements held against the following credit exposures as of December 31 follows:

	<u>2023</u>	<u>2022</u>
Receivable from customers – corporate		
Property	<b>P 1,543,594,705</b>	P 1,307,533,803
Hold-out deposits	<u>111,200,000</u>	<u>111,200,000</u>
	<u><b>1,654,794,705</b></u>	<u>1,418,733,803</u>
Receivable from customers – consumer		
Property	<b>73,990,800</b>	50,640,992
Hold-out deposits	<u>36,316,000</u>	<u>29,397,000</u>
	<u><b>110,306,800</b></u>	<u>80,037,992</u>
	<u><b>P 1,765,101,505</b></u>	<u>P 1,498,771,795</u>

As of December 31, 2023 and 2022, no collateral is held for due from other banks and investment securities.

In 2023 and 2022, no properties were recognized arising from foreclosures in settlement of loan accounts. The carrying amount of the Bank's foreclosed assets, which pertain to land and buildings and related improvements, amounted to P1.4 million and P2.3 million as of December 31, 2023 and 2022, respectively. The foreclosed assets are all presented as Investment Properties in the statements of financial position (see Note 14).

The Bank's manner of disposing the collateral for impaired loans and other receivables is normally through sale of these assets after foreclosure proceedings have taken place. The Bank does not generally use the non-cash collateral for its own operations.

The general creditworthiness of a corporate and individual customer tends to be the most relevant indicator of credit quality of a loan extended to it (see Note 4.3.2). However, collateral provides additional security and the Bank generally requests that corporate and individual borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

While the Bank is focused on corporate and individual customers' creditworthiness, it continuously and regularly updates the valuation of collateral held against all loans to corporate customers. Most frequent updating, however, is required when the loan is put on a watch list and the loan is monitored more closely. The same applies to credit-impaired loans, as the Bank obtains appraisals of collateral to provide input into determining the management credit risk actions.

*(a) Receivable from Customers - Corporate*

The net carrying amount of credit-impaired receivables (loans under Stages 2 and 3) to corporate customers amounted to P0.1 million and P0.1 million as of December 31, 2023 and 2022, respectively.

*(b) Receivable from Customers - Consumer*

The net carrying amount of credit-impaired receivables to individual customers amounted to P937.9 million and P606.5 million as of December 31, 2023 and 2022, respectively. The fair value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P1.1 million and P1.1 million as of December 31, 2023 and 2022, respectively. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

*(c) Other Receivables*

The net carrying amount of credit-impaired receivables to corporate customers amounted to P54.4 million and P30.2 million as of December 31, 2023 and 2022, respectively.

*(d) Debt Investment Securities*

The maximum exposure to credit risk of the financial assets at FVOCI and investment securities at amortized cost are their carrying amounts of P4,839.7 million and P3,982.7 million, respectively, as of December 31, 2023, and P4,758.6 million and P4,134.6 million, respectively, as of December 31, 2022.

There were no changes in the Bank's collateral policies in 2023 and 2022.

**4.3.5 Amounts Arising from Expected Credit Losses**

At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired (referred to as Stages 2 and 3 financial assets). A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using PD, LGD and EAD.

*(a) Significant Increase in Credit Risk*

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime PD as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses the following criteria in determining whether there has been a significant increase in credit risk: (i) quantitative test based on movement in PD; and (ii) qualitative indicators, such as substantial decline in sales, intermittent delays in payment or restructuring.

(i) *Credit risk grading*

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The credit grades are defined and calibrated such that the risk of default increases exponentially at each higher risk grade so, for example, the difference PD between an AAA and AA rating grade is lower than the difference in the PD between a B and B- rating grade.

The Bank assigns corporate and consumer loans based on classification into stages of impairment as follows:

- Grades AAA to C : Stage 1
- Grade D : Stage 2
- Grades E to F : Stage 3

(ii) *Generating the term structure of PD*

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information from external credit reference agencies is also used.

The Bank employs statistical models to analyze the data collected and generate the term structure of PD estimates.

(iii) *Determining whether credit risk has significantly increased*

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What is considered significant varies across financial assets of the Bank.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as substantial decline in sales and intermittent delays in payments.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

*(b) Definition of Default*

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank; or,
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are qualitative (e.g., breaches of covenant) and, quantitative (overdue or non-payment).

Inputs into the assessment of whether a financial asset is in default as well as their significance may vary over time to reflect changes in circumstances.

*(c) Forward-looking Information (FLI)*

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The relevant macro-economic variables for selection generally include, but are not limited to, Gross Domestic Product (GDP) growth, unemployment rate, foreign exchange, stock market index, oil prices and interest rates.

Predicted relationships between the key macro-economic indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 to 15 years.

The significance of the selected macro-economic variables as predictors of default may change over time as historical information is added. As such, the generated macro-economic models are updated at least on an annual basis.

Management has also considered other FLIs not incorporated within the above economic scenarios, such as any regulatory, legislative, or political changes, but are not deemed to have a significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs at least annually.

*(d) Modified Financial Assets*

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognized and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'restructuring') to maximize collection opportunities and minimize the risk of default. Under the Bank's restructuring policy, loan restructuring is granted on a selective basis if the debtor is currently in default on its debt; or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The Bank's Credit Committee regularly reviews reports on restructured activities.

For financial assets modified as part of the Bank's restructuring policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, restructuring is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

*(e) Measurement of ECL*

The key inputs into the measurement of ECL are the term structure of PD, LGD and EAD.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD model consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value (LTV) ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the EIR as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described in the previous page, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term of maturity;
- industry; and,
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information (e.g., PD from external credit rating agencies, Basel LGD) issued to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL include exposures to foreign borrowers and low default borrower segments.

*(f) Write-offs*

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include; cessation of enforcement activity; and where the Bank's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of the financial assets to be written-off. The Bank has still, however, enforceable right to receive payment even if the financial assets have been written off.

(g) *Credit Risk Exposure*

The Bank's maximum exposure to credit risk is equal to the carrying value of its financial assets, as shown below.

	2023			
	Gross Maximum Exposure	Fair Value of Collaterals	Net Exposure	Financial Effect of Collaterals
<b>Receivables from customers:</b>				
Corporate	P 211,954,077	P 1,654,794,705	P -	P 211,954,077
Consumer	<u>85,037,722,809</u>	<u>110,306,800</u>	<u>84,927,416,009</u>	<u>110,306,800</u>
	<b><u>P 85,249,676,886</u></b>	<b><u>P 1,765,101,505</u></b>	<b><u>P 84,927,416,009</u></b>	<b><u>P 322,260,877</u></b>
	2022			
	Gross Maximum Exposure	Fair Value of Collaterals	Net Exposure	Financial Effect of Collaterals
Receivables from customers:				
Corporate	P 790,956,174	P 1,418,733,803	P -	P 790,956,174
Consumer	<u>67,499,148,737</u>	<u>80,037,992</u>	<u>67,419,110,745</u>	<u>80,037,992</u>
	<b><u>P 68,290,104,911</u></b>	<b><u>P 1,498,771,795</u></b>	<b><u>P 67,419,110,745</u></b>	<b><u>P 870,994,166</u></b>

The following table sets out the gross carrying amounts of the exposures to credit risk on financial assets with low credit risk measured at amortized cost and investment securities at FVOCI as of December 31:

	Notes	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	6	<b>P 11,793,270,388</b>	P 8,647,527,599
Investment securities:			
at FVOCI	9	<b>4,938,452,761</b>	4,758,551,931
at amortized cost	10	<b><u>3,982,216,624</u></b>	<u>4,134,577,856</u>
		<b><u>P 20,713,939,773</u></b>	<b><u>P 17,540,657,386</u></b>

Cash and cash equivalents includes amounts due from BSP and from other banks. Investment securities include government and corporate bonds. These are held by the BSP, financial institutions and other counterparties that are reputable and with low credit risk; hence, ECL is negligible.

(h) *Loss Allowance*

In 2023 and 2022, the Bank performed recalibration of its existing ECL model to incorporate on the most-recent default and recovery experience of the Bank and developments in the macroeconomic environment. Independent macroeconomic variables used to forecast the probability of default could either be dictated by their statistical significance in the model or economic significance. Inputs are updated to ensure models are robust, predictive and reliable.

The following tables show the reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument.

	2023			
	Stage 1	Stage 2	Stage 3	Total
<b>Receivables from customers - corporate</b>				
Balance at January 1	P 14,513,819	P -	P 1,887,169	P 16,400,988
Transfers to:				
Stage 1	1,516,304	( 1,516,304)	-	-
Stage 2	( 12,180,054)	12,180,054	-	-
Stage 3	-	( 1,500,000)	1,500,000	-
Net remeasurement of loss allowance	( 2,525,952)	13,744,906	( 1,499,998)	9,718,956
Derecognition of financial assets	( 167,461)	-	( 387,171)	( 554,632)
Balance at December 31	<u>P 1,156,656</u>	<u>P 22,908,656</u>	<u>P 1,500,000</u>	<u>P 25,565,312</u>
<b>Receivables from customers - consumer</b>				
Balance at January 1	P 507,547,059	P 113,747,715	P 1,369,193,029	P 1,990,487,803
Transfers to:				
Stage 1	333,037,495	( 14,028,908)	( 319,008,587)	-
Stage 2	( 9,893,773)	20,196,908	( 10,303,135)	-
Stage 3	( 40,444,893)	( 994,878,059)	1,035,322,952	-
Net remeasurement of loss allowance	( 527,027,489)	992,383,292	408,062,983	873,418,786
New financial assets originated	320,065,862	65,428,609	185,682,502	571,176,973
Derecognition of financial assets	( 125,298,580)	( 42,947,900)	( 560,480,505)	( 728,726,985)
Write-offs	-	-	( 572,137,133)	( 572,137,133)
Balance at December 31	<u>P 457,985,681</u>	<u>P 139,901,657</u>	<u>P 1,536,332,106</u>	<u>P 2,134,219,444</u>
<b>Other receivables</b>				
Balance at January 1	P 165,420	P -	P 40,235,083	P 40,400,503
Transfers to:				
Stage 1	3,444	( 1,619)	( 1,825)	-
Stage 2	( 3,188)	4,807	( 1,619)	-
Stage 3	( 8,251)	( 34,729,854)	34,738,105	-
Net remeasurement of loss allowance	710,320	34,721,859	( 35,424,101)	8,078
New financial assets originated	3,444	4,807	1,619	9,870
Write-offs	-	-	( 4,347,318)	( 4,347,318)
Balance at December 31	<u>P 871,189</u>	<u>P -</u>	<u>P 35,199,944</u>	<u>P 36,071,133</u>
	2022			
	Stage 1	Stage 2	Stage 3	Total
<b>Receivables from customers - corporate</b>				
Balance at January 1	P 15,116,642	P -	P 4,023,753	P 19,140,395
Transfers to:				
Stage 1	15,095,583	( 15,095,583)	-	-
Stage 2	-	-	-	-
Stage 3	-	( 1,887,171)	1,887,171	-
Net remeasurement of loss allowance	( 16,270,646)	16,982,754	( 1,887,172)	( 1,175,064)
New financial assets originated	650,000	-	-	650,000
Write-offs	-	-	( 2,136,583)	( 2,136,583)
Derecognition of financial assets	( 77,760)	-	-	( 77,760)
Balance at December 31	<u>P 14,513,819</u>	<u>P -</u>	<u>P 1,887,169</u>	<u>P 16,400,988</u>
<b>Receivables from customers - consumer</b>				
Balance at January 1	P 296,081,585	P 87,353,791	P 1,332,225,833	P 1,715,661,209
Transfers to:				
Stage 1	150,487,787	( 42,262,457)	( 108,225,330)	-
Stage 2	( 2,472,931)	2,830,700	( 357,769)	-
Stage 3	( 66,248,642)	( 845,751,070)	911,999,712	-
Net remeasurement of loss allowance	( 185,980,340)	875,861,314	( 293,265,673)	396,615,301
New financial assets originated	389,356,306	64,733,307	109,137,263	563,226,876
Derecognition of financial assets	( 73,676,706)	( 29,017,870)	( 122,888,154)	( 225,582,730)
Write-offs	-	-	( 459,432,853)	( 459,432,853)
Balance at December 31	<u>P 507,547,059</u>	<u>P 113,747,715</u>	<u>P 1,369,193,029</u>	<u>P 1,990,487,803</u>

	2022			
	Stage 1	Stage 2	Stage 3	Total
Other receivables				
Balance at January 1	P 102	P 310,784	P 40,095,753	P 40,406,639
Transfers to:				
Stage 1	103	( 103)	-	-
Stage 2	( 288)	176,326	( 176,038)	-
Stage 3	( 6,948,730)	( 17,629,576)	24,578,306	-
Net remeasurement of loss allowance	6,948,813	17,142,569	( 8,197,140)	15,894,242
New financial assets originated	165,420	-	-	165,420
Derecognition of financial assets	-	-	( 16,014,169)	( 16,014,169)
Write-offs	-	-	( 51,629)	( 51,629)
Balance at December 31	<u>P 165,420</u>	<u>P -</u>	<u>P 40,235,083</u>	<u>P 40,400,503</u>

The following table sets out a reconciliation of changes in the total loss allowance.

	2023	2022
Balance at January 1	<b>P 2,047,289,294</b>	P 1,775,208,243
New financial assets originated	<b>571,186,843</b>	564,042,296
Write-off	<b>( 576,484,451)</b>	( 461,621,065)
Net remeasurement of loss allowance	<b>883,145,821</b>	411,334,479
Derecognition of financial assets	<b>( 729,281,618)</b>	( 241,674,659)
Balance at December 31	<b><u>P 2,195,855,889</u></b>	<u>P 2,047,289,294</u>

Write-off of allowance for impairment on loans and receivables was approved by the Bank's BOD on various dates in 2023 and 2022 (see Note 16).

(i) *Significant Changes in Gross Carrying Amount Affecting Allowance for ECL*

The tables below and in the succeeding page provide information how the significant changes in the gross carrying amount of financial instruments in 2023 and 2022 contributed to the changes in the allowance for ECL.

	2023			
	Stage 1	Stage 2	Stage 3	Total
<b>Receivables from customers - corporate</b>				
Balance at January 1	P 788,979,127	P -	P 1,977,047	P 790,956,174
Transfers to:				
Stage 1	243,362,579	( 243,362,579)	-	-
Stage 2	( 24,081,022)	24,081,022	-	-
Stage 3	-	( 1,589,877)	1,589,877	-
Net remeasurement	( 299,579,568)	243,780,090	( 1,589,877)	( 57,389,355)
Derecognition of financial assets	( 521,225,572)	-	( 387,170)	( 521,612,742)
Balance at December 31	<u>P 187,455,544</u>	<u>P 22,908,656</u>	<u>P 1,589,877</u>	<u>P 211,954,078</u>
<b>Receivables from customers - consumer</b>				
Balance at January 1	P 65,409,689,648	P 290,028,272	P 1,799,430,817	P 67,499,148,737
Transfers to:				
Stage 1	32,028,429,068	( 29,232,684,687)	( 2,795,744,381)	-
Stage 2	( 271,279,018)	327,204,270	( 55,925,251)	-
Stage 3	( 868,043,916)	( 1,413,655,837)	2,281,699,753	-
Net remeasurement	( 41,279,800,764)	30,879,703,269	2,380,160,829	( 8,019,936,666)
New financial assets originated	59,737,826,309	177,255,286	352,370,743	60,267,452,338
Derecognition of financial assets	( 32,333,269,573)	( 645,953,755)	( 1,157,581,137)	( 34,136,804,465)
Write-offs	-	-	( 572,137,133)	( 572,137,133)
Balance at December 31	<u>P 82,423,551,754</u>	<u>P 381,896,818</u>	<u>P 2,232,274,240</u>	<u>P 85,037,722,810</u>

	2023			
	Stage 1	Stage 2	Stage 3	Total
<b>Other receivables</b>				
Balance at January 1	P 196,459,026	P 3,012,377	P 67,425,096	P 266,896,499
Transfers to:				
Stage 1	20,915,687	( 183,492)	( 20,732,196)	-
Stage 2	( 11,066,248)	56,410,674	( 45,344,426)	-
Stage 3	( 55,692,450)	( 21,450,419)	77,142,870	-
Net remeasurement	48,122,545	( 36,269,916)	( 7,308,277)	4,544,352
New financial assets originated	257,922,528	11,066,247	21,195,655	290,184,430
Derecognition of financial assets	( 190,978,846)	( 1,519,223)	( 9,523,361)	( 202,021,430)
Write-offs	-	-	( 4,347,318)	( 4,347,318)
Balance at December 31	<u>P 265,682,242</u>	<u>P 11,066,248</u>	<u>P 78,508,043</u>	<u>P 355,256,533</u>
	2022			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers				
- corporate				
Balance at January 1	P 243,574,700	P -	P 4,023,753	P 247,598,453
Transfers to:				
Stage 1	211,353,923	( 211,353,923)	-	-
Stage 2	-	-	-	-
Stage 3	-	( 1,887,171)	1,887,171	-
Net remeasurement	( 133,728,720)	213,241,094	( 1,797,294)	77,715,080
New financial assets originated	500,000,000	-	-	500,000,000
Derecognition of financial assets	( 32,220,776)	-	-	( 32,220,776)
Write-offs	-	-	( 2,136,583)	( 2,136,583)
Balance at December 31	<u>P 788,979,127</u>	<u>P -</u>	<u>P 1,977,047</u>	<u>P 790,956,174</u>
Receivables from customers				
- consumer				
Balance at January 1	P 31,568,939,032	P 263,188,089	P 6,206,717,240	P 38,038,844,361
Transfers to:				
Stage 1	26,869,596,550	( 26,143,587,720)	( 726,008,830)	-
Stage 2	( 8,867,260)	12,271,750	( 3,404,490)	-
Stage 3	( 956,273,212)	( 268,698,114)	1,224,971,326	-
Net remeasurement	( 46,097,097,002)	26,298,170,570	( 419,648,824)	( 20,218,575,256)
New financial assets originated	57,804,465,521	207,642,153	259,418,668	58,271,526,342
Derecognition of financial assets	( 3,771,073,981)	( 78,958,456)	( 4,283,181,420)	( 8,133,213,857)
Write-offs	-	-	( 459,432,853)	( 459,432,853)
Balance at December 31	<u>P 65,409,689,648</u>	<u>P 290,028,272</u>	<u>P 1,799,430,817</u>	<u>P 67,499,148,737</u>
Other receivables				
Balance at January 1	P 144,327,842	P 41,095,979	P 62,861,520	P 248,285,341
Transfers to:				
Stage 1	12,874,658	( 32,002)	( 12,842,656)	-
Stage 2	( 13,000)	28,221,321	( 28,208,321)	-
Stage 3	( 49,058,504)	( 12,874,658)	61,933,162	-
Net remeasurement	88,429,198	( 56,410,640)	( 23,956,381)	8,062,177
New financial assets originated	151,305	3,012,377	8,141,300	11,304,982
Derecognition of financial assets	( 252,473)	-	( 451,899)	( 704,372)
Write-offs	-	-	( 51,629)	( 51,629)
Balance at December 31	<u>P 196,459,026</u>	<u>P 3,012,377</u>	<u>P 67,425,096</u>	<u>P 266,896,499</u>

In response to the unprecedented impact of COVID-19 pandemic, the Bank granted to its customers the mandatory reliefs provided by the government through *Bayaniban 1* and *Bayaniban 2*. In addition, it entered into voluntary renegotiations of terms of loans of some other customers with a view of maximizing recovery of the contractual amount of obligation. These relief measures were granted to eligible borrowers to allow them to get back into the habit of paying loans which includes payment relief including extension of contractual terms, principal and interest relief, as well as extension of balloon payment terms.

As of December 31, 2023 and 2022, the total outstanding balance of loans modified under *Bayaniban 1* and *Bayaniban 2* amounted to P113.0 million and P203.0 million, respectively.

Financial reliefs provided by the Bank and mandated by the government were assessed to be non-substantial modification and has not resulted to material modification loss as the present value of the original cash flows and the present value of the revised cash flows using the original effective interest rate were substantially the same.

*Sensitivity Analysis on ECL Measurement*

Set out below are the changes to the Bank's 12-month ECL as of December 31, 2023 and 2022 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Bank's economic variable assumptions.

	<u>Change in MEVs</u>		<u>Impact on ECL</u>	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase in MEV</u>	<u>Decrease in MEV</u>
<b>2023:</b>				
Corporate Loans				
GDP growth rate	+1.00%	-1.00%	-0.75%	0.75%
Unemployment rate	+1.00%	-1.00%	0.19%	-0.19%
Consumer of Personal Loans				
GDP growth rate	+1.00%	-1.00%	-0.24%	0.24%
Oil Index	+1.00%	-1.00%	0.71%	-0.84%
<b>2022:</b>				
Corporate Loans				
GDP growth rate	+1.00%	-1.00%	-2.88%	2.88%
Oil Index	+1.00%	-1.00%	5.93%	-5.93%
Consumer of Personal Loans				
GDP growth rate	+1.00%	-1.00%	-0.42%	0.42%
Unemployment rate	+1.00%	-1.00%	0.47%	-0.47%

**4.4 Operational Risk**

Operational risk is the risk of loss due to the Bank's:

- failure to comply with defined operational procedures;
- inability to address fraud committed internally or externally;
- inability to handle system failures; and,
- inability to cope with the impact of external events.

The Bank manages operational risks by instituting policies to minimize its expected losses, allocating capital for the unexpected losses, and having insurance and/or a business continuity plan to prepare for catastrophic losses.

**Framework**

True to its commitment to sound management and corporate governance, the Bank considers operational risk management as a critical element in the conduct of its business. Under the Bank's Operational Risk Management (ORM) framework, the BOD has the ultimate responsibility for providing leadership in the management of operational risk in the Bank.

The RMG provides the common risk language and management tools as well as monitors the implementation of the ORM framework and policies. The business process owners, as risk owners, are responsible for identifying, assessing and limiting the impact of risk in their businesses/operations.

The Bank continues to conduct periodic Risk and Control Self-Assessment (RCSA) so that business process owners could document both their operational risks and control mechanisms they have put in place to manage those risks. This ORM tool allows the Bank to identify risks the business/operation faces, assess the severity of those risks, evaluate the adequacy of key controls associated to the identified risks, and take proactive action to address any deficiencies identified.

The Bank also continues to use Key Risk Indicators (KRI) as alerts for operational risk vulnerabilities. Reporting of Top KRIs to the BOD through the RMC is done quarterly.

The Bank likewise uses Loss Data Collection, Analysis and Reporting that allows the Bank to gather data per Basel loss event category across business lines. The collected data are processed for information and appropriate escalation, root cause analysis, control effectiveness and enables action plans to prevent recurrence.

These ORM tools are continually being reviewed and enhanced to proactively manage operational risks. The Operational Risk Management Solution (ORMS) was implemented to automate the reporting of the Bank's RCSAs and KRIs. The bank-wide information asset inventory is regularly reviewed to address operational risks arising from information security concerns. The inventory identified critical applications and sensitive data based on the Bank's classification standards, information risks, as well as, protection measures in place to mitigate these risks. Under the purview of information security is data privacy. The Bank's data privacy framework is in accordance with the Republic Act No. 10173, *Data Privacy Act of 2012*.

Operational risks arising from health, safety and environmental issues are appropriately managed through policies and measures that are integrated into the Bank's day-to-day operations. These include Environmental Consciousness, Occupational Health and Safety, and Community Health and Safety.

The Bank continues to review its preparedness for major disaster scenarios and implements required changes in its Business Continuity Plan.

#### ***4.5 Legal and Regulatory Risks***

Legal risk pertains to the Bank's risk to earnings or capital that may arise as a result of unenforceable contracts, lawsuits or adverse judgments. The Bank may become involved in litigation in enforcing its collection rights under loan agreements in case of borrower's default. The Bank may incur significant legal expenses as a result of these events, but the Bank may still end up with non-collection or non-enforcement of claims. The Bank has established measures to avoid or mitigate the effects of adverse court decisions and engages qualified and accredited legal counsels. At year-end, the Bank also ensures that material adjustments or disclosures are made in the financial statements for any significant commitments or contingencies which may have arisen from legal proceedings involving the Bank.

Regulatory risk refers to the potential risk for the Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of the country. The monitoring of the Bank's compliance with these regulations as well as the study of the potential impact of new laws and regulations, is the primary responsibility of the Bank's Compliance Officer. The Compliance Office is responsible for communicating and disseminating new rules and regulations to all units, analyzing and addressing compliance issues, performing periodic compliance testing on branches and Head Office units, and reporting compliance findings to the Audit Committee and the BOD.



## 5.2 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or financial 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 financial assets and liabilities which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. 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.

## 5.3 Financial Instruments Measured at Fair Value

The tables below and in the succeeding page show the fair value hierarchy of the Bank's classes of financial assets measured at fair value in the statements of financial position as of December 31.

Note	2023			Total
	Level 1	Level 2	Level 3	
<b>Financial Asset</b>				
Financial assets at FVOCI:				
	P 4,838,150,611	P -	P -	P 4,838,150,611
	100,302,150	-	-	100,302,150
9	<u>P 4,938,452,761</u>	<u>P -</u>	<u>P -</u>	<u>P 4,938,452,761</u>

	Note	2022			Total
		Level 1	Level 2	Level 3	
Financial assets at FVOCI:					
Government debt securities		P 4,659,826,968	P -	P -	P 4,659,826,968
Corporate debt securities		<u>98,724,963</u>	<u>-</u>	<u>-</u>	<u>98,724,963</u>
	9	<u>P 4,758,551,931</u>	<u>P -</u>	<u>P -</u>	<u>P 4,758,551,931</u>

The fair value of the Bank's debt securities is categorized within Level 1.

Fair values of peso-denominated government debt securities issued by the Philippine government, are determined based on the reference price per Bloomberg, which used BVAL. These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparables.

The Bank has no financial liabilities measured at fair value as of December 31, 2023 and 2022.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

#### **5.4 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed**

The table below and in the succeeding page summarizes the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	Notes	2023			Total
		Level 1	Level 2	Level 3	
<b>Financial Assets</b>					
At amortized cost:					
Cash and cash equivalents	6	P 11,793,270,388	P -	P -	P 11,793,270,388
Loans and other receivables – net	11	-	-	83,869,095,864	83,869,095,864
Security deposits	15	-	-	44,463,049	44,463,049
Investment securities at amortized cost	10	<u>3,854,712,489</u>	<u>-</u>	<u>-</u>	<u>3,854,712,489</u>
		<u>P 15,647,982,877</u>	<u>P -</u>	<u>P 83,913,558,913</u>	<u>P 99,561,541,790</u>
<b>Financial Liabilities</b>					
Financial liabilities at amortized cost:					
Deposit liabilities	17	P -	P -	P 77,601,334,686	P 77,601,334,686
Lease liabilities	13	-	-	766,773,927	766,773,927
Bills payable	18	-	14,722,428,417	-	14,722,428,417
Accrued expenses and other liabilities (except tax-related payables and post-employment defined benefit obligation)	19	<u>-</u>	<u>-</u>	<u>1,488,738,064</u>	<u>1,488,738,064</u>
		<u>P -</u>	<u>P 14,722,428,417</u>	<u>P 79,856,846,677</u>	<u>P 94,579,275,094</u>

	Notes	2022			
		Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>					
At amortized cost:					
Cash and cash equivalents	6	P 8,647,527,599	P -	P -	P 8,647,527,599
Loans and other receivables – net	11	-	-	67,014,172,392	67,014,172,392
Security deposits	15	-	-	38,514,687	38,514,687
Investment securities at amortized cost	10	<u>3,891,977,397</u>	<u>-</u>	<u>-</u>	<u>3,891,977,397</u>
		<u>P 12,539,504,996</u>	<u>P -</u>	<u>P 67,052,687,079</u>	<u>P 79,592,192,075</u>
<b>Financial Liabilities</b>					
Financial liabilities at amortized cost:					
Deposit liabilities	17	P -	P -	P 68,749,832,119	P 68,749,832,119
Lease liabilities	13	-	-	568,961,168	568,961,168
Bills payable	18	-	6,495,788,391	-	6,495,788,391
Accrued expenses and other liabilities (except tax-related payables and post-employment defined benefit obligation)	19	<u>-</u>	<u>-</u>	<u>1,294,979,199</u>	<u>1,294,979,199</u>
		<u>P -</u>	<u>P 6,495,788,391</u>	<u>P 70,613,772,486</u>	<u>P 77,109,560,877</u>

For financial assets and financial liabilities, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. The following are the methods used to determine the fair value of financial assets and financial liabilities presented in the statements of financial position at their amortized cost:

(a) *Due from BSP and Other Banks*

Due from BSP pertains to deposits made by the Bank to the BSP for clearing and reserve requirements. Due from other banks includes items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on 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.

(b) *Investment Securities at Amortized Cost*

The fair value of investment securities at amortized cost are determined by direct reference to published price quoted in an active market for traded debt and equity securities.

The Bank will hold into the investments until management decides to sell them when there will be offers to buy out such investments on the appearance of an available market where the investments can be sold.

(c) *Loans and Other Receivables*

Loans and other receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(d) *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 long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(e) *Security Deposits and Accrued Expenses and Other Liabilities*

Due to their short duration, the carrying amounts of security deposits and accrued expenses and other liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

**5.5 Fair Value Measurement for Non-financial Assets**

There were no non-financial assets measured at fair value as of December 31, 2023 and 2022.

The fair value of investment properties amounted to P248.0 million and P236.0 million as of December 31, 2023 and 2022, respectively. The fair values were determined through appraisals, which were conducted by an in-house appraiser of the Bank, except for the appraisals of investment properties with carrying amount exceeding P5.0 million, which was conducted by an independent appraiser acceptable to the BSP.

The fair value disclosed for the Bank's investment properties, which consist of parcels of land, is based on Level 3. The Level 3 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 3.

**5.6 Offsetting of Financial Assets and Financial Liabilities**

The following financial assets with net amounts presented in the statements of financial position are subject to offsetting, enforceable master netting arrangements and similar agreements:

	<u>Gross amounts recognized in the statements of financial position</u>		<u>Net amount presented in the statements of financial position</u>	<u>Related amounts not set-off in the statements of financial position</u>		
	<u>Financial assets</u>	<u>Financial liabilities set-off</u>		<u>Financial instruments</u>	<u>Deposits hold-out</u>	<u>Net amount</u>
December 31, 2023 – Loans and other receivables – net	<u>P 83,409,077,530</u>	<u>P -</u>	<u>P 83,409,077,530</u>	<u>(P 3,098,093,138)</u>	<u>(P 132,684,594)</u>	<u>P 80,178,299,798</u>
December 31, 2022 – Loans and other receivables – net	P 66,509,712,116	P -	P 66,509,712,116	P -	(P 135,614,556)	P 66,374,097,560
Investment securities at FVOCI	4,758,551,931	-	4,758,551,931	( 2,910,006,958)	-	1,848,544,973
Investment securities at amortized cost	<u>4,134,577,856</u>	<u>-</u>	<u>4,134,577,856</u>	<u>( 3,366,444,716)</u>	<u>-</u>	<u>768,133,140</u>
	<u>P 75,402,841,903</u>	<u>P -</u>	<u>P 75,402,841,903</u>	<u>(P 6,276,451,674)</u>	<u>(P 135,614,556)</u>	<u>P 68,990,775,673</u>

The following financial liabilities with net amounts presented in the statements of financial position are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross amounts recognized in the statements of financial position		Net amount presented in the statements of financial position	Related amounts not set-off in the statements of financial position		
	Financial liabilities	Financial assets set-off		Financial instruments	Deposits hold-out	Net amount
December 31, 2023 –						
Deposit liabilities	P 77,688,737,498	P -	P 77,688,737,498	P -	(P 132,684,594)	P 77,556,052,904
Bills payable	<u>14,901,139,639</u>	<u>-</u>	<u>14,901,139,639</u>	<u>( 3,098,093,138)</u>	<u>-</u>	<u>11,803,046,501</u>
	<b><u>P 92,589,877,137</u></b>	<b><u>P -</u></b>	<b><u>P 92,589,877,137</u></b>	<b><u>(P 3,098,093,138)</u></b>	<b><u>(P 132,684,594)</u></b>	<b><u>P 89,359,099,405</u></b>
December 31, 2022 –						
Deposit liabilities	P 67,110,649,688	P -	P 67,110,649,688	P -	(P 135,614,556)	P 66,975,035,132
Bills payable	<u>6,533,045,833</u>	<u>-</u>	<u>6,533,045,833</u>	<u>( 6,276,451,674)</u>	<u>-</u>	<u>256,594,159</u>
	<b><u>P 73,643,695,521</u></b>	<b><u>P -</u></b>	<b><u>P 73,643,695,521</u></b>	<b><u>(P 6,276,451,674)</u></b>	<b><u>(P 135,614,556)</u></b>	<b><u>P 67,231,629,291</u></b>

For financial assets and financial liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Bank and counterparties allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis; however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

For purposes of presenting the information, the related amounts not set-off in the statements of financial position pertains to: (a) deposits hold-out which serves as the Bank's collateral enhancement for certain loans and other receivables; and, (b) collateralized bills payable under sale and repurchase agreements. The deposit hold-out that can be set-off are only disclosed to the extent of the outstanding balance of the collateralized loans since it is less than the related deposits held by the Bank.

## 6. CASH AND CASH EQUIVALENTS

For purposes of presenting the cash flows, cash and cash equivalents consist of the following:

	Notes	<u>2023</u>	<u>2022</u>
Cash and other cash items		<b>P 2,562,500,209</b>	P 2,186,619,439
Due from BSP	7	<b>1,202,258,989</b>	690,117,513
Due from other banks	8	<b><u>8,028,511,190</u></b>	<u>5,770,790,647</u>
		<b><u>P 11,793,270,388</u></b>	<b><u>P 8,647,527,599</u></b>

Cash 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. 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 Bank's clearing cut-off time until the close of the regular banking hours.

## 7. DUE FROM BANGKO SENTRAL NG PILIPINAS

This account represents the Bank's demand deposit with the BSP in compliance with BSP's reserve requirements (see Note 6). The Bank has satisfactorily complied with the reserve requirements of the BSP. Deposits with BSP do not earn interest.

## 8. DUE FROM OTHER BANKS

This account is composed of the following as of December 31:

	Note	<u>2023</u>	<u>2022</u>
Time		P 5,208,063,417	P 3,227,897,042
Demand and savings		<u>2,820,447,773</u>	<u>2,542,893,605</u>
	6	<u><b>P 8,028,511,190</b></u>	<u><b>P 5,770,790,647</b></u>

All of the Bank's time deposits, which can be pre-terminated anytime, will mature within three months. Interest income on deposits with other banks amounted to P159.4 million and P66.4 million in 2023 and 2022, respectively, which is presented as Interest Income on Deposits with Other Banks in the statements of profit or loss.

The Bank's deposits in other banks earn annual interest as follows:

	<u>2023</u>	<u>2022</u>
Savings	0.05% - 0.25%	0.05% - 0.25%
Time	0.22% - 5.50%	0.21% - 5.50%

## 9. INVESTMENT SECURITIES AT FVOCI

This account consists of peso-denominated bonds issued by the Philippine government and certain private corporations with annual nominal interest rates ranging from 2.38% to 8.63% and will mature in various dates until 2032.

The details of the carrying amount of these financial assets are as follows:

	<u>2023</u>	<u>2022</u>
Government debt securities	P 4,838,150,611	P 4,659,826,968
Corporate debt securities	<u>100,302,150</u>	<u>98,724,963</u>
	<u><b>P 4,938,452,761</b></u>	<u><b>P 4,758,551,931</b></u>

The reconciliation of the carrying amounts of financial assets at FVOCI as of December 31 are presented below.

	Note	<u>2023</u>	<u>2022</u>
Balance at beginning of year		P 4,758,551,931	P 6,334,398,148
Unrealized fair value gains (losses)		180,649,337	( 424,785,517)
Net decrease in unamortized premium/discount during the year		( 459,946)	( 20,796,605)
Cost of sold and matured financial assets at FVOCI		( 300,000)	( 2,688,118,000)
Additional accrued interest receivable		11,432	( 10,164,887)
Additions		-	1,568,118,000
Impairment loss	16	<u>7</u>	<u>( 99,208)</u>
Balance at end of year		<u><b>P 4,938,452,761</b></u>	<u><b>P 4,758,551,931</b></u>

As of December 31, 2022, financial assets at FVOCI amounting to P2,910.0 million are pledged as collateral for certain bills payable of the Bank (see Note 18). There were no financial assets at FVOCI pledged as of December 31, 2023.

The interest income recognized on financial assets at FVOCI amounting to P217.0 million and P221.9 million in 2023 and 2022, respectively, is presented as part of Interest Income on Investment Securities in the statements of profit or loss. The Bank sold financial assets amounting to P1.9 million in 2022 which resulted in a loss of P2.5 million and is presented as part of Others under Other Income in the 2022 statement of profit or loss (see Note 22). There was no similar transaction in 2023.

In 2023 and 2022, the proceeds obtained from the matured financial assets at FVOCI amounted to P0.3 million and P791.5 million, respectively, which includes accrued interests.

## 10. INVESTMENT SECURITIES AT AMORTIZED COST

This account consists of investments in bonds issued by the Philippine government with annual fixed coupon rates ranging from 3.38% to 10.25% per annum. These investments will mature on various dates until 2027.

As of December 31, 2022, investment securities at amortized cost amounting to P3,366.4 million are pledged as collateral for certain bills payable of the Bank (see Note 18). There were no investment securities at amortized cost pledged as of December 31, 2023.

The interest income recognized for investment securities at amortized cost, presented as part of Interest Income on Investment Securities in the statements of profit or loss, amounted to P189.4 million and P184.0 million in 2023 and 2022, respectively.

Management assessed that no impairment loss on the Bank's investment securities at amortized cost is required to be recognized in 2023 and 2022.

The reconciliation of the carrying amounts of financial assets at amortized as of December 31 are presented below.

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	<b>P 4,134,577,856</b>	P 2,353,260,534
Maturities and disposals	<b>( 150,000,000)</b>	( 2,115,000,000)
Net increase in unamortized premium/discount during the year	<b>( 1,862,899)</b>	( 9,527,317)
Accrued interest receivable	<b>( 498,333)</b>	5,844,639
Additions	<u>-</u>	<u>3,900,000,000</u>
Balance at end of year	<b><u>P 3,982,216,624</u></b>	<b><u>P 4,134,577,856</u></b>

In 2022, the Bank disposed of debt securities from its amortized cost portfolio amounting to P980.0 million, resulting in a trading net loss amounting to P0.9 million. These disposals were initiated by the Bank since these will already mature in less than 3 months. Management has assessed that such disposals of investment securities in 2022 are consistent with the Bank's investment at amortized cost business model with the objective of collecting contractual cash flows and have qualified under the permitted sale events set forth in the Bank's business model in managing financial assets manual and the requirements of PFRS 9. The disposal of investment securities was approved by the Investment Committee (IC) in compliance with the documentation requirements of the BSP.

## 11. LOANS AND OTHER RECEIVABLES

As of December 31, the breakdown of this account follows:

	<u>Note</u>	<u>2023</u>	<u>2022</u>
Receivables from customers:			
Loans:			
Individual consumption		<b>P 63,954,934,689</b>	P 61,235,631,041
Commercial		<b>6,440,575,075</b>	5,928,826,598
Agricultural		<b>14,065,641,112</b>	500,554,685
Others		<b><u>209,704,439</u></b>	<u>30,235,437</u>
		<b>84,670,855,315</b>	67,695,247,761
Allowance for impairment	16	<b>( <u>2,019,712,092</u> )</b>	<b>( <u>1,859,518,459</u> )</b>
		<b><u>82,651,143,223</u></b>	<u>65,835,729,302</u>
Accrued interest receivable		<b>578,821,571</b>	594,857,150
Allowance for impairment	16	<b>( <u>140,072,664</u> )</b>	<b>( <u>147,370,332</u> )</b>
		<b><u>438,748,907</u></b>	<u>447,486,818</u>
Other receivables:			
Accounts receivable		<b>347,033,361</b>	261,896,926
Allowance for impairment	16	<b>( <u>35,607,675</u> )</b>	<b>( <u>39,937,045</u> )</b>
		<b><u>311,425,686</u></b>	<u>221,959,881</u>
Sales contract receivable		<b>8,223,172</b>	4,999,573
Allowance for impairment	16	<b>( <u>463,458</u> )</b>	<b>( <u>463,458</u> )</b>
		<b><u>7,759,714</u></b>	<u>4,536,115</u>
		<b><u>P 83,409,077,530</u></b>	<u>P 66,509,712,116</u>

No loans granted to directors, officers, stockholders and related interests (DOSRI) are outstanding as of December 31, 2023 and 2022 [see Note 27 (f)].

The classification of loans as to interest rate follows:

	<u>2023</u>	<u>2022</u>
Over 25.00%	<b>P 6,009,974,435</b>	P 4,955,319,661
Over 20.00% - 25.00%	<b>2,987,098</b>	3,093,566
Over 15.00% - 20.00%	<b>4,849,038</b>	5,073,861
15.00% and below	<b><u>78,653,044,744</u></b>	<u>62,731,760,673</u>
	<b><u>P 84,670,855,315</u></b>	<u>P 67,695,247,761</u>

As of December 31, 2023, certain loan receivables were pledged as collateral for certain bills payable of the Bank (see Note 18). There were no loan receivables pledged as of December 31, 2022.

Interest income on loans and other receivables recognized amounting to P7,896.7 million and P5,725.2 million in 2023 and 2022, respectively, is presented as Interest Income on Loans and Other Receivables in the statements of profit or loss.

The breakdown of loans by status is presented as follows:

	<u>2023</u>	<u>2022</u>
Current	<b>P 81,399,278,196</b>	P 65,002,654,630
Past due	<b>3,126,846,349</b>	2,691,699,073
In litigation	<b><u>144,730,770</u></b>	<u>894,058</u>
	<b><u>P 84,670,855,315</u></b>	<u>P 67,695,247,761</u>

## 12. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization and allowance for impairment of bank premises, furniture, fixtures and equipment (BPFPE) at the beginning and end of 2023 and 2022 are shown below.

	<u>Land</u>	<u>Buildings</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Leasehold and Land Improvements</u>	<u>Construction in Progress</u>	<u>Total</u>
<b>December 31, 2023</b>						
Cost	P 729,667,874	P1,276,263,903	P1,391,787,892	P 796,589,135	P 1,433,980	P 4,195,742,784
Accumulated depreciation and amortization	-	( 631,634,032)	( 913,063,133)	( 413,090,073)	-	( 1,957,787,238)
Allowance for impairment	( <u>137,985,044</u> )	( <u>5,335,497</u> )	-	-	-	( <u>143,320,541</u> )
Net carrying amount	<b><u>P 591,682,830</u></b>	<b><u>P 639,294,374</u></b>	<b><u>P 478,724,759</u></b>	<b><u>P 383,499,062</u></b>	<b><u>P 1,433,980</u></b>	<b><u>P2,094,635,005</u></b>
<b>December 31, 2022</b>						
Cost	P 736,445,946	P1,246,070,874	P1,172,472,741	P 634,833,487	P 1,173,000	P 3,790,996,048
Accumulated depreciation and amortization	-	( 610,732,602)	( 802,959,528)	( 303,179,900)	-	( 1,716,872,030)
Allowance for impairment	( <u>142,963,116</u> )	( <u>5,335,497</u> )	-	-	-	( <u>148,298,613</u> )
Net carrying amount	<b><u>P 593,482,830</u></b>	<b><u>P 630,002,775</u></b>	<b><u>P 369,513,213</u></b>	<b><u>P 331,653,587</u></b>	<b><u>P 1,173,000</u></b>	<b><u>P 1,925,825,405</u></b>
<b>January 1, 2022</b>						
Cost	P 739,884,936	P1,206,584,324	P1,010,199,158	P 458,378,245	P 2,325,875	P 3,417,372,538
Accumulated depreciation and amortization	-	( 586,348,196)	( 776,141,020)	( 235,151,537)	-	( 1,597,640,753)
Allowance for impairment	( <u>145,361,107</u> )	( <u>5,335,497</u> )	-	-	-	( <u>150,696,604</u> )
Net carrying amount	<b><u>P 594,523,829</u></b>	<b><u>P 614,900,631</u></b>	<b><u>P 234,058,138</u></b>	<b><u>P 223,226,708</u></b>	<b><u>P 2,325,875</u></b>	<b><u>P 1,669,035,181</u></b>

A reconciliation of the carrying amounts at the beginning and end of 2023 and 2022, of bank premises, furniture, fixtures and equipment is shown below.

	<u>Land</u>	<u>Buildings</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Leasehold and Land Improvements</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance at January 1, 2023, net of accumulated depreciation and amortization	P 593,482,830	P 630,002,775	P 369,513,213	P 331,653,587	P 1,173,000	P 1,925,825,405
Additions	-	28,403,678	258,408,843	178,060,378	1,433,980	466,306,879
Cost of assets disposed	( 6,778,072)	-	( 10,064,481)	-	-	( 16,842,553)
Reclassifications	-	1,789,350	( 2,760,761)	2,144,411	( 1,173,000)	-
Allowance for impairment of assets disposed	4,978,072	-	-	-	-	4,978,072
Accumulated depreciation of assets disposed	-	-	10,031,926	-	-	10,031,926
Derecognition/adjustment/ reversal	-	-	( 4,794,818)	( 4,135,007)	-	( 8,929,825)
Depreciation and amortization charges for the year	-	( 20,901,429)	( 141,609,163)	( 124,224,307)	-	( 286,734,899)
Balance at December 31, 2023, net of accumulated depreciation and amortization	<b><u>P 591,682,830</u></b>	<b><u>P 639,294,374</u></b>	<b><u>P 478,724,759</u></b>	<b><u>P 383,499,062</u></b>	<b><u>P 1,433,980</u></b>	<b><u>P 2,094,635,005</u></b>
Balance at January 1, 2022, net of accumulated depreciation and amortization	P 594,523,829	P 614,900,631	P 234,058,138	P 223,226,708	P 2,325,875	P 1,669,035,181
Additions	-	33,417,633	254,091,201	203,034,801	4,916,043	495,459,678
Cost of assets disposed	( 3,438,990)	-	( 89,290,039)	-	-	( 92,729,029)
Reclassifications	-	6,068,918	-	-	( 6,068,918)	-
Allowance for impairment of assets disposed	2,397,991	-	-	-	-	2,397,991
Accumulated depreciation of assets disposed	-	-	71,184,450	-	-	71,184,450
Depreciation and amortization charges for the year	-	( 24,384,407)	( 100,530,537)	( 94,607,922)	-	( 219,522,866)
Balance at December 31, 2022, net of accumulated depreciation and amortization	<b><u>P 593,482,830</u></b>	<b><u>P 630,002,775</u></b>	<b><u>P 369,513,213</u></b>	<b><u>P 331,653,587</u></b>	<b><u>P 1,173,000</u></b>	<b><u>P 1,925,825,405</u></b>

The recoverable amount of the land amounting to P184.1 million and P185.9 million as of December 31, 2023 and 2022, and the recoverable amount of building amounting to P24.7 million as of both years, were based on fair value less costs to sell. The recoverable amount of land was derived using the observable recent prices of the reference properties, which were adjusted for differences in key attributes such as property size, zoning, and accessibility. The recoverable amounts of the buildings were determined using the replacement cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and lay-out, adjusted for obsolescence. 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.

In 2023 and 2022, the Bank recognized a gain of P6.04 million and P25.5 million, respectively, on the disposal of certain land and furniture, fixtures, and equipment, which is presented as part of Other Income in the statements of profit or loss (see Note 22).

The total depreciation and amortization expense amounted to P286.7 million and P219.5 million for the years ended December 31, 2023 and 2022, respectively, and is presented as part of Occupancy and Equipment-related Expenses under Other Operating Expenses in the statements of profit or loss.

Cost of fully-depreciated and fully-amortized assets still used in operations amounted to P754.4 million and P716.2 million in 2023 and 2022, respectively.

In 2023 and 2022, there are no bank premises, furniture, fixtures and equipment pledged as collateral for any obligation of the Bank.

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50.00% of the Bank's unimpaired capital. As of December 31, 2023 and 2022, the Bank has satisfactorily complied with this requirement.

### 13. LEASES

The Bank has leases for several branch offices. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability.

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. The Bank is prohibited from selling or pledging the underlying leased assets as security and must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Bank must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The Bank has 425 and 330 right-of-use assets leased as of December 31, 2023 and 2022, respectively, with a remaining term that ranges from 1 to 14 years, all of which have extension and termination options and no options to purchase.

#### 13.1 *Right-of-Use Assets*

The carrying amounts of the Bank's right-of-use assets as of December 31 and the movements during the year are shown below.

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	P 509,868,792	P 399,181,022
Additions	385,821,757	251,348,619
Depreciation and amortization	( 242,851,362)	( 140,660,849)
Balance at end of year	<u>P 652,839,187</u>	<u>P 509,868,792</u>

### 13.2 Lease Liabilities

Presented below is the reconciliation in 2023 and 2022 of the Bank's lease liabilities :

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	<b>P 541,621,897</b>	P 422,181,881
Cash flow from financing activity – Repayment of lease liabilities	<b>( 287,948,700)</b>	( 131,908,603)
Non-cash financing activities: Additional lease liabilities	<b>397,512,190</b>	224,009,348
Interest amortization on lease liabilities	<b><u>57,794,270</u></b>	<u>27,339,271</u>
Balance at end of year	<b><u>P 708,979,657</u></b>	<u>P 541,621,897</u>

Additional information on the lease liabilities and amounts in respect of possible future lease termination options not recognized as a liability are as follows:

	<u>2023</u>	<u>2022</u>
Lease liabilities	<b>P 708,979,657</b>	P 541,621,897
Lease termination options not recognized as a liability	<b>44,463,049</b>	38,514,687
Historical rate of exercise of termination option	<b>0.00%</b>	0.00%
Number of leases with an extension option that is not considered reasonably certain of exercise	<b>425</b>	330

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at December 31 is as follows:

	<u>2023</u>							
	<u>Within 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>5 to 10 years</u>	<u>10 to 14 years</u>	<u>Total</u>
Lease payments	P 241,634,915	P 215,464,468	P 173,300,525	P 93,843,412	P 29,040,803	P 73,448,084	P 4,990,902	P 831,723,109
Finance charges	( 43,250,153)	( 31,062,990)	( 19,270,053)	( 10,108,126)	( 5,825,385)	( 12,785,909)	( 440,836)	( 122,743,452)
Net present values	<b><u>P 198,384,762</u></b>	<b><u>P 184,401,478</u></b>	<b><u>P 154,030,472</u></b>	<b><u>P 83,735,286</u></b>	<b><u>P 23,215,418</u></b>	<b><u>P 60,662,175</u></b>	<b><u>P 4,550,066</u></b>	<b><u>P 708,979,657</u></b>
	<u>2022</u>							
	<u>Within 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>5 to 10 years</u>	<u>10 to 16 years</u>	<u>Total</u>
Lease payments	P 168,155,953	P 151,694,967	P 129,719,197	P 95,888,235	P 37,200,634	P 33,287,775	P 7,164,039	P 623,110,800
Finance charges	( 27,994,089)	( 20,797,258)	( 14,099,623)	( 7,807,107)	( 3,353,408)	( 6,645,130)	( 792,288)	( 81,488,903)
Net present values	<b><u>P 140,161,864</u></b>	<b><u>P 130,897,709</u></b>	<b><u>P 115,619,574</u></b>	<b><u>P 88,081,128</u></b>	<b><u>P 33,847,226</u></b>	<b><u>P 26,642,645</u></b>	<b><u>P 6,371,751</u></b>	<b><u>P 541,621,897</u></b>

### 13.3 Lease Payments Not Recognized as Liabilities

The Bank has elected not to recognize a lease liability for short-term leases or for leases of low value assets. Payments made under such leases are expensed outright. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The expenses relating short-term leases and low-value assets amounted to P4.5 million and P9.1 million, respectively, for 2023, and P3.1 million and P7.2 million, respectively, for 2022, and are presented as part of Occupancy and Equipment-related Expenses under Other Operating Expenses in the statements of profit or loss.

At December 31, 2023 and 2022, the Bank is not committed to short-term leases.

### 13.4 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases amounted to P287.9 million and P131.9 million in 2023 and 2022, respectively. Interest expense in relation to lease liabilities amounted to P57.8 million and P27.3 million, in 2023 and 2022, respectively, and is presented as Interest Expense on Lease Liabilities in the statements of profit or loss.

## 14. INVESTMENT PROPERTIES

This account represents parcels of land and buildings and related improvements, which are held for capital appreciation, acquired in settlement of loans. Investment properties are carried at cost less allowance for impairment and accumulated depreciation. Real estate tax related to investment properties amounted to P0.1 million for 2023 and 2022, and is presented as part of Others under Other Operating Expenses in the statements of profit or loss.

The gross carrying amounts and allowance for impairment of investment properties as of December 31, 2023 and 2022 are shown below.

	Note	<u>2023</u>	<u>2022</u>
Cost		<b>P 8,976,809</b>	P 9,473,812
Allowance for impairment	16	<b>( 5,835,861)</b>	( 5,835,861)
Accumulated depreciation		<b>( 1,720,027)</b>	( 1,380,254)
Net carrying amount		<b><u>P 1,420,921</u></b>	<b><u>P 2,257,697</u></b>

A reconciliation of the carrying amount at the beginning and end of 2023 and 2022 is shown below.

	<u>2023</u>	<u>2022</u>
Balance at January 1, net of allowance for impairment and accumulated depreciation	<b>P 2,257,697</b>	P 2,822,014
Disposals	<b>( 497,003)</b>	( 224,544)
Depreciation	<b>( 339,773)</b>	( 339,773)
Balance at December 31, net of allowance for impairment and accumulated depreciation	<b><u>P 1,420,921</u></b>	<b><u>P 2,257,697</u></b>

The Bank recognized income from disposal of investment properties in 2023 and 2022 amounting to P1.2 million and P1.3 million, respectively, and is presented as Income from disposal of investment properties under Other Income in the statements of profit or loss (see Note 22). Proceeds from disposal of investment properties amounted to P0.8 million and P1.5 million in 2023 and 2022, respectively.

The depreciation of investment properties is presented as part of Occupancy and Equipment-related Expenses in the statements of profit or loss.

## 15. PREPAYMENTS AND OTHER RESOURCES

The composition of this account as of December 31 is shown below.

	Notes	<u>2023</u>	<u>2022</u>
Retirement benefit asset	23.2	<b>P 392,289,445</b>	P -
Goodwill	15.1	<b>114,013,933</b>	114,013,933
Prepaid expenses	15.2	<b>97,677,278</b>	54,780,408
Security deposits		<b>44,463,049</b>	38,514,687
Software and other intangibles – net	15.3	<b>22,189,551</b>	11,818,605
Unused stationery and supplies		<b>11,095,502</b>	6,322,683
Other investments		<b>532,000</b>	532,000
Others	15.4	<b>88,692,283</b>	77,749,879
		<b>770,953,041</b>	303,732,195
Allowance for impairment	16	<b>( 532,000)</b>	( 532,000)
		<b><u>P 770,421,041</u></b>	<b><u>P 303,200,195</u></b>

### 15.1 Goodwill

Goodwill represents the excess of the cost of acquisition of the Bank over the fair value of net assets acquired at the date of acquisition and relates mainly to business synergy for economics of scale and scope.

Goodwill, which is assessed to have an indefinite useful life, is subject to annual impairment testing and whenever there is an indication of impairment. The recoverable amount to determine any impairment on the goodwill was determined using discounted cash flow method approach based on five-year cash flow projection to be realized by the acquired entity and the estimated terminal value. The Bank considered key assumptions in determining the cash flow projections such as profit margins and volume growths. The growth rate used to extrapolate the five-year cash flow projection is set at 8.00%, maximum, at a discount rate of 6.13%. Based on management analyses, no impairment on goodwill is required to be recognized in 2023 and 2022.

### 15.2 Prepaid Expenses

Prepaid expenses pertain to the Bank's advance payment of administrative expenses related to rent, insurance and other expenses. Prepaid expenses also include the balance of prepaid electronic documentary stamp tax (eDST) amounting to P62.2 million and P50.4 million as of December 31, 2023 and 2022, respectively.

### 15.3 Software and Other Intangibles

Software and other intangibles pertain to various purchased computer software license used in financial services activity and other operations of the Bank.

The gross carrying amounts and accumulated amortization of software and other intangibles as of December 31 are shown below.

	<u>2023</u>	<u>2022</u>
Cost	<b>P 71,891,561</b>	P 53,216,374
Accumulated amortization	<b>( 49,702,010)</b>	( 41,397,769)
 Net carrying amount	 <b><u>P 22,189,551</u></b>	 <b><u>P 11,818,605</u></b>

A reconciliation of the carrying amounts of software and other intangibles at the beginning and end of 2023 and 2022 is shown below.

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	<b>P 11,818,605</b>	P 22,525,501
Additions	<b>18,675,188</b>	7,509,881
Amortization during the year	<b>( 8,304,242)</b>	( 18,216,777)
 Balance at end of year	 <b><u>P 22,189,551</u></b>	 <b><u>P 11,818,605</u></b>

The amortization of the software and other intangibles for 2023 and 2022 is presented as part of Occupancy and Equipment-related Expenses in the statements of profit or loss.

### 15.4 Others

Others include certain advances to suppliers, outstanding settlement accounts for transactions of other banks' card holders, retirement benefit asset from the effect of asset ceiling, and other assets.

## 16. ALLOWANCE FOR IMPAIRMENT

The changes in the allowance for impairment are presented below.

	Notes	<u>2023</u>	<u>2022</u>
Balance at beginning of year:			
Loans and other receivables	11	<b>P 2,047,289,294</b>	P 1,775,208,243
Bank premises, furniture, fixtures and equipment	12	<b>148,298,613</b>	150,696,604
Investment properties	14	<b>5,835,861</b>	5,835,861
Prepayments and other resources	15	<b><u>532,000</u></b>	<u>532,000</u>
		<b><u>2,201,955,768</u></b>	<u>1,932,272,708</u>
Impairment losses:			
Loans and other receivables		<b>725,071,878</b>	733,702,116
Investment securities at FVOCI	9	<b>( 7)</b>	<u>99,208</u>
		<b><u>725,071,871</u></b>	<u>733,801,324</u>
Write-off of loans and other receivables	4.3.4	<b>( 576,484,451)</b>	( 461,621,065)
Disposal of land	12	<b>( 4,978,072)</b>	( 2,397,991)
Adjustments		<b>( <u>20,832</u>)</b>	<u>-</u>
		<b>( <u>581,483,355</u>)</b>	<u>( 464,019,056)</u>
Balance at end of year:			
Loans and other receivables	11	<b>2,195,855,889</b>	2,047,289,294
Bank premises, furniture, fixtures and equipment	12	<b>143,320,541</b>	148,298,613
Investment properties	14	<b>5,835,861</b>	5,835,861
Prepayments and other resources	15	<b>532,000</b>	532,000
Investment securities at FVOCI	9	<b>( 7)</b>	<u>99,208</u>
		<b><u>P 2,345,544,284</u></b>	<u>P 2,202,054,976</u>

## 17. DEPOSIT LIABILITIES

As of December 31, deposit liabilities consist of the following:

	<u>2023</u>	<u>2022</u>
Demand	<b>P 1,277,885,707</b>	P 1,270,849,400
Savings	<b>45,504,843,232</b>	36,826,244,364
Time	<b><u>30,906,008,559</u></b>	<u>29,013,555,924</u>
	<b><u>P77,688,737,498</u></b>	<u>P 67,110,649,688</u>

Savings deposits have an annual interest rates ranging from 0.13% to 1.50% and from 0.13% to 1.50% for 2023 and 2022, respectively, while time deposits have interest rates ranging from 0.13% to 6.75% and from 0.13% to 6.25% per annum in 2023 and 2022, respectively.

Interest expense on deposit liabilities recognized during the year amounted to P1,788.9 million and P812.4 million in 2023 and 2022, respectively, and is presented as Interest Expense on Deposit Liabilities in the statements of profit or loss.

Deposit liabilities amounting to P132.7 million and P135.6 million as of December 31, 2023 and 2022 respectively, were held as collateral against certain loans [see Note 27(e)].

## 18. BILLS PAYABLE

The bills payable of the Bank amounting to P14,901.1 million and P6,533.0 million as of December 31, 2023 and 2022, respectively, represents borrowings from local banks.

The reconciliation of the carrying amount of bills payable is presented below.

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	P 6,533,045,833	P -
Additional borrowings	18,625,000,000	7,100,000,000
Repayments	( 10,830,309,071)	( 628,205,556)
Interest expense	<u>573,402,877</u>	<u>61,251,389</u>
Balance at end of year	<u>P 14,901,139,639</u>	<u>P 6,533,045,833</u>

Annual interest rates on bills payable ranges from 5.96% to 6.75% and from 3.75% to 6.25% in December 31, 2023 and 2022, respectively, which will mature on various dates until 2026. Interest expense on bills payable recognized during the year amounted to P573.4 million and P61.3 million in 2023 and 2022, respectively, and is presented as Interest Expense on Bills Payable in the statements of profit or loss.

As of December 31, 2023, bills payable amounting to P14,901.1 million are secured by the Bank's loan receivables (see Note 11). Loan receivables used as collateral to the bills payable amounted to P3,098.1 million as of December 31, 2023 and are measured at amortized cost, with average interest rate of 3.5% per month and original terms before maturity ranging from 6 months to 10 years. These loan receivables have been subjected to impairment testing in accordance with the Bank's ECL policy. There we no similar collaterals as of December 31, 2022.

As of December 31, 2022, bills payable to BDO amounting to P2,505.6 million are secured with government securities (see Notes 9 and 10). As of December 31, 2023, bills payable to BDO have no collaterals.

## 19. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

	<u>2023</u>	<u>2022</u>
Accounts payable	P 841,738,304	P 669,780,945
Accrued expenses	529,941,230	663,914,641
Withholding tax payable	102,033,861	92,391,192
Manager's check	29,836,906	66,279,944
Other payables	<u>267,715,603</u>	<u>38,553,577</u>
	<u>P 1,771,265,904</u>	<u>P 1,530,920,299</u>

Accrued expenses include administrative expenses.

## 20. EQUITY

### 20.1 Capital Stock

Capital stock consists of:

	Shares		Amount	
	2023	2022	2023	2022
<b>Preferred stock – P10 par value</b>				
Authorized – 30,000,000 shares				
Issued and outstanding	<u>20,560</u>	<u>20,560</u>	<u>P 205,600</u>	<u>P 205,600</u>
<b>Common stock – P10 par value</b>				
Authorized – 550,000,000 shares				
Issued and outstanding				
Balance at beginning of year	504,199,279	346,829,494	P 5,041,992,790	P 3,468,294,940
Issued during the year	<u>-</u>	<u>157,369,785</u>	<u>-</u>	<u>1,573,697,850</u>
Balance at end of year	<u>504,199,279</u>	<u>504,199,279</u>	<u>5,041,992,790</u>	<u>5,041,992,790</u>
<b>Less subscription receivable</b>				
Balance at beginning of year	14,163,281	-	141,632,810	-
Collections during the year (	<u>14,163,281</u> )	<u>-</u>	<u>( 141,632,810)</u>	<u>-</u>
Issued during the year	<u>-</u>	<u>14,163,281</u>	<u>-</u>	<u>141,632,810</u>
Balance at end of year	<u>-</u>	<u>14,163,281</u>	<u>-</u>	<u>141,632,810</u>
	<u>504,219,839</u>	<u>490,056,558</u>	<u>P 5,042,198,390</u>	<u>P 4,900,565,580</u>

The preferred shares pertain to Government Preferred Stock “A” and is issued only against government investment in the capital stock of the Bank. They shall have preference over the common stocks in the assets of the Bank in the event of liquidation, as provided in its AOI. Preferred stock “A” are non-voting and are not convertible to common shares.

As of December 31, 2023 and 2022, the Bank has 378 and 384 stockholders, respectively. Of the total number of stockholders, 269 and 274 beneficial stockholders own 100 or more shares each of the Bank’s capital stock as of December 31, 2023 and 2022, respectively.

On January 8, 2021, the Bureau of Internal Revenue (BIR) Certificate Authorizing Registration was issued for the additional 5.00% shareholdings sold to Osmanthus Investments Holdings Pte. Ltd. (Singapore) in 2019, which is equivalent to 17,341,475 shares.

On August 18, 2022, BDO Unibank, Inc. and Osmanthus Investments Holdings Pte. Ltd. (Singapore) subscribed and paid additional 53,505,727 and 9,442,187 common shares of the Bank, respectively, for a subscription price of P1,700.0 million and P300.0 million, respectively, resulting to an additional paid-in capital of P1,165.0 million and P205.6 million, respectively.

On October 28, 2022 BDO Unibank, Inc. subscribed and paid additional 80,258,590 common shares of the Bank for a subscription price of P2,550.0 million, resulting to an additional paid-in capital of P1,747.4 million. On the same date, Osmanthus Investments Holdings Pte. Ltd. (Singapore) subscribed additional 14,163,281 common shares for a subscription price of P450.0 million, which remained unpaid as of December 31, 2022 but subsequently paid on November 29, 2023.

## 20.2 Other Reserves

The components and reconciliation of items of other reserves presented in the statements of changes in equity at their aggregate amount under Other Reserves account (see also Note 20.4), are shown below.

		<b>General</b>		<b>Preferred Share</b>	
	<b>Self-insurance</b>	<b>Loan Loss</b>	<b>Appropriation</b>	<b>Redemption</b>	<b>Total</b>
Balance at January 1, 2023	P 39,717,503	P 372,769,709	P 205,600	P 412,692,812	
General loan loss appropriation	-	135,479,969	-	135,479,969	
Additional appropriation for self-insurance	<u>3,971,750</u>	<u>-</u>	<u>-</u>	<u>3,971,750</u>	
Balance at December 31, 2023	<b>P 43,689,253</b>	<b>P 508,249,678</b>	<b>P 205,600</b>	<b>P 552,144,531</b>	
Balance at January 1, 2022	P 35,000,000	P 206,145,411	P 205,600	P 241,351,011	
General loan loss appropriation	-	166,624,298	-	166,624,298	
Additional appropriation for self-insurance	<u>4,717,503</u>	<u>-</u>	<u>-</u>	<u>4,717,503</u>	
Balance at December 31, 2022	<u>P 39,717,503</u>	<u>P 372,769,709</u>	<u>P 205,600</u>	<u>P 412,692,812</u>	

## 20.3 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statements of changes in equity at their aggregate amount under Revaluation Reserves account are shown below.

	<b>Unrealized</b>	<b>Actuarial</b>	
	<b>Gain or Loss on</b>	<b>Gain or Loss</b>	
	<b>Financial</b>	<b>on Post-</b>	
	<b>Assets at</b>	<b>employment</b>	
	<b>FVOCI</b>	<b>Defined Benefit</b>	
	<b>Obligation</b>	<b>Obligation</b>	<b>Total</b>
Balance at January 1, 2023	(P 507,645,625)	(P 346,239,486)	(P 853,885,111)
Fair value gain on financial assets at FVOCI - net	180,649,337	-	180,649,337
Remeasurements of post-employment defined benefit obligation	<u>-</u>	<u>(266,832,254)</u>	<u>(266,832,254)</u>
Other comprehensive gain (loss) before tax	180,649,337	(266,832,254)	(86,182,917)
Tax income	<u>-</u>	<u>66,708,064</u>	<u>66,708,064</u>
Other comprehensive gain (loss) after tax	<u>180,649,337</u>	<u>(200,124,190)</u>	<u>(19,474,853)</u>
Balance at December 31, 2023	<b>(P 326,996,288)</b>	<b>(P 546,363,676)</b>	<b>(P 873,359,964)</b>

	Unrealized Gain or Loss on Financial Assets at FVOCI	Actuarial Gain or Loss on Post- employment Defined Benefit Obligation	Total
Balance at January 1, 2022	(P 82,860,108)	(P 377,309,538)	(P 460,169,646)
Fair value loss on financial assets at FVOCI - net	( 424,785,517)	-	( 424,785,517)
Remeasurements of post-employment defined benefit obligation	-	41,426,736	41,426,736
Other comprehensive gain (loss) before tax	( 424,785,517)	41,426,736	( 383,358,781)
Tax expense	-	( 10,356,684)	( 10,356,684)
Other comprehensive gain (loss) after tax	( 424,785,517)	31,070,052	( 393,715,465)
Balance at December 31, 2022	(P 507,645,625)	(P 346,239,486)	(P 853,885,111)

#### **20.4 Surplus**

In compliance with the requirements of the BSP, Circular No. 1011, which requires financial institutions to set up GLLP equivalent to 1.00% of all outstanding ‘Stage 1’ on-balance sheet loan accounts, the Bank appropriated P508.2 million for GLLP representing the excess of the 1.00% required allowance of the BSP over the computed allowance for ECL on loans. In 2023 and 2022, the Bank appropriated its Surplus Free for GLLP amounting to P135.5 million and P166.6 million, respectively. This appropriation was recognized as part of Other Reserves account (see Note 20.2).

The Bank also appropriated additional self-insurance amounting to P4.0 million and P4.7 million in 2023 and 2022, respectively.

In compliance with the Manual of Regulation for Banks (MORB), a portion of the Bank’s surplus corresponding to the accumulated balance of deferred income tax amounting to P343.0 million as of December 31, 2023 is not available for dividend declaration until realized by the Bank.

## **20.5 Capital Management and BSP Reporting Compliance**

### *(a) Capital Management and Regulatory Capital*

BSP, as the Bank's lead regulator, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed capital and ratio of qualifying capital to risk-weighted assets.

The MB, in its Resolution No. 1145 dated August 4, 2022, approved the new minimum capitalization requirements for banks (BSP Circular 1151). For rural banks with more than 10 branches, inclusive of head office, the required minimum capitalization is P200.0 million. Based on the foregoing, the Bank has complied with the BSP capitalization requirement.

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excludes:

- (i)* unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- (ii)* total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI;
- (iii)* deferred tax asset or liability;
- (iv)* goodwill;
- (v)* sinking fund for redemption of redeemable preferred shares; and,
- (vi)* other regulatory deductions.

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects.

The BSP has adopted the Basel 3 risk-based capital adequacy framework effective January 1, 2014, which requires the Bank, as a subsidiary of a universal bank required to adopt Basel 3, to maintain the following:

- (i)* Common Equity Tier 1 (CET1) of at least 6.00% of risk-weighted assets;
- (ii)* Tier 1 Capital of at least 7.50% of risk-weighted assets;
- (iii)* Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.00% of risk-weighted assets; and,
- (iv)* Capital Conservation Buffer of 2.50% of risk-weighted assets, comprised of CET1 Capital.

The regulatory capital is analyzed as CET1 Capital, Additional Tier 1 Capital and Tier 2 Capital, each adjusted for prescribed regulatory deductions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the MB of the BSP.

The Bank's policy is to maintain a strong capital base 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 recognized by the Bank as well as 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.

At the end of each reporting period, the Bank has complied with the prescribed ratio of qualifying capital to risk-weighted assets.

The Bank's regulatory capital position based on the Basel 3 risk-based capital adequacy framework as of December 31, 2023 and 2022 are as follows (in thousands):

	<u>2023</u>	<u>2022</u>
Tier 1 Capital		
CET 1	<b>P 11,836,687</b>	P 10,572,415
Additional Tier 1	<u>206</u>	<u>206</u>
	<b>11,836,893</b>	10,572,621
Tier 2 Capital	<u>886,272</u>	<u>692,765</u>
Total Regulatory Capital	<b><u>P 12,723,165</u></b>	<b><u>P 11,265,386</u></b>
Total Qualifying Capital	<b><u>P 12,723,165</u></b>	<b><u>P 11,265,386</u></b>
Total Risk-weighted assets	<b><u>P 100,865,776</u></b>	<b><u>P 78,154,413</u></b>
Capital ratios:		
CET 1 Ratio	<b>11.74%</b>	13.53%
Capital Conservation Buffer	<b>5.74%</b>	7.53%
Tier 1 Capital Ratio	<b>11.74%</b>	13.53%
Total Capital Adequacy Ratio	<b>12.61%</b>	14.41%

The Bank has fully adopted Basel 3 starting 2016.

(b) *Leverage Ratio*

On June 9, 2015, the BSP issued Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, which provides the implementing guidelines on the leverage ratio framework designed to act as a supplementary measure to the risk-based capital requirements. It sets out a minimum leverage ratio of 5.00% and shall be complied with at all times.

The Basel 3 leverage ratio is defined as the ratio of capital measure (Tier 1 Capital) and the exposure measure which include on-balance sheet and securities financing transactions exposures and off-balance sheet items.

The Bank's Basel 3 leverage ratio as reported to the BSP are as follows (in thousands):

	<u>2023</u>	<u>2022</u>
Tier 1 Capital	<b>P 11,836,893</b>	P 10,572,621
Exposure measure	<u><b>107,988,865</b></u>	<u>87,229,798</u>
	<u><b>10.96%</b></u>	<u>12.12%</u>

(c) *Liquidity Coverage Ratio and Net Stable Funding Ratio*

On March 10, 2016, the BSP issued Circular No. 905, *Implementation of Basel 3 Framework on Liquidity Standards - Liquidity Coverage Ratio and Disclosure Standards*, which provides the implementing guidelines on liquidity coverage ratio (LCR) and disclosure standards that are consistent with the Basel 3 framework. This Circular requires the Bank to maintain available High Quality Liquid Assets (HQLA) to meet anticipated net cash outflows for a 30-day period under stress conditions. The Bank has fully complied with the LCR minimum requirement of 100.00% coverage effective January 1, 2019.

To strengthen the Bank's short-term liquidity position and as a defense against potential onset of liquidity stress, it maintains adequate stock of unencumbered HQLAs that consists of cash or assets that can be freely converted into cash at little or no loss of value in private markets.

The Bank's LCR as of December 31, 2023 and 2022 is analyzed below (in thousands).

	<u>2023</u>	<u>2022</u>
<u>Total stock of HQLA</u>	<b>135.1%</b>	118.4%
Expected Net Cash Outflows*		

*\*Includes Restricted Term Deposits and Deposits pledged as collateral or under hold-out arrangements*

Net Stable Funding Ratio (NSFR), as detailed in BSP Circular 1007, *Implementing Guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio*, measures the availability of medium and long-term stable funding to support illiquid assets and business activities on an on-going basis. It is an assessment of the level of sustainable funding required to reduce funding risk over a one-year time horizon. The NSFR complements the LCR, which promotes short-term resilience of the Bank's liquidity profile.

To promote long-term resilience against liquidity risk, the Bank maintains a stable funding profile in relation to the composition of its assets and off-balance sheet activities and seeks to meet this objective by limiting overreliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off-balance sheet accounts.

The Bank's Basel III NSFR as of December 31, 2023 and 2022 are summarized below (in thousands).

	<u>2023</u>	<u>2022</u>
Available stable funding	<b>P 81,547,211</b>	P 65,119,466
Required stable funding	<b><u>76,071,515</u></b>	<u>60,649,819</u>
	<b><u>107%</u></b>	<u>107%</u>

## 21. RELATED PARTY TRANSACTIONS

The Bank's related parties include the Parent Bank, its DOSRI and others as described below and in the succeeding pages. None of the transactions incorporates special terms and conditions and no guarantee was given or received. Outstanding balances are usually settled in cash.

Related Party Category	Note	Amount of Transactions		Outstanding Balance	
		2023	2022	2023	2022
<b>Parent</b>					
Due from other banks	21.1	<b>P 120,390,297</b>	P 785,928,236	<b>P 1,827,127,072</b>	P 1,706,736,775
Interest income on due from other banks	21.1	<b>906,620</b>	593,646	-	-
Right-of-use asset	21.4	<b>32,820,903</b>	( 37,466,403)	<b>30,171,538</b>	21,788,545
Lease liabilities	21.4	<b>( 14,218,366)</b>	( 17,148,287)	<b>31,336,405</b>	45,554,771
Service fee	21.6	<b>245,172,497</b>	83,712,754	-	179,402,751
Bills payable	21.7	<b>1,704,066,667</b>	2,505,566,667	<b>800,000,000</b>	2,505,566,667
Interest expense on bills payable	21.7	<b>92,203,472</b>	33,772,222	<b>1,500,000</b>	5,566,667
<b>Related parties under common ownership</b>					
Due from other banks	21.1	<b>( 224,050)</b>	( 302,087,349)	<b>1,236,585</b>	1,012,535
Interest income on due from other banks	21.1	<b>13,379,246</b>	4,791,334	-	-
Deposits	21.1	<b>2,615</b>	3,017	<b>3,021,080</b>	3,018,465
Interest expense on deposits	21.1	<b>2,615</b>	3,107	-	-
Investment securities at FVOCI	21.2	<b>1,564,428</b>	( 5,907,508)	<b>99,830,055</b>	98,265,627
Interest income on investments	21.2	<b>5,757,649</b>	5,757,649	-	-
Right-of-use asset	21.4	<b>( 5,846,390)</b>	( 429,306)	<b>8,792,397</b>	2,946,007
Lease liabilities	21.4	<b>( 6,634,770)</b>	( 107,683)	<b>9,733,727</b>	3,098,957

Related Party Category	Note	Amount of Transactions		Outstanding Balance		
		2023	2022	2023	2022	
<b>Directors</b>						
Deposits	21.1	P 8,019,439	P 11,091,678	P 92,355,805	P 84,336,366	
<b>Officers</b>						
Deposits	21.1	( 4,828,568)	( 6,919,949)	772,609	5,601,177	
<b>DOSRI</b>						
Interest expense on deposits	21.1	3,920,168	935,541	-	-	
<b>Key management personnel</b>						
Compensation and benefits	21.3	175,683,000	164,951,305	-	-	

### 21.1 Deposits

In the ordinary course of business, the Bank has deposit transactions with the Parent Bank, related parties under common ownership, and its DOSRI. Under the Bank's policy, these transactions are made substantially on the same terms and conditions as with other individuals and businesses of comparable risks.

The total deposits from related parties under common ownership and DOSRI has outstanding balance of P96.1 million and P93.0 million as of December 31, 2023 and 2022, respectively. Interest rates for these deposit liabilities range from 0.12% to 6.00% per annum in 2023 and 2022. Interest expense on these deposits amounted to P3.9 million and P0.1 million in 2023 and 2022, respectively, which is presented as part of the interest expense on deposit liabilities in the statement of profit or loss.

Due from other banks include deposits with the Parent Bank and CBC, a related party under common ownership, amounting to P1,828.4 million and P1,707.7 million as of December 31, 2023 and 2022, respectively. Interest rate for these due from other banks ranges from 0.13% to 4.25% per annum in 2023 and 2022. Interest income on these deposits with other banks amounted to P14.3 million and P5.4 million in 2023 and 2022, respectively, which is presented as part of Interest Income on Deposits with Other Banks in the statements of profit or loss.

### 21.2 Investment Securities at FVOCI

The Bank acquires private-issued security from SM Prime Holdings to earn interest income and realize trading gains (see Note 9).

As of December 31, 2023 and 2022, the outstanding investment from SM Prime Holding have a coupon rate of 5.74%, and is presented as part of Investment Securities in FVOCI in the statements of financial position.

In 2023 and 2022, interest income earned from investment from SM Prime Holdings amounted to P5.8 million and is presented as part of Interest Income on Investments Securities in the statements of profit or loss.

### **21.3 Key Management Personnel Compensations**

The compensations of key management personnel are broken down as follows:

	<u>2023</u>	<u>2022</u>
Short-term benefits	<b>P 156,547,000</b>	P 145,835,000
Post-employment benefits	<b><u>19,136,000</u></b>	<u>19,116,305</u>
	<b><u>P 175,683,000</u></b>	<u>P 164,951,305</u>

These are presented as part of Compensation and employee benefits under Other Operating Expenses in the statements of profit or loss (see Note 23.1).

### **21.4 Leases**

The Bank, as a lessee, recognized right-of-use assets related to lease of space from the Parent Bank and a related party under common ownership for its branch operations, amounting to P39.0 million and P24.7 million as of December 31, 2023 and 2022, respectively, which are presented as part of Right-of-Use Assets in the Bank's statement of financial position (see Note 13). Depreciation of the right-of-use assets arising from this transaction, amounting to P16.1 million and P11.8 million in 2023 and 2022, respectively, is presented as part of Occupancy and Equipment-related Expenses in the statements of profit or loss.

The interest expense on lease liability, which amounted to P3.3 million and P1.0 million in 2023 and 2022, respectively, is included as part of Interest Expense on Lease Liabilities in the statements of profit or loss. The outstanding balance of these transactions amounted to P41.1 million and P48.7 million as of December 31, 2023 and 2022, respectively, and is included as part of Lease Liabilities in the statements of financial position.

### **21.5 Retirement Plan**

The Bank's retirement fund for its post-employment defined benefit plan is administered and managed by a trustee bank, which is the Parent Bank. The fair value and the composition of the plan assets as of December 31, 2023 and 2022 are presented in Note 23.2.

The retirement fund neither provides any guarantee or surety for any obligations of the Bank nor its investments covered by any restrictions or liens.

The details of the contributions of the Bank and benefits paid out by the plan are presented in Note 23.2.

### **21.6 Service Line Agreement with the Parent Bank**

The Bank engaged the Parent Bank, under a service agreement to obtain support such as maintenance, administration of properties/assets, management, supplies procurement, facilities management, accounting functions, loan documentation, human resources management, information technology needs, internal audit, remittance transactions support, legal assistance on all loan and/or property/asset-related litigation, credit investigation services, security services and investigation requirements, and assistance on all tax-related issues.

The service agreement shall continue to be in force unless terminated by either party through a written notice of either party at least 30 calendar days prior to the date intended for termination. The services fees are payable in cash at the beginning of each month and shall be exclusive of actual costs and expenditures of the Parent Bank in relation to the provision of the services, which shall be reimbursed by the Bank to the Parent Bank. Total service fees are presented as part of Fees and Commissions under Other Operating Expenses in the statements of profit or loss. The outstanding balance arising from these transactions as of December 31, 2023 and 2022 amounted to P245.2 million and P179.4, respectively.

Effective January 3, 2022, additional services were outsourced to the Parent Bank including loan operations and administration services, safekeeping/custodianship of securities and collateral documents, central reconciliation services, records warehousing and vendor management, check clearing services, contact center services, remittance operations, transaction processing and adjustment services, cash services, reconciliation and settlement services, documentation and enrollment of Cash Management Service clients, fraud management, and corporate secretarial services.

In 2022, the Bank also entered into several service agreements with the parent bank that will cover the fees and charges that each bank will be charging the other, at prevailing market rates, in order for the parent to continue operating and managing the ATMs without charging any fees to Bank's cardholders.

### **21.7 Bills Payable**

The Bank avails its credit line from the Parent Bank for loan funding purposes. In 2023, the amount drawn from its credit line with the Parent Bank amounted to P800.0 million. Annual interest rates range from 6.00% to 6.75%, payable monthly, and with tenors ranging from 30 days to 90 days.

The interest expense on bills payable, which amounted to P92.2 million and P33.7 million in 2023 and 2022, respectively, is included as part of Interest Expense on Bills Payable in the statements of profit or loss. The outstanding balance of these transactions amounted to P800.0 million and P2,505.6 million as of December 31, 2023 and 2022, respectively, and is included as part of Bills Payable in the statements of financial position (see Note 18).

## **22. OTHER INCOME**

This account is composed of the following:

	<u>Notes</u>	<u>2023</u>	<u>2022</u>
Recoveries from accounts written off		<b>P 59,795,573</b>	P 54,169,234
Income from disposal of BPFEE	12	<b>6,038,403</b>	25,539,914
Rental income		<b>7,593,642</b>	4,805,596
Income from disposal of investment properties	14	<b>1,196,196</b>	1,269,456
Others	9	<b>7,168,397</b>	10,951,241
		<b><u>P 81,792,211</u></b>	<b><u>P 96,735,441</u></b>

Others pertain to interbranch transactions, Unit Investment Trust Fund, Deposit Pick-Up, utility bills payment charges, sale of automated teller machine jackets and lost passbook replacement fees.

## 23. EMPLOYEE BENEFITS

### 23.1 Compensation and Employee Benefits

Expenses recognized for compensation and employee benefits are presented below.

	Note	<u>2023</u>	<u>2022</u>
Short-term employee benefits		<b>P 3,472,473,111</b>	P 3,007,110,478
Post-employment defined benefit	23.2	<u><b>310,636,815</b></u>	<u>215,119,655</u>
		<u><b>P 3,783,109,926</b></u>	<u>P 3,222,230,133</u>

There are no outstanding short-term employee benefits as of December 31, 2023 and 2022.

### 23.2 Post-employment Defined Benefit Plan

#### (a) Characteristics of the Defined Benefit Plan

The Bank maintains a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Bank. The trustee bank managed the fund in coordination with the Bank's Retirement Plan Committee who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. The plan also provides for an early retirement at age 50 with a minimum of 10 years of credited service and late retirement after age 60 but not beyond age 65. Normal retirement benefit is an amount equivalent to a percentage ranging from 50% to 200% of plan salary for every year of credited service but not less than the regulatory benefit under Republic Act No. 7641, plus the cash conversion of accumulated vacation and sick leaves, if any.

#### (b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2023 and 2022.

The amounts of retirement benefit asset recognized in the statements of financial position (see Note 15) are determined as follows:

	<u>2023</u>	<u>2022</u>
Present value of the obligation	<b>P 2,689,306,031</b>	P 2,066,696,561
Fair value of plan assets	<b>( 3,113,514,475)</b>	<b>( 2,066,696,561)</b>
	<b>424,208,444</b>	-
Effect of ceiling asset	<b>( 31,918,999)</b>	-
Retirement benefit asset	<b><u>P 392,289,445</u></b>	<b><u>P -</u></b>

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

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	<b>P 2,066,696,561</b>	P 2,091,838,094
Current service cost	<b>310,636,815</b>	215,119,655
Interest expense	<b>163,858,542</b>	127,927,734
Benefits paid	<b>( 116,853,990)</b>	<b>( 72,024,415)</b>
Transfer from the plan	<b>( 7,744,052)</b>	<b>( 53,574,710)</b>
Remeasurements:		
Actuarial (gains) losses arising from:		
Changes in financial assumptions	<b>192,817,154</b>	<b>( 274,996,017)</b>
Experience adjustments	<b>48,166,023</b>	10,541,808
Changes in demographic assumptions	<b>31,728,978</b>	<b>21,864,412</b>
Balance at end of year	<b><u>P 2,689,306,031</u></b>	<b><u>P 2,066,696,561</u></b>

The movements in the fair value of plan assets are presented below.

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	<b>P 2,066,696,561</b>	P 1,985,535,304
Contributions to the plan	<b>944,881,961</b>	303,574,926
Interest income	<b>188,735,095</b>	104,348,517
Benefits paid	<b>( 116,853,990)</b>	<b>( 72,024,415)</b>
Gain (loss) on plan assets (excluding amounts included in net interest)	<b>37,798,900</b>	<b>( 201,163,061)</b>
Transfer from the plan	<b>( 7,744,052)</b>	<b>( 53,574,710)</b>
Balance at end of year	<b><u>P 3,113,514,475</u></b>	<b><u>P 2,066,696,561</u></b>

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

	<u>2023</u>	<u>2022</u>
Debt securities:		
Government bonds	P 1,876,528,522	P 1,105,388,283
Corporate bonds	622,409,931	446,051,958
Unit investment trust funds	295,385,832	354,236,931
Equity securities	275,450,510	110,769,508
Loans and other receivables	15,528,919	23,309,623
Cash and cash equivalents	3,941,209	5,778,012
Other properties	<u>24,269,552</u>	<u>21,162,246</u>
	<u>P 3,113,514,475</u>	<u>P 2,066,696,561</u>

The fair values of the above equity and debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

The plan assets earned a return of P226.5 million in 2023 and incurred a negative return of P96.8 million in 2022.

Plan assets do not comprise any of the Bank's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are presented below.

	<u>2023</u>	<u>2022</u>
<i>Reported in profit or loss:</i>		
Current service cost	P 310,636,815	P 215,119,655
Net interest cost (income)	( <u>24,876,553</u> )	<u>23,579,217</u>
	<u>P 285,760,262</u>	<u>P 238,698,872</u>
<i>Reported in other comprehensive income (loss):</i>		
Gain (loss) on plan assets*	P 37,798,900	(P 201,163,061)
Actuarial gains (losses) arising from:		
Changes in financial assumptions	( 192,817,154 )	274,996,017
Changes in demographic assumptions	( 31,728,978 )	( 21,864,412 )
Experience adjustments	( 48,166,023 )	( 10,541,808 )
Changes in the effect of asset ceiling	( <u>31,918,999</u> )	<u>-</u>
	<u>( P 266,832,254 )</u>	<u>P 41,426,736</u>

\*Excluding amounts included in net interest expense (income).

Current and past service costs are allocated and presented in the statements of profit or loss as part of Compensation and employee benefits under Other Operating Expenses (see Note 23.1). Net interest cost (income) on post-employment defined benefit plan is presented under Interest Expense (Income) in the statements of profit or loss.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

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

	<u>2023</u>	<u>2022</u>
Discount rates	<b>6.9%</b>	7.6%
Expected rate of salary increases	<b>1.0% - 13.0%</b>	5.0% - 14.0%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 25.3 years both for male and female.

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 bond government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk, as presented below.

(i) *Investment and Interest Rate Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

Currently, the plan has relatively balanced investment in cash and cash equivalents, equity securities and debt securities. Due to the long-term nature of the plan obligation, a level of continuing equity and debt investments is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants 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.

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are shown in the succeeding page.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2023 and 2022:

	<u>Impact on Post-employment Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<b><u>December 31, 2023</u></b>			
Discount rate	+/- 1.00%	( P 327,244,065 )	P 395,662,539
Salary growth rate	+/- 1.00%	381,241,912 (	322,962,928 )
<b><u>December 31, 2022</u></b>			
Discount rate	+/- 1.00%	( P 243,236,713 )	P 293,982,978
Salary growth rate	+/- 1.00%	285,329,338 (	241,575,921 )

The sensitivity analysis above is based on a change in an assumption, while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) *Asset-liability Matching Strategies*

The retirement plan trustee has no specific matching strategy between the plan assets and the plan liabilities.

(iii) *Funding Arrangements and Expected Contributions*

The Bank is not required to pre-fund the future defined benefit payable under the retirement plan before it becomes due. For this reason, the amount and timing of contributions to the retirement fund are at the Bank's discretion. However, in the event a benefit claim arises and the retirement fund is insufficient to pay the claim, the shortfall will then be due and payable from the Bank to the retirement fund.

The plan is currently fully funded based on the latest actuarial valuation.

The maturity profile of undiscounted expected benefit payments from the plan within ten years as of December 31, 2023 and 2022 follows:

	<u>2023</u>	<u>2022</u>
Within one year	<b>P 188,912,623</b>	P 175,831,945
More than one year to five years	<b>954,252,664</b>	760,973,608
More than five years to ten years	<b><u>1,972,973,403</u></b>	<u>1,510,239,438</u>
	<b><u>P 3,116,138,690</u></b>	<u>P 2,447,044,991</u>

The Bank expects to pay P487.8 million as contributions to retirement benefit plans in 2024.

The weighted average duration of the defined benefit obligation at the end of the year is 13.4 years.

## 24. CURRENT AND DEFERRED TAXES

The components of tax expense (income) as reported in profit or loss and other comprehensive income are as follows:

	<u>2023</u>	<u>2022</u>
<i>Reported in profit or loss:</i>		
Current tax expense:		
RCIT at 25%	<b>P 273,955,820</b>	P 401,082,976
Final tax at 20%	<b><u>113,703,652</u></b>	<u>94,071,878</u>
	<b>387,659,472</b>	495,154,854
Deferred tax expense:		
Origination and reversal of temporary differences	<b><u>161,936,636</u></b>	<u>133,284,814</u>
	<b><u>P 549,596,108</u></b>	<u>P 628,439,668</u>
<i>Reported in other comprehensive income:</i>		
Deferred tax expense (income) relating to:		
Origination and reversal of temporary difference	<b><u>(P 66,708,064)</u></b>	<u>P 10,356,684</u>

The reconciliation of tax on pretax income computed at the applicable statutory rates to tax income reported in profit or loss is as follows:

	<u>2023</u>	<u>2022</u>
Tax on pretax income at 25%	<b>P 358,491,426</b>	P 440,622,343
Adjustment for income subjected to lower income tax rate	<b>( 27,750,674)</b>	( 24,010,822)
Tax effects of:		
Unrecognized deferred tax asset on impairment of financial assets	<b>181,267,968</b>	183,474,554
Non-deductible interest expense	<b>28,290,865</b>	23,616,540
Non-deductible other expenses	<b>9,302,239</b>	3,635,283
Others	<b>( 5,716)</b>	1,101,770
<b>Tax expense</b>	<b><u>P 549,596,108</u></b>	<b><u>P 628,439,668</u></b>

The deferred tax assets relate to the following as of December 31, 2023 and 2022:

	<u>Statements of Financial Position</u>		<u>Profit or Loss</u>		<u>Other Comprehensive Income</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Allowance for impairment	<b>P 71,835,175</b>	P 215,956,288	<b>(P 144,121,113)</b>	(P 115,448,628)	<b>P -</b>	P -
Post-employment defined benefit plan	<b><u>271,212,432</u></b>	<u>222,319,891</u>	<b>( <u>17,815,523</u>)</b>	( <u>17,836,186</u> )	<b><u>66,708,064</u></b>	( <u>10,356,684</u> )
Deferred tax assets	<b><u>P 343,047,607</u></b>	<u>P 438,276,179</u>	<b><u>(P 161,936,636)</u></b>	(P 133,284,814)	<b><u>P 66,708,064</u></b>	( <u>P 10,356,684</u> )
Deferred tax income (expense)						

In 2023 and 2022, the Bank is subject to the minimum corporate income tax (MCIT), which is computed at 1.5% and 1% of gross income net of allowable deductions, respectively, as defined under the tax regulations, or to RCIT, whichever is higher. No MCIT was reported in 2023 and 2022 as the Bank's RCIT was higher than MCIT in both years.

In 2023 and 2022, the Bank claimed itemized deductions in computing for its income tax due.

## 25. COMMITMENTS AND CONTINGENCIES

### 25.1 Capital Commitments

The Bank has no capital commitments as of December 31, 2023 and 2022.

### 25.2 Unused Lines of Credit

As of December 31, 2023 and 2022, the Bank has unused lines of credit amounting to P5.5 billion and P4.2 billion, respectively.

### 25.3 Credit Line Facilities

As of December 31, 2023 and 2022, the Bank has no commitment on credit line facilities.

## 25.4 Contingencies

There are contingent liabilities such as litigations and claims that arise in the normal course of the Bank's operations which are not reflected in the Bank's financial statements. The Bank's management is of the opinion that losses, if any, as of December 31, 2023 and 2022, from these claims will not have any material effect on the Bank's financial statements.

## 26. CURRENT/NON-CURRENT DISTINCTION OF RESOURCES AND LIABILITIES

The table below shows an analysis of resources and liabilities analyzed according to when they are expected to be recovered or settled:

	2023			2022		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
<b>Resources</b>						
Cash and other cash items	P 2,562,500,209	P -	P 2,562,500,209	P 2,186,619,439	P -	P 2,186,619,439
Due from BSP and other banks	9,230,770,179	-	9,230,770,179	6,460,908,160	-	6,460,908,160
Investment securities	100,302,150	8,820,367,235	8,920,669,385	150,507,829	8,742,621,958	8,893,129,787
Loans and other receivables - net	4,002,451,608	79,406,625,922	83,409,077,530	4,189,872,548	62,319,839,568	66,509,712,116
Bank premises, furniture, fixtures and equipment - net	-	2,094,635,005	2,094,635,005	-	1,925,825,405	1,925,825,405
Others - net	537,588,446	1,230,140,310	1,767,728,756	574,780,498	678,822,365	1,253,602,863
	<b>P16,433,612,592</b>	<b>P91,551,768,472</b>	<b>P 107,985,381,064</b>	<b>P 13,562,688,474</b>	<b>P 73,667,109,296</b>	<b>P 87,229,797,770</b>
<b>Liabilities</b>						
Deposit liabilities	P75,777,519,851	P 1,911,217,647	P 77,688,737,498	P 65,389,971,662	P 1,720,678,026	P 67,110,649,688
Bills payable	5,672,354,361	9,228,785,278	14,901,139,639	3,521,066,667	3,011,979,166	6,533,045,833
Lease liabilities	198,384,762	510,594,895	708,979,657	140,161,864	401,460,033	541,621,897
Accrued expenses and other liabilities	1,782,737,889	79,392,379	1,862,130,268	1,482,634,145	52,346,947	1,534,981,092
	<b>P83,430,996,863</b>	<b>P11,729,990,199</b>	<b>P 95,160,987,062</b>	<b>P 70,533,834,338</b>	<b>P 5,186,464,172</b>	<b>P 75,720,298,510</b>

**27. SUPPLEMENTARY INFORMATION REQUIRED BY THE BANGKO SENTRAL PILIPINAS**

Presented below are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP Manual of Regulations for Banks (MORB) to be disclosed as part of the notes to financial statements.

(a) *Selected Financial Performance Indicators*

The following are some indicators of the Bank's financial performance:

	<u>2023</u>	<u>2022</u>
Return on average equity:		
$\frac{\text{Net profit}}{\text{Average total capital accounts}}$	<b>7.34%</b>	12.79%
Return on average assets:		
$\frac{\text{Net profit}}{\text{Average total resources}}$	<b>0.98%</b>	1.60%
Net interest margin:		
$\frac{\text{Net interest income}}{\text{Average interest earning resources}}$	<b>6.27%</b>	8.22%

(b) *Capital Instruments Issued*

Summarized below are the capital instruments issued by the Bank as of the end of the reporting periods. The significant information related to each instrument are described in more detail in the respective note.

<u>Type of Instrument</u>	<u>Note</u>	<u>2023</u>	<u>2022</u>
Common share (CET 1)	20.1	<b>P 5,041,992,790</b>	P 5,041,992,790
Preferred share (AT 1)	20.1	<b>205,600</b>	205,600

(c) *Significant Credit Exposures for Loans*

The Bank's concentration of credit as to industry for its receivables from customers' portfolio (gross of allowance for ECL) follows:

	<u>2023</u>	<u>%</u>	<u>2022</u>	<u>%</u>
Consumption	<b>P 63,954,934,689</b>	<b>75.53%</b>	P 61,235,631,041	90.46%
Agricultural	<b>14,635,568,905</b>	<b>17.29%</b>	635,145,206	0.94%
Wholesale and retail trade	<b>4,818,546,224</b>	<b>5.69%</b>	3,860,328,027	5.70%
Manufacturing	<b>455,452,812</b>	<b>0.54%</b>	416,433,210	0.62%
Construction	<b>101,858,714</b>	<b>0.12%</b>	89,869,263	0.13%
Accommodation and food storage	<b>100,852,697</b>	<b>0.12%</b>	184,710,112	0.27%
Human health and social work activities	<b>99,624,766</b>	<b>0.12%</b>	116,473,988	0.17%
Transportation and storage	<b>48,275,882</b>	<b>0.06%</b>	38,866,842	0.06%
Administrative and support services	<b>46,533,562</b>	<b>0.05%</b>	38,391,888	0.06%
Education	<b>23,907,689</b>	<b>0.03%</b>	34,799,741	0.05%
Mining and quarrying	<b>23,511,338</b>	<b>0.03%</b>	20,142,989	0.03%
Professional and technical services	<b>19,324,664</b>	<b>0.02%</b>	18,986,995	0.03%
Real estate, rental and business activities	<b>18,190,759</b>	<b>0.02%</b>	22,219,629	0.03%
Information and communication	<b>16,305,333</b>	<b>0.02%</b>	11,090,661	0.02%
Financial and insurance activities	<b>5,781,910</b>	<b>0.01%</b>	503,993,781	0.74%
Water supply, sewerage, waste management and remediation activities	<b>3,765,866</b>	<b>0.00%</b>	4,520,834	0.01%
Electricity, gas, and aircon supply	<b>3,384,253</b>	<b>0.00%</b>	2,237,599	0.00%
Arts, entertainment and recreation	<b>2,882,744</b>	<b>0.00%</b>	2,031,864	0.00%
Other service activities	<b>292,152,508</b>	<b>0.35%</b>	459,374,091	0.68%
	<b><u>P 84,670,855,315</u></b>	<b><u>100.00%</u></b>	<b><u>P 67,695,247,761</u></b>	<b><u>100.00%</u></b>

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30.00% of the total loan portfolio plus the outstanding interbank loans receivable or 10.00% of Tier 1 capital.

As of December 31, 2023 and 2022, 10.00% of Tier 1 capital amounted to P11.8 billion and P10.6 billion, respectively, and the table in the succeeding page shows the two industry groups exceeding this level (amount in thousands).

	<u>2023</u>	<u>2022</u>
Consumption	<b>P 63,954,935</b>	P 61,235,631
Agricultural	<b>14,635,569</b>	635,145

Management believes that the Bank's loan concentration in consumption as of December 31, 2023 and 2022 is justifiable considering that the main loan product of the Bank is Salary Loans with individuals as target clientele.

(d) *Credit Status of Loans*

The breakdown of total loans (receivable from customers) as to status is shown below.

	<u>2023</u>		
	<u>Performing</u>	<u>Non-performing</u>	<u>Total Loan Portfolio</u>
Gross carrying amount:			
Consumer	P 82,116,708,207	P 2,342,824,487	P 84,459,532,694
Corporate	<u>209,822,619</u>	<u>1,500,002</u>	<u>211,322,621</u>
	82,326,530,826	2,344,324,489	84,670,855,315
Allowance for ECL	( <u>469,083,500</u> )	( <u>1,550,628,592</u> )	( <u>2,019,712,092</u> )
Net carrying amount	<b><u>P 81,857,447,326</u></b>	<b><u>P 793,695,897</u></b>	<b><u>P 82,651,143,223</u></b>

	<u>2022</u>		
	<u>Performing</u>	<u>Non-performing</u>	<u>Total Loan Portfolio</u>
Gross carrying amount:			
Consumer	P 65,500,171,578	P 1,924,179,343	P 67,424,350,921
Corporate	<u>268,948,185</u>	<u>1,948,655</u>	<u>270,896,840</u>
	65,769,119,763	1,926,127,998	67,695,247,761
Allowance for ECL	( <u>553,946,426</u> )	( <u>1,305,572,033</u> )	( <u>1,859,518,459</u> )
Net carrying amount	<b><u>P 65,215,173,337</u></b>	<b><u>P 620,555,965</u></b>	<b><u>P 65,835,729,302</u></b>

(e) *Analysis of Loan Portfolio as to Type of Security*

The breakdown of total loans (receivable from customers, net of unearned discounts) as to security follows:

	<u>Notes</u>	<u>2023</u>	<u>2022</u>
Secured			
Real estate mortgage		<b>P 535,995,359</b>	P 644,381,183
Deposit hold-out	5.6, 17	<b>132,684,594</b>	135,614,556
Other securities		<u>108,450,077</u>	<u>1,450,148</u>
		<b>777,130,030</b>	781,445,887
Unsecured		<u>83,893,725,285</u>	<u>66,913,801,874</u>
		<b><u>P 84,670,855,315</u></b>	<b><u>P 67,695,247,761</u></b>

(f) *Information on Related Party Loans*

In the ordinary course of business, the Bank has loan transactions with each other, their other affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRI). Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Under the current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of the encumbered deposit and book value of the investment in the Bank and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRI, generally, should not exceed the total equity or 15% of the total loan portfolio of the Bank. However, non-risk loans are excluded in both individual and aggregate ceiling computation.

The following table shows the information relating to the loans, other credit accommodations and guarantees granted to DOSRI as of December 31 in accordance with BSP reporting guidelines:

	<u>DOSRI Loans</u>		<u>Related Party Loans (inclusive of DOSRI)</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Total outstanding loans	<b>P</b> -	P -	<b>P</b> -	P -
% of loans to total loan portfolio	<b>0.00%</b>	0.00%	<b>0.00%</b>	0.00%
% of unsecured loans to total loans	<b>0.00%</b>	0.00%	<b>0.00%</b>	0.00%
% of past due loans to total loans	<b>0.00%</b>	0.00%	<b>0.00%</b>	0.00%
% of non-performing loans to total loans	<b>0.00%</b>	0.00%	<b>0.00%</b>	0.00%

(g) *Secured Liabilities and Assets Pledged as Security*

Aggregate amount of secured liabilities as of December 31, 2023 and 2022 amounted to P4,009.9 million and P2,505.7 million, respectively, while aggregate amount of resources pledged as security as of December 31, 2023 and 2022 amounted to P3,098.1 million and P6,276.5 million, respectively.

(h) *Contingencies and Commitments Arising from Off-balance Sheet Items*

The summary of the Bank's commitments and contingent accounts arising from transactions not given recognition in the statements of financial position, expressed at their equivalent peso contractual amounts as of the end of reporting period is presented below.

	<u>2023</u>	<u>2022</u>
Late deposits/payments received	<b>P 34,837,358</b>	P 18,344,089
Other contingent accounts	<b>144,308</b>	88,622

## 28. SUPPLEMENTAL INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below and in the succeeding pages are the supplementary information required by the BIR under Revenue Regulation (RR) No. 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR 15-2010 are as follows:

(a) *Gross Receipts Tax (GRT)*

In lieu of the value-added tax, the Bank is subject to the GRT imposed on all banks and non-bank financial intermediaries pursuant to Section 121.2 of the Tax Code.

During 2023, the Bank paid GRT amounting to P697,281,617 of which, P180,493,980 is accrued and is part of Accrued Expenses under Accrued Expenses and Other Liabilities in the 2023 statement of financial position. The amount is presented as part of Taxes and Licenses under Operating Expenses in the 2023 statement of profit or loss.

(b) *Taxes on Importation*

The Bank does not have any landed cost, customs duties and tariff fees in 2023 since it does not have any importation during the year.

(c) *Excise Tax*

The Bank did not have any transactions in 2023, which are subject to excise tax.

(d) *Documentary Stamp Tax (DST)*

In general, the Bank's DST transactions arise from the execution of debt instruments, time deposits and issuance of new shares.

For the year ended December 31, 2023, the composition of DST is as follows:

Debt instruments	P	437,451,218
Time deposits		223,393,205
Checks		9,769,650
Others		<u>740,127</u>
	<b>P</b>	<b><u>671,354,200</u></b>

On the other hand, the DST amounting to P437,451,218 pertaining to the Bank's loan releases are shouldered by its corresponding borrowers. However, the remittance is done by the Bank. Total DST remittances for the year ended December 31, 2023 amounted to P669,793,807. As of December 31, 2023, the Bank has an outstanding prepaid eDST load amounting to P62,215,279. The DST amounting to P321,823,630 was shouldered by the Bank.

The DST shouldered by the Bank are recorded as an expense and is included in the taxes and licenses under Other Operating Expenses in the 2023 statement of profit or loss.

(e) *Taxes and Licenses*

The details of taxes and licenses for the year ended December 31, 2023 are as follows:

GRT	P	696,918,054
DST		321,823,630
Business permits		41,809,493
Real property tax		7,907,765
FBT		3,160,566
Miscellaneous		<u>3,432,943</u>
	<b>P</b>	<b><u>1,075,052,451</u></b>

The amount of taxes and licenses are included as part of Other Operating Expenses in the 2023 statement of profit or loss.

(f) *Withholding Taxes*

The details of total withholding taxes for the year ended December 31, 2023 are shown below.

Final	P	331,452,802
Compensation and employee benefits		269,494,872
Expanded		67,284,585
Fringe benefit		<u>3,160,566</u>
	<b>P</b>	<b><u>671,392,825</u></b>

(g) *Deficiency Tax Assessments and Tax Cases*

As of December 31, 2023, the Bank does not have any outstanding final deficiency tax assessments from the BIR nor does it have tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR in any open taxable year.



# Report of Independent Auditors to Accompany Supplementary Schedules Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements

**Punongbayan & Araullo**  
20<sup>th</sup> Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

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**The Board of Directors and the Stockholders**  
**BDO Network Bank, Inc.**  
*(A Subsidiary of BDO Unibank, Inc.)*  
BDONB Center, Km. 9, Sasa, Davao City

We have audited in accordance with the Philippine Standards on Auditing, the financial statements BDO Network Bank, Inc. (the Bank) for the year ended December 31, 2023, on which we have rendered the attached report dated February 23, 2024. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary schedules (see Table of Contents) are presented for the purpose of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, as amended, and are not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary schedules are the responsibility of the Bank's management. The supplementary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

## **PUNONGBAYAN & ARAULLO**

  
By: **Yusoph A. Maute**  
Partner

CPA Reg. No. 0140306  
TIN 415-417-641  
PTR No. 10076145, January 3, 2024, Makati City  
SEC Group A Accreditation  
Partner - No. 140306-SEC (until financial period 2026)  
Firm - No. 0002 (until financial period 2024)  
BIR AN 08-002551-046-2023 (until Jan. 24, 2026)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 23, 2024

**BDO NETWORK BANK, INC.**  
**(A Subsidiary of BDO Unibank, Inc.)**  
**SEC Supplementary Schedules**  
**December 31, 2023**

**Table of Contents**

<i>Annexes</i>	<i>Description</i>	<i>Page</i>
Annex 68-A	Quality of Audit Work of Applicants for Accreditation and Accredited Independents Auditors	*
Annex 68-B	Supplemental Written Statement of Auditor	2
Annex 68-C	Schedules for Non-Stock, Non-Profit Organizations	*
Annex 68-D	Reconciliation of Company Retained Earnings for Dividend Declaration	3
Annex 68-E	Schedule of Financial Soundness Indicators	4
Annex 68-F	Schedule for Financing Companies	*
Annex 68-G	Schedule for Mutual Funds	*
Annex 68-H	Schedule for Investment Houses	*
Annex 68-I	Schedule for Listed Companies with a Recent Offering of Securities to the Public	*
Annex 68-J	Schedules	
A	Financial Assets	5
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	6
C	Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements	*
D	Intangible Assets - Other assets	7
E	Long-Term Debt	8
F	Indebtedness to Related Parties (Long-Term Loans from Related Companies)	9
G	Guarantees of Securities of Other Issuers	*
H	Capital Stock	10
I	Map Showing the Relationship Between the Bank and its Related Entities	11
Annex 68-K	Additional Disclosures in the notes to Financial Statements	*

*Note: \*Not Applicable*

## Supplemental Statement of Independent Auditors

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6766 Ayala Avenue  
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**The Board of Directors**  
**BDO Network Bank, Inc.**  
*(A Subsidiary of BDO Unibank, Inc.)*  
BDONB Center, Km. 9, Sasa, Davao City

We have audited the financial statements of BDO Network Bank, Inc. (the Bank) for the year ended December 31, 2023, on which we have rendered the attached report dated February 23, 2024.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Bank has a total number of 269 beneficial stockholders owning 100 or more shares each of the Bank's capital stock as at December 31, 2023.

### **PUNONGBAYAN & ARAULLO**

  
By: **Yusoph A. Maute**  
Partner

CPA Reg. No. 0140306  
TIN 415-417-641  
PTR No. 10076145, January 3, 2024, Makati City  
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Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 23, 2024

Annex 68-D  
**BDO NETWORK BANK, INC.**  
(A Subsidiary of BDO Unibank, Inc.)  
**Schedule G - Reconciliation of Retained Earnings Available for Dividend Declaration**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

Unappropriated Retained Earnings at Beginning of Year	P	1,593,819,781
Less: <u>Category B</u> : Items that are directly debited to Unappropriated Retained Earnings		
Retained Earnings appropriated during the reporting period	(	139,451,719)
Add: Net Income for the Current Year		884,369,595
 Unappropriated Retained Earnings Available for Dividend Distribution at End of Year	 <b>P</b>	 <b><u>2,338,737,657</u></b>

Annex 68-E  
**BDO NETWORK BANK, INC.**  
(A Subsidiary of BDO Unibank, Inc.)  
**Financial Soundness Indicators**  
**DECEMBER 31, 2023**

		Amount		Ratio		
		2023	2022	2023	2022	
<b>A) SOLVENCY RATIOS</b>						
1	Solvency Ratio:	<u>After Tax Comprehensive Income + Depreciation and Amortization</u>	<u>1,403,125,018</u>	<u>1,119,074,502</u>	1.5%	1.5%
		Total Liabilities	95,160,987,062	75,720,298,510		
2	Debt-to-Equity Ratio:	Total Liabilities	95,160,987,062	75,720,298,510	742.0%	657.9%
		Equity	12,824,394,002	11,509,499,260		
<b>B) RESOURCES TO EQUITY RATIO</b>						
		Total Resources	107,985,381,064	87,229,797,770	842.0%	757.9%
		Equity	12,824,394,002	11,509,499,260		
<b>C) INTEREST RATE COVERAGE RATIO</b>						
		Interest Income on Loans	7,896,679,414	5,725,204,320		
		Interest Expense on Deposit Liabilities and Bills Payable	2,362,320,205	873,639,323	334.3%	655.3%
<b>D) PROFITABILITY RATIOS</b>						
1	Return on Resources:	Net Profit	884,369,595	1,134,049,702	0.9%	1.6%
		Average Resources	97,607,589,417	70,984,216,904		
2	Return on Equity:	Net Profit	884,369,595	1,134,049,702	7.3%	12.8%
		Average Equity	12,166,946,631	8,864,332,142		
3	Net Interest Margin:	Net Interest Income	6,067,258,800	5,272,977,311	6.8%	8.2%
		Average Earning Assets	88,672,729,083	64,441,450,529		
<b>E) OTHER RATIOS</b>						
1	Total Loans and Receivables - Net to Total Resources	Total Loans and Receivables - Net	83,409,077,530	66,509,712,116	77.2%	76.2%
		Total Resources	107,985,381,064	87,229,797,770		
2	Capital Assets (Bank Premises, Furniture, Fixtures and Equipment and Investment Property) to Total Resources	Bank Premises, Furniture, Fixtures and Equipment and Investment Property	2,096,055,927	1,928,083,102	1.9%	2.2%
		Total Resources	107,985,381,064	87,229,797,770		
3	DOSRI Loans Receivables to Total Loans and Receivables - Net	DOSRI Loans	-	-	0.0%	0.0%
		Total Loans and Receivables - Net	83,409,077,530	66,509,712,116		
4	DOSRI Loans Receivables to Equity	DOSRI Loans	-	-	0.0%	0.0%
		Equity	12,824,394,002	11,509,499,260		

**BDO NETWORK BANK, INC.**  
**(A Subsidiary of BDO Unibank, Inc.)**  
**Schedule A - Financial Assets**  
**DECEMBER 31, 2023**

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Valued based on market quotation at balance sheet date	Income received and accrued (should tally with AIR)
<b><i>Investment securities at FVOCI</i></b>				
Government Debt Securitized				
PIID2032C014	P 1,000,000	P 996,361	P 996,361	P 4,831
PIID1526J019	50,000,000	50,939,575	50,939,575	500,000
PIID0527L140	2,000,000,000	1,934,124,085	1,934,124,085	5,961,111
PIBD2027I140	3,222,000	3,583,614	3,583,614	71,636
PIBD0728D649	1,900,000,000	1,745,748,502	1,745,748,502	10,713,889
PIBD0728H654	517,350,000	477,922,097	477,922,097	6,078,863
PIBD1027E617	220,000,000	213,717,889	213,717,889	1,323,667
PIBD1031G662	300,000,000	268,080,668	268,080,668	4,320,000
PIBD0526D772	150,000,000	143,037,819	143,037,819	945,000
Sub Total	5,141,572,000	4,838,150,611	4,838,150,611	29,918,996
Other Debt Securities - SM Prime	100,000,000	100,302,150	100,302,150	472,095
Total Investment securities at FVOCI	<b>P 5,241,572,000</b>	<b>P 4,938,452,761</b>	<b>P 4,938,452,761</b>	<b>P 30,391,091</b>
<b><i>Investment securities at amortized cost</i></b>				
Government Debt Securitized				
PIBD0526D772	P 350,000,000	P 347,961,187	P 347,961,187	P 2,205,000
PIBD2026A122	100,000,000	112,522,996	112,522,996	3,758,333
PIID0527C159	1,500,000,000	1,504,387,500	1,504,387,500	4,387,500
PIID0527L140	2,011,350,000	2,017,344,940	2,017,344,940	5,994,940
Total Investment securities at amortized cost	<b>P 3,961,350,000</b>	<b>P 3,982,216,624</b>	<b>P 3,982,216,624</b>	<b>P 16,345,774</b>
<b>TOTAL</b>	<b>P 9,202,922,000</b>	<b>P 8,920,669,385</b>	<b>P 8,920,669,385</b>	<b>P 46,736,865</b>

**BDO NETWORK BANK, INC**  
 (A Subsidiary of BDO Unibank, Inc.)  
**Schedule B - Amounts of Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)**  
**DECEMBER 31, 2023**

Name of debtor	Designation	Balance at beginning of period	Additions	<i>Deductions</i>		Balance at end of period	Balance per loan listing
				Amounts Collected	Amounts written off		
<i>Loans receivables:</i>							
		-	-	-	-	-	-
<b>TOTAL</b>		-	-	-	-	-	-

**A**

**B**

**A** If collection was other than in cash, explain.  
**B** Give reasons for write off.

BDO NETWORK BANK, INC  
(A Subsidiary of BDO Unibank, Inc.)  
Schedule D - Intangible Assets - Other Assets  
DECEMBER 31, 2023

<i>Description</i>	<i>Beginning balance</i>	<i>Additions at cost</i>	<i>Deductions</i>			<i>Ending balance</i>
			<i>Charged to cost and expenses</i>	<i>Charged to other accounts</i>	<i>Other changes additions (deductions)</i>	
Prepayments and Other Resources						
Software and other intangibles - net	P 11,818,605	P 18,675,188	( 8,304,242)	-	-	P 22,189,551
Goodwill	114,013,933	-	-	-	-	114,013,933
Total	<b>P 125,832,538</b>	<b>P 18,675,188</b>	<b>( 8,304,242)</b>	<b>-</b>	<b>-</b>	<b>P 136,203,484</b>

**BDO NETWORK BANK, INC**  
**(A Subsidiary of BDO Unibank, Inc.)**  
**Schedule E - Long Term Debt**  
**DECEMBER 31, 2023**

<i>Title of issue and type of obligation</i>	<i>Amount authorized by indenture</i>	<i>Amount shown under caption "Current portion of long-term debt" in related balance sheet</i>	<i>Amount shown under caption "Long-Term Debt" in related balance sheet</i>	<i>Interest Rate</i>	<i>Maturity Date</i>
Bills payable					
<i>Peso-denominated</i>					
Development Bank of the Philippines	P 1,250,000,000		P 1,250,000,000	6.10%	March 31, 2026
Development Bank of the Philippines	544,013,889		544,013,889	6.00%	April 3, 2026
Development Bank of the Philippines	835,972,222		835,972,222	6.00%	April 10, 2026
Development Bank of the Philippines	852,691,667	P 852,691,667		6.00%	September 6, 2024
Development Bank of the Philippines	527,187,500		527,187,500	6.00%	December 4, 2026
BDO Unibank, Inc.	801,500,000	801,500,000		6.75%	March 21, 2024
Land Bank of the Philippines	1,206,666,667		1,206,666,667	6.25%	November 27, 2026
Land Bank of the Philippines	1,517,550,000		1,517,550,000	6.48%	October 27, 2026
Land Bank of the Philippines	1,013,511,111		1,013,511,111	6.40%	September 16, 2026
Land Bank of the Philippines	1,317,564,444		1,317,564,444	6.40%	October 16, 2026
Land Bank of the Philippines	1,016,319,444		1,016,319,444	6.25%	September 29, 2026
Land Bank of the Philippines	905,781,250	905,781,250		6.25%	August 16, 2024
Land Bank of the Philippines	100,556,444	100,556,444		6.25%	August 23, 2024
Land Bank of the Philippines	1,505,912,500	1,505,912,500		6.45%	June 6, 2024
Land Bank of the Philippines	1,505,912,500	1,505,912,500		6.45%	July 5, 2024
<b>TOTAL</b>	<b>P 14,901,139,639</b>	<b>P 5,672,354,361</b>	<b>P 9,228,785,278</b>		

**BDO NETWORK BANK, INC**  
(A Subsidiary of BDO Unibank, Inc.)  
**Schedule F - Indebtedness to Related Parties (Long-term loans from related Companies)**  
**DECEMBER 31, 2023**

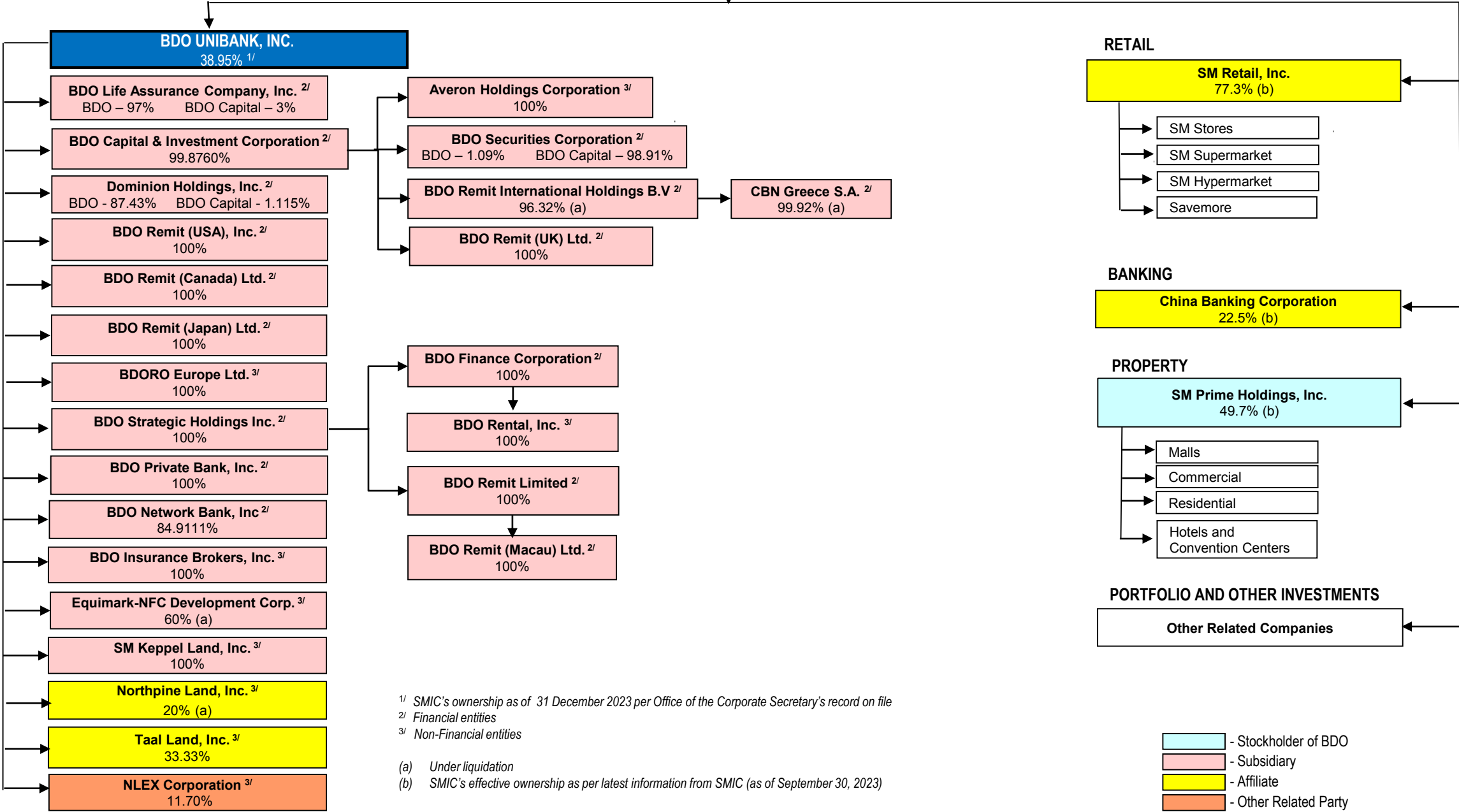
<i>Title of issue and type of obligation</i>	<i>Amount authorized by indenture</i>	<i>Amount shown under caption "Current portion of long-term debt" in related balance sheet</i>	<i>Amount shown under caption "Long-Term Debt" in related balance sheet</i>	<i>Interest Rate</i>	<i>Maturity Date</i>
Bills payable <i>Peso-denominated</i> BDO Unibank, Inc.	P 801,500,000	P 801,500,000		6.75%	March 21, 2024
<b>TOTAL</b>	<b>P 801,500,000</b>	<b>P 801,500,000</b>	<b>-</b>		

BDO NETWORK BANK, INC  
(A Subsidiary of BDO Unibank, Inc.)  
Schedule H - Capital Stock  
DECEMBER 31, 2023

<i>Title of Issue</i>	<i>Number of shares authorized</i>	<i>Number of shares issued and outstanding as shown under the related balance sheet caption</i>	<i>Number of shares reserved for options, warrants, conversion and other rights</i>	<i>Number of shares held by</i>		
				<i>Related parties</i>	<i>Directors, officers and employees</i>	<i>Others</i>
Preferred stock - P10 par value						
Authorized shares	30,000,000					
Issued and outstanding shares		20,560	-	-	-	20,560
Common stock - P10 par value						
Authorized shares	550,000,000					
Issued and outstanding shares		504,199,279	-	498,336,582	10	5,862,687

**SY GROUP**  
Felicidad Sy, Teresita Sy, Elizabeth Sy, Henry Sy Jr., Hans Sy, Herbert Sy, Harley Sy

**SM INVESTMENTS CORPORATION (SMIC)**



<sup>1/</sup> SMIC's ownership as of 31 December 2023 per Office of the Corporate Secretary's record on file

<sup>2/</sup> Financial entities

<sup>3/</sup> Non-Financial entities

(a) Under liquidation

(b) SMIC's effective ownership as per latest information from SMIC (as of September 30, 2023)

- Stockholder of BDO
- Subsidiary
- Affiliate
- Other Related Party

## ANNEX B

### BDO Network Bank (BDONB)

#### MANAGEMENT REPORT

##### I. AUDITED FINANCIAL STATEMENTS

The audited financial statements of BDO Network Bank, Inc. (“**BDONB**” or the “**Bank**”) for the years ended 31 December 2023 and 2022 are incorporated herein by reference.

##### II. INFORMATION CONCERNING DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The financial statements of the Bank for the years ended 31 December 2023 and 2022 have been audited by Punongbayan and Araullo (P & A), in accordance with generally accepted accounting principles. The Bank has not had any disagreements with any of its former or present accountants on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which led to a change in external auditors and if not resolved to the satisfaction of any of these accountants, would have caused the latter to make reference to the subject matter of the disagreement in connection with its report.

##### III. MANAGEMENT’S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

###### (1) Management’s Discussion and Analysis

###### Financial Performance

BDO Network Bank experienced continuous growth in total assets and total deposits in 2023 while also facing pressure on margins due to high interest rates and the limited ability to raise lending rates due to competitive pressure.

In 2023, the Bank continued its branch expansion by opening 60 new branches, an 18% increase compared to 2022. Salary loan growth continued in 2023 as a result of the increase in allowable maximum tenor for salary loans to Department of Education employees.

Gross customer loans increased by 25% from P67.7 billion to P84.7 billion, and total assets increased by 24% from P87.2 billion to P108.0 billion. Due to the Bank’s continued accessibility and reliability, total deposits registered a 16% increase from P67.1 billion to 77.7 billion, while current account/savings account (CASA) levels grew 23%, from P38.1 billion to P46.8 billion. For 2023, BDONB’s net income decreased 22% to P884.4 million, compared to P1.1 billion in 2022.

Income from interest-generating activities increased 15% from P5.3 billion to P6.1 billion, while non-interest income held steady at P3.9 billion. Gross operating income grew by 8% from P9.2 billion to P10.0 billion, while operating expenses increased 16% from P6.7 billion to P7.8 billion.

In 2023, BDONB continued to fulfill its vision to be the leading bank for underserved communities. BDONB worked to continue targeted network expansion and focused on the growth of the Bank's balance sheet through improved sales productivity and process efficiency, including realignments to regionalize and centralize sales teams. Travel time to the nearest bank branch has been reduced to one hour instead of 4-5 hours, and check clearing is next day instead of 5-7 days, which enables customers to make better use of their limited working capital. Credit is reasonably priced with adequate tenor and amount to enable MSMEs and employees to achieve their financial goals.

**a. Balance Sheet – 2023 vs. 2022**

- Cash and Other Cash Items grew by 17% against previous year to P2.6 billion.
- Due from Other Local Banks increased by 39% to P8.0 billion.
- Loans and Other Receivables, on a net basis, grew by 25% to P84.4 billion.
- Investment Properties dropped by 37% to P1.4 million due to various disposals.
- Total resources grew by 24% to P108.0 billion primarily attributable to fast growth in Loans.
- Total Deposits increased by 16% to P77.7 billion attributable to the 23% growth in low-cost Demand or Current and Savings (CASA) deposits and 7% growth in Time Deposits (TD).
- Bills Payable increased by 128% to P14.9 billion to fund fast growing Loans.
- Other Liabilities hiked by 24% to P2.6 billion attributed by the P171.0 million increase in Accounts Payable and P167.4 million increase in Finance Lease Payment Payable.
- Total Equity grew by 11% to P12.8 billion from net earnings during the period.

**b. Comprehensive Income – For the years ended December 31, 2023 vs. 2022**

From a Net Income of P884 million, Total Comprehensive Income for the period ending December 2023 registered at P865 million after the P200 million loss on re-measurement of Post-Employment Defined Benefit Obligation and P181 million Fair Value of Financial Assets Through Other Comprehensive Income (FVOCI) gain during the year. This represents 17% increase in Total Comprehensive Income.

**c. Key Performance Indicators – 2023 vs. 2022**

<b>SELECTED FINANCIAL RATIO</b>	<b>2023</b>	<b>2022</b>	<b>Inc./ (Dec)</b>
Return on Ave. Equity	7.27%	12.79%	-5.52%
Return on Ave. Assets	0.91%	1.60%	-0.69%
Net Interest Margin	6.81%	8.22%	-1.40%
Liquidity Ratio	15.49%	15.37%	0.13%
Debt to Equity Ratio	742.03%	657.89%	84.14%
Asset to Equity	842.03%	757.89%	84.14%

Interest Coverage	159.25%	295.62%	-136.37%
Profit Margin	7.14%	11.19%	-4.05%
Capital to Risk Assets	12.61%	14.42%	-1.81%
Earnings Per Share	1.75	2.25	-0.5

- Return on Average Common Equity declined by 5.52% to 7.27%.
- Return on Average Assets dropped by 0.69% to 0.91%.
- Net Interest Margin dropped by 1.40% to 6.81% due to high-cost Funding.
- Liquidity Ratio increased by 0.13% to 15.49%.
- Debt to Equity and Assets to Equity ratios both increased by 84.14% caused by increase in both Loans and Deposits.
- Interest Rate Coverage declined to only 159.25%.
- Profit Margin dropped by 4.05% to 7.14% from lower Net Income for the period.
- Capital Adequacy Ratio, covering credit, market and operations risk decreased by 1.81% to only 12.61%.
- With 346,829,494 shares outstanding as of December 31, 2023, earnings per share registered at P1.11 for the period.

### **Operational Highlights**

#### Lending

BDONB's gross customer loans grew by 25% in 2023, rising from P67.7 billion to P84.7 billion, with growth coming from salary loans and MSME loans. Non-performing loans remained steady at 2.8% in 2023 and 2022, while the non-performing loan cover decreased from 96.7% in 2022 to 86.2% in 2023.

The Bank continued the growth momentum in lending, demonstrating the Bank's commitment to being relevant and accessible to unbanked and underserved communities. BDONB's relationship with customers continues to deepen as they find BDONB a convenient choice due to accessible location and strong customer service. In addition, lending operations work together with branch operations to continue to bring relevant products, additional channels and technologies, and superior customer service to meet the needs of clients in a fast-changing economic environment.

#### Salary Loans

Salary loans continued to grow by 27% in 2023, with continued opening of markets and increased economic activity offsetting the impact of the higher cost of funds. Loan releases continue to increase year over year, while non-performing loans remain low at 1.24%.

The lending landscape for Salary Loans witnessed a major change when the Department of Education approved the extension of the maximum loan term from three years to five years in March 2022. The term change continued to drive increased loan bookings from new borrowers and buy-outs from both private and government lending institutions, which accelerated Salary Loans growth in 2023. The Bank's sales force has continued their signature year-round, consistent grassroots marketing strategy, emphasizing the Bank's commitment to meet the customers at their preferred location, which creates the lasting branding the Bank needs to be top of mind for Salary Loans and to remain our customers' lender of choice. As a result, BDONB became the number one provider of salary loans for teachers in 2023, with over 300,000 accounts.

The Bank continues its deliberate expansion into remote areas. These unbanked areas are carefully selected using pilot caravans to determine market suitability and acceptance and ensure sufficient business volume to cover additional operating expenses. Improvements in digital and mobile banking will enable BDONB to reach more customers, especially in remote areas where mobile phones and internet accessibility are in place, and will aid the Bank in offering better customer service as it augments personalized experience with increased digitalization. BDONB is also working to increase the partnership with our branches and the MSME teams to further increase our products and services, offering opportunities for customers and allowing BDONB to be the single source for all financing services needed by its customers.

### MSME Loans

In 2023, despite lower GDP growth and higher inflation, BDONB grew its MSME loan bookings by 30% and its loan portfolio by 21%, through process optimization, productivity enhancement, and sales force management. These efforts, coupled with improvements in asset quality and collections effectiveness, resulted in a 25% increase in ADB Earning AR. At the same time, non-performing loans decreased by 1%, from 17.6% in 2022 to 16.6% in 2023.

In addition to the continued market expansion, BDONB doubled the productivity and efficiency of its loan processors through its streamlined credit process using scoring engines and risk-based credit verification and assessment. These enhanced policies and credit tools helped the Bank achieve better asset quality, while streamlined customer processes helped improve customer experience and turnaround time and lowered processing cost. The Bank also implemented organizational changes to better position the business for sustainable growth, including increasing its sales force and marketing channels. This re-organization of people and business will enable the Bank to serve more MSMEs with the same resources and optimize its business model to fuel further growth.

Making banking easy and accessible for MSMEs is the key to helping them achieve their goals. That is why BDONB makes the MSME's customer experience the anchor of its digital initiatives, process improvements, and product development. The Bank continues to expand its customer touchpoints by setting up branches as well as digital platforms to increase ease and convenience of banking for its customers. BDONB is focused on digital capability improvements to increase speed and security of customer data capture and smart automation to deliver faster and more efficient services. BDONB remains committed to providing simple, quick, accessible, relevant, convenient, and affordable financial products and services that promote financial inclusion, especially for the unbanked and underserved communities.

## Deposit-Taking

In 2023, the Community Banking Network Group remained focused on strategic branch expansion into areas of active economic growth to cover more unbanked and underserved communities, opening 60 new branches on top of the record-breaking 90 branches opened in the prior year. As of December 31, 2023, BDONB is now present in 73 out of the 82 provinces nationwide with a total of 393 branches. The use of satellite network connections provided needed infrastructure to allow BDONB to increase expansion into areas that were previously inaccessible and will help minimize service disruptions in the event of future calamities. In addition, BDONB's partnership with BDO Agency Banking and the use of their POS technology enables the Bank to bridge the gap between municipalities with no branches.

As a result, the Bank's deposit balance at the end of 2023 reached a record high of P77.7 billion. CASA Outstanding Balance (OB) increased by 23%. The bank also maintained a CASA ratio of 60%.

BDONB continues to adjust to meet the needs of our clients, who include MSMEs, Overseas Filipino Workers (OFWs), traders, and individuals. The Bank also continually reassesses the locations of branches to ensure better accessibility for clients, and the branch design was refreshed to make it more welcoming and comfortable. Select branches are open on Saturdays and during holidays. BDONB's Rapid Response Team supports branches during emergency cases and calamities affecting employees so that all customers can continue to access bank services safely and conveniently even under adverse conditions.

In 2023, to further BDONB's mission of financial inclusion, the Bank instituted market day programs focused on specific markets for remote account opening, with the objective of capturing and providing financial products and services to a greater number of clients. BDONB actively marketed cash management services to corporate clients to aid in simplifying their disbursements and collections and partnered with MSME to increase cross-selling opportunities, such as loans and microinsurance. With the introduction of cash management, corporate clients in remote and previously underserved areas now have access to financial services that will enable them to manage and move funds more conveniently to aid in collections and paying their employees and suppliers.

## Support and Delivery Systems/Network

In 2023, BDONB added 60 branches and deployed 61 additional ATMs. The strategic location of remote ATMs further extends the accessibility to customers who are beyond the periphery of the Bank's branches, and BDONB seeks to ensure that ATMs are always available for use through the consolidation of ownership and operations of all ATMs to the Bank's affiliate, BDO Unibank. BDONB is also focused on coordinated expansion of Cash Agad to complement our ongoing network expansion.

Domestic remittance volumes increased 73% in 2023. Credit to BDONB accounts remittance service via PESONet continues to increase in value and volume, reaching P18.37 billion, which is 110% higher compared to last year.

BDONB's efforts related to digital/mobile banking are ongoing, with the launch of mobile banking anticipated by 2024, which will provide additional online banking services such as bills payment

and fund transfer to other banks. BDONB is also working toward the implementation of one Cash Management Services (CMS) platform with BDO Unibank for business online banking in 2024 to further leverage the synergy between BDO and BDONB.

System enhancements and continued advancements in platforms and IT infrastructure will continue to support the elevation of the Bank's services and offerings, including current efforts underway to improve the fulfillment of remittance services by providing additional channels for sending remittances via online banking.

### Treasury

In 2023, BDONB continued to focus on diversifying funding options for the Bank's growing loan portfolio at a reasonable cost, whether through external financing or increased deposit generation.

The continued rise in interest rates led to an ongoing increase in interest expense, which resulted in higher cost of funds that in turn negatively impacted the Bank's net interest margins. However, BDONB was able to utilize the facility agreement with Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP) to improve its Net Stable Funding Ratio and Liquidity Coverage Ratio for the period.

For 2024, the Treasury Group will continue to explore additional financing options to fund the Bank's loan growth and expansion, utilize its investment portfolio to generate income, and explore low-cost funding sources to enhance the Bank's net interest margin until interest rates begin to ease, with a gradual decrease expected as the Philippines' central bank (BSP) is anticipated to begin to cut rates this 2024. The Treasury Group will also continue to support other Bank programs and initiatives, including financial inclusion and network expansion.

### Leadership, Talent, and Organization

The Bank's employee headcount grew in 2023 by 9% to 5,134 employees, with most of the new hires coming from the communities where new branches are located.

Efforts to support the talent acquisition needs of newly opened branches continue to be challenging in the current market, as the Bank's unique model of meeting the customers where they are located requires selling skills that are not readily available in the industry. Hiring from the localities where branches are located remains a priority. As a result, BDONB equally consider applicants from outside the industry for new staff hires and use internal and external training to provide new employees with the competencies needed in their individual roles as they adapt to the highly regulated banking industry. Efforts started in 2022 to help recruitment fill open positions continued into 2023, resulting in a 50% decrease in posted vacancies.

BDONB also support the continued needs of the organization through culture-building practices and ongoing training programs for employee development, with strong participation from both HR and the business units. In 2023, multiple organizational changes were undertaken to help the business evolve and adapt to support current and future business objectives, such as the MSME team's efforts to re-deploy back office personnel into front line sales associates and the consolidation of the Salary Loan and MSME sales associates into one team. BDONB worked with

the different teams to manage change, help ease apprehension, and provide training for impacted individuals where needed. BDONB also facilitated changes in the organizational structure to add area offices to support the continued expansion of our branches and led management development programs and financial literacy seminars for branch employees.

To further support the Bank's culture and service philosophy, BDONB continued to promote the Sama-sama sa Pagbangon fund, to which BDONB employees make voluntary contributions that are in turn used to help their fellow employees in times of need, such as calamity and sickness.

## **(2) Prospects for the Future/Plans of Operation**

The Bank is well-positioned to fulfill its vision to provide relevant, meaningful, and accessible banking for underserved communities. BDONB values its relationship with the community and strives to deliver financial solutions for its customers. BDONB is able to bring banking closer to the underserved and unserved communities through its ever-expanding network of branches and its superior products and services that enable customers to accelerate their trading activities and increase the ease with which they can complete their financial transactions. BDONB is welcomed into each new market as it is the only bank that can meet the needs of its customers and provide access to the additional products and services offered by our parent bank.

BDONB focuses tirelessly on the customer experience as it seeks to improve accessibility through continued network expansion, timeliness through improved productivity and efficiency, and relevance by developing and bringing the right products to serve more segments of the community. In addition, BDONB is focused on implementing technological advancements such as digital platforms to increase ease and convenience of banking and smart automation of its back office to deliver fast and efficient services.

At the heart of it all are the people of BDONB, who remain committed to making a difference in the lives of the clients and the communities they serve. BDONB teams will continue to provide excellent customer service and meaningful engagement with current and future clients, as it is those customer relationships that are the foundation of everything that BDONB does.

## **(3) Performance Measures and Procedures**

BDONB has been performing well as summed by various key qualitative financial indicators such as Capital Adequacy Ratio ("CAR") and Net Interest Margin.

### **a. Capital Adequacy Ratio**

BSP, as the Bank's lead regulator, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed capital and ratio of qualifying capital to risk-weighted assets.

The MB, in its Resolution No. 1607 dated October 9, 2014, approved the new minimum capitalization requirements for banks. For rural banks with head office in other areas, particularly cities up to third class municipalities outside National Capital Region and with more than 50 branches, the required minimum capitalization is P80.0 million. Based on the foregoing, the Bank has complied with the BSP capitalization requirement.

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten (10%) percent of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excluding:

- i. unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- ii. total outstanding unsecured credit accommodations to DOSRI;
- iii. deferred tax asset or liability;
- iv. goodwill;
- v. sinking fund for redemption of redeemable preferred shares; and,
- vi. other regulatory deductions.

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects.

The BSP has adopted the Basel 3 risk-based capital adequacy framework effective January 1, 2014, which requires the Bank, as a subsidiary of a universal bank required to adopt Basel 3, to maintain the following:

- (a) Common Equity Tier 1 (CET1) of at least 6.00% of risk-weighted assets;
- (b) Tier 1 Capital of at least 7.50% of risk-weighted assets;
- (c) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.00% of risk-weighted assets; and,
- (d) Capital Conservation Buffer of 2.50% of risk-weighted assets, comprised of CET1 Capital.

The regulatory capital is analyzed as CET1 Capital, Additional Tier 1 Capital and Tier 2 Capital, each adjusted for prescribed regulatory deductions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the MB of the BSP.

In October 2014 BSP issued Circular No. 856, which outlined the higher loss absorbency requirements for Domestic Systemically Important Banks (DSIB). BDO has been identified as a DSIB and was required to maintain a higher loss absorbency requirement of 2.5% to be implemented in three equal annual required increases starting January 1, 2017. Subsequent to BSP's issuance of Circular No. 1051 on the Amendment to the Framework for Dealing with Domestic Systematically Important Banks (D-SIBS) in September 2019, the rate was reduced to 2% lowering minimum CAR threshold for BDO as well as for BDO Network Bank as its subsidiary to 12%. The Bank has fully adopted Basel 3 in 2016.

The Bank's policy is to maintain a strong capital base 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 recognized by the Bank as well as 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.

At the end of each reporting period, the Bank has complied with the prescribed ratio of qualifying capital to risk-weighted assets with Total CAR of 12.61% and Total Tier 1 CAR of 11.74% for 2023 and 2022, respectively.

**b. The return on average equity ("ROAE")**

**ROAE** is a financial ratio that measures the profitability of a company in relation to the average shareholders' equity. This financial metric is expressed in the form of a percentage which is equal to net income after tax divided by the average shareholders' equity for a specific period of time. This ratio is an adjusted version of the return of equity that measures the profitability of a company. The return on average equity, therefore, involves the denominator being computed as the summation of the equity value at the beginning and the closing of a year, divided by two.

Estimating the return on average equity can provide a more accurate picture of the company's corporate profitability, particularly in situations where the value of shareholders' equity has changed significantly during the financial year. In circumstances, where the value of shareholders' equity does not alter or alters by a small amount during a specific period, the Return on Equity and the ROAE numbers should be similar, or identical.

BDONB in its latest Audited Financial Statement has reported ROAE of 7.3% and 12.8% for 2023 and 2022, respectively.

**c. Return on Average Assets ("ROAA")**

**ROAA** can be defined as an indicator used to evaluate the profitability of the assets of a firm. It is estimated by dividing the net income by average total assets. The obtained ratio is expressed as a percentage of the total average assets.

Moreover, the return on average assets is useful in measuring profits against the assets used by a company for generating profits. The ratio is an important indicator of the intensity of assets of a company. A lower ROAA ratio reflects a higher asset-intensity of the company, and vice versa. Besides, a more asset-intensive company requires a larger amount of money to continue producing revenue.

BDONB in its latest Audited Financial Statement has reported ROAA of 0.9% and 1.6% for 2023 and 2022, respectively.

**d. Net Interest Margin ("NIM")**

NIM is a helpful metric in tracking the profitability of a bank's investing and lending activities over a specific course of time. It can be expressed as a performance metric that examines the

success of a firm's investment decisions as contrasted to its debt situations. A negative Net Interest Margin indicates that the firm was unable to make an optimal decision, as interest expenses were higher than the amount of returns produced by investments. Thus, in calculating the Net Interest Margin, financial stability is a constant concern.

Net Interest Margin is computed by dividing the difference between the Investment Returns and Interest Expenses over or by the Average Earning Assets.

BDONB in its latest Audited Financial Statement has reported Net Interest Margin of 6.8% and 8.2% for 2023 and 2022, respectively.

**e. Earnings per share ("EPS")**

EPS is the portion of the company's distributable profit which is allocated to each outstanding equity share (common share). It is a useful measure of profitability, and when compared with EPS of other similar companies, it gives a view of the comparative earning power of the companies. EPS when calculated over a number of years indicates whether the earning power of the company has improved or deteriorated. Growth in EPS is an important measure of management performance because it shows how much money the company is making for its shareholders, not only due to changes in profit, but also after all the effects of issuance of new shares (this is especially important when the growth comes as a result of acquisition).

The EPS is calculated by dividing net profit after taxes and preference dividends by the number of outstanding equity shares. If the capital structure changes (i.e. the number of shares changes) during the reporting period, a weighted average number of equity shares is used to for the calculations of EPS. The diluted earnings per share (Diluted EPS) expands on basic EPS and includes the shares of all convertible securities if they were exercised. Convertible securities are convertible preferred shares, stock options (usually employee based), convertible debentures and warrants.

BDONB in its latest Audited Financial Statement has reported Earnings Per Share of P1.75 for 2023. It should be noted that ONB has no convertible shares during the period herein referred.

**f. Liquidity**

Liquidity is the ability of BDONB to meet all its maturing repayment obligations on time and to fund all of its asset growth and strategic opportunities. The purpose of liquidity analysis is to measure current liquidity position and its ability to meet future funding needs. An analysis of current liquidity position generally involves a review of key balance sheet ratios, while the analysis of the ability to meet future funding needs involves an analysis of projected cash inflows and outflows.

BDONB manages liquidity by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio. In addition, BDONB seeks to maintain sufficient liquidity to take advantage of interest rate opportunity when they arise.

An analysis of maturity groupings of financial resources and financial liabilities items as at December 31, 2023 and 2022 shows that BDONB has negative short-term Total Liquidity Gap of P3.617B and P11.165B, respectively.

Furthermore, in its latest Audited Financial Statement, BDONB has reported a Net Income of P884 million and P1.13 billion for the period ending December 2023 and 2022, respectively. There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in BDONB's liquidity increasing or decreasing in any material way. BDONB has no or does not anticipate any cash flow or liquidity problems within the next twelve (12) months. It has not been in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments. BDONB has not been in default or breach of any significant amount of its trade payables.

BDONB's primary source of funds is accepting deposits from retail and corporate depositors. Substantial amount of BDONB's excess funds are invested to the accredited Commercial Banks either in the form of short term or long term investments. Limits on investments are clearly defined in BDONB's Investment Manual.

BDONB may also source its funds from the readily available stand-by credit lines with Counterpart Banks.

Disposal of few acquired assets is also contributory on the Bank's fund.

Moreover, BDONB does not anticipate any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation. It has no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period. It also has no material commitments for capital expenditures.

The Bank does not anticipate any event that will have material unfavorable impact on net sales or revenues or income from its continuing operations in the next twelve (12) months. It also has no significant elements of income or loss that did not arise from its continuing operations.

**g. Financial Statements**

As a bank, BDONB's material Balance Sheet items include Loans, Deposit, Investments and Property Plant and Equipment. On the other hand, material Income Statement items consists of Interest Income on Loans, Interest Income on Investments, Service Charges, Fees and Commissions, Interest Expense on Deposits, Interest Expense on Borrowings, Compensation and Employee Benefits, Occupancy and Equipment Related Expenses Taxes and licenses. Nevertheless, the most significant Balance Sheet drivers of BDONB are its Loans and Deposits. Movements from these items could materially affect other Balance Sheet and Income Statement items.

Other Balance Sheet and Income Statement items are deemed immaterial in relation and on the basis of material factors cited above. Any changes in these immaterial items could only

be an offshoot of a material item or combination of other material Balance Sheet and/or Income Statement items.

In 2011, BDONB hit its optimum year-on-year growth (71.99%) in loan Portfolio when it implemented significant change in its Salary Loans parameters i.e. reduction of interest and implementation of diminishing amortization. As a result of these change in parameter, significant growth in Loans continued to in 2013 and 2014 with year-on-year growths of 24.27% and 15.56%, respectively. However, due to stiffer competition, the Loans slightly fell by 1% 2015. Although the growth recovered at 5% in 2016, it again dipped by 2% in 2017 and 9% in 2018 mainly because of the new regulations regarding the Department of Education's (DepEd's) Auto Payroll Deduction Scheme, which stalled the DepEd Salary Loan Program for public school teachers from November 2017 through the first half of 2018. Thus, BDONB has realigned the program to be less vulnerable to political disruption, to be more competitive, improve credit performance and increase market responsiveness. In 2018, the bank implemented the nationwide rollout of a loan program tailored to micro, small, and medium enterprises (MSME) which is responsive to the call by Bangko Sentral ng Pilipinas (BSP) for greater financial inclusion. The bank was able to fully recover with 24% growth in its Salary Loans portfolio while its MSME loan portfolio and coverage doubled to P2B and to over 200 markets nationwide in 2019.

Amidst the Pandemic, in 2020, the bank was able to grow its Salary Loans portfolio by 32% while its MSME loan portfolio by 50% funded by 31% growth in Deposits. Furthermore, the bank was able to sustain Salary Loans growth at 21% and MSME at 35%, funded by 41% growth in Deposits.

In 2021, the Bank experienced another record-breaking year, as we registered the highest annual MSME loan booking, and the highest number of new branch openings in a single year, with 49 new branches. Gross customer loans increased 20% and total assets increased 34%. Due to the Bank's continued accessibility and reliability, total deposits registered a 41% increase, while current account/savings account (CASA) levels grew 16%. BDONB's net income increased 217%. Income from interest-generating activities increased 33% and non-interest income grew 46%. Gross operating income grew by 37%, while operating expenses increased 31%.

In 2022, the Bank experienced another record-breaking year in new branch openings with 90 new branches, a 37% increase over 2021's previous record. Salary loan growth was at its highest rate in 2022 as the change in allowable maximum tenor of salary loans to Department of Education employees was increased from three to five years, and, as the economy gaining improvement in the second half of 2022, loan demand among micro, small and medium enterprises (MSMEs) increased. That said, the sharp rise in interest rates have increased funding costs and increased mark-to market losses, applying pressure on retained earnings.

In 2023, the Bank continued its branch expansion by opening 60 new branches, an 18% increase compared to previous year. Salary loan growth continued in 2023 as a result of the increase in allowable maximum tenor for salary loans to Department of Education employees.

Gross customer loans increased by 25% from P67.7 billion to P84.7 billion, and total assets increased by 24% from P87.2 billion to P108.0 billion. Due to the Bank's continued accessibility

and reliability, total deposits increased by 16% from P67.1 billion to 77.7 billion, while current account/savings account (CASA) levels grew 23%, from P38.1 billion to P46.8 billion. For 2023, BDONB's net income decreased 22% to P884.4 million, compared to P1.1 billion in 2022.

Income from interest-generating activities increased 15% from P5.3 billion to P6.1 billion, while non-interest income held steady at P3.9 billion. Gross operating income grew by 8% from P9.2 billion to P10.0 billion, while operating expenses increased 16% from P6.7 billion to P7.8 billion.

In the ordinary course of business, the Bank has loan and deposit transactions with the Parent Bank, bank under common ownership and its DOSRI. Under the Bank's policy, these loans and other transactions are made substantially on the same terms and conditions as with other individuals and businesses of comparable risks.

Under the General Banking Act and BSP regulations, the amount of direct credit accommodations to each of Bank's directors, officers and stockholders of which 70% must be secured, should not exceed the amount of their respective deposits and book value of their respective investment in the bank.

Likewise, BDONB grants loan to regular borrowers and also its affiliates. The bank has no DOSRI loans both in year 2023 and 2022.

BDONB has no or does not anticipate any seasonal aspects that had a material effect on the financial condition or results of operations of BDONB.

#### **(4) Material Changes**

##### **(a) Any Known Trends, Events or Uncertainties (material impact on Liquidity)**

Trends, events or uncertainties, which can have a material impact on liquidity, are explained under item 3 (f) above.

##### **(b) Internal and External Sources of Liquidity**

The internal and external sources of liquidity are herein discussed under item 3 (f) above.

##### **(c) Any Material Commitments for Capital Expenditure and Expected Funds**

None.

##### **(d) Any Known Trends, Events or Uncertainties (material impact on sales)**

Trends, events or uncertainties, which can have a material impact on sales, are explained under item 3 (f) above.

##### **(e) Causes for any Material Changes from Period to Period of Financial Statements**

The causes for any material changes from 2020-2021 are explained in item 3 (f) above.

**(f) Seasonal Aspects that has material Effect on the Financial Statements**

None.

**IV. DESCRIPTION OF THE GENERAL NATURE AND SCOPE OF THE BUSINESS OF THE BANK**

**(1) Business Development**

*Form and Year of Organization*

BDO Network Bank, Inc. (the Bank) was organized as a result of the consolidation of two rural banks, namely, One Network Rural Bank, Inc. (ONRBI) and Rural Bank of New Corella (Davao del Norte), Inc. (RBNCI). The Bank was incorporated in the Philippines and was registered with the Securities and Exchange Commission (SEC) on July 14, 2011 to engage and carry on the business of a rural bank as provided in the Rural Banks Act of 1992. The Bank started its commercial operations on September 1, 2011.

On April 18, 2012, a plan of merger was made and entered into by the Bank with Rural Bank of San Enrique (Iloilo), Inc. (RBSEI) doing business under the name and style of Banco San Enrique (a Rural Bank). On April 12, 2013, the SEC approved the merger of the Bank with RBSEI, with the former as the surviving entity.

On July 20, 2015, BDO Unibank, Inc. (BDO or the Parent Bank), with the approval of the Monetary Board (MB) of the Bangko Sentral ng Pilipinas (BSP), successfully acquired 99.59% of the Bank's outstanding capital stock making the Bank a member then of the BDO Group. As of December 31, 2021 and 2020, BDO is the beneficial owner of 82.76% and 87.76%, respectively, of the Bank's total issued and outstanding capital.

On September 29, 2018, the Parent Bank entered into an agreement with Osmanthus Investment Holdings Pte. Ltd. (Singapore), whereby the latter will acquire 15.00% ownership interest in the Bank. On May 16, 2019 and January 8, 2021, the latter acquired 10.00% and 5.00% ownership interest in the Bank, respectively.

On February 4, 2019, the Bank entered into an asset sale and purchase agreement with Rural Bank of Pandi (Bulacan), Inc. (RBPI) wherein the Bank purchased the recorded gross loan receivables, and assume the recorded deposit liabilities of RBPI. The purchase was completed on October 31, 2019.

On July 31, 2019, the SEC approved the Bank's application to change its corporate name from One Network Bank, Inc. (A Rural Bank of BDO) to BDO Network Bank, Inc.

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 substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Bank is subject to the provisions of the General Banking Law of 2000

or Republic Act (RA) No. 8791. 15 16 - 2 - The registered head office of the Bank is located at BDNB Center, Km. 9, Sasa, Davao City. The Bank has the widest private banking network in Mindanao and the widest rural banking network in the country with its 393 branches and 121 loan processing offices as of December 31, 2023.

The Bank offers a complete array of products and services. It offers Deposit products (e.g., Savings Accounts - Young Pera Savers, ATM and Payroll Accounts, Kabayan Savings, and Optimum Savings; Checking Account; and, Time Deposit Account), has remained tolerant to micro deposits given the affordable opening requirements, and has also grown to include big banking financial product packages. The Bank likewise offers Loan Products for appropriate and timely credit for personal consumption as well as need-based cash flow financing packages that not only nurture small businesses in the countryside but also provide credit lines that cater to client's needs. Other services include convenient, quick and affordable collection and payment services bringing modern, value-added services closer to Bank's clientele, big and small.

## V. Market for Issuer's Common Equity and Related Stockholder Matters

### (1) Market Information

There is no principal market where the Bank's shares (Common and Government Preferred "A" shares) are being traded.

### (2) Holders of Securities

#### (a) Common Shares

The number of common shareholders as of March 13, 2024 is 378. The top 20 common shareholders of the Bank as of March 13, 2024 on the basis of actual tender offer of shares standing, are as follows:

RANK	NAME OF STOCKHOLDERS (COMMON STOCKS)	NATIONALITY	NO. OF SHARES OWNED	% OF OWNERSHIP
1	BDO UNIBANK, INC.	FILIPINO	422,706,691	83.84%
2	OSMANTHUS INVESTMENT HOLDING, PTE., LTD	SINGAPOREAN	75,629,891	15.00%
3	AQUINO, DAVID S. and/or ESPERANZA and/or SARAH ANGELICA and/or DAVID ANGELO	FILIPINO	2,580,409	0.51%
4	AQUINO, DAVID S.	FILIPINO	1,151,437	0.23%
5	ULANGCA, CHRISTINA MA. LUISA D.R.	FILIPINO	803,600	0.16%
6	LAGMAN, EDGARDO	FILIPINO	219,207	0.04%
7	LIM, GEORGE U or SHERWIN C.	FILIPINO	122,516	0.03%
8	ESPADERA, MA. DIOLIE	FILIPINO	76,612	0.02%
9	ESPADERA, REYNANTE	FILIPINO	76,593	0.02%
10	PANES, EVELYN K.	FILIPINO	67,736	0.02%
11	ABAD, FELICITA	FILIPINO	64,472	0.01%
12	CATOLICO, PRISCILA	FILIPINO	55,555	0.01%

13	SIAN, REY	FILIPINO	42,561	0.01%
14	BUENAVENTURA, AMELIA AND/OR MYCHELLE D.R. ULANGCA	FILIPINO	35,862	0.01%
15	EVANGELISTA, THADDUES	FILIPINO	32,017	0.01%
16	TOLENTINO, SULPICIO	FILIPINO	24,981	0.01%
17	TOLENTINO, FELIPE, JR.	FILIPINO	24,814	0.01%
18	PANABO JI AGRICULTURAL TRADERS (PJAT) INC.	FILIPINO	22,200	0.005%
19	PALABRICA, FRANCISCA	FILIPINO	22,116	0.005%
20	RAMOS, CARLOS	FILIPINO	21,605	0.004%
21	OTHERS	FILIPINO	418,404	0.09%
	<b>TOTAL</b>		<b>504,199,279.0</b>	<b>100.000%</b>

*\*The application for issuance of the Certificate Authorizing Registration to transfer the shares from various owners to BDO Unibank, Inc. in the records of the Bank is currently pending with the BIR.*

(b) Government Preferred “A” Shares

Government Preferred “A” shares outstanding as of March 13, 2024 stood at 20,560 owned by only 1 shareholder, Development Bank of the Philippines.

**(3) Dividends**

The Bank’s Board of Directors is authorized to declare dividends annually. Stock Dividend declarations require further approval of stockholders representing not less than two-thirds (2/3) of all stocks outstanding and entitled to vote. Such stockholders’ approval may be given at a general or special meeting duly called for the purpose. Dividends may be declared only from surplus profits after making proper provisions for necessary reserves in accordance with applicable laws and the regulations of the BSP.

There was no dividend declaration made in 2021, 2022 and 2023.

**(4) Recent Sales of Unregistered Securities (within 3 years)**

The Corporation did not sell nor offer for sale any unregistered or exempt securities including issuance of securities constituting an exempt transaction for the last three (3) years.

**VI. Compliance with Leading Practices on Corporate Governance**

**(1) Evaluation System**

BDONB’s Manual on Corporate Governance (the “Manual”) was approved by the Board of Directors on July 7, 2014 and its latest amendment/revision on April 28, 2023 in compliance with the Revised Code of Corporate Governance of the SEC and MORB of the Bangko Sentral ng Pilipinas.

The evaluation by the Bank to measure and determine the level of compliance of the Board of Directors and top level management with the Manual is vested by the Board of Directors in the Compliance Officer. The Compliance Officer, who holds the position of Senior Assistant Vice President and has direct reporting responsibilities to the Board, is mandated to monitor compliance by all concerned with the provisions and requirements of the Manual. Compliance by the Board of Directors and top level management with the Manual is evaluated on the basis of their compliance with the policies and procedures of the Bank specifically adopted for good corporate governance.

BDONB has substantially adopted the provisions of the Manual.

## **(2) Measures on Leading Practices of Good Corporate Governance**

In order to aid the Board of Directors in complying with the principles of good corporate governance, the Board of Directors constituted the Board Level Committees of Corporate Governance, Audit, and Risk Management, Related Party Transactions, and the Executive. For one, the Related Party Transactions Committee was established on July 30, 2016, whose primary role is to review and evaluate proposed related party transactions prior to endorsement to the Board of Directors for approval. There is also a Management Committee which directly reports to the President.

Each of the said Committees has adopted its own charter which is being reviewed annually and updated if necessary. The charter sets out the Committee's role, authority, duties and responsibilities, and the procedure which guides the conduct of its functions.

On a periodic basis, the Board of Directors conducts self-assessment of its performance against established criteria, for purposes of assessing its effectiveness and as a tool in its efforts to improve its structure, composition and practices and procedures. The Corporate Governance Officer prepares the overall report and presents this to the Corporate Governance Committee for discussion and endorsement to the Board, including the recommended actions and focus areas to improve effectiveness.

Pursuant to its commitment to good governance and business practice, the Bank continues to review and strengthen its policies and procedures in order to ensure that such policies and procedures are consistent with leading practices on good corporate governance, giving due consideration to developments in the area of corporate governance, which it determines to be in the best interests of the Bank and its stockholders.

## **(3) Any Deviation from the Manual**

BDONB has substantially adopted the provisions of the Manual.

## **(4) Improvement of Good Governance**

BDONB is now entering the era of digital transformation and looking at ways to optimize the use of the new technologies to strengthen corporate governance practices while remaining vigilant to the risk of digitization to business operations. In ensuring that the Bank stays as the market leader in the Philippine financial services industry, it is focused on maximizing the effectiveness

of our corporate governance practices as a business enabler and driver of our performance in the proper context of risks and rewards, opportunities, and prospects for the Bank in this new era. This is essential in going forward into the future as it continues to compete and remain relevant to our various stakeholders.

#### **Undertaking to Provide Annual Report**

BDONB undertakes to provide, without charge, each stockholder a copy of BDONB's Annual Report on SEC Form 17-A upon written request to BDONB addressed to:

**ATTY. JOSEPH JASON M. NATIVIDAD**  
**Corporate Secretary**  
BDONB Corporate Center  
Km. 9 Sasa, Davao City

At the discretion of BDONB, a charge may be made for exhibits, provided such charge is limited to reasonable expenses incurred by BDONB in furnishing such exhibits.