

IMPORTANT NOTICE

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

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

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY UNITED STATES ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. ANY INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THE FINAL TERMS AND CONDITIONS OF THE SECURITIES AND THE INFORMATION CONTAINED IN AN OFFERING CIRCULAR THAT WILL BE DISTRIBUTED TO YOU ON OR PRIOR TO THE CLOSING DATE AND NOT ON THE BASIS OF THE ATTACHED DOCUMENTS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

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

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

The materials relating to the offering of securities to which this Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of MUFG Securities Asia Limited Singapore Branch (the “Arranger”), or any affiliate of the Arranger is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Arranger or such affiliate on behalf of the Bank (as defined in this Offering Circular) in such jurisdiction.

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

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

OFFERING CIRCULAR



SECURITY BANK CORPORATION
(incorporated in the Philippines with limited liability)
U.S.\$1,000,000,000
Medium Term Note Programme

Under the Medium Term Note Programme described in this Offering Circular (the “**Programme**”), Security Bank Corporation (the “**Issuer**” or the “**Bank**”), subject to compliance with all relevant laws, regulations and directives, may from time-to-time issue medium term notes (the “**Notes**”) denominated in any currency agreed between the Bank and the relevant Dealer (as defined below).

The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.\$1,000,000,000 (or its equivalent in other currencies), subject to increase as described herein.

The Notes of each Series issued in bearer form (“**Bearer Notes**”) will be represented on issue by a temporary global note in bearer form (each a “**Temporary Bearer Global Note**”) or a permanent global note in bearer form (each a “**Permanent Bearer Global Note**”). Notes in registered form (“**Registered Notes**”) will be represented by a global note in registered form (each a “**Registered Global Note**”) and together with any Temporary Bearer Global Notes and Permanent Bearer Global Notes, the “**Global Notes**”), one Registered Global Note being issued in respect of each Noteholder’s entire holding of Notes in registered form of one Series. Global Notes may be deposited on the relevant issue date with a common depository on behalf of Euroclear Bank SA/NV (“**Euroclear**”) and/or Clearstream Banking S.A. (“**Clearstream, Luxembourg**”). The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in “*Form of the Notes.*”

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

An investment in Notes issued under the Programme involves certain risks. See “Investment Considerations” for a discussion of certain factors to be considered in connection with an investment in the Notes.

Approval in-principle has been granted by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) for permission to deal in and quotation for any Notes which are agreed at the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. Unlisted series of Notes may also be issued pursuant to the Programme. The applicable Pricing Supplement (as defined herein) in respect of any series of Notes will specify whether or not such Notes will be listed on the SGX-ST (or any other stock exchange as may be agreed between the Bank and the relevant Dealer). There is no assurance that the application to the Official List of the SGX-ST for the listing of the Notes will be approved. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Admission of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Programme, the Notes, or the Bank.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined under “Terms and Conditions of the Notes”) of Notes will be set out in a pricing supplement (the “**Pricing Supplement**”) which, with respect to Notes to be listed on the SGX-ST, will be delivered to the SGX-ST on or before the date of issue of the Notes of such Tranche. Investors are advised to read and understand the contents of this document before investing. If in doubt, investors should consult their advisers. Notes to be listed on the SGX-ST will be accepted for clearance through Euroclear and Clearstream, Luxembourg.

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

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes (as defined herein) that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold, or delivered within the United States except pursuant to an exemption from the registration requirement of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. Registered Notes are subject to certain restrictions on transfer, see “*Subscription and Sale.*”

The Bank may agree with any Dealer and The Bank of New York Mellon, London Branch (the “**Trustee**”) that Notes may be issued in a form not contemplated by the terms and conditions of the Notes herein, in which event a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

THE NOTES BEING OFFERED OR SOLD HEREIN ARE SECURITIES EXEMPT FROM REGISTRATION UNDER SECTION 9.1(E) OF THE PHILIPPINE SECURITIES REGULATION CODE (THE “SRC”) AND WILL ACCORDINGLY NOT BE REGISTERED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION (“PHILIPPINE SEC”).

Arranger and Dealer

MUFG

The date of this Offering Circular is 24 April 2024.

The Bank accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Bank (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Circular has been prepared by the Bank for use in connection with the offer and sale of Notes outside the United States. The Bank and the Dealers reserve the right to reject any offer to purchase Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States.

No person is or has been authorised by the Bank to give any information or to make any representation other than those contained in this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made by any other person, such information or representations must not be relied upon as having been authorised by the Bank and MUFG Securities Asia Limited Singapore Branch (the “Arranger”) or the Dealers, the Trustee, or the Agents (as defined herein).

None of the Arranger, the Dealers, the Trustee, or the Agents, has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of the Arranger, the Dealers, the Trustee, the Agents or any of them as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Bank in connection with the Programme. To the fullest extent permitted by law, none of the Dealers or the Arranger accepts any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Arranger or a Dealer or on its behalf in connection with the Bank or the issue and offering of the Notes. Each of the Arranger and the Dealers accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

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

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

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Bank, the Arranger, the Dealers, the Trustee, and the Agents represents that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Bank, any of the Arranger, the Dealers, the Trustee, or the Agents which would permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in

compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area, the United Kingdom, Japan, Hong Kong, Singapore, the Philippines and the People's Republic of China, see "*Subscription and Sale*". If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Arranger or Dealers or any affiliate of the Arranger or Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Arranger, such Dealer or such affiliate on behalf of the Bank in such jurisdiction.

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

Notification under Section 309B of the Securities and Futures Act 2001 of Singapore: In connection with Section 309B of the Securities and Futures Act 2001 of Singapore (as modified or amended from time to time, the SFA) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the CMP Regulations 2018), unless otherwise stated in the applicable Pricing Supplement in respect of any Notes, the Issuer has determined and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA) that the Notes to be issued under the Programme shall be prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Important Notice to Prospective Investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct: Prospective investors should be aware that certain intermediaries in the context of this offering of the Notes pursuant to the Programme (each such offering, a "**CMI Offering**"), including certain Dealers, may be "capital market intermediaries" ("**CMIs**") subject to Paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the "**SFC Code**"). This notice to prospective investors is a summary of certain obligations the Code imposes on such CMIs, which require the attention and cooperation of prospective investors. Certain CMIs may also be acting as "overall coordinators" ("**OCs**") for a CMI Offering and are subject to additional requirements under the SFC Code.

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

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

considered to be a “proprietary order” (pursuant to the SFC Code), such prospective investor should indicate to the relevant Dealer when placing such order. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a “proprietary order.” Where prospective investors disclose such information but do not disclose that such “proprietary order” may negatively impact the price discovery process in relation to the relevant CMI Offering, such “proprietary order” is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should be aware that certain information may be disclosed by CMIs (including private banks) which is personal and/or confidential in nature to the prospective investor. By placing an order, prospective investors are deemed to have understood and consented to the collection, disclosure, use and transfer of such information by the relevant Dealer and/or any other third parties as may be required by the SFC Code, including to the Issuer, any OCs, relevant regulators and/or any other third parties as may be required by the SFC Code, it being understood and agreed that such information shall only be used for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. Failure to provide such information may result in that order being rejected.

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

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

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

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

This Offering Circular has not been approved by an authorised person in the United Kingdom. The Notes may not be offered or sold other than to persons whose ordinary activities involve these persons in acquiring, holding,

managing, or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer. In addition, no person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes other than in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer.

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

For a description of other restrictions, see “*Subscription and Sale*” and the applicable Pricing Supplement.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The audited consolidated financial statements of the Bank and its subsidiaries as of and for the years ended 31 December 2021, 2022, and 2023 were audited by SyCip Gorres Velayo & Co. (“**SGV**”), independent auditors, in accordance with Philippine Standards on Auditing. The financial statements were prepared in accordance with Philippine Financial Reporting Standards (“**PFRS**”). PFRS is substantially based on International Financial Reporting Standards.

STABILISATION

In connection with the issue of any Series of Notes, the Dealer(s) (if any) named as the stabilising manager(s) or persons acting on behalf of any Stabilising Manager(s) (the “Stabilising Manager(s)”) in the applicable Pricing Supplement may over-allot the Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail for a limited period after the issue date of the Notes. However, there is no obligation on such Stabilising Manager(s) to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

CERTAIN DEFINITIONS

References to the “**Bank**”, the “**Issuer**” or the “**Group**” refers to Security Bank Corporation and its subsidiaries on a consolidated basis, as the context requires. The information contained in this Offering Circular relating to the Bank, its operations and those of its subsidiaries has been supplied by the Bank, unless otherwise stated herein. Unless otherwise indicated, all information in this Offering Circular is as of the date of this Offering Circular. Neither the delivery of this Offering Circular nor any sale made pursuant to this Offering Circular shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Bank since such date. Neither the Arranger nor the Dealers assume any liability for information supplied by the Bank in relation to this Offering Circular.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the “**Philippines**” are references to the Republic of the Philippines. All references to the “**Government**” herein are references to the Government of the Republic of the Philippines. All references to the “**BSP**” herein are references to *Bangko Sentral ng Pilipinas*, the central bank of the Philippines. All references to “**United States**” or “**U.S.**” herein are to the United States of America, its territories and possessions, any State of the United States and the District of Columbia. All references to “**Peso**” and “**P**” herein are to the lawful currency of the Philippines and all references to “**U.S. Dollars**” or “**U.S.\$**” herein are to the lawful currency of the United States.

The Issuer publishes its financial statements in Philippine Pesos. This Offering Circular contains translations of certain amounts into U.S. Dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, all translations from Philippine Pesos to U.S. Dollars have been made at a rate of ₱55.37 = U.S.\$1.00, being the closing rate on 29 December 2023 for the purchase of U.S. Dollars with Philippine Pesos under the Bankers’ Association of the Philippines (“**BAP**”). No representation is made that the Peso, U.S. Dollar, or other currency amounts referred to herein could have been or could be converted into Pesos, U.S. Dollars, or any other currency, as the case may be, at this rate, at any particular rate or at all.

Figures in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown for the same item of information may vary and figures which are totals may not be an arithmetic aggregate of their components. On 12 April 2024, the BAP Rate was ₱56.53 = U.S.\$1.00.

ENFORCEABILITY OF CIVIL LIABILITIES

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with the expectations of the Bank with respect to, but not limited to, its ability to successfully implement its strategy, its ability to integrate future mergers or acquisitions into its operations, future levels of non-performing assets and restructured assets, its growth and expansion, the adequacy of its allowance for credit and investment losses, technological changes, investment income, its ability to market new products, cash flow projections, the outcome of any legal or regulatory proceedings it is or becomes a party to, the future impact of new accounting standards, its ability to implement its dividend policy, the impact of Philippine banking regulations on it, which includes the assets and liabilities of the Bank, its ability to roll over its short-term funding sources, its exposure to market risks and the market acceptance of and demand for internet banking services.

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

DOCUMENTS INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with:

- (i) each applicable Pricing Supplement;
- (ii) all amendments and supplements to this Offering Circular prepared from time to time by the Bank; and
- (iii) the most recently published audited non-consolidated and (if produced) consolidated annual financial statements and, if published later, the most recently published unaudited interim non-consolidated and (if produced) consolidated financial results of the Bank, in each case together with any audit or review reports prepared in connection therewith (where relevant);

which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents.

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

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

SUPPLEMENTAL OFFERING CIRCULAR

The Bank has given an undertaking to the Arranger and the Dealers that in the event of (i) a significant new factor, material mistake or inaccuracy relating to the information included in the Offering Circular which is capable of affecting the assessment of the Notes arising or being noted, (ii) a change in the condition of the Bank which is material in the context of the Programme or the issue of any Notes, or (iii) if the Offering Circular shall otherwise come to contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein not misleading or if it is necessary at any time to amend the Offering Circular to comply with, or reflect changes in, the laws or regulations of the Philippines, the Bank shall update or amend the Offering Circular (following consultation with the Arranger who will consult with the Dealers) by the publication of a supplement to it or a new Offering Circular, in each case in a form approved by the Arranger and the Dealers.

GENERAL DESCRIPTION OF THE PROGRAMME

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

This Offering Circular and any supplement will only be valid for listing Notes on the SGX-ST in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.\$1,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

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

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SUMMARY OF THE PROGRAMME

The following is a general summary of the terms of the Notes issued under the Programme. The following summary is qualified in its entirety by the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. This summary must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of the Offering Circular as a whole, including any information incorporated by reference. Phrases used in this summary and not otherwise defined shall have the meanings given to them in “Terms and Conditions of the Notes” and “Form of the Notes.”

Issuer.....	Security Bank Corporation
Description	Medium Term Note Programme
Arranger.....	MUFG Securities Asia Limited Singapore Branch
Dealers.....	MUFG Securities Asia Limited Singapore Branch and any other Dealers appointed in accordance with the Programme Agreement (as defined under “ <i>Subscription and Sale</i> ”).
Certain Restrictions	Each issue of Notes in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale</i> ”) including the following restrictions applicable at the date of this Offering Circular.

Notes having a maturity of less than one year

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

Trustee	The Bank of New York Mellon, London Branch.
Principal Paying Agent.....	The Bank of New York Mellon, London Branch.
Registrar and Transfer Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch.
Programme Size.....	U.S.\$1,000,000,000 (or its equivalent in other currencies calculated as described under “ <i>General Description of the Programme</i> ”) in aggregate nominal amount of Notes outstanding at any time. The Bank may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution.....	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.

The Notes will be issued in Series having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of the Series. Each Series may be issued in tranches (each a “**Tranche**”) on the same or different issue date. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be

	identical to the terms of other Tranches of the same Series) will be specified in the applicable Pricing Supplement.
Currencies.....	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Bank and the relevant Dealer.
Maturities.....	Such maturities as may be agreed between the Bank and the relevant Dealer and indicated in the applicable Pricing Supplement, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Bank or the relevant Specified Currency.
Issue Price.....	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes.....	The Notes will be issued in bearer or registered form as described in “ <i>Form of the Notes</i> ”. Registered Notes will not be exchangeable for Bearer Notes or <i>vice versa</i> .
Fixed Rate Notes	Fixed interest will be payable on such date or dates as may be agreed between the Bank and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Bank and the relevant Dealer.
Floating Rate Notes	Floating Rate Notes will bear interest at a rate determined: <ul style="list-style-type: none"> (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as of the Issue Date of the first Tranche of the Notes of the relevant Series); or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) on such other basis as may be agreed between the Bank and the relevant Dealer. <p>Interest periods will be specified in the applicable Pricing Supplement.</p>
Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Bank and the relevant Dealer may agree and as may be specified in the applicable Pricing Supplement.
Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the applicable Pricing Supplement.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be

	made in such currencies, and based on such rates of exchange, as the Bank and the relevant Dealer may agree and as may be specified in the applicable Pricing Supplement.
Zero Coupon Notes.....	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Other Notes.....	The Bank may agree with any Dealer and the Trustee that Notes may be issued in a form not contemplated by the Conditions, in which event the relevant provisions will be included in the applicable Pricing Supplement.
Redemption.....	<p>The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than (i) in specified instalments, if applicable; (ii) for taxation and regulatory reasons; or (iii) following an Event of Default (as defined in Condition 10) or that such Notes will be redeemable at the option of the Bank and/or the Noteholders upon giving notice to the Noteholders or the Bank, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Bank and the relevant Dealer.</p> <p>The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.</p> <p>Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see “<i>Certain Restrictions — Notes having a maturity of less than one year</i>” above.</p>
Denomination of Notes.....	Notes will be issued in such denominations as may be agreed between the Bank and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see “ <i>Certain Restrictions — Notes having a maturity of less than one year</i> ” above.
Taxation.....	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction (as defined in Condition 8.2), subject as provided in Condition 8. In the event that any such deduction is made, the Bank will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge.....	The terms of the Notes will contain a negative pledge provision as further described in Condition 4.
Cross-Default.....	The terms of the Notes will contain a cross-default provision as further described in Condition 10.1(c).
Status of the Notes.....	The Notes will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 4, unsecured obligations of the Bank and will rank <i>pari passu</i> among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Bank, from time to time outstanding.

Listing.....	<p>Approval in-principle has been received from the SGX-ST for permission to deal in, and quotation of, any Notes to be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Bank and the relevant Dealer in relation to each Series. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, Notes which are listed on the SGX-ST will be traded with a minimum board lot size of at least S\$200,000 or its equivalent in foreign currencies.</p> <p>Unlisted Notes may also be issued.</p> <p>The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).</p>
Ratings.....	<p>Notes issued under the Programme may be rated or unrated. Where a certain Series of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme and (where applicable) such rating will be specified in the applicable Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.</p>
Governing Law.....	<p>The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.</p>
Clearing System.....	<p>Euroclear, Clearstream, Luxembourg, and/or any other clearing system, as specified in the applicable Pricing Supplement (see “<i>Form of Notes</i>”).</p>
Selling Restrictions.....	<p>There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area, the United Kingdom, Japan, Singapore, Hong Kong, the Philippines, the People’s Republic of China and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes (see “<i>Subscription and Sale</i>”).</p>
Prohibited Holders.....	<p>The offer and sale of the Notes are subject to Philippine Central Bank regulations that prohibit certain persons from acquiring and/or holding the Notes (see “<i>Banking Regulation and Supervision—Certain Prohibited Holders under Philippine Banking Regulations</i>”).</p>
United States Selling Restrictions	<p>Regulation S Category 1 or 2, as specified in the applicable Pricing Supplement. TEFRA C/TEFRA D/TEFRA not applicable, as specified in the applicable Pricing Supplement.</p>
Investment Considerations	<p>There are certain factors that may affect the Bank’s ability to fulfil its obligations under the Notes issued under the Programme. These are set out under “<i>Investment Considerations</i>” below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under “<i>Investment Considerations</i>” and include certain risks relating to the structure of particular Series of Notes and certain market risks.</p>

TERMS AND CONDITIONS OF THE NOTES

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

This Note is one of a Series (as defined below) of Notes issued by Security Bank Corporation (the “**Issuer**”), and constituted by, are subject to, and have the benefit of an amended and restated trust deed dated 24 April 2024 (such trust deed as may be modified and/or supplemented and/or restated from time to time, the “**Trust Deed**”) made between the Issuer and The Bank of New York Mellon, London Branch (the “**Trustee**”, which expression shall include any successor as trustee or trustees under the Trust Deed).

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

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

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an amended and restated agency agreement dated 24 April 2024 (such agency agreement as may be modified and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) and made between the Issuer, the Trustee, The Bank of New York Mellon, London Branch, as principal paying agent (the “**Principal Paying Agent**”, which expression shall include any successor principal paying agent) and any additional paying agents appointed in accordance with the Agency Agreement, (together with the Principal Paying Agent, the “**Paying Agents**”, which expression shall include any additional or successor paying agents), The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the “**Registrar**”, which expression shall include any successor registrar) and as transfer agent (the “**Transfer Agent**”, which expression shall include any additional or successor transfer agents appointed in accordance with the Agency Agreement, and, together with the Paying Agents and Registrar, the “**Agents**”).

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

The final terms for this Note (or the relevant provisions thereof) are set out in the Pricing Supplement attached to or endorsed on this Note, supplements these terms and conditions (“**Conditions**”) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or

modify the Conditions for the purposes of this Note. References to the “**applicable Pricing Supplement**” are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

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

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

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours upon prior written notice and satisfactory proof of holding of such Note/s, at the specified office for the time being of the Trustee (being 160 Queen Victoria Street, London EC4V 4LA, United Kingdom) and at the specified office of the Principal Paying Agent. Copies of the applicable Pricing Supplement are obtainable during normal business hours at the specified office of each of the Paying Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders, and the Couponholders are deemed to have notice of, and are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, the Agency Agreement, and the applicable Pricing Supplement which are applicable to them. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

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

1. FORM, DENOMINATION AND TITLE

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

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

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

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

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

Subject as set out below, title to the Bearer Notes, Receipts, and Coupons will pass by delivery. Title to Registered Notes will pass upon registration of transfers in the register kept by the Registrar in accordance with the provisions of the Agency Agreement. The Issuer, the Trustee, the Principal Paying Agent, any Paying Agent, the Registrar, and the Transfer Agent will (except as otherwise ordered by a court of competent jurisdiction or required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and any person in whose name a Registered Note is registered as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

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

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

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

2. TRANSFERS OF REGISTERED NOTES

2.1 Transfers of Interests in Registered Global Notes

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

2.2 Transfers of Registered Notes in Definitive Form

Registered Notes may not be exchanged for Bearer Notes and *vice versa*. Subject as provided in Condition 2.5 and Condition 2.6, upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Definitive Registered Note may be transferred in whole or in part (in the

authorised denominations set out in the applicable Pricing Supplement). In order to effect any such transfer:

- (a) the holder or holders must:
 - (i) surrender the Definitive Registered Note for registration of the transfer of the Definitive Registered Note (or the relevant part of the Definitive Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing; and
 - (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent; and
- (b) the Registrar or, as the case may be, the relevant Transfer Agent must be satisfied with the documents of title and the identity of the person making the request.
- (c) Any such transfer will be subject to such reasonable regulations as the Issuer, the Trustee, the Registrar, or as the case may be, the relevant Transfer Agent may prescribe (such initial regulations being set out in Schedule 3 to the Agency Agreement), which may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within seven business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations) authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by mail to such address as the transferee may request, a new Definitive Registered Note of a like aggregate nominal amount to the Definitive Registered Note (or the relevant part of the Definitive Registered Note) transferred. In the case of the transfer of part only of a Definitive Registered Note, a new Definitive Registered Note in respect of the balance of the Definitive Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

2.3 Registration of Transfer upon Partial Redemption

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

2.4 Costs of Registration

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

2.5 Closed Periods

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

2.6 Exchanges and Transfers of Definitive Registered Notes Generally

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

3. STATUS OF THE NOTES

The Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves and (save for certain obligations required to be preferred by law) equally with all other present and future unsecured and unsubordinated obligations of the Issuer, including liabilities in respect of deposits, from time to time outstanding.

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

In connection with the issuance of the Notes, the Issuer represents to the holders of such Notes that except for Relevant Debt (as defined below) (whether denominated in Philippine Pesos or U.S. dollars) that may exist at the time of the issuance of the Notes not exceeding 1% of consolidated total assets as shown in the latest audited balance sheet of the Issuer, the Issuer has not prepared, executed or filed any public instrument, as provided in Article 2244(14)(a) of the Civil Code of the Philippines, relating to any Relevant Debt, or consented to or assisted in the preparation or filing of any such public instrument.

4. NEGATIVE PLEDGE

4.1 Negative Pledge

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

- (a) the Issuer will not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (each, a “**Security Interest**”) upon, or with respect to, the whole or any part of its property, assets or revenues present or future to secure any Relevant Debt, or any guarantee of or indemnity in respect of any Relevant Debt; and
- (b) the Issuer will procure that no other person creates or permits to subsist any Security Interest upon the whole or any part of the property, assets or revenues present or future of that other person to secure (x) any of the Issuer's Relevant Debt, or any guarantee of or indemnity in respect of any of the Issuer's Relevant Debt, or (y) where the person in question is a Subsidiary (as defined below) of the Issuer, any of the Relevant Debt of any person other than that Subsidiary, or any guarantee of or indemnity in respect of any such Relevant Debt,

unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that the Issuer's obligations under the Notes and the Trust Deed (in respect of the Notes),

- (i) are secured equally and rateably with the Relevant Debt or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be; or
 - (ii) have the benefit of such other security, guarantee, indemnity or other arrangement which (A) the Trustee shall, in its absolute discretion, deem not materially less beneficial to the Noteholders, or (B) is approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders; and
- (c) the Issuer will not create or permit to subsist any preference or priority in respect of any other Relevant Debt of the Issuer pursuant to Article 2244(14)(a) of the Civil Code of the Philippines, or any successor Philippine law providing for preferences or priority in respect of notarised Relevant Debt, unless amounts payable under the outstanding Notes are granted preference or priority equally and ratably therewith.

4.2 Interpretation

For the purposes of these Conditions:

- (a) **“Relevant Debt”** means any present or future indebtedness in the form of, or represented by, any bonds, notes, debentures, loan stock or other securities (**“Indebtedness”**) having an original maturity of more than one year from its date of issue and which are for the time being (or in the case of Conditions 4.1(a) and 4.1(b) only are capable of being), quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market, provided that Relevant Debt shall exclude the sale of government or corporate bonds issued by persons other than the Issuer (whether denominated in Philippine Pesos or U.S. dollars) with a commitment to repurchase or otherwise provided as collateral, done in the ordinary course of business, and in the case of Condition 4.1(c), Relevant Debt shall exclude (A) Indebtedness denominated, payable or optionally payable in Philippine Pesos and (B) if denominated, payable or optionally payable in U.S. dollars, Indebtedness in an aggregate principal amount not exceeding 5% of the consolidated total assets as shown in the latest audited balance sheet of the Issuer.
- (b) **“Subsidiary”** means in relation to any person (the **“first person”**) at any particular time, any other person (the **“second person”**):
 - (i) whose affairs and policies the first person controls or has power to control, whether by ownership of voting share capital, contract, or the power to appoint or remove a majority of the members of the governing body of the second person; or
 - (ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first person.

5. INTEREST

5.1 Interest on Fixed Rate Notes

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

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

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

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

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

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount

(determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

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

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

In these Conditions:

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

“**Determination Date**” means the date(s) specified as such in the applicable Pricing Supplement or, if none is so specified, the Interest Payment Date(s); and

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

5.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) *Interest Payment Dates*

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

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an “**Interest Payment Date**”) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In these Conditions, “**Interest Period**” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

(b) ***Rate of Interest***

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

(i) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph (i), “**ISDA Rate**” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as of the Issue Date of the first Tranche of the Notes (the “**ISDA Definitions**”) and under which:

- (A) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (B) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (C) the relevant Reset Date is either (a) if the applicable Floating Rate Option is based on the secured overnight financing rate (“**SOFR**”), the Euro-zone interbank offered rate (“**EURIBOR**”) or the Hong Kong interbank offered rate (“**HIBOR**”), the first day of that Interest Period or (b) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (i), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**” and “**Reset Date**” have the meanings given to those terms in the ISDA Definitions.

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

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

- (A) the offered quotation; or

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

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

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

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

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

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

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

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

(1) SOFR Lag:

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

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

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

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

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

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

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

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

(2) SOFR Observation Shift:

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

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage

point, with 0.000005 being rounded upwards (e.g., 9.876541 per cent. (or 0.09876541) being rounded down to 9.87654 per cent. (or 0.0987654) and 9.876545 per cent. (or 0.09876545) being rounded up to 9.87655 per cent. (or 0.0987655)) and where:

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

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

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

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

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

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

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

(3) SOFR Payment Delay:

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

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

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

reference rate for that U.S. Government Securities Business Day “i”;

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

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

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

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

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

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

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

(4) SOFR Lockout:

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

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

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

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

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

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

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

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

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

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

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

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

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

Benchmark Replacement Date have occurred, the provisions set forth in Condition 5.2(i) shall apply; and

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

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

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

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

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

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

- (1) if the value specified above does not appear and a SOFR Benchmark Event and its related SOFR Benchmark Replacement Date have not occurred, the “Compounded SOFR Index” shall be calculated on any Interest Determination Date with respect to an Interest Period, in accordance with the Compounded SOFR Average formula described above in Condition 5.2(b)(iii)(B)(2) (SOFR Observation Shift), and the term “SOFR Observation Shift Days” shall mean five U.S. Government Securities Business Days (or such other number of U.S. Government Securities Business Days as specified in the applicable Pricing Supplement); or
- (2) if the value specified above does not appear and a SOFR Benchmark Event and its related SOFR Benchmark Replacement Date have occurred, the provisions set forth in Condition 5.2(i) (Benchmark Replacement for Floating Rate Notes (SOFR)) shall apply as specified in the applicable Pricing Supplement;

“**SOFR Index_{End}**” means, in respect of an Interest Period, the SOFR Index value on the date that is five U.S. Government Securities Business Days (or such other number of U.S. Government Securities

Business Days as specified in the applicable Pricing Supplement) preceding the last day of such Interest Period (or in the final Interest Period, the Maturity Date);

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

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

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

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

“**d_c**” means the number of calendar days in the applicable SOFR Observation Period.

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

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

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

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

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

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

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

(v) In these Conditions:

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

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

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

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

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

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

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

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

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

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

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

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

- (i) if “**Actual/Actual (ISDA)**” or “**Actual/Actual**” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any

portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

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

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

where:

- (A) “**Y1**” is the year, expressed as a number, in which the first day of the Interest Period falls;
 - (B) “**Y2**” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;
 - (C) “**M1**” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;
 - (D) “**M2**” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;
 - (E) “**D1**” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and
 - (F) “**D2**” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;
- (vi) if “**30E/360**” or “**Eurobond Basis**” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

- (A) “**Y1**” is the year, expressed as a number, in which the first day of the Interest Period falls;
- (B) “**Y2**” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

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

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

where:

- (A) “Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;
 - (B) “Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;
 - (C) “M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;
 - (D) “M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;
 - (E) “D1” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and
 - (F) “D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.
- (e) ***Notification of Rate of Interest and Interest Amounts***

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

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

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

(g) ***Certificates to be Final***

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

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

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

- (i) the Issuer shall use reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine (acting in good faith and a commercially reasonable manner), no later than five Business Days prior to the relevant Interest Determination Date relating to the next succeeding Interest Period (the “**IA Determination Cut-off Date**”), a Successor Rate or, alternatively if there is no Successor Rate, an Alternative Reference Rate for purposes of determining the Rate of Interest (or the relevant component part thereof) applicable to the Notes;
- (ii) if the Issuer is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine a Successor Rate or an Alternative Reference Rate prior to the IA Determination Cut-off Date, the Issuer (acting in good faith and in a commercially reasonable manner) may determine a Successor Rate or, if there is no Successor Rate, an Alternative Reference Rate;
- (iii) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) is determined in accordance with the preceding provisions, such Successor Rate or, failing which, an Alternative Reference Rate (as applicable) shall be the Reference Rate for each of the future Interest Periods (subject to the subsequent operation of, and to adjustment as provided in, this Condition 5.2(h)); provided, however, that if subparagraph (ii) applies and the Issuer is unable to or does not determine a Successor Rate or an Alternative Reference Rate prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the preceding

Interest Period (or alternatively, if there has not been a first Interest Payment Date, the rate of interest shall be the initial Rate of Interest (if any)) (subject, where applicable, to substituting the Margin that applied to such preceding Interest Period for the Margin that is to be applied to the relevant Interest Period and, if applicable, to any Maximum Rate of Interest and/or Minimum Rate of Interest applicable to the relevant Interest Period); for the avoidance of doubt, the proviso in this sub-paragraph (iii) shall apply to the relevant Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 5.2(h);

- (iv) if the Independent Adviser or the Issuer determines a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) in accordance with the above provisions, the Independent Adviser or the Issuer (as applicable), may also specify changes to these Conditions, including but not limited to the Day Count Fraction, Relevant Screen Page, Business Day Convention, Business Days, Interest Determination Date and/or the definition of Reference Rate applicable to the Notes, and the method for determining the fallback rate in relation to the Notes, in order to follow market practice in relation to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser (in consultation with the Issuer) or the Issuer (as applicable) determines that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser or the Issuer (as applicable) is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread. For the avoidance of doubt, the Trustee and Principal and Paying Agent shall, at the direction and expense of the Issuer, effect such consequential amendments to the Trust Deed, the Agency Agreement and these Conditions as may be required in order to give effect to this Condition 5.2(h). Noteholder consent shall not be required in connection with effecting the Successor Rate or Alternative Reference Rate (as applicable) or such other changes, including for the execution of any documents or other steps by the Trustee or Principal and Paying Agent (if required); and
- (v) the Issuer shall promptly, following the determination of any Successor Rate or Alternative Reference Rate (as applicable), give notice thereof to the Trustee, the Principal and Paying Agent and the Noteholders, which shall specify the effective date(s) for such Successor Rate or Alternative Reference Rate (as applicable) and any consequential changes made to these Conditions.

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

For the purposes of this Condition 5.2(h):

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

- (i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body; or
- (ii) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Independent Adviser (in consultation

with the Issuer) or the Issuer (as applicable) determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or

- (iii) if no such customary market usage is recognised or acknowledged, the Independent Adviser (in consultation with the Issuer) or the Issuer in its discretion (as applicable), determines (acting in good faith and in a commercially reasonable manner) to be appropriate;

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

“Benchmark Event” means:

- (i) the Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist;
- (ii) a public statement by the administrator of the Reference Rate that it has ceased or that it will cease publishing the Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Reference Rate);
- (iii) a public statement by the supervisor of the administrator of the Reference Rate, that the Reference Rate has been or will be permanently or indefinitely discontinued; or
- (iv) a public statement by the supervisor of the administrator of the Reference Rate as a consequence of which the Reference Rate will be prohibited from being used either generally, or in respect of the Notes;
- (v) a public statement by the supervisor of the administrator of the Reference Rate that the Reference Rate is or will be (or is or will be deemed by such supervisor to be) no longer representative of its relevant underlying market; or
- (vi) it has become unlawful for any Paying Agent, the Calculation Agent(s) or the Issuer to calculate any payments due to be made to any Noteholder using the Reference Rate;

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

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

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

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

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

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

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

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

(i) **Benchmark Replacement**

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

(ii) **Benchmark Replacement Conforming Changes**

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

the Trust Deed, the Agency Agreement and/or any documents to which it is a party (including, for the avoidance of doubt, any supplemental trust deed and/or agency agreement) in any way.

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

(iii) Decisions and Determinations

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

(iv) Certain Defined Terms:

As used in this Condition 5.2(i):

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

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

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

administrator that will continue to provide the Benchmark (or such component); or

- (C) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative;

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

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

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

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

applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated Floating Rate Notes at such time;

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

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

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

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

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

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

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

“ISDA Fallback Rate” means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark (including any daily published component used in the calculation thereof) for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

“Reference Time” with respect to any determination of the Benchmark means (1) if the Benchmark is the SOFR Benchmark, the SOFR Determination Time (where Compounded SOFR Average is specified in the applicable Pricing Supplement) or SOFR Index Determination Time (where Compounded SOFR Index is specified in the

applicable Pricing Supplement), or (2) if the Benchmark is not the SOFR Benchmark, the time determined by the Issuer or its designee after giving effect to the Benchmark Replacement Conforming Changes;

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

“**Unadjusted Benchmark Replacement**” means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

5.3 **Interest on Dual Currency Interest Notes**

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

5.4 **Interest on Partly Paid Notes**

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

5.5 **Accrual of Interest**

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

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

5.6 **Definitions**

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

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

- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, “**Business Day**” means, except as used in Condition 2.2, a day which is both:

- (A) a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Metro Manila, Philippines and in the financial centre of the payment currency;
- (i) in the case of Notes in definitive form only, the relevant place of presentation; and
- (ii) in each Additional Financial Centre specified in the applicable Pricing Supplement; and
- (B) either (A) in relation to any sum payable in a Specified Currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); or (B) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET 2) System (the “**TARGET 2 System**”) is open; or (C) in relation to any sum payable in Renminbi, a day on which commercial banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

6. PAYMENTS

6.1 Method of Payment

Subject as provided below:

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

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

6.2 Presentation of Definitive Bearer Notes, Receipts and Coupons

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

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

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

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

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

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

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

6.3 **Payments in respect of Bearer Global Notes**

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

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

6.4 Payments in respect of Registered Notes

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made on the due date by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the “**Register**”) (i) where in global form, at the close of the business day (being for this purpose, in respect of Notes clearing through Euroclear and Clearstream, Luxembourg, a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the Record Date. For these purposes, “**Designated Account**” means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account and, in the case of a payment in Renminbi, means the Renminbi account maintained by or on behalf of the payee with a bank in Hong Kong, details of which appear on the Register) maintained by a holder with a Designated Bank and identified as such in the Register and “**Designated Bank**” means (in the case of payment in a Specified Currency other than euro and Renminbi) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro and (in the case of a payment in Renminbi) a bank in Hong Kong.

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

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

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Note.

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

6.5 General Provisions Applicable to Payments

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records

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

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

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

6.6 **Payment Day**

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

- (a) a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Metro Manila, Philippines and in the financial centre of the payment currency;
 - (i) in the case of Notes in definitive form only, the relevant place of presentation; and
 - (ii) in each Additional Financial Centre specified in the applicable Pricing Supplement; and
- (b) either (A) in relation to any sum payable in a Specified Currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open; or (C) in relation to any sum payable in Renminbi, a day on which commercial banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

6.7 **Interpretation of Principal and Interest**

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

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

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

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

7. REDEMPTION AND PURCHASE

7.1 Redemption at Maturity

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

7.2 Redemption for Tax Reasons

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

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

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

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and (ii) an opinion in form and substance satisfactory to the Trustee of independent Philippine legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Amounts as a result of such change, or amendment, application, interpretation, or administration. The Trustee shall be entitled without further action or enquiry to accept the certificate(s) and the opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

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

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

If Issuer Call is specified as being applicable in the applicable Pricing Supplement, the Issuer may, having given:

- (a) not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 14; and
- (b) notice to the Trustee and the Principal and Paying Agent and, in the case of a redemption of Registered Notes, the Registrar not less than 15 days before the giving of the notice referred to in (a) above;

(which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and/or not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Pricing Supplement.

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

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

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

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

- (a) if the Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver a duly signed and completed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent, Transfer Agent or the Registrar (a "**Put Notice**") accompanied by the definitive Note, to the specified office of any Paying Agent

in the case of Bearer Notes, or of any Transfer Agent or the Registrar in the case of Registered Notes; or

- (b) if the Note is represented by a Global Note held on behalf of Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of the Notes, the holder of this Note must, give a Put Notice in accordance with the standard procedures of Euroclear or Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg for them to the Principal Paying Agent by electronic means) accompanied by the relevant Global Note for notation accordingly to the specified office of any Paying Agent,

at any time within the notice period during normal business hours of such Paying Agent, Transfer Agent or the Registrar. In the Put Notice the holder must specify a bank account to which payment is to be made under this Condition, and in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2. If the Note is in definitive bearer form, the Put Notice must be accompanied by the Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

7.5 Early Redemption Amounts

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

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

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

“RP” means the Reference Price;

“AY” means the Accrual Yield expressed as a decimal; and

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

7.6 Instalments

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

7.7 Partly Paid Notes

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

7.8 Purchases

Subject to applicable laws, Notes may at any time be purchased by or on behalf of the Issuer (provided that, in the case of definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. The Notes so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed outstanding for the purpose of calculating quorums at meetings of the Noteholders or for purposes of Condition 15. Such Notes may be held, reissued, resold or, at the option of the Issuer surrendered to any Paying Agent and/or the Registrar for cancellation.

7.9 Cancellation

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

7.10 Late Payment on Zero Coupon Notes

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

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

8. TAXATION

8.1 Payment without Withholding

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

- (a) presented for payment in the Philippines; or

- (b) to or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such Additional Amounts on surrendering the relevant Note, Receipt or Coupon for payment on the last day of such period of 30 days assuming that day to have been a Payment Day (as defined in Condition 6.6); or
- (d) for or on account of any tax, deduction, or withholding imposed under Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “Code”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto.

8.2 Interpretation

As used herein:

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

9. PRESCRIPTION

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

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

10. EVENTS OF DEFAULT AND ENFORCEMENT

10.1 Events of Default

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

- (a) **Non-Payment:** there is failure to pay the principal or interest on any of the Notes when due and, in the case of failure to pay interest, such failure continues for a period of 14 days; or
- (b) **Breach of Other Obligations:** the Issuer defaults in the performance or observance of, or compliance with, any one or more of its other obligations under the Conditions or the Trust Deed which default is incapable of remedy or being a default which is capable of remedy that remains unremedied for 30 days after written notice of such default shall have been given to the Issuer by the Trustee; or

- (c) **Cross-Default:** (i) any Indebtedness for Borrowed Money (as defined below) of the Issuer or any of its Material Subsidiaries becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any default, event of default or the like (howsoever described), or (ii) any such Indebtedness for Borrowed Money is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness for Borrowed Money of any other person; provided that, the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds US\$20,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the US dollar as quoted by any leading bank on the day on which this paragraph operates); or
- (d) **Judgment, Decree or Order:** a final judgment, decree or order has been entered against the Issuer or any of its Material Subsidiaries by a court of competent jurisdiction from which no appeal may be made or is taken for the payment of money in excess of US\$20,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the US dollar as quoted by any leading bank on the day on which this paragraph operates) and any relevant period specified for payment of such judgment, decree or order shall have expired without it being satisfied, discharged or stayed; or
- (e) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued on or against any material part of the property, assets or revenues of the Issuer or any of its Material Subsidiaries involving an amount in excess of US\$20,000,000 and is not discharged or stayed within 60 days of having been so levied, enforced or sued; or
- (f) **Security Enforced:** steps shall be taken to enforce a Security Interest, present or future, created or assumed by the Issuer (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person) and the indebtedness secured by the Security Interest is not discharged or such steps stayed, in each case, within 60 days of such steps being so taken; or
- (g) **Insolvency:** the Issuer or any of its Material Subsidiaries (i) is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, (ii) stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, (iii) proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), (iv) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts, or (v) a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any of its Material Subsidiaries; or
- (h) **Winding-Up:** an order or resolution of a court of competent jurisdiction is made or an effective resolution passed for the Winding-Up or dissolution or administration of the Issuer or any of its Material Subsidiaries, or the Issuer or any of its Material Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (x) on terms approved by a resolution of the Noteholders, or (y) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Issuer or another Subsidiary pursuant to a merger of the Material Subsidiary with the Issuer or such other Subsidiary or by way of a voluntary winding-up or dissolution where there are surplus assets in such Material Subsidiary and such surplus assets attributable to the Issuer and/or any other Subsidiary are distributed to the Issuer and/or any such other Subsidiary; or
- (i) **Bankruptcy Proceedings:** proceedings shall have been initiated against the Issuer or any of its Material Subsidiaries under any applicable bankruptcy, insolvency or reorganisation law and such proceedings shall not have been discharged or stayed within a period of 60 days; or

- (j) **Repudiation:** the Issuer shall contest in writing the validity or enforceability of any of the Notes or shall deny generally in writing the liability of the Issuer, under any of the Notes; or
- (k) **Analogous Events:** any event occurs, which, under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs of this Condition 10.1.

The Issuer has undertaken in the Trust Deed that, so long as any Note remains outstanding, annually and also within 14 days after any request by the Trustee, it will send to the Trustee a certificate signed by the President or Chief Financial Officer of the Issuer to the effect that as at a date not more than five days prior to the date of the certificate, no Event of Default or event or circumstance that could with the giving of notice, lapse of time and/or issue of a certificate become an Event of Default has occurred.

“**Material Subsidiary**” means at any time a Subsidiary of the Issuer:

- (i) whose net income (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, are equal to) not less than 5% of the consolidated net income of the Issuer and its Subsidiaries taken as a whole, or, as the case may be, 5% of the consolidated total assets, of the Issuer and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Issuer and its Subsidiaries, provided that:
 - (A) in the case of a Subsidiary of the Issuer acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, the reference to the then latest audited consolidated accounts of the Issuer and its Subsidiaries for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Issuer; and
 - (B) if the then latest audited consolidated accounts of the Issuer and its Subsidiaries show a net loss for the relevant financial period then there shall be substituted for the words “net income” the words “gross revenues” for the purpose of this definition.
- (ii) to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Material Subsidiary, the Material Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Material Subsidiary and the Subsidiary to which the assets are so transferred shall become a Material Subsidiary upon such transfer, but shall cease to be a Material Subsidiary at the date on which the first published audited accounts (consolidated, if appropriate) of the Issuer prepared as of a date later than such transfer are issued, unless such Subsidiary would continue to be a Material Subsidiary on the basis of such accounts by virtue of the provisions of paragraph (i) of this definition.

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

10.2 **Enforcement**

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Notes, the Receipts and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed,

the Notes, the Receipts or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least 25% in nominal amount of the Notes then outstanding and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

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

10.3 Interpretation

As used herein:

- (a) **“Indebtedness for Borrowed Money”** means any present or future indebtedness for or in respect of moneys borrowed or raised in the form of, or represented by, any bonds, notes, debentures, loan stock or other securities (excluding deposits accepted by the Issuer in the ordinary course of its banking business).
- (b) **“Winding-Up”** in Condition 10.1(h) shall mean, a final, unappealable and executory order or resolution of any court or agency or supervisory authority in the Philippines for the bankruptcy, suspension of payment, rehabilitation, winding-up, liquidation, receivership or similar proceeding in respect of the Issuer or any of its Subsidiaries (except for the purposes of a consolidation, amalgamation, merger or reorganisation the terms of which have previously been approved by an Extraordinary Resolution of the Noteholders).

11. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

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

12. PAYING AGENTS, REGISTRAR AND TRANSFER AGENTS

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

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

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

In addition, the Issuer shall with the prior written approval of the Trustee forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.5. Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders promptly in accordance with Condition 14.

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

13. EXCHANGE OF TALONS

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

14. NOTICES

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

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

So long as the Notes are represented by a Global Note and such Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or alternative clearing system specified in the Pricing Supplement, notices to holders of Notes of that Series may be given by delivery of the notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at their specified office.

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

15. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

15.1 Meeting of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if required in writing by Noteholders holding not less than 10% in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is two or more

persons holding or representing in the aggregate not less than 50% in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts, the Coupons or the Trust Deed (including, *inter alia*, (i) modifying the date of maturity of the Notes or any date for payment of interest in respect of any Notes, Receipts or coupons, (ii) reducing or cancelling the amount of principal or the rate of interest payable or to vary the method of calculating the rate of interest on, any Notes, Receipts or Coupons, (iii) altering the currency of payment of the Notes, the Receipts or the Coupons, or (iv) to amend or modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, the necessary quorum will be two or more persons holding or representing not less than 75%, or at any adjourned meeting not less than 25%, in principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75% in principal amount of the Notes for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

15.2 Modifications, Authorisations and Waivers

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

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and no Noteholder, Receiptholder or Couponholder shall be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking or covenant given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

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

15.3 **Substitution of Issuer**

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

15.4 **General**

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

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

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into transactions or arrangements with the Issuer and/or its Subsidiaries to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or arrangements or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, Receiptholders or Couponholders and (c) to retain and not be in any way liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

17. **FURTHER ISSUES**

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

18. **CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

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

19. **GOVERNING LAW AND SUBMISSION TO JURISDICTION**

19.1 **Governing Law**

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

19.2 **Submission to Jurisdiction**

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

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

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

19.3 **Appointment of Process Agent**

The Issuer has, in the Trust Deed, irrevocably and unconditionally appointed Law Debenture Corporate Services Limited at its specified office for the time being at Eighth Floor, 100 Bishopsgate, London, EC2N 4AG, United Kingdom as its agent for service of process in England in respect of any Proceedings and has undertaken that in the event of such agent ceasing so to act it will appoint such other person as the Trustee may approve as its agent for that purpose. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service.

19.4 **Waiver of Immunity**

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

FORM OF THE NOTES

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

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

Bearer Notes

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

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

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

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

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

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

an Exchange Event, in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream, Luxembourg, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) or the Trustee may give notice to the Principal Paying Agent requesting exchange and in the event of the occurrence of an Exchange Event as described in (iii) above, the Bank may also give notice to the Principal Paying Agent requesting exchange. Any such exchange following an Exchange Event shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

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

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

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

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

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a Registered Global Note.

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

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

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 6.4) as the registered holder of the Registered Global Notes. None of the Bank, any Paying Agent or the Registrar (each as defined under “*Terms and Conditions of the Notes*”) will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Definitive Registered Notes will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6.4) immediately preceding the due date for payment in the manner provided in that Condition.

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

The Bank will promptly give notice to the Noteholders and the Trustee in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (a) in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream, Luxembourg, Euroclear and/or Clearstream, Luxembourg

(acting on the instructions of any holder of an interest in such Permanent Bearer Global Note), or the Trustee may give notice to the Registrar requesting exchange and in the event of the occurrence of an Exchange Event as described above, the Bank may also give notice to the Registrar requesting exchange. Any such exchange following an Exchange Event shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests

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

General

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

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

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

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

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

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

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

FORM OF APPLICABLE PRICING SUPPLEMENT

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

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

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

[[MiFID II][and][UK MiFIR] - professionals/ECPs-only [/ No PRIIPs or UK PRIIPs KID] – Manufacturer target market ([MiFID II][and][UK MiFIR] product governance) is eligible counterparties and professional clients only (all distribution channels). [No PRIIPs or UK PRIIPs key information document (KID) has been prepared as not available to retail in EEA or UK.]

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “**EEA**”). For these purposes, a retail investor in the EEA means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the “**Prospectus Regulation**”). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[PROHIBITION OF SALES TO UK RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the “**UK**”). For these purposes, a retail investor in the UK means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the “**EUWA**”); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000, as amended (the “**FSMA**”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]

Section 309B the Notification – *The Notes are [prescribed capital markets products]/[capital markets products other than prescribed capital markets products] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and are [Excluded Investment Products]/[Specified Investment Products] (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products). [Note: Relevant Dealer(s) to consider whether it/they have received the necessary product classification from the Issuer prior to the launch of the offer, pursuant to Section 309B of the SFA.]*

[Date]

SECURITY BANK CORPORATION

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] under the U.S.\$1,000,000,000 Medium Term Note Programme

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

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the “**Conditions**”) set forth in the Offering Circular dated [date] [and the supplement[s] to it dated [date] [and [date]] (the “**Offering Circular**”). This applicable Pricing Supplement contains the final terms of the Notes described herein and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular [as so supplemented].

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

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

[Where interest, discount income, prepayment fee, redemption premium or break cost is derived from any of the Notes by any person who (i) is not resident in Singapore and (ii) carries on any operations in Singapore through a permanent establishment in Singapore, the tax exemption available for qualifying debt securities (subject to certain conditions) under the Income Tax Act 1947, of Singapore (the “**Income Tax Act**”) shall not apply if such person acquires such Notes using the funds and profits of such person’s operations through a permanent establishment in Singapore. Any person whose interest, discount income, prepayment fee, redemption premium or break cost derived from the Notes is not exempt from tax (including for the reasons described above) shall include such income in a return of income made under the Income Tax Act.]

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

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

1. Issuer: Security Bank Corporation
2. (a) Series Number: []
- [(b) Tranche Number:] []
(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
- [(c) Date on which the Notes will be consolidated and form a single Series:] The Notes will be consolidated and form a single Series with [identify earlier Tranches] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [26] below, which is expected to occur on or about [date]][Not Applicable]
3. Specified Currency or Currencies: []
4. Aggregate Nominal Amount:
- (a) Series: []
- (b) Tranche: []
5. (a) Issue Price: []% of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
- (b) Net Proceeds: []
(only for listed notes)
6. (a) Specified Denominations: []

(N.B. Notes must have a minimum denomination of €100,000 (or equivalent) in order to benefit from Transparency Directive (Directive 2004/109/EC of the European Parliament and of the Council on the Harmonisation of Transparency Requirements in relation to information about issuers whose securities are admitted to trading on a regulated market) exemptions in respect of whole sale securities and in order to benefit from the wholesale exemption set out in Article 1.4(c) of the Prospectus Directive in that Member State.)

(Note — where Bearer Notes with multiple denominations above [€100,000] or equivalent are being used with respect to Bearer Notes, the following sample wording should be followed:

“[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].”

(N.B. If an issue of Notes is (i) NOT admitted to trading on a European Economic Area exchange or a United Kingdom exchange; and (ii) only offered in the

European Economic Area or the United Kingdom in circumstances where a prospectus is not required to be published under the Prospectus Regulation the €100,000 minimum denomination is not required.)

(In the case of Registered Notes, this means the minimum integral amount in which transfers can be made.)

(b) Calculation Amount: []

(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)

7. (a) Issue Date: []

(b) Interest Commencement Date: [Specify/Issue Date/Not Applicable]

(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)

8. Maturity Date: *[Fixed rate — specify date/Floating rate — Interest Payment Date falling in or nearest to [specify month and year]]¹*

9. Interest Basis: [[]% Fixed Rate]

[[EURIBOR/HIBOR/SOFR Benchmark] +/-
[]% Floating Rate]

[Zero Coupon]

[Index Linked Interest]

[Dual Currency Interest]

[specify other]

(further particulars specified below)

10. Redemption/Payment Basis: [Redemption at par]

¹ Note that for Renminbi and Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification, it will be necessary to use the second option here.

[Index Linked Redemption]

[Dual Currency Redemption]

[Partly Paid]

[Instalment]

[specify other]

11. Change of Interest Basis or Redemption/Payment Basis: [(Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis)]

12. Put/Call Options: [Investor Put]
[Issuer Call]
[(further particulars specified below)]

13. Status of the Notes: [Senior]

14. (a) Date Board approval for issuance of Notes obtained: [] [and []], respectively]/[None required]
(N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Notes.)

15. Listing: [SGX-ST/specify other/None]
(N.B. Consider disclosure requirements under the EU Prospectus Regulation applicable to securities admitted to an EU regulated market)

16. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17. Fixed Rate Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)

(a) Rate(s) of Interest: []% per annum [payable in arrear] on each Interest Payment Date

(b) Interest Payment Date(s): [] in each year up to and including the Maturity Date]/[specify other]

(Amend appropriately in the case of irregular

- coupons)*
- (c) Fixed Coupon Amount(s): [] per Calculation Amount
(Applicable to Notes in definitive form.)
- (d) Broken Amount(s): [] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []
(Applicable to Notes in definitive form.)
- (e) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or *[specify other]*]
(N.B. For fixed rate Notes denominated in Renminbi, specify Actual/365 (Fixed))
- (f) Determination Date(s): [[] in each year]
[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]
(N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA))
- (g) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
18. Floating Rate Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Specified Period(s)/Specified Interest Payment Dates: [●], subject to adjustment in accordance with the Business Day Convention set out in subparagraph 18(d) below/, not subject to any adjustment, as the Business Day Convention in subparagraph 18(d) below is specified to be Not Applicable]
[The definition of “Interest Payment Date” in Condition 5.2(b)(iii)(B)(3) applies.] (Only applicable in the case of SOFR Payment Delay)
- (b) Interest Period(s): [Each period beginning on (and including) [the Interest Commencement Date/[●]] or any Specified Interest Period Date and ending on (but excluding) the next Specified Interest Period Date, subject to adjustment in accordance with the Business Day Convention set out in (iii) below, and “Specified Interest Period Date” means [[●], [●], [●] and [●]] in each year up to and including the Maturity Date, subject to adjustment in accordance with the Business Day Convention set out in (iii) below] *(Only applicable in the case of SOFR Payment Delay where Specified Interest Period Date is required)*
- (c) Specified Interest Payment Date(s): [] [, subject, in each case, to adjustment in accordance with the Business Day Convention specified in paragraph 18(d) below/, not subject to any adjustment]

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

Relevant Financial Centre:

[Brussels/New York/*specify other Relevant Financial Centre*]
 - Interest Determination Date(s): [●] (*First day of each Interest Period if Hong Kong dollar HIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR*)

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

[The Specified Interest Period Date [(*as defined in 17(ii)*)], provided that the Interest Determination Date with respect to the final Interest Period will be the U.S. Government Securities Business Day immediately following the relevant SOFR Rate Cut-off Date — *only applicable in the case of SOFR Payment Delay*]
 - Relevant Screen Page: []
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)

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

- SOFR Benchmark: [Not Applicable/Simple SOFR Average/Compounded SOFR Average/Compounded SOFR Index] *(Only applicable where the Reference Rate is SOFR)*
 - Compounded SOFR Average Method: [Not Applicable/SOFR Lag/SOFR Observation Shift/SOFR Payment Delay/SOFR Lockout] *(Only applicable where the Reference Rate is SOFR Benchmark and the SOFR Benchmark is Compounded SOFR Average)*
 - Lookback Days: [[Five] U.S. Government Securities Business Days — used for SOFR Lag only]/[Not Applicable]³
- (j) ISDA Determination:
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
(In the case of a EURIBOR based option, the first day of the Interest Period)
- (k) Margin(s): [+/-][]% per annum
- (l) Minimum Rate of Interest: []% per annum
- (m) Maximum Rate of Interest: []% per annum
- (n) Day Count Fraction: [Actual/Actual or Actual/Actual (ISDA)
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
30/360, 360/360 or Bond Basis
30E/360 or Eurobond Basis
30E/360 (ISDA)
Other]
(See Condition 5 for alternatives)
- (o) Rounding provisions, denominator, and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: []
- (p) Fallback provisions, rounding provisions and any other terms [As set out in Condition 5.2(h) /5.2(i)]

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

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

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

21. Dual Currency Interest Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate of Exchange/method of calculating Rate of Exchange: [give or annex details]
- (b) Party, if any, responsible for calculating the principal and/or interest due (if not the Principal Paying Agent): []
- (c) Provisions applicable where calculation by reference to Rate of Exchange is impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (d) Person at whose option Specified Currency(ies) is/are payable: []

PROVISIONS RELATING TO REDEMPTION

22. Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[] per Calculation Amount/specify other]
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: [] per Calculation Amount
- (ii) Maximum Redemption Amount: [] per Calculation Amount
- (d) Notice periods: []

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

23. Investor Put: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount of each Note and method, if any, of

- calculation of such amount(s): *other/see Appendix]*
- (c) Notice period (if other than as set out in the Conditions): *(N.B. If setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or the Trustee)*
- (d) Other conditions: *[Not Applicable/give details]*
24. Final Redemption Amount: *[[] per Calculation Amount/specify other/see Appendix]*
25. Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7.5): *[[] per Calculation Amount/specify other/see Appendix]*

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26. Form of Notes: **Bearer Notes:**
- [Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Bearer Notes [on 60 days' notice given at any time/only upon an Exchange Event]]*
- [Temporary Bearer Global Note exchangeable for Definitive Bearer Notes on and after the Exchange Date]*
- [Permanent Bearer Global Note exchangeable for Definitive Bearer Notes [on [] days' notice given at any time/only upon an Exchange Event]]*
- (Ensure that this is consistent with the wording in the "Form of the Notes" section in the Offering Circular and the Notes themselves. N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph [6] includes language substantially to the following effect:*
- "[€ 100,000] and integral multiples of [€ 1,000] in excess thereof up to and including [€ 199,000].". Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Bearer Global Note exchangeable for Definitive Bearer Notes.)*
- Registered Notes:**
- [Registered Global Note ([U.S.\$] [●] nominal amount) registered in the name of a nominee for a common depository for Euroclear and Clearstream,*

- Luxembourg (*specify nominal amounts*)
27. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/*give details*]
(Note that this paragraph relates to the place of payment and not Interest Period end dates to which paragraphs [18(d)] and [20(g)] relate)
28. Talons for future Coupons or Receipts to be attached to Definitive Notes in bearer form (and dates on which such Talons mature): [Yes/No. *If yes, give details*] [Not Applicable]
29. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/*give details. N.B. a new form of Temporary Bearer Global Note and/or Permanent Bearer Global Note may be required for Partly Paid issues*]
30. Details relating to Instalment Notes:
- (a) Instalment Amount(s): [Not Applicable/*give details*]
- (b) Instalment Date(s): [Not Applicable/*give details*]
31. Redenomination applicable Redenomination [not] applicable
(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))
32. Other terms: [Not Applicable/*give details*]

DISTRIBUTION

33. (a) If syndicated, names of Managers: [Not Applicable/*give names*]
- (b) Stabilising Manager(s) (if any): [Not Applicable/*give name(s)*]
- (c) Date of Subscription Agreement: []
34. If non-syndicated, name of relevant Dealer: [Not Applicable/*give name*]
35. U.S. Selling Restrictions: Reg. S Compliance Category [1 / 2]; [TEFRA D/TEFRA C/TEFRA not applicable]
36. Additional selling restrictions: [Not Applicable/*give details*]
37. Prohibition of sales to EEA retail investors [Applicable]/[Not applicable]
(If the Notes clearly do not constitute “packaged” products or the Notes do constitute “packaged” products and a key information document will be prepared in the EEA, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no key information document will be prepared, “Applicable” should be specified.)

38. Prohibition of sales to UK retail investors [Applicable]/[Not applicable]
(If the Notes clearly do not constitute “packaged” products or the Notes do constitute “packaged” products and a key information document will be prepared in the UK, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no key information document will be prepared, “Applicable” should be specified.)
39. Additional U.S. federal income tax considerations: [Not Applicable/give details]
[To consider whether any considerations relating to the U.S. Foreign Account Tax Compliance Act need to be included]

OPERATIONAL INFORMATION

40. Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
41. Delivery: Delivery [against/free of] payment
42. Additional Paying Agent(s) (if any): []
43. ISIN []
44. Common Code: []
45. Legal Entity Identifier (LEI): 549300JSVDZIR2CPTP95

GENERAL

46. Rating(s): [Rating Agency: []]
47. The aggregate principal amount of Notes issued has been translated into U.S. dollars at the rate of [insert exchange rate], producing a sum of: [Not Applicable/U.S.\$[]] *(for Notes not denominated in U.S. Dollars)*

HONG KONG SFC CODE OF CONDUCT

48. Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent: *[Include relevant contact email addresses of the Overall Coordinators where the underlying investor information should be sent – Overall Coordinators to provide] / [Not Applicable]*
49. [Marketing and Investor Targeting Strategy: *[Provide details if different from Offering Circular]*]

[USE OF PROCEEDS

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

[STABILISATION

In connection with this issue, [insert name of Stabilising Manager(s)] (the “**Stabilising Manager(s)**”) (or persons acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there

is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.]

[LISTING

This applicable Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.\$1,000,000,000 Medium Term Note Programme of Security Bank Corporation.]

INVESTMENT CONSIDERATIONS

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

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

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

RESPONSIBILITY

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

Signed on behalf of Security Bank Corporation:

By: _____
Duly authorised

USE OF PROCEEDS

The net proceeds from each issue of the Notes under the Programme will be used to extend term liabilities, expand funding base, improve liquidity gaps, to fund investments and other general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

INVESTMENT CONSIDERATIONS

Prior to making any investment decision, prospective investors should carefully consider, among other things, the risks described below, as well as the other information contained in this Offering Circular. Any of the following risks could materially adversely affect the business, financial condition or results of operations of the Bank and, as a result, investors could lose all or part of their investment. The risks below are not the only risks the Bank faces. Additional risks and uncertainties not currently known to the Bank, or that it currently deems to be immaterial may also materially adversely affect the business, financial condition or results of operations of the Bank. Words and expressions defined elsewhere in this Offering Circular shall have the same meanings in this section.

The Bank believes that the factors described below represent the principal risks inherent in investing in the Notes issued under the Programme, but the Bank's inability to pay any amounts on or in connection with any Note may occur for other reasons which may not be considered significant risks by the Bank based on information currently available to it or which it may not currently be able to anticipate, and the Bank does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular (including any document incorporated by reference) and reach their own views prior to making any investment decision. In making an investment decision, each investor must rely on its own examination of the Bank and the terms of the offering of the Notes.

Risks Relating to the Bank and its Business

The Bank may not be successful in implementing its strategies.

Part of the Bank's strategy is to grow mass affluent and corporate share, focusing on customers with high potential for growth and where the Bank can differentiate on service. This may expose the Bank to a number of risks and challenges including, among others, the following:

- The targeted segments may have less growth or profit potential than the Bank anticipates, and there can be no assurance that new business activities will become profitable at the level the Bank desires or at all;
- The Bank's competitors may have substantially greater experience and resources for the targeted segments putting it at a disadvantage with its competitors; and/or
- Economic conditions, such as rising interest rates or inflation, could hinder the Bank's expansion, particularly with respect to loans.

In addition, new business endeavors may require knowledge and expertise which differ from those used in the current business operations of the Bank, including different management skills, risk management procedures, guidelines and systems, credit risk evaluation, monitoring, and recovery procedures. The Bank may not be successful in developing such knowledge and expertise. Furthermore, managing such growth and expansion requires significant managerial and operational resources, which the Bank may not be able to procure on a timely basis or at all. The Bank's inability to implement its business strategy could have a material adverse effect on the business, financial position, and results of operations of the Bank.

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

Economic difficulties in the Philippines that have a significant adverse effect on Philippine consumers could result in reduced growth and deterioration in the credit quality of the Bank's consumer loan and credit card portfolios. A rise in unemployment or an increase in interest rates could have an adverse impact on the ability of borrowers to make payments and increase the likelihood of potential defaults and reduce demand for consumer loans and could result in increased delinquencies in the Bank's loan and credit card portfolio.

The Bank's unsecured lending portfolio entails higher credit risk and may have a negative impact on its business, financial condition, and results of operations.

As of 31 December 2023, 73.2% of the Bank's lending portfolio was unsecured. Unsecured loans, which primarily consist of credit cards, personal loans and loans to top tier corporates, entail a higher degree of credit risk than loans secured by collateral. For example, a downturn in the Philippine or global economies may result in a higher level of NPLs with unsecured obligations which would, in turn, negatively impact the Bank's asset quality and

increase write-offs without the possibility of mitigation through the acquisition of collateral assets. Any increase in the level of NPLs with unsecured obligations could materially and adversely affect the Bank's business, financial condition, and results of operations.

The Bank has high concentrations of loans to certain customers and to certain sectors and if a substantial portion of these loans were to become non-performing, the quality of its loan portfolio could be adversely affected.

As of 31 December 2023, the Group's total exposure to borrowers (receivable from customers, net of unearned discounts and deferred credits but gross of allowance for credit losses) was P546.0 billion. The ten largest individual borrowers in aggregate accounted for 15.8% of the Group's total exposure and its ten largest borrower groups in aggregate accounted for 25.9% of its total exposure. The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group of connected persons in excess of 25.0% of capital fund. As of 31 December 2023, the Bank's single borrower limit, as computed based on BSP guidelines, was P31.4 billion. In determining whether the Bank meets the the Bank's total exposure to borrowers of the BSP, the Bank includes exposure to related accounts (including accounts of subsidiaries and parent companies of the borrower). The Group's largest individual corporate borrower as of 31 December 2023, accounted for 3.2% of the Group's total exposure and 12.7% of the Group's total capital funds. The largest borrower group as of 31 December 2023, accounted for 4.8% of the Bank's total exposure and for 19.5% of the Bank's total capital funds. Credit losses on these large single borrower and group exposures could adversely affect the business, financial condition, and results of operations of the Bank.

The Bank has extended loans to several sectors in the Philippines. The table below sets out the Group's five largest concentration of credit as to industry, net of unearned discounts and deferred credits as of 31 December 2023.

Rank	Industry	Amount (P millions)	Percentage of Total Exposure to Borrowers
1	Real estate activities*	148,272	27.2%
2	Wholesale and retail trade; repair of motor vehicles and motorcycles	92,584	17.0%
3	Electricity, gas, steam and air conditioning supply	77,611	14.2%
4	Activities of households as employers; undifferentiated goods and services producing activities of households for own use**	61,035	11.2%
5	Manufacturing	46,917	8.6%
	Total	426,419	78.2%

*Include loans to individuals for housing purposes and loans to land developers/construction companies for socialized and low-cost residential properties which are both excluded in the 25% real estate limit set by the BSP.

**Excludes loans and receivables on real estate or dwelling units which are considered production activities and classified under "Real estate"

The Group's exposures to these five sectors, totalling P426.4 billion, constituted 78.2% of the Group's total loan portfolio as of 31 December 2023. The global and domestic trends in these industries may have a bearing on the Bank's financial position. Although the Bank's portfolio contains loans to a wide variety of businesses, financial difficulties in these industries could increase the level of non-performing assets and restructured assets, and adversely affect the Bank's business and its future financial performance.

As of 31 December 2023, the Bank has complied with all regulatory concentration limits e.g., industry, single borrower and borrower group.

The Bank may face increasing levels of non-performing loans and provisions for impairment losses which may adversely affect the Bank's business, financial position, results of operations, and capital adequacy.

Any lending activity is exposed to credit risk arising from the risk of default by borrowers. The Bank's results of operations have been, and continue to be, negatively affected by the level of its non-performing loans. For the years ended 31 December 2021, 2022, and 2023, the Bank's provisions for credit and impairment losses amounted to P5.3 billion, P2.8 billion and P4.8 billion, respectively, which represented 19.2%, 9.7% and 13.8%, respectively, of net interest income in those periods. A slowdown in global growth momentum may adversely affect the ability

of the Bank's borrowers to finance their indebtedness and, as a result, the Bank may experience an increase in non-performing loans and impairment provisions.

These and other factors could result in an increased number of non-performing loans in the future. The Bank's non-performing loans-net was ₱7.5 billion as of 31 December 2023 compared to ₱5.7 billion as of 31 December 2022. As of 31 December 2023, the Bank's non-performing loans-net represent 1.4% of the Bank's total gross loans. The Bank has experienced significant growth in its loan portfolio in recent years and it may experience problems in non-payment arising from these new loans in the future. Any significant increase in the Bank's non-performing loans would have a material adverse effect on its financial condition, capital adequacy and results of operations.

The Bank believes that it has set aside adequate provisions and reflected current valuations as regards its investment portfolio. However, there can be no assurance that the value of the Bank's investment portfolio will not deteriorate should volatility in global financial markets continue.

The Bank's provisioning policies are based on PFRS 9 expected credit loss standards which require significant subjective determinations.

Certain accounting standards, including the PFRS 9 expected credit loss standards, have been adopted in the Philippines which requires banks to use the Expected Credit Loss ("ECL") methodology in estimating loan loss provisioning. ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that result from all possible default events over the expected life of a financial instrument.

The level of provisions currently recognized by the Bank with respect to its loan portfolio depends largely on the payment status (current or past due), credit classification (Pass, Especially Mentioned, Substandard, Doubtful, or Loss), probability of default (PD), and security (clean or secured). If the Bank's evaluations or determinations are inaccurate, the level of the Bank's provisions may not be adequate to cover actual losses resulting from its existing classified loan portfolio. The Bank may also have to increase its level of provisions if there is any deterioration in the overall credit quality of the Bank's existing loan portfolio, including the value of the underlying collateral. In particular, the amount of the Bank's reported loan losses may increase in the future as a result of factors beyond the Bank's control.

While the Bank believes its current level of provisions and collateral position are more than adequate to cover its NPL exposure, an unexpected or significant increase in NPL levels may result in the need for higher level of provisions in the future. If the Bank fails to properly appraise or review its collateral or its appraised value declines, the Bank's provisions may be inadequate and the Bank may be required to make further provisions, which could have a material adverse effect on its business, financial condition, and results of operations.

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

As of 31 December 2023, the Bank's secured loans represented 26.8% of the Bank's receivable from customers (gross of unearned discounts and deferred credits and allowance for credit losses), and 57.4% of the collateral on these secured loans consisted of real property. The recorded values of the Bank's collateral may not accurately reflect its liquidation value, which is the maximum amount the Bank is likely to recover from a sale of collateral, less expenses of such sale. There can be no assurance that the realized value of the collateral would be adequate to cover the Bank's loans. In addition, some of the valuations in respect of the Bank's collateral may also be out of date or may not accurately reflect the value of the collateral. In certain instances, where there are no purchasers for a particular type of collateral, there may be significant difficulties in disposing of such collateral at a reasonable price. Any decline in the value of the collateral securing the Bank's loans, including with respect to any future collateral taken by the Bank, would mean that its provisions for credit losses may be inadequate and the Bank may need to increase such provisions. There can be no assurance that the collateral securing any particular loan will protect the Bank from suffering a partial or complete loss if the loan becomes non-performing. Any increase

in the Bank's provisions for credit losses would adversely affect its business, its financial condition, results of operations and capital adequacy ratio.

In addition, the Bank may not be able to recover in full the value of any collateral or enforce any guarantee due, in part, to difficulties and delays involved in enforcing such obligations through the Philippine legal system. To foreclose on collateral or enforce a guarantee, banks in the Philippines are required to follow certain procedures specified by Philippine law which may be burdensome. The resulting delays can last several years and lead to the deterioration in the physical condition and market value of the collateral, particularly where the collateral is in the form of inventory or receivables. In addition, such collateral may not be insured. These factors have exposed, and may continue to expose, the Bank to legal liability while in possession of the collateral. These difficulties may significantly reduce the Bank's ability to realize the value of its collateral and therefore the effectiveness of taking security for the loans it makes. Under PAS 40 Investment Property, the Bank carries the value of the foreclosed properties at the fair value at the time of foreclosure and, in the case of depreciable property, depreciated over such property's useful life. While the Bank, at each balance sheet date, provides for impairment losses on its foreclosed properties in accordance with PFRS, it may incur further expenses to maintain such properties and prevent their deterioration. In realizing cash value for such properties, the Bank may incur further expenses such as legal fees and taxes associated with such realization. There can be no assurance that the Bank will be able to realize the full value, or any value, of any collateral on its loans.

The Bank relies principally on short-term deposits for funding.

The Bank's funding is principally satisfied from demand, savings and time deposits, long-term negotiable certificates of deposits, and to a smaller extent, borrowings from other banks. As of 31 December 2023, 82.8% of the Bank's financial liabilities were sourced from deposits and 7.0% from bills payable and securities sold under repurchase agreements ("SSURA"). As of 31 December 2023, the Bank's net loan-to-deposit ratio was 88.8%.

Although the Bank's funding sources have historically been stable, no assurance can be given that this will continue to be the case in the future. In the event a substantial number of the Bank's depositors withdraw, or do not roll over their deposits, or if other banks do not lend short term funds to the Bank as they have in the past, the Bank's liquidity position could be adversely affected, which could result in its inability to fund its operations and may require the Bank to seek alternative sources of funding. The Bank can provide no assurance as to the availability or terms of such funding. To the extent the Bank is unable to obtain sufficient funding on acceptable terms or at all, the Bank's liquidity and financial condition and results of operations will be adversely affected.

The Bank's trading activities are subject to volatility.

The Bank engages in trading activities, primarily maintaining proprietary trading positions in Philippine and foreign government securities and some corporate debt securities. Consolidated trading and securities gain/(loss) and foreign exchange gain/(loss) contributed 3.4%, 2.4% and -4.2% of total operating income for the years ended 31 December 2021, 2022 and 2023, respectively. The Bank's trading gains are inherently volatile as trading securities and currencies are subject to economic, political and other conditions that may fluctuate from time to time. There can be no assurance that, in the future, the Bank will be able to realize an amount of trading gains that is similar to the gains it realized historically, that it will not incur a loss from such trading or that it will not hold on to its trading and investment securities to realize interest income, any or all of which could have a material adverse effect on the Bank's future net income. Risks arising both from its trading and investment strategy and general market volatility, which are beyond its control, could expose the Bank to potential losses and may materially and adversely affect its business, financial condition and results of operations.

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

To the extent any of the instruments and strategies the Bank uses to manage its exposure to market or credit risk is not effective, the Bank may not be able to effectively mitigate its risk exposures in particular to market environments or against particular types of risk. The Bank's balance sheet growth will be dependent upon economic conditions, as well as upon its determination to securitize, sell, purchase or syndicate particular loans or loan portfolios. The Bank's trading revenues and interest rate risk exposure are dependent upon its ability to properly identify and mark-to-market the changes in the value of financial instruments caused by changes in market prices or rates. The Bank's earnings are dependent upon the effectiveness of its management of migrations in credit quality and risk concentrations, the accuracy of its valuation models and its critical accounting estimates

and the adequacy of its allowances for credit losses. To the extent its assessments, assumptions or estimates prove inaccurate or not predictive of actual results, the Bank could suffer higher than anticipated losses. The successful management of credit, market and operational risk is an important consideration in managing its liquidity risk because it affects the evaluation of its credit ratings by rating agencies. A failure by the Bank to effectively manage its credit, market and liquidity risk could have a negative effect on its business, financial condition and results of operations.

The Bank is subject to interest rate risk.

The Bank realizes income from the margin between interest-earning assets (due from BSP, due from other banks, interbank loans receivable and securities purchased under resale agreement with BSP, investment securities and loans and receivables), and interest paid on interest-bearing liabilities (deposit liabilities, bills payable and SSURA, notes payable and subordinated note). The business of the Bank is subject to fluctuations in market interest rates as a result of mismatches in the re-pricing of assets and liabilities. These interest rate fluctuations are neither predictable nor completely controllable and may have a material adverse impact on the operations and financial condition of the Bank. In a rising interest rate environment, if the Bank is not able to pass along higher interest costs to its customers, it may negatively affect the Bank's profitability. If such increased costs are passed along to customers, such increased rates may make loans less attractive to potential customers and result in a reduction in customer volume and hence operating revenues. In a decreasing interest rate environment, potential competitors may find it easier to enter the markets in which the Bank operates and to benefit from wider spreads. As a result, fluctuations in interest rates could have an adverse effect on the Bank's margins and volumes and in turn adversely affect the Bank's business, financial condition, and results of operations.

The Bank is subject to foreign exchange risk.

As a financial organization, the Bank is exposed to foreign exchange risk arising directly from its trading operations and indirectly from economic uncertainties which abrupt changes in the exchange rate may cause. Under BSP guidelines, the Bank is required to provide 100.0% foreign asset cover for all foreign currency liabilities in its Foreign Currency Deposit Unit ("FCDU") books. As of 31 December 2023, the Bank had ₱236.8 billion of assets and ₱236.8 billion of liabilities in FCDU books, denominated primarily in U.S. dollars. The decline in the value of the peso against foreign currencies, in particular the U.S. dollar, may affect the ability of the Bank's customers or the Government to service debt obligations denominated in foreign currencies and, consequently, increase NPLs. Conversely, increases in the value of the peso can depress the export market which can negatively affect the ability of the Bank's customers to repay their debt obligations or may reduce credit quality or demand. There can be no assurance that the peso will not fluctuate further against other currencies and that such fluctuations will not ultimately have an adverse effect on the Bank.

The Bank's business, reputation and prospects may be adversely affected if the Bank is not able to detect and prevent fraud or other misconduct committed by the Bank's employees or outsiders on a timely basis.

The Bank is exposed to the risk that fraud and other misconduct committed by employees or outsiders could occur. Such incidences may adversely affect banks and financial institutions more significantly than companies in other industries due to the large amounts of cash that flow through their systems. Any occurrence of such fraudulent events may damage the reputation of the Bank and may adversely affect its business, financial condition, results of operations and prospects. In addition, failure on the part of the Bank to prevent such fraudulent actions may result in administrative or other regulatory sanctions by the BSP or other Government agencies, which may be in the form of suspension or other limitations placed on the Bank's banking and other business activities. In addition, this may also result in a loss of confidence of current and potential deposit customers. As the Bank continues to further automate its various internal processes and expand its internet banking operations, the potential for fraud and security problems arising from the exploitation of technological weaknesses may increase. Although the Bank has in place certain internal control procedures to prevent and detect fraudulent activities, these may be insufficient to prevent such occurrences from transpiring. There can be no assurance that the Bank will be able to avoid incidents of fraud in the course of its business.

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

The Bank is subject to risks relating to its information and technology systems and processes. The hardware and software used by the Bank in its information technology are vulnerable to damage or interruption by human error, misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses or the interruption or loss of

support services from third parties such as internet service providers, ATM operators and telephone companies. Any disruption, outage, delay or other difficulties experienced by any of these information and technology systems could result in delays, disruptions, losses or errors that may result in loss of income and decreased consumer confidence in the Bank. These may, in turn, adversely affect the Bank's business, financial condition and results of operations.

The Bank employs measures to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by the Bank's increased use of the internet. For example, in connection with the installation, maintenance, and upgrading of new technology systems, the Bank grants third party access to its systems and there can be no assurance that such access will not result in security breaches or other disruptive problems. Computer break-ins and security breaches would affect the security of information stored in and transmitted through these computer systems and network infrastructure. The Bank employs security systems and maintains operational procedures to prevent break-ins, damage, and failures. The potential for fraud and securities problems is likely to persist and there can be no assurance that these security measures will be adequate or successful. The costs of maintaining such security measures may also increase substantially. Failure to implement security measures could have a material adverse effect on the Bank's business, financial condition and results of operations.

Inability to adapt to technology shifts and address changing consumer demand may negatively impact the Bank's competitiveness and customer experience.

The proliferation of smartphones, connectivity devices, and mobile data applications has witnessed a surge in platforms offering online payment solutions, electronic money, and digital wallets, among other comparable services and products. This advent of web- and app-based offerings has significantly intensified the competition posed by traditional banking institutions, such as Security Bank. Furthermore, the imposition of quarantine measures and movement restrictions during the COVID-19 pandemic has further propelled the demand for digital and online solutions.

Banks compete with expanding financial technology ("FinTech") solutions covering (i) mobile payment or e-wallet applications such as but not limited to GCash and PayMaya and (ii) peer-to-peer lending platforms, among others.

Moreover, to date, the BSP has granted six (6) digital bank licenses: (i) Overseas Filipino Bank, (ii) Tonik Digital Bank, Inc., (iii) UNObank, (iv) UnionDigital Bank, (v) GoTyme Bank, and (vi) Maya Bank. These licenses complement the existing commercial and universal banking licenses held by banks like CIMB Bank Philippines, which provide branchless banking services through their dedicated mobile applications, thereby delivering comprehensive online retail banking services.

To address these challenges, the Bank is committed to investing in technological upgrades and staying at the forefront of banking technology in the Philippines. However, it acknowledges that there are no substantial barriers preventing its competitors from adopting more advanced technology for their own product and service offerings. Consequently, maintaining technological competitiveness remains a key focus for the Bank. Failure to do so may have significant implications, including the potential impact on fee-based revenue, customer acquisition, funding costs, and overall business performance. Therefore, the Bank is dedicated to continually enhancing its infrastructure and systems to meet evolving customer preferences and ensure its sustained position in the market.

One area of focus for the Bank has been the development and improvement of its digital banking platforms. The Bank has invested significant resources in creating user-friendly and feature-rich mobile and web applications that offer a seamless and convenient banking experience to its customers. These digital platforms provide services such as online banking, mobile payments, fund transfers, and account management, empowering customers to perform banking transactions anytime and anywhere.

The Bank may have to comply with strict regulations and guidelines issued by regulatory authorities in the Philippines, including the BSP and the BIR and international bodies, including the the Financial Action Task Force ("FATF").

The Bank is regulated and supervised principally by, and has reporting obligations to the BSP. The Bank is also subject to the banking, corporate, taxation and other laws in effect in the Philippines, administered by agencies such as the Anti-Money Laundering Council ("AMLC"), the Philippine Bureau of Internal Revenue (the "BIR"), the Philippine Securities and Exchange Commission (the "Philippine SEC") and The Philippine Stock Exchange,

Inc. (“PSE”). The Bank is also subject to recommendations and pronouncements of international bodies such as the FATF which have been adopted, incorporated, or referred to by BSP in its regulatory issuances.

In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented which are intended to provide tighter control and added transparency in the Philippine banking sector. These rules include new guidelines on the monitoring and reporting of suspected money laundering activities as well as regulations governing capital adequacy of banks in the Philippines.

Furthermore, while the Philippines enacted the Anti-Money Laundering Act of 2001 (the “**Anti-Money Laundering Act**”) to introduce more stringent anti-money laundering regulations, these regulations did not initially comply with the standards set by the FATF. However, following pressure from the FATF, amendments expanding the coverage of the Anti-Money Laundering Act were adopted and became effective on 23 March 2003. The FATF found the amendment satisfactory and subsequently removed the Philippines from the FATF’s list of “non-cooperative countries and territories” on 11 February 2005, after verification by the FATF of the effective implementation of the Anti-Money Laundering Act, as amended. Further to this, Republic Act No. 10167 and Republic Act No. 10168, which strengthened the powers of AMLC and criminalized terrorism financing, respectively, were signed into law by former President Benigno C. Aquino III in June 2012. In February 2013, Republic Act No. 10365 was signed into law, which law further expanded the coverage of the Anti-Money Laundering Act and amended the penalties imposable under the law. In February 2016, in response to the Bangladesh Bank heist, former President Rodrigo Duterte signed into law Republic Act No. 10927, which further expanded the coverage of the Anti-Money Laundering Act to include casinos and amended the relevant provisions on the issuance of a freeze order. The AMLA requires covered entities to record the (a) the true identities of their clients based on official documents; or (b) the true and full identity, and existence of both the client with whom such institution transacts with and the beneficial owner or person on whose behalf the transaction is being conducted, where a transaction is conducted by a person on behalf of another. In addition, all records of transactions are required to be maintained and stored for a minimum of five years from the date of a transaction, unless a case has been filed involving the account, then the records must be retained and safely kept beyond the five-year period until it is officially confirmed by the AMLC Secretariat that the case has been resolved, decided or terminated with finality. Records of closed accounts must also be kept for five years after their closure.

On 3 March 2021, the AMLC issued the 2021 Sanction Guidelines incorporating amendments brought about by the enactment of Republic Act No. 11479 or the Anti-Terrorism Act of 2020 and Republic Act No. 11521 or An Act Further Strengthening the Anti-Money Laundering Law, amending for the purpose Republic Act No. 9160, otherwise known as the Anti-Money Laundering Act, as amended. The guidelines now cover targeted financial sanctions related to terrorism, terrorism financing, and proliferation financing, including remedies and relevant links to the appropriate United Nations Security Council Sanctions Committee.

On 25 June 2021, the FATF released its grey list of countries that will be subjected to increased monitoring to prove their progress as they address strategic deficiencies in their regimes against money laundering, terrorist financing, and proliferation financing. With its inclusion in the grey list, the Philippines needs to implement the eighteen (18) action items required within the prescribed timelines to ensure the country’s removal from such list. Progress reports must likewise be submitted to the FATF thrice a year. The AMLC emphasized, however, that the Philippines will not yet be subjected to countermeasures. It is only when a country fails to meet the deadlines that the FATF will call on countries to impose countermeasures against it. The Bank may incur additional compliance and monitoring costs if further rules or regulations are introduced, or if existing regulations are enforced on a more stringent basis. Such failure to comply could also result in the imposition of administrative sanctions or filing of criminal charges against the Bank and its employees responsible for violations.

The BSP has also ordered universal, commercial and thrift banks to conduct real estate stress tests to determine whether their capital is sufficient to absorb a severe shock. The real estate stress test limit (“**REST Limit**”) combines a macroprudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. Should a bank fail to comply with the prescribed REST Limits, it shall be directed to explain why its exposures do not warrant immediate remedial action. Should the same be found insufficient, the bank shall be required to submit an action plan to meet the REST Limits within a reasonable time frame.

Under BSP Circular No. 1093, Series of 2020, the total real estate loans of universal banks and commercial banks shall not exceed 25.0% of the total loan portfolio of a bank, net of bank loans, excluding certain items listed in the relevant BSP regulations and the Manual. This percentage is an increase from the previous 20.0%. Pursuant to BSP Memorandum No. M-2022-039, the BSP clarified that:

- real estate loans shall not include “loans to finance the construction, rehabilitation and improvement of highways, streets, bridges, tunnels, railways, railroad, transport systems, ports, airports, power plants, hydropower projects, canals, dams, water supply, irrigation, telecommunications, land reclamation projects, industrial estates or townships, government buildings and housing projects, public markets, slaughterhouses, warehouses, civil work components of information technology networks and database infrastructure projects, solid waste management, sewerage, flood control, drainage, dredging and other infrastructure projects that are intended for public use” for purposes of compliance with the prudential Real Estate Loan (“**REL**”) limit;
- loans and investments in debt and equity securities, the proceeds of which are used to finance infrastructure projects for public use as described above, are likewise excluded from the composition of real estate exposures for purposes of compliance with the prudential REST Limit;
- only the loans and investments to finance the construction, rehabilitation and improvement of real estate relating to infrastructure projects that are intended for public use such as fixed assets, permanent structures, immovable facilities or physical improvements thereon shall be excluded from the computation of real estate loans and real estate exposures that are subject to the prescribed REL and REST limits, respectively; and
- loans and investments to finance the general administration and maintenance of operations of entities operating or working on such infrastructure projects including, among others, the cost of equipment, machineries and the like, as well as the services and related items shall not form part of the items that are allowed to be excluded from the above-mentioned prudential limits, except if the expenditure/cost is needed to build, rehabilitate or improve an infrastructure project for public use and is allowed to be capitalized as part of the cost of the fixed asset, permanent structure, immovable facility, or physical improvement.

In June 2016, the BSP implemented the interest rate corridor (“**IRC**”) which effectively narrowed the band among the BSP’s key policy rates. The pricing benchmark, which used to be the special deposit account prior to the implementation of the IRC, was replaced by the overnight deposit facility and forms the lower band of the IRC. Meanwhile, the rate for the overnight lending facility replaced the repurchase facility. The rate for the overnight lending facility forms the upper band of the IRC. The BSP likewise introduced the term deposit facility to serve as the main tool for absorbing liquidity through weekly term deposit facility auctions, the frequency for which may be changed depending on the BSP’s liquidity forecasts. According to the BSP, the changes in the IRC are purely operational in nature to allow it conduct monetary policy effectively.

Universal and commercial banks are required to maintain reserves against deposits and deposit substitute liabilities, which, effective 6 January 2024, are imposed at the following rates:

- 9.5% against demand deposits, negotiable order of withdrawal (“**NOW**”) accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable certificates of time deposits (“**CTDs**”), long-term non-negotiable tax-exempt CTDs, deposit substitutes, Peso deposits lodged under due to foreign banks and Peso deposits lodged under due to head office/branches/agencies abroad of banks (Philippine branch of a foreign bank);
- 0% against deposit substitutes evidenced by repurchase agreements;
- 4.0% against long-term negotiable certificates of time deposits (“**LTNCDs**”);
- 1.0% against green, social sustainable bonds as defined under the relevant regulations of the SEC or other relevant regional or international standards acceptable to the market (“**Sustainable Bonds**”) issued within one year from 6 January 2024;
- 0% for Sustainable Bonds issued one year after 6 January 2024, effective for another 12 months,
- 3.0% against bonds other than Sustainable Bonds; and
- 0% against basic deposit accounts as defined under Section 213 of the MORB and for interbank call loan transactions.

In addition, new taxation regulations issued by the BIR may have an adverse effect on the Bank. If the Bank is unable to comply with existing and new rules and regulations applicable to it, it could incur penalties and its

business reputation may suffer, which could have a material adverse effect on its business, financial position and results of operations.

The Bank is involved in many businesses subject to a variety of regulatory regimes and guidelines, and any changes in the relevant regulatory regimes or guidelines may adversely affect the Bank's businesses, financial condition and results of operations.

The Bank has business interests in a number of highly regulated sectors, including but not limited to, banking, leasing, and credit cards. Each of these businesses is subject to separate regulatory regimes and guidelines that are periodically subject to change. Failure to comply with relevant laws and regulations may result in financial penalties or administrative or legal proceedings against the Bank, including the revocation of the Bank's licenses, permits or certificates. Regulators of the Bank's businesses may alter current regulations or introduce new regulations to control any particular line of business. There can be no assurance that the guidelines issued by the regulatory authorities will not materially and adversely affect the Bank's business, financial condition, or results of operations. For a discussion of the banking regulations governing the Bank, see "*Banking Regulation and Supervision.*"

The Bank is effectively controlled by two substantial shareholder groups.

The Dy Group led by Frederick Y. Dy is the largest shareholder of the Bank with majority voting control and MUFG Bank, Ltd. ("MUFG") is the second largest shareholder with a 20.0% stake in the Bank. See "*Principal Shareholders.*" As such, the Dy Group and MUFG are able to influence the composition of the Board of Directors ("BOD") and the approval of certain corporate proposals or transactions, investment decisions and payment of dividends, among others. The BOD is comprised of 15 members, six of whom are independent directors and two of whom are nominated by MUFG. The interests of the Dy Group and MUFG may differ significantly from, or conflict with, the interests of the Bank and the Bank's other shareholders. There can be no assurance that their interests will be aligned with one another's interests or with that of the Bank and the Bank's other shareholders. In addition, there can be no assurance that the Bank's business, financial position and results of operations will not be adversely affected in the event that either of these substantial shareholder groups reduces part of, or disposes all of their respective shareholdings in the Bank.

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

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

If the Bank is not able to integrate any future acquisitions, the Bank's business could be disrupted.

The Bank may seek opportunities for growth through acquisitions or be required to undertake mergers mandated by the BSP. Any future acquisitions or mergers may involve a number of risks, including deterioration of asset quality, diversion of its management's attention required to integrate the acquired business, failure to retain key acquired personnel and clients, leverage synergies, rationalize operation, or develop the skills required for new businesses and markets, or unknown and known liabilities, some or all of which could have an adverse effect on its business.

An inability to manage the Bank's growth could disrupt its business and reduce its profitability.

The Bank has experienced high growth in recent years. The Bank expects this growth to place significant demands on its resources, operations, management and require it to continuously evolve and improve its operational, financial and internal controls across the organization. In particular, continued expansion increases the exposure to certain additional risks, including but not limited to:

- difficulties raising capital for expansion in light of financial market disruptions might increase leverage if equity funds are not available when needed;
- difficulties arising from operating a significantly larger and more complex organization and expanding into new geographic areas and territories;

- difficulties in the assimilation and seamless integration of the assets and operations of the expanded operations with the existing business;
- the diversion of management's attention;
- the failure to realize expected profitability or growth in new ventures;
- the failure to realize expected synergies and cost savings;
- difficulties arising from coordinating and consolidating corporate and administrative functions, including integration of internal controls and procedures;
- changes in technology;
- unforeseen legal, regulatory, contractual, labour or other issues; and
- an inability to attract new talent due to limited resources in the market.

An inability to manage its growth may have an adverse effect on the Bank's business and results of operations.

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

The Bank has a credit rating of Baa2, with a stable outlook, for its bank deposits from Moody's. In the event of a downgrade of the Bank by one or more credit rating agencies, the Bank may have to accept terms that are not as favorable in its transactions with counterparties, including capital raising activities, or may be unable to enter into certain transactions. This could have a negative impact on the Bank's treasury operations and adversely affect its financial condition and results of operations. Rating agencies may reduce or indicate their intention to reduce the ratings at any time. The rating agencies may also decide to withdraw their ratings altogether, which may have the same effect as a reduction in its ratings. Any reduction in the Bank's ratings (or withdrawal of ratings) may increase its borrowing costs, limit its access to capital markets and adversely affect its ability to sell or market its products, engage in business transactions, particularly longer-term and derivatives transactions, or retain its customers. This, in turn, could reduce the Bank's liquidity and materially and adversely affect the Bank's business, financial condition and results of operations.

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

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

Risks Relating to the Banking Industry in the Philippines

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

The Bank is subject to significant levels of competition from other Philippine banks and branches of international banks, including competitors which in some instances have greater financial and other capital resources, bigger market share, and stronger brand name recognition than the Bank. The Philippine banking industry has, in recent years, been subject to consolidation and liberalization, including liberalization of foreign ownership regulations. As of 22 April 2024, according to data from the BSP, there are currently 44 domestic and foreign universal/commercial banks operating in the Philippines.

The recent mergers and consolidations in the banking industry, as well as the liberalization of foreign ownership regulations in banks, have allowed the emergence of foreign and bigger local banks in the market. This is expected to increase the level of competition both from Philippine banks and branches of international banks. This may

impact the Philippine banks' operating margins, but this would also enhance the industry's overall efficiency, business opportunities, and service delivery.

Going forward, the Bank may face increased competition from local and foreign banks in terms of the range of commercial banking services and products, wider distribution network, or greater financial resources. Increased competition may arise from:

- other large Philippine banks and financial institutions with significant presence in Metro Manila and large country-wide branch networks;
- full entry of foreign banks in the country through any of the following modes allowed under Republic Act No. 10641 (approved on 15 July 2014): (a) the acquisition, purchase or ownership of up to 100.0% of the voting stock of an existing bank; (b) investment of up to 100.0% of the voting stock in a new banking subsidiary incorporated under Philippine law; or (c) establishment of branches with full banking authority;
- domestic banks entering into strategic alliances with foreign banks with significant financial and management resources, and in some cases resulting in excess capital that can be leveraged for asset growth and market share gains;
- continued consolidation and increased mergers and acquisitions in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions;
- the emergence of financial technology ("**FinTech**"), or new technology that seeks to improve and automate the delivery and use of financial services, including businesses such as an all-digital bank formed by CIMB and ING Direct; recently-approved digital bank licenses given to UNObank, OFBank, Tonik, Union Digital Bank, GOTyme, and Maya Bank; mobile payment tools or e-wallet applications such as GCash and PayMaya and the growing popularity of peer-to-peer lending through digital platforms; and
- as banks venture into micro-finance and other consumer financing products, other consumer-focused players, including informal lenders.

There can be no assurance that the Bank will be able to compete effectively in the face of such increased competition. Increased competition may make it difficult for the Bank to increase the size of its loan portfolios and deposit bases and may cause increased pricing competition, which could have a material adverse effect on its growth plans, margins, ability to pass on increased costs of funding, results of operations and financial position.

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

On 1 July 2007, BSP Circular No. 538, which was issued by the BSP on 4 August 2006, took effect. This circular contains the implementing guidelines of the revised International Convergence of Capital Measurement and Capital Standards known as Basel II.

On 15 January 2009, the BSP issued Circular No. 639 covering the Internal Capital Adequacy Assessment Process ("**ICAAP**") which supplements the BSP's risk-based capital adequacy framework under BSP Circular No. 538. The BSP requires banks to have in place an ICAAP that (i) takes into account not just the credit, market, and operational risks but also all other material risks to which a bank is exposed (such as interest rate risk in the banking book, liquidity risk, compliance risk, strategic/business risk and reputation risk); (ii) covers more precise assessments and quantification of certain risks (i.e., credit concentration risk); and (iii) evaluates the quality of capital.

In December 2010, a new update to the Basel Accords, known as Basel III, was issued by the Basel Committee on Banking Supervision ("**Basel Committee**" or "**BCBS**") containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios.

On 10 January 2011, the BSP issued BSP Circular No. 709, which aligns with the Basel Committee on Banking Supervision on the eligibility criteria on Additional Group Concern capital and Tier 2 capital to determine eligibility of capital instruments to be issued by Philippine banks/quasi-banks as Hybrid Tier 1 capital and Lower Tier 2 capital. Moreover, on 25 March 2011, the BSP issued Circular No. 716, which amends the definition of qualifying capital instruments under the risk-based capital adequacy framework for Philippine banks/quasi-banks. Under BSP Circular No. 716, among the conditions to be eligible to be qualified as a Lower Tier 2 capital is the

submission of a written external legal opinion that the requirements enumerated for Lower Tier 2 capital, including subordination features, have been met. Further, in January 2013, the BSP issued Circular No. 781 as the Basel III Implementing Guidelines on Minimum Capital Requirements, which took effect in January 2014. The guidelines include the following highlights:

- adoption of a new categorization of the capital base;
- adoption of an eligibility criteria for each capital category that is not yet included in BSP Circular No. 709;
- allowing the BSP to adopt regulatory deductions in Basel III, as applicable;
- keeping the minimum capital adequacy ratio (“CAR”) at 10.0%, and prescribing: (i) a minimum common equity Tier 1 (“CET1”) ratio of 6.0%, (ii) a minimum Tier 1 CAR ratio of 7.5%, and (iii) an additional capital conservation buffer (“CCB”) of 2.5%;
- revaluation of certain available for sale (“AFS”) securities and of impairments that could arise from trading losses;
- if the Bank is classified as “systemically important”, it may be required to hold additional capital reserves;
- by 1 January 2014, rendering ineligible existing capital instruments as of 31 December 2010 that do not meet the eligibility criteria for capital instruments under the revised capital framework;
- by 1 January 2016, rendering ineligible regulatory capital instruments issued under BSP Circulars No. 709 and 716 before the revised capital framework became effective; and
- subjecting covered banks and quasi-banks to the enhanced disclosure requirements pertaining to regulatory capital.

On 29 October 2014, the BSP issued Circular No. 856, or the “Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks (“D-SIBs”) under Basel III” to address systemic risk and interconnectedness by identifying banks which are deemed systemically important within the domestic banking industry. Banks that will be identified as D-SIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and CCB. Identified D-SIBs will need to put up an additional 1.5 to 3.5% CET1 depending on their classification. Compliance with this requirement was phased-in starting 1 January 2017, with full compliance required by 1 January 2019.

On 9 June 2015, the BSP issued Circular No. 881, Implementing Guidelines on the Basel III Leverage Ratio Framework, requiring covered institutions to maintain a leverage ratio not lower than 5.0%. The leverage ratio, expressed as the proportion of Tier 1 capital against exposure measure, serves as a backstop to the CAR.

On 10 March 2016, the BSP issued Circular No. 905, or the “Implementation of Basel III Framework on Liquidity Standards — Liquidity Coverage Ratio (“LCR”) and Disclosure Standards”. Furthermore, banks face new liquidity requirements under Basel III’s new liquidity framework, namely, the LCR and the net stable funding ratio (“NSFR”). The LCR requires banks to hold sufficient level of high-quality liquid assets to enable them to withstand a 30 day-liquidity stress scenario. Beginning on 1 January 2018, the LCR threshold that banks will be required to meet will be 90.0%, which will be increased to 100.0% beginning on 1 January 2019. During the observation period prior to 1 January 2018, banks are required to submit quarterly LCR reports for monitoring purposes.

On 26 January 2017, the BSP issued Circular No. 943 which approved a one-year extension of the Basel III Leverage Ratio monitoring period from 31 December 2016 to 31 December 2017 and set new deadlines for the submission of the reporting and disclosure requirements. During the monitoring period, the BSP will continue to assess the calibration and treatment of the components of the leverage ratio. Final guidelines will be issued in view of the changes to the framework as well as migration from monitoring of the leverage ratio to a Pillar 1 requirement starting 1 January 2018.

Meanwhile, the NSFR requires banks’ assets and activities to be structurally funded with long-term and more stable funding sources. On 4 June 2018, the BSP announced the Monetary Board’s approval of the adoption of the NSFR for universal and commercial banks. Beginning 1 January 2019, covered institutions are required to maintain an NSFR of 100.0% on both solo and consolidated bases. Although these measures are aimed at strengthening the ability of banks to withstand liquidity stress and promote resilience of the banking sector,

compliance with these ratios may also further increase competition among banks for deposits as well as high quality liquid assets.

As of 31 December 2023, the Bank's single currency LCR was 158.0% on a consolidated basis and NSFR was 131.1% on a consolidated basis.

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

Whenever the capital accounts of a bank are deficient with respect to the prescribed risk-based CAR of 10.0%, the Monetary Board may impose monetary and non-monetary sanctions. The Monetary Board will also prohibit the opening of new branches whenever a bank's CAR falls below 12.0% on a non-consolidated and consolidated basis. Furthermore, the Monetary Board will also prohibit the distribution of dividends whenever a bank's CET1 ratio and CAR falls below 8.5% and 10.0%, respectively. Such limitations or restrictions imposed by the BSP's implementation of Basel III could materially and adversely affect the Bank's business, financial condition, and results of operations.

On 4 May 2020, BSP issued Memorandum No. M-2020-039 which provides for the utilization of Basel III capital and liquidity buffers in light of the COVID-19 situation. A covered bank or quasi-bank ("QB") which has built up its CCB and LCR buffer is allowed to utilize the same during the state of COVID-19 health emergency, but is expected to integrate regulatory flexibilities into its internal policies and processes to ensure that these buffers are efficiently utilized. First, in relation to the CCB, the covered bank/QB which draws down 2.5% minimum CCB will not be considered in breach of the Basel III risk-based capital adequacy framework. When the CCB is utilized, the covered bank/QB is restricted from making distributions in the form of dividends, profit remittance in the case of a foreign bank branch, share buybacks, discretionary payments on other Tier 1 capital instruments, or discretionary bonus payments to staff. Second, for the LCR, the covered bank/QB may draw on its stock of liquid assets to meet liquidity demands even if this may cause the bank to maintain an LCR below the 100.0% minimum requirement. However, a bank which has recorded a shortfall in the stock of its High-Quality Liquid Assets for three banking days within any two-week rolling calendar period, thereby causing the LCR to fall below 100.0%, must notify the BSP of such breach on the banking day immediately following the occurrence of the third liquidity shortfall. After the COVID-19 crisis, covered banks/QB are to be given a reasonable time period to restore their Basel III CCB and LCR. The Memorandum also provides that the non-compliance by a covered bank/QB with the minimum risk-based capital adequacy ratios and the minimum 100.0% Net Stable Funding Ratio as a result of the COVID-19 situation will be handled on a case-by-case basis by the BSP.

As of 31 December 2023, the Bank's consolidated Tier 1 capital adequacy ratio/CET1 ratio and total consolidated capital adequacy ratio were 15.3% and 16.2%, respectively.

On 29 October 2014, the BSP issued BSP Circular No. 855 regarding guidelines on sound credit risk management practices, including the amendment on loan loss provisions on loans secured by real estate mortgages. Under this regulation, loans may be considered secured by collateral to the extent the estimated value of net proceeds at disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan, provided that such collateral has an established market and a sound valuation methodology. Under the new rules, the maximum collateral value for real estate collateral shall be 60.0% of the value of such collateral, as appraised by an appraiser acceptable to the BSP. While this maintains existing regulations already applicable to universal and commercial banks, the collateral value cap will be particularly relevant in securing directors, officers, stockholders and related interests ("DOSRI") transactions and in potentially accelerating the setting up of allowable loan for losses in case a loan account gets distressed.

The BSP also clarified that the collateral cap on real estate mortgages is not the same as a loan-to-value ratio limit. Under the current rules, the minimum borrower equity requirement remains a bank-determined policy (which, according to the BSP, averages 20.0% under current industry practice). However, under the enhanced guidelines of the BSP, the bank's internal policy as to minimum borrower equity will be subject to closer regulatory scrutiny as to whether the borrower equity requirement of a bank is prudent given the risk profile of its target market.

Stricter lending and prudential regulations may reduce the lending appetite of the Bank or cause the Bank to alter its credit risk management systems, which may adversely affect the Bank's business, financial condition, and results of operations.

Although intended to strengthen banks' capital positions and thwart potential asset bubbles, the foregoing BSP and Monetary Board regulations will add pressure to local banks to meet these additional capital adequacy requirements, which may effectively create greater competition among local banks for deposits and temper bank lending. This may also lead banks in the Philippines to conduct capital raising exercises. Through its compliance with these regulations, the Bank's business, financial position and results of operations may be adversely affected.

The Philippine banking industry faces higher credit risks and greater market volatility than banks in more developed countries.

Philippine banks are subject to the credit risk that Philippine borrowers may not make timely payments of principal and interest on loans and more particularly, upon such failure to pay, Philippine banks may not be able to enforce any security interest that they may have. The credit risk of Philippine borrowers is, in many instances, higher than that of borrowers in more developed countries due to:

- the greater uncertainty associated with the Philippine regulatory, political, legal, and economic environment;
- the vulnerability of the Philippine economy in general to a severe global downturn as it impacts on its export sector, employment in export-oriented industries, and OFW remittances;
- the high levels of debt of the Government and certain industry sectors, relative to the gross domestic product of the Philippines; and
- the volatility of interest rates and Peso/U.S. dollar exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including the Bank, to more potential losses and higher risk than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on the Bank's liquidity, business, financial position, and results of operations. According to data from the BSP, the average NPL ratios exclusive of interbank loans in the Philippine universal and commercial banking industry were 2.1%, 1.5% and 1.5% as at 31 December 2021, 2022 and 2023, respectively.

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

Philippine banks are exposed to a variety of risks, including credit risk, market risk, portfolio risk, foreign exchange risk and operational risk. The effectiveness of their risk management is limited by the quality and timeliness of available data in the Philippines in relation to factors such as the credit history of proposed borrowers and the loan exposure borrowers have with other financial institutions. In addition, the information generated by different groups within each bank, including the Bank, may be incomplete or obsolete. The Bank may have developed credit screening or loan evaluation standards in response to such inadequacies in quality of credit information that are different from, or inferior to, the standards used by its international competitors. As a result, the Bank's ability to assess, monitor and manage risks inherent in its business would not meet the standards of its counterparts in more developed countries. If the Bank is unable to acquire or develop in the future the technology, skills set and systems available to meet such standards, it could have a material adverse effect on the Bank's ability to manage these risks and on the Bank's financial condition, liquidity and results of operations.

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

In the past, the Philippine banking sector has generally recovered from global economic crises. According to data published by the BSP as of 31 December 2023, past due ratios in the Philippine universal and commercial banking system was at 3.8%. Further, the NPL coverage ratio in the Philippine universal and commercial banking system reached 107.9% as of 31 December 2023, according to the BSP.

However, the Philippine banking industry may face significant financial and operating challenges. These challenges may include, among others, a sharp increase in the level of NPLs, variations of asset and credit quality,

significant compression in bank net interest margins, low loan growth and potential or actual under-capitalization of the banking system. Fresh disruptions in the Philippine financial sector, or general economic conditions in the Philippines, may cause the Philippine banking sector in general to experience similar problems to those faced in the past, including substantial increases in NPLs, problems meeting capital adequacy requirements, liquidity problems and other challenges.

Any future changes in PFRS and accounting standards may affect the financial reporting of the Bank's business

The Philippines Financial Reporting Standards Council, or other regulatory bodies, periodically introduce modifications to financial accounting and reporting standards under which the Bank prepares its consolidated financial statements. There can be no assurance as to the implementation of new accounting standards in the Philippines and the significance of the impact it may have on the Bank's financial statements in the future.

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. The listing consists of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have significant impact on the consolidated financial statements.

Effective beginning on or after 1 January 2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

The amendments clarify:

- That only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current.
- That classification is unaffected by the likelihood that an entity will exercise its deferral right.
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024, and must be applied retrospectively.

- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*

The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use retained.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. Earlier adoption is permitted, and that fact must be disclosed.

- Amendments to PAS 7 and PFRS 7, *Disclosures: Supplier Finance Arrangements*

The amendments specify disclosure requirements to enhance the current requirements, which are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024. Earlier adoption is permitted and that fact must be disclosed.

Effective beginning on or after 1 January 2025

- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

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

PFRS 17 is effective for reporting periods beginning on or after 1 January 2025, with comparative figures required. Early application is permitted.

- Amendments to PAS 21, *Lack of Exchangeability*

The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking.

The amendments are effective for annual reporting periods beginning on or after 1 January 2025. Earlier adoption is permitted and that fact must be disclosed. When applying the amendments, an entity cannot restate comparative information.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On 13 January 2016, the Financial Reporting Standards Council deferred the original effective date of 1 January 2016 of the said amendments until the IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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

The sovereign credit ratings of the Philippines directly affect companies that are residents of and domiciled in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. In 2013, the Philippines earned investment grade status from all three major credit ratings agencies — Fitch (BBB-), Standard and Poor's (BBB-) and Moody's (Baa3). In 2014, S&P and Moody's upgraded their ratings to "BBB" and "Baa2" in May and December, respectively, with both agencies affirming these ratings in 2017. Fitch also upgraded the Philippines' long-term foreign currency issuer default rating from "BBB-" to "BBB" in December 2017. S&P further upgraded the country's rating by a notch from "BBB" to "BBB+" in April 2019 brought about by the country's solid economic fundamentals.

On 12 July 2021, Fitch revised its outlook of the Philippines' long-term foreign currency-denominated debt to negative from stable, while maintaining a rating of BBB. Fitch affirmed this rating in October 2022, and indicated that the negative outlook reflects risks to the Philippines' medium-term growth prospects, fiscal adjustment path and external buffers in an environment of higher interest rates, weaker external demand and higher commodity prices. The 'BBB' rating balances strong growth, external finances and a credible economic policy framework against lagging structural indicators, including per capita income and governance, relative to peers. As of 31 December 2023, S&P and Moody's have assigned ratings of BBB+ and Baa2, with a stable outlook, respectively, for the Philippines' long-term foreign currency-denominated debt. In May 2023, Fitch revised its outlook on the Philippines' long-term foreign currency-denominated debt to BBB with stable outlook, and Fitch affirmed such rating in November 2023. Likewise, the Japan Credit Rating Agency' report last 10 March 2023 affirmed the stable outlook with an investment-grade credit rating at 'A-'. This is amid global uncertainties and a high inflation environment.

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

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

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

On 24 February 2022, a comprehensive invasion of Ukraine by Russia commenced, resulting in extensive humanitarian casualties and the widespread destruction of infrastructure and properties in Ukrainian cities, including the Crimea region, which has been under Russian annexation since 2014. The initiation of this full-blown war prompted numerous European nations, the United States, Australia, and certain Asian countries to swiftly impose substantial economic and financial sanctions against Russia. The primary objective of these sanctions was to disrupt the inflow of funds to Russia and hinder further financing of the ongoing conflict. However, unintended consequences have arisen in the form of trade and supply chain disruptions, leading to political and economic tensions among member nations of the European Union, the United States, and selected Asian and African countries.

The heavy reliance of several European countries on Russia as a major oil and gas exporter has now exposed them to potential economic consequences if trade in gas and oil is partially or completely halted. Consequently, global oil and gas prices have experienced a discernible increase as a direct consequence of the ongoing conflict. Moreover, Ukraine's significant role as an exporter of wheat and sunflower oil has resulted in food shortages and famine in certain African and Middle Eastern nations due to disruptions in global trade involving Ukraine, exacerbating concerns surrounding inflationary pressures.

Furthermore, the exclusion of specific Russian banks from the Society for Worldwide Interbank Financial Telecommunication ("SWIFT") system in March 2022 has had adverse ramifications for international companies that are owed money by Russian entities. These companies have been forced to seek alternative and potentially costlier channels to receive payments. Additionally, a multitude of multinational corporations, including industry giants such as McDonald's, PepsiCo, prominent audit firms, H&M, Ikea, global banks, and Starbucks, have decided to withdraw from Russia's domestic economy, incurring substantial financial losses. As of November 2022, more than 1,000 companies have permanently ceased their operations in Russia, terminated imports from or exports to the country, or discontinued providing or availing services from Russian entities.

The long-term effects of the ongoing conflict on the global economy remain uncertain. The prevailing uncertainties and potential future events related to this protracted conflict have the capacity to adversely impact the political and monetary policies of major economies, subsequently casting a negative shadow on the Philippine market. In October 2022, headline inflation in the Philippines reached its highest rate since December 2008, with

disruptions in supply chains, particularly in global crude oil, emerging as a significant contributing factor. These circumstances, coupled with the occurrence of weather disturbances, prompted the BSP to raise key interest rates in November 2022.

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

These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets, which could in turn depress economic activity and have a ripple effect across sovereign states and the private sector in Europe and the rest of the world and possibly lead to a global economic crisis. There can be no assurance that the uncertainties affecting global markets will not negatively impact credit markets in Asia, including in the Philippines. The success of the Bank's banking business is highly dependent upon its ability to maintain certain minimum liquidity levels, and any rise in market interest rates could materially and adversely affect the Bank's liquidity levels and force it to reduce or cease its offering of certain banking and other financial services. These developments may adversely affect trade volumes with potentially negative effects on the Philippines.

The Bank's non-compliance with FATCA may cause material and adverse impact on the Bank's business, financial conditions, and results of operations.

FATCA is the Foreign Account Tax Compliance Act enacted into law in the U.S. on 18 March 2010 as part of the Hiring Incentives to Restore Employment ("HIRE") Act. It is a new regime for finding income overseas as a response to a landmark court case in which a large international bank agreed to pay \$780.0 million in fines for their role in assisting U.S. citizens in evading income taxes.

FATCA impacts a number of organizations and individuals. It first affects U.S. persons with income abroad. Secondly, foreign financial institutions ("FFIs") that invest in U.S. markets will be impacted as well as U.S. financial institutions that do business with FFIs. Additionally, local government and taxing authorities in each country will see the effects of the act as well. It also brought forth an expansion of tax reporting for non-resident aliens.

An FFI will have to set up a process to identify U.S. accounts as part of its onboarding procedures. Once that is in place, it will also have to identify any current accounts with U.S. indicia. Additionally, there is a need to set up a process to monitor account changes for indicia of U.S. status.

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

FATCA requires certain U.S. taxpayers holding foreign financial assets with an aggregate value exceeding \$50,000.00 to report certain information on a new form (Form 8938 — Statement of Specified Foreign Financial Assets) that must be attached to the taxpayer's annual return.

There is a requirement for PFFIs to withhold 30.0% of income from recalcitrant account holders in order to comply with FATCA. A recalcitrant account holder is one who fails to comply with reasonable requests pursuant to IRS mandated verification and due diligence procedures to identify U.S. accounts, to provide a name, address and TIN or fails to provide a bank secrecy waiver upon request.

Specific to the Bank's compliance with FATCA, the Bank and its subsidiaries registered on 7 April 2014 as an Expanded Affiliated Group i.e., the Bank and subsidiaries. The Bank subsequently updated its FATCA status to Registered Deemed Compliant Foreign Financial Institution under a Model 1 Intergovernmental Agreement ("IGA"). The Bank's FATCA ID and Global Intermediary Identification Number is VF107Z.00000.LE.608.

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

Philippine banks also face the threat of being assessed for documentary stamp tax upon their issue of passbooks for higher interest rate deposits. The Court of Tax Appeals has, in several cases against other Philippine banks, affirmed the BIR's position that passbooks for higher interest rate deposits having the essential features of a certificate of deposit are subject to the documentary stamp tax imposed on certificates of deposit. It has been ruled by the Supreme Court that a passbook representing an interest earning deposit account issued by a bank qualifies as a certificate of deposit drawing interest. The Supreme Court also held that to claim that that time deposits evidenced by passbooks should not be subject to documentary stamp tax is a clear evasion of the rule on equality and uniformity in taxation that requires the imposition of documentary stamp tax on documents evidencing transactions of the same kind, i.e., on all certificates of deposits drawing interest. These Supreme Court rulings could result in the Bank's taxation charge being increased.

In addition, new taxation regulations issued by the BIR may have an adverse effect on the Bank. If the Bank is unable to comply with existing and new rules and regulations applicable to it, it could incur penalties and its business reputation may suffer, which could have a material adverse effect on its business, financial position, and results of operations.

Risks Relating to the Philippines

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

In December 2019, an outbreak of the disease COVID-19, caused by a novel coronavirus (SARS-CoV-2) was first reported to have surfaced in Wuhan, the People's Republic of China, later resulting in millions of confirmed cases and hundreds of thousands of fatalities globally, with thousands of confirmed cases and more than a thousand fatalities in the Philippines. In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic.

From 2020 to 2022, COVID-19 spread globally, with the number of reported cases and related deaths increasing daily, and in many countries, exponentially. As of 25 February 2024, there have been over 774.0 million confirmed cases and over seven million deaths. Countries have taken measures in varying degrees to contain the spread, including social distancing measures, community quarantine, suspension of operations of non-essential businesses and travel restrictions.

The disruption and uncertainty caused by COVID-19 has severely and adversely affected the Philippine economy, resulted in higher unemployment rates, closure of small businesses and significantly dampened outlook for large enterprises or conglomerates. These, together with the adverse effects on industries such as global airline, retail, tourism, real estate and logistics, and supply chains, led to slower deposit and loan growth in the banking industry and increase exposure of banks to greater credit risk, which led to higher NPLs particularly in the retail and tourism industries, SMEs, and unsecured borrowers. Further, Government stimulus policies such as interest rate cuts, the BSP moratorium on loan and interest repayments, waiver of late fees, deferral of credit card payments led to decreased margins for the banking industry and caused a decline in profitability. In addition, the measures implemented by the Philippine government to mitigate the negative impact of COVID-19 in the Philippine economy have caused disruption to businesses and economic activities. The Bank's business was not spared from the consequential economic downturn caused by the COVID-19 pandemic.

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

public health epidemic or pandemic becomes or continues to be widespread in the Philippines or increases in severity, it could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Bank's business, financial condition and results of operations.

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

The Philippine economy has experienced volatility in the value of the Philippine Peso as well as limitations to the availability of foreign exchange. In July 1997, the BSP announced that the Peso can be traded and valued freely on the market. As a result, the value of the Peso underwent significant fluctuations between July 1997 and December 2004 and the Peso declined from approximately ₱29.0 to U.S.\$1.0 in July 1997 to ₱56.2 to U.S.\$1.0 by December 2004.

While the value of the Philippine Peso has recovered since 2010, its valuation may be adversely affected by certain events and circumstances such as the strengthening of the U.S. economy, the rise of the interest rates in the U.S. and other events affecting the global markets or the Philippines, causing investors to move their investment portfolios from the riskier emerging markets such as the Philippines. Consequently, an outflow of funds and capital from the Philippines may occur and may result in increasing volatility in the value of the Peso against the U.S. Dollar and other currencies. On 12 April 2024, the closing spot rate quoted on the BAP was ₱56.53 = U.S.\$1.0.

At present, the country's exchange rate policy supports a freely floating exchange rate system whereby the BSP leaves the determination of the exchange rate to market forces. Under a market-determined exchange rate framework, the BSP does not set the foreign exchange rate but instead allows the value of the Peso to be determined by the supply and demand of foreign exchange. The implementation of the revised Foreign Exchange rules eased the purchase of foreign currencies in the banking system. There is no assurance that the Philippine Peso will not depreciate further against other currencies and that such depreciation will not have an adverse effect on the Philippine economy and the Group's financial condition and results of operation.

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

Substantially all of the Bank's business operations and assets are based in the Philippines. As a result, the Bank's income, results of operations and the quality and growth of its assets depend, to a large extent, on the performance of the Philippine economy. In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine currency and the imposition of exchange controls.

Factors that may adversely affect the Philippine economy include:

- decreases in business, industrial, manufacturing, or financial activities in the Philippines, the Southeast Asian region or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- exchange rate fluctuations and foreign exchange controls;
- rising inflation or increases in interest rates;
- levels of employment, consumer confidence, and income;
- changes in the Philippine government's fiscal and regulatory policies, including tax laws and regulations that impact or may impact inflation and consumer demand;
- Philippine government budget deficits;
- adverse trends in the current accounts and balance of payments of the Philippine economy;
- public health epidemics or outbreaks of diseases, such as the COVID-19 pandemic, re-emergence of polio, Middle East Respiratory Syndrome-Corona virus (MERS-CoV), SARS, avian influenza (commonly known as bird flu), or H1N1, or the emergence of another similar disease (such as Zika) in the Philippines or in other countries in Southeast Asia;

- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods, and similar events;
- political instability, terrorism, or military conflict in the Philippines, other countries in the region or globally; and
- other regulatory, social, political, or economic developments in or affecting the Philippines.

The Philippine's GDP growth rate in 2023 was 5.6%, which was slower than the 7.6% growth rate registered in 2022, according to the National Economic and Development Authority. There can be no assurance that the Philippines will maintain strong economic fundamentals in the future. Any deterioration in economic conditions in the Philippines could materially and adversely affect the Bank's financial position and results of operations, including the Bank's ability to grow its asset portfolio, the quality of the Bank's assets and its ability to implement the Bank's business strategy. Changes in the conditions of the Philippine economy could materially and adversely affect the Bank's business, financial condition, and results of operations.

Political instability may have a negative effect on the general economic conditions in the Philippines which could have a material adverse impact on the business, financial position, and results of operations of the Bank.

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

On 25 May 2022, Ferdinand "Bongbong" Marcos, Jr. was officially declared by the Philippine Congress as the 17th President of the Republic of the Philippines. Deviations from the policies of the previous administration or fundamental changes in direction, including with respect to Philippine foreign policy, may lead to an increase in political or social uncertainty and instability. Controversies surrounding the President's family and history may also raise risks of social and political unrest.

On 26 January 2023, the International Criminal Court ("ICC") ruled to resume its investigation on the former Philippine President Duterte's "war on drugs". While the Philippine government appealed the ICC's decision, this was subsequently denied in July 2023 with the Philippine government continuing to argue that the ICC has no jurisdiction to investigate the "war on drugs" campaign, insisting that the country's judicial system can sufficiently conduct such investigation. Also, in mid-2023, the Office of the Vice President ("OVP") was scrutinized for having spent ₱125.0 million in confidential and intelligence funds in a matter of less than three weeks, such period of time likewise being a point of controversy for citizens and lawmakers alike. Several petitions have since been filed with the Supreme Court questioning the legality of the fund transfer from the Office of the President to the OVP, praying that the high court order the restitution of such contested public funds.

An unstable political environment, whether due to the imposition of emergency executive rule, martial law, charter change, or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on the business, operations, and financial condition of the Bank. No assurance can be given that any changes in regulations or policies imposed by the Government from time to time or the future political environment in the Philippines will be stable or that the current or future administrations will adopt economic policies conducive to sustaining economic growth. Political instability in the future could reduce consumer demand for retail and consumer goods to the Bank's disadvantage or result in inconsistent or sudden changes in regulations and policies that can adversely affect the Bank.

Acts of terrorism and violent crimes could destabilize the country and could have a material adverse effect on the Bank's business, financial position, and results of operations.

The Philippines has also been subject to a number of terrorist attacks since 2000, and the Armed Forces of the Philippines ("AFP") has been in conflict with groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines. Additionally, there have been clashes with various separatist groups. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. For example, in September 2013, a faction of the Moro National Liberation Front ("MNLF") allegedly

led by Nur Misuari, a former governor of the Autonomous Region of Muslim Mindanao, staged an armed uprising in Zamboanga City. The incident resulted in, among others, hostage situations, and renewed tension between the Philippine Armed Forces and the MNLF in the southern part of the country. In an operation to capture wanted international terrorist Zulkifli Bin Hir alias Marwan on 25 January 2015, 44 police commandos were killed in a 12-hour fire fight with two Muslim rebel groups: MILF and BIFF in the Southern Philippines. On 22 February 2024, there was a reported clash between the New People's Army ("NPA") and the AFP in Negros Occidental.

On 18 July 2020, Republic Act No. 11479, otherwise known as the Anti-Terrorism Act of 2020 ("**Anti-Terrorism Act**") became effective. The Anti-Terrorism Act repealed Republic Act No. 9372 or the Human Security Act to provide stricter penalties and regulations against the inimical acts of terrorism.

The potential escalation in the frequency, severity, or geographic extent of terrorist acts, violent crimes, bombings, and related incidents bears significant implications for investment and confidence in the Philippine economy. These destabilizing factors possess the capacity to disrupt specific areas of the company's operations, thereby exerting material adverse effects on its financial position, operational performance, and future prospects. Moreover, the protracted conflicts between the government and separatist groups introduce the risk of civilian and law enforcement or military personnel casualties, potentially engendering further instability within the country and adversely impacting its overall economic landscape. The Bank cannot guarantee the absence of future acts of terrorism or violent crimes, which, if materialized, could have substantial adverse consequences on its business activities, financial condition, and operational outcomes.

Likewise, similar attacks or conflicts involving the government and armed or terrorist factions possess the capacity to result in civilian and law enforcement or military personnel casualties, thereby inducing destabilization in select regions of the country and exerting negative ramifications on its economic fabric. The heightened frequency, severity, or geographic reach of terrorist acts can exert detrimental repercussions on the country's economic stability. Consequently, such destabilization may introduce disruptions to specific areas of the bank's operations, yielding material adverse effects on its financial position, operational performance, and future prospects. Notably, an elevation in the incidence of terrorist acts, irrespective of the dimension of their frequency, severity, or geographic extent, represents a substantial threat to the country's economic environment.

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

In 2009, domestic interest rates were at low levels, with the monetary policy directed towards stimulating the economy. In 2018, however, domestic interest rates started to rise following the BSP's staggered 175.0 basis point hike in policy rates to subdue inflationary pressures from higher taxes under the TRAIN Law, rising global oil prices, an acute rice shortage, and a weaker peso. In 2019, the BSP has cumulatively cut its rates by 75.0 basis points to help bolster economic growth back to the government's target and with inflation on a downtrend.

At the Monetary Board meeting on 11 May 2018, the BSP increased its key policy rates for the first time since September 2014 by 25.0 basis points to 3.3% for overnight borrowing and 3.8% for overnight lending rates. The BSP further increased key policy rates by 25.0 basis points at the Monetary Board meeting on 20 June 2018 to 3.5% for overnight borrowing and 4.0% for overnight lending rates. On 9 August 2018 the BSP delivered its largest rate hike in a decade, raising rates by 50.0 basis points to 4.0% for overnight borrowing and 4.5% for overnight lending rates. The BSP further raised overnight borrowing and lending rates by 25.0 basis points to 4.3% and 4.8%, respectively, on 15 November 2018. Effective 10 May 2019, the Monetary Board decided to reduce the interest rate on the BSP's overnight borrowing to 4.5%; on 8 August 2019, to 4.3%; on 26 September 2019, to 4.0%; and on 6 February 2020, to 3.8%. In 2020, at the onset of the pandemic, the BSP pivoted towards an accommodative policy stance.

On 20 March 2020, the Monetary Board further reduced the BSP's overnight reverse repurchase facility by 50.0 basis points to 3.3%. The interest rates on the overnight lending and deposit facilities were reduced as well to 3.3% and 2.3%, respectively. For the rest of 2020, the BSP adopted a number of measures to support the economy during the COVID-19 pandemic. It decreased its benchmark interest rate to 2.0% as of 31 December 2020 and interest rates on overnight deposit and lending facilities to 1.5% and 2.5%, respectively. The Monetary Board maintained the foregoing interest rates through the end of 2021. On 24 March 2022, the Monetary Board decided to maintain the interest rate on the BSP's overnight reverse repurchase facility at 2.0%. The interest rates on the overnight deposit and lending facilities were likewise kept at 1.5% and 2.5%, respectively. On 18 August 2022, the Monetary Board increased the interest rate on RRP to 3.8%, overnight deposit to 3.3%, and lending rates to 4.3%, effective 19 August 2022.

On 22 September 2022, the Monetary Board decided to raise the interest rate on the BSP's overnight reverse repurchase facility by 50.0 basis points to 4.3%, effective on 23 September 2022. Accordingly, the interest rates on the overnight deposit and lending facilities were raised to 3.8% and 4.8%, respectively. The Monetary Board on 17 November 2022 again raised interest rates on the BSP's overnight reverse repurchase facility by 75.0 basis points to 5.0%, effective 18 November 2022. Accordingly, the interest rates on the overnight deposit and lending facilities will be set to 4.5% and 5.5%, respectively. In December 2022, the Monetary Board set another increase on interest rates to combat inflation.

On 16 February 2023, the interest rate of the BSP's overnight reverse repurchase facility was raised by 50.0 basis points to 6.0%, effective 17 February 2023. Thus, interest rates on the overnight deposit and lending facilities were set to 5.5% and 6.5%, respectively. Recently, on 23 March 2023, the Monetary Board decided to further raise the interest rate of the BSP's overnight reverse repurchase facility by 25.0 basis points to 6.3%, effective 24 March 2023. Accordingly, the interest rates on the overnight deposit and lending facilities will be set to 5.8% and 6.8%, respectively.

The Monetary Board maintained the foregoing interest rates until 26 October 2023, on which date the Monetary Board took off-cycle action to raise the BSP's overnight reverse repurchase facility by another 25.0 basis points to 6.5%, effective 27 October 2023. Accordingly, the interest rates on the overnight deposit and lending facilities were set to 6.0% and 7.0%, respectively. As of 15 February 2024, the Monetary Board has maintained the foregoing interest rates.

There is no assurance that interest rates in the Philippines will not further increase in the future, including in response to inflationary pressures resulting from higher food, energy, and other commodity prices, economic growth, tax reforms, and global developments.

The Bank realizes income from the margin between income earned on its interest-earning assets and interest paid on its interest-bearing liabilities. As some of its assets and liabilities are re-priced at different times, the Bank is vulnerable to fluctuations in market interest rates and any changes in the liquidity position of the Philippine market. As a result, volatility in interest rates could have a material adverse effect on the Bank's financial position, liquidity, and results of operations.

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

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

Although a principal objective of Philippine securities laws is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Bank, than is regularly made available by public companies in the U.S. and other countries. As a result, Noteholders may not have access to the same amount of information or have access to information in as timely of a manner as may be the case for companies listed in the U.S. and many other jurisdictions. Furthermore, although the Bank complies with the requirements of the BSP and the Philippine SEC with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions.

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

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

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

On 12 January 2020, the Taal volcano erupted, spewing ash across Calabarzon, Metro Manila, and some parts of Central Luzon and the Ilocos Region. This resulted in the suspension of classes, work schedules, and flights in the affected areas, as well as evacuation of nearby areas. The Bank's branches that were affected by this explosion were the Security Bank Tagaytay and Lipa branches. On 9 March 2021, the Philippine Institute of Volcanology and Seismology raised the alert level status of Taal Volcano to Alert Level 2, indicating that magmatic activity that may or may not lead to an eruption.

In November 2020, two typhoons, Super Typhoon Rolly/Goni and Typhoon Ulysses/Vamco, and in December 2021 and September 2022, Super Typhoon Odette/Rai and Super Typhoon Karding/Noru, respectively, brought strong winds and rain to the Philippines.

On 27 July 2022, a magnitude 7.0 earthquake struck Abra province in Northern Luzon, causing multiple casualties, cutting off power and fresh water in some areas and causing damage estimated at about P316.0 million. In October 2022, tropical storm Paeng caused flooding and landslides in the islands of Mindanao. Its strong winds and heavy rains took the lives of at least 45 people with many more missing victims as it displaced thousands of residents and submerged schools and households in floodwater.

In July 2023, the National Disaster Risk Reduction and Management Council reported that around 5,882,288 people have been affected by tropical storm Egay. Its heavy rainfall and strong winds caused damage to infrastructure in Regions 1, 2, 5, 6, 11, 12, and MIMAROPA amounting to an estimate of P1,191,137,926.30, and damage to agriculture amounting to estimate of P833,880,000.00. In August 2023, another super typhoon, Goring, incurred damage amounting to an estimate of P442.3 million in the Cordillera, Ilocos, Cagayan Valley and MIMAROPA regions.

Natural catastrophes, such as any renewed eruption of the Taal Volcano or strong typhoons, may cause damage to the terminals and materially disrupt and adversely affect the business, prospects, operations, and financial condition of the Bank.

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

The Philippines, China, and several Southeast Asian nations have been engaged in a series of long-standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. China claims historic rights to nearly all of the West Philippine Sea based on its so-called "nine-dash line" and in recent dramatically expanded its military presence to the sea which has raised tensions in the region among claimant countries. The Philippines maintains that its claim over the disputed territories is supported by recognized principles of international law consistent with the United Nations Convention on the Law of the Sea ("UNCLOS"). The Philippines made several efforts during the course of 2011 and 2012 to establish a framework for resolving these disputes, calling for multilateral talks to delineate territorial rights and establish a framework for resolving disputes.

Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a group of small islands and reefs known as the Scarborough Shoal. Actions taken by both sides have threatened to disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports, as well as a temporary suspension of tours to the Philippines by Chinese travel agencies, and the rejection by China

of the Philippines' request for arbitral proceedings administered in accordance with the UNCLOS to resolve the disputes.

In 2013, the Philippines became the first claimant country to file a case before the Permanent Court of Arbitration, the international arbitration tribunal based in The Hague, Netherlands to legally challenge claims of China in the West Philippine Sea and to resolve the dispute under the principles of international law as provided for under the UNCLOS. In 2016, the five-member Arbitral Tribunal at the Permanent Court of Arbitration in The Hague, Netherlands, unanimously ruled in favor of the Philippines on the maritime dispute over the West Philippine Sea. The Tribunal's landmark decision contained several rulings, foremost of which invalidated China's "nine-dash line", or China's alleged historical boundary covering about 85.0% of the South China Sea, including 80.0% of the Philippines Exclusive Economic Zone in the West Philippine Sea. However, China rejected the ruling, saying that it did not participate in the proceedings for the reason that the court had no jurisdiction over the case. With no formal enforcement mechanism in place, the territorial dispute in the West Philippine Sea remains contentious and unresolved.

On 18 May 2018, China's People's Liberation Army Air Force announced that it has sent an H-6K bomber in the Paracel Islands in the South China Sea. On 9 June 2019, a fishing boat manned by Filipino fishermen was rammed by a Chinese vessel at Recto Bank, an underwater feature being claimed by both the Philippines and China in the portion of the South China Sea portion that Manila calls the West Philippine Sea. The Filipino fishermen were abandoned in open sea and were eventually rescued by a Vietnamese vessel. This incident increased tensions between China and the Philippines, though the owners of the Chinese vessel have since apologised.

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

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

United States President Joe Biden has manifested that the United States would not be easing up its military operations in the West Philippine Sea. South Asian nations and claimants involved in the West Philippine Sea dispute also continue to enforce their sovereign rights against China as well as other South Asian nations.

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

Investors may face difficulties enforcing judgments against the Bank.

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

The Philippines is not a party to any international treaty in relation to the recognition or enforcement of foreign judgments but is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Moreover, the Philippines enacted Republic Act No. 9285, otherwise known as the Alternative Dispute Resolution Act of 2004, to facilitate the enforcement of arbitral awards in the Philippines. Judgments obtained against the Bank in any foreign court may be recognized and enforced by the courts of the Philippines in an independent action brought in accordance with the relevant procedures set forth in the Rules of Court of the Philippines to enforce such judgment. The enforceability of foreign judgments in the Philippines is specifically provided for in the 1997 Rules of Civil Procedure. Section 48 of Rule 39 of the Rules of Civil Procedure provides that a judgment or final order of a tribunal of a foreign country having jurisdiction to give the judgment or final order is as follows: (a) in case of a judgment or final order upon specific property, is conclusive upon the title to that property; and (b) in case of a judgment or final order against a person, is presumptive evidence of a right between the parties and their successors in interest by a subsequent title. Further, Philippine courts have held that a foreign judgment is presumed to be valid and binding in the country from which it issues, until the contrary is shown, and the party contesting the foreign judgment has the burden of overcoming the presumption of its validity. However, such foreign judgment or final order may be rejected in the following instances: (i) such judgment was obtained by collusion or fraud, (ii) the foreign court rendering such judgment did not have jurisdiction, (iii) such order or judgment is contrary to good customs, public order, or public policy of the Philippines, (iv) the Bank did not have notice of the proceedings before the foreign court, or (v) such judgment was based upon a clear mistake of law or fact.

Risks Relating to the Notes Generally

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

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

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

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

The priority of debt evidenced by a public instrument.

Under Philippine law, in the event of liquidation of a company, unsecured debt of the company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244(14)(a) of the Civil Code of the Philippines will rank ahead of unsecured debt of the company which is not so evidenced. Under Philippine law, a debt becomes evidenced by a public instrument when it has been acknowledged before a notary or any person authorised to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a jurat (which is a statement of the circumstances in which an affidavit was made) may be sufficient to constitute a debt evidenced by a public instrument. So far as the Bank is aware, none of its debt is evidenced by a public instrument and the Bank will undertake in the Conditions and the Trust Deed not to create

or permit to subsist any preference or priority in respect of any Relevant Debt (as defined in Condition 4.2) pursuant to Article 2244(14)(a). However, a domestic lender may acknowledge debt before a notary or a person authorised to administer oaths without notice to the Bank. Philippine courts have not addressed this matter, and it is uncertain whether a document evidencing the debt, notarised without one party's participation, would be considered documented by a public instrument. If, however, such debt was definitively considered documented by a public instrument, then, as with other documents similarly situated, it would rank ahead of the debt securities if the Bank goes into insolvency and is unable to meet its debt obligations.

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

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

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

The Notes may have limited liquidity.

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

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

- prevailing interest rates;
- the Bank's results of operations and financial condition;
- political and economic developments in and affecting the Philippines;
- the market conditions for similar securities; and
- the financial condition and stability of the Philippine financial sector.

Investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rates, currency or market risks, are designed for specific investment objectives or

strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Approval in-principle has been granted by the SGX-ST for permission to deal in and quotation for any Notes which are agreed at the time of the issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the official list of the SGX-ST. However, there can be no assurance that the Bank will obtain or be able to maintain such a listing or that, if listed, a trading market will develop for the Notes on the SGX-ST or that the listing will continue in the future. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Bank and the relevant Dealer in relation to each Series. Lack of a liquid, active trading market for the Notes may adversely affect the price of the Notes or may otherwise impede a holder's ability to dispose of the Notes.

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

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

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

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

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

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

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

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

Board provides for an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. On 1 January 2018, the LCR threshold that banks will be required to meet will be 90.0%, which will be increased to 100.0% commencing on 1 January 2019. The Monetary Board also expects to release an exposure draft of NSFR requirements within 2016. See “— *Philippine banks face regulatory pressure to comply with new capital standards*”.

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

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

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

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

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

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

- (a) The occurrence of a deviation from a certain level of Common Equity Tier 1 ratio, specifically, in case the Common Equity Tier 1 ratio falls to 7.3% or below or as may be determined by the BSP;
- (b) The inability of the bank to continued business; or
- (c) any other event as may be determined by the BSP.

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

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

The occurrence of a Non-Viability Event is dependent on a determination by the BSP (a) that a deviation from a certain level of Common Equity Tier 1 ratio occurred, specifically, in case the Common Equity Tier 1 ratio falls to 7.3% or below or as may be determined by the BSP, whichever comes earlier; (b) inability of the bank to continued business; or (c) any other event as may be determined by the BSP. As a result, the BSP may require or may cause a write-off in circumstances that are beyond the control of the Bank or with which the Bank does not agree. Because of the inherent uncertainty regarding the determination of whether a Non-Viability Event exists, it will be difficult to predict when, if at all, a write-off will occur. Consequently, a write-off shall have the

following effects: (a) reduce the claim of the instrument in liquidation; (b) reduce the amount repaid when a call is exercised; and (c) partially or fully reduce coupon/dividend payments on the instruments.

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

The Conditions contain provisions which may permit their modification without the consent of the Noteholders and without regard to the individual interests of particular Noteholders.

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

The Conditions also provide that the Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, agree to any modification (except such modifications in respect of which an increased quorum is required) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature, to correct a manifest error or an error in which, in the opinion of the Trustee, is proven, in the circumstances described in Condition 15.

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

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

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

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

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

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

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

Change of law

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

Risks Relating to the Structure of a Particular Issue of Notes

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

Notes subject to optional redemption by the Bank.

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

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

Index Linked Notes and Dual Currency Notes

The Bank may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a “**Relevant Factor**”). In addition, the Bank may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (a) the market price of such Notes may be volatile;
- (b) they may receive no interest;
- (c) payment of principal or interest may occur at a different time or in a different currency than expected;
- (d) they may lose all or a substantial portion of their principal;
- (e) a relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (f) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index or other Relevant Factor should not be viewed as an indication of the future performance of such Relevant Factor during the term of any Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Notes linked to such a Relevant Factor and the suitability of such Notes in light of its particular circumstances.

Partly-paid Notes

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

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Bank has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Bank may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Bank converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favorable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Bank converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

The regulation and reform of “benchmark” rates of interest and indices may adversely affect the value of Notes linked to or referencing such “benchmarks”

The Programme allows for the issuance of Notes that reference certain interest rates or other types of rates or indices which are deemed to be “benchmarks”, including EURIBOR or HIBOR, with respect to certain Floating Rate Notes. Interest rates and indices which are deemed to be or used as “benchmarks” are the subject of recent national and international regulatory guidance and proposals for reform, particularly in the United Kingdom. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to or referencing such a benchmark.

More broadly, any of the national or international reforms or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

The euro risk free-rate working group for the euro area has published a set of guiding principles and high level recommendations for fallback provisions in, amongst other things, new euro denominated cash products (including bonds) referencing EURIBOR. The guiding principles indicate, amongst other things, that continuing to reference EURIBOR in relevant contracts (without robust fallback provisions) may increase the risk to the euro area financial system. On 11 May 2021, the euro risk-free rate working group published its recommendations on EURIBOR fallback trigger events and fallback rates.

Such factors may have (without limitation) the following effects on certain benchmarks: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark; and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to, referencing, or otherwise dependent (in whole or in part) upon, a benchmark.

The Conditions provide for certain fallback arrangements in the event that a Benchmark Event occurs. Benchmark Events include (among other things) where a relevant Reference Rate ceases to be published for a period of at least five business days or ceases to exist, where a public statement has been made by the supervisor of the administrator of the relevant Reference Rate that such Reference Rate has been or will be permanently or indefinitely discontinued or where it has become unlawful for any Paying Agent or Calculation Agent or the Issuer to calculate any payments due to be made to any Noteholder using the relevant Reference Rate. Such fallback

arrangements include the possibility that the Rate of Interest could be set by reference to a Successor Rate or an Alternative Reference Rate (both as defined in the Conditions), with or without the application of an adjustment spread and may include amendments to the Conditions (which may be effected by the Trustee, at the direction of the Issuer, without the consent of holders) to ensure the proper operation of the successor or replacement benchmark, all as determined by an Independent Adviser appointed by the Issuer.

An adjustment spread, if applied, could be positive or negative or zero and would be applied with a view to reducing or eliminating, to the fullest extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of a relevant Reference Rate. However, it may not be possible to determine or apply an adjustment spread and even if an adjustment is applied, such adjustment spread may not be effective to reduce or eliminate economic prejudice to investors. If no adjustment spread can be determined, a Successor Rate or Alternative Reference Rate may nonetheless be used to determine the Rate of Interest. The use of a Successor Rate or Alternative Reference Rate (including with the application of an adjustment spread) will still result in any Notes linked to or referencing a relevant Reference Rate performing differently (which may include payment of a lower Rate of Interest) than they would if the relevant Reference Rate were to continue to apply in its current form.

If, following the occurrence of a Benchmark Event, no Successor Rate or Alternative Reference Rate is determined, the ultimate fallback for the purposes of calculation of the Rate of Interest for a particular Interest Period may result in the Rate of Interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. Due to the uncertainty concerning the availability of Successor Rates and Alternative Reference Rates, the involvement of an Independent Adviser and the potential for further regulatory developments, there is a risk that the relevant fallback provisions may not operate as intended at the relevant time.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation or any other international reforms, particularly in the United Kingdom, in making any investment decision with respect to any Notes linked to or referencing a benchmark.

The use of the Secured Overnight Financing Rate (SOFR) as a reference rate is subject to important limitations.

The rate of interest on the Floating Rate Notes may be calculated on the basis of SOFR (as further described under Condition 5.2(b)(i) of the Conditions).

In June 2017, the New York Federal Reserve's Alternative Reference Rates Committee (the "ARRC") announced SOFR as its recommended alternative to U.S. dollar LIBOR. However, the composition and characteristics of SOFR are not the same as those of LIBOR. SOFR is a broad U.S. Treasury repo-financing rate that represents overnight secured funding transactions. This means that SOFR is fundamentally different from LIBOR for two key reasons. First, SOFR is a secured rate, while LIBOR is an unsecured rate. Second, SOFR is an overnight rate, while LIBOR represents interbank funding over different maturities. As a result, there can be no assurance that SOFR will perform in the same way as LIBOR would have at any time, including, without limitation, as a result of changes in interest and yield rates in the market, market volatility or global or regional economic, financial, political, or regulatory events. For example, since publication of SOFR began in April 2018, daily changes in SOFR have, on occasion, been more volatile than daily changes in comparable benchmark or other market rates.

As SOFR is an overnight funding rate, interest on SOFR-based Notes with interest periods longer than overnight will be calculated on the basis of either the arithmetic mean of SOFR over the relevant interest period or compounding SOFR during the relevant interest period. As a consequence of this calculation method, the amount of, interest payable on each interest payment date will only be known a short period of time prior to the relevant interest payment date. Noteholders therefore will not know in advance the interest amount which will be payable on such Notes.

Although the Federal Reserve Bank of New York has published historical indicative SOFR information going back to 2014, such publication of historical data inherently involves assumptions, estimates and return on, any approximations. Noteholders should not rely on any historical changes or trends in SOFR as an indicator of future changes in SOFR.

The Federal Reserve Bank of New York notes on its publication page for SOFR that use of SOFR is subject to important limitations and disclaimers, including that the Federal Reserve Bank of New York may alter the methods of calculation, publication schedule, rate revision practices or availability of SOFR at any time without notice. In

addition, SOFR is published by the Federal Reserve Bank of New York based on data received from other sources, and the Group has no control over its determination, calculation or publication. There can be no guarantee that SOFR will not be discontinued or fundamentally altered in a manner that is materially adverse to the interests of the Noteholders. If the manner in which SOFR is calculated is changed or if SOFR is discontinued, that change or discontinuance may result in a reduction or elimination of the amount of interest payable on the Notes and a reduction in the trading prices of the Notes which would negatively impact the Noteholders who could lose part of their investment.

The Terms and Conditions of the Notes provide for certain fallback arrangements in the event that a SOFR Benchmark Event occurs, which is based on the ARRC recommended language. There is however no guarantee that the fallback arrangements will operate as intended at the relevant time or operate on terms commercially acceptable to all Noteholders. Any of the fallbacks may result in interest payments that are lower than, or do not otherwise correlate over time with, the payments that would have been made on the Notes if SOFR had been provided by the Federal Reserve Bank of New York in its current form. Investors should consult their own independent advisers and make their own assessment about the potential risks in making any investment decision with respect to any Notes linked to SOFR.

The market continues to develop in relation to SOFR as a reference rate for Floating Rate Notes.

Investors should be aware that the market continues to develop in relation to SOFR as a reference rate in the capital markets and its adoption as an alternative to U.S. dollar LIBOR. Market participants and relevant working groups are exploring alternative reference rates based on SOFR (which seek to measure the market's forward expectation of a SOFR rate over a designated term). The market or a significant part thereof may adopt an application of SOFR that differs significantly from that set out in the Terms and Conditions of the Notes. In addition, the manner of adoption or application of SOFR in the bond markets may differ materially compared with the application and adoption of SOFR in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SOFR in the bond, loan and derivatives markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of Notes referencing SOFR. In addition, the development of SOFR as an interest reference rate for the bond markets, as well as continued development of SOFR-based rates, indices and averages for such markets and the market infrastructure for adopting such rates, could result in reduced liquidity or increased volatility or could otherwise affect the market price of Notes referencing SOFR. Similarly, if SOFR do not prove widely used in securities such as the Notes referencing SOFR, investors may not be able to sell such Notes referencing SOFR at all or the trading price of the Notes referencing SOFR may be lower than those of bonds linked to indices that are more widely used.

The use of SOFR as a reference rate for bonds is nascent, and may be subject to change and development, both in terms of the substance of the calculation and in the development and adoption of market infrastructure for the issuance and trading of bonds referencing such rates. Notes referencing SOFR may have no established trading market when issued, and an established trading market may never develop or may not be very liquid which, in turn, may reduce the trading price of such Notes or mean that investors in such Notes may not be able to sell such Notes at all or may not be able to sell such Notes at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and may consequently suffer from increased pricing volatility and market risk. Investors should consider these matters when making their investment decision with respect to Notes referencing SOFR.

Risks relating to Renminbi-denominated Notes

Notes denominated in Renminbi ("**Renminbi Notes**") may be issued under the Programme. Renminbi Notes contain particular risks for potential investors.

Renminbi is not freely convertible and there are significant restrictions on remittance of Renminbi into and outward from the PRC.

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite the significant reduction over the years by the PRC government of control over routine foreign exchange transactions under current accounts. Participating banks in Hong Kong have been permitted to engage in the settlement of Renminbi trade transactions under a pilot scheme introduced in July 2009. This represents a current account activity. The pilot scheme was extended in August 2011 to cover all provinces and cities in the PRC and to make Renminbi trade and other

current account settlement available in all countries worldwide. Subject to limited exceptions, there is currently no specific PRC regulation on the remittance of Renminbi into the PRC for settlement of capital account. Foreign investors may only remit offshore Renminbi into the PRC for capital account purposes such as shareholders' loan or capital contribution upon obtaining specific approvals from the relevant authorities on a case-by-case basis.

There is no assurance that the PRC government will continue to gradually liberalise the control over cross-border Renminbi remittances in the future, that the pilot scheme introduced in July 2009 will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outward from the PRC.

Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules. In the event that funds cannot be repatriated outside the PRC in Renminbi, the Bank will need to source Renminbi offshore to finance its obligations under the Notes, and its ability to do so will be subject to the overall availability of Renminbi outside the PRC.

Holders of beneficial interests in the Notes denominated in Renminbi may be required to provide certifications and other information (including Renminbi account information) in order to allow such holder to receive payments in Renminbi in accordance with the Renminbi clearing and settlement mechanism for participating banks in Hong Kong.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of Renminbi Notes and the Bank's ability to source Renminbi outside the PRC to service such Renminbi Notes.

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. Since February 2004, in accordance with arrangements between the PRC Central Government and the Hong Kong Government, licensed banks in Hong Kong may offer limited Renminbi-denominated banking services to Hong Kong residents and designated business customers. The People's Bank of China ("PBOC") has also established a Renminbi clearing and settlement mechanism for participating banks in Hong Kong. On 19 July 2010, further amendments were made to the Settlement Agreement on the Clearing of RMB Business (the "**Settlement Agreement**") between the PBOC and Bank of China (Hong Kong) Limited as the RMB clearing bank (the "**RMB Clearing Bank**") to further expand the scope of Renminbi business for participating banks in Hong Kong. Pursuant to the revised arrangements, all corporations are allowed to open Renminbi accounts in Hong Kong; there is no longer any limit on the ability of corporations to convert RMB; and there is no longer any restriction on the transfer of Renminbi funds between different accounts in Hong Kong. On 2 April 2013, in line with the Free Trade Agreement between China and Singapore, the PBOC and the Monetary Authority of Singapore entered into a Memorandum of Understanding allowing Renminbi business to be conducted in Singapore. Under this arrangement, banks in Singapore are allowed to open Renminbi accounts for all corporations and may provide them with Renminbi-denominated business services. PBOC has appointed the Industrial & Commercial Bank of China Singapore Branch ("**ICBC Singapore**") as the RMB clearing bank for Singapore to provide clearing and settlement to participating banks. ICBC Singapore commenced its Renminbi clearing services on 27 May 2013, clearing RMB1.6 billion worth of transactions on that day.

However, the current size of Renminbi-denominated financial assets outside the PRC is limited. As of 31 May 2013, according to the Hong Kong Monetary Authority Monthly Statistical Bulletin, the total amount of Renminbi deposits held by institutions authorised to engage in Renminbi banking business in Hong Kong amounted to approximately RMB698,481 million. Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. They are only allowed to square their open positions with the RMB Clearing Bank after consolidating the RMB trade position of banks outside Hong Kong that are in the same bank group of the participating banks concerned with their own trade position, and the RMB Clearing Bank only has access to onshore liquidity support from the PBOC only for the purpose of squaring open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement, for Hong Kong residents of up to RMB20,000.00 per person per day and for the designated business customers relating to the RMB received in providing their services. The RMB Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source Renminbi from the offshore market to square such open positions.

On 14 June 2012, the HKMA introduced a facility for providing Renminbi liquidity to authorised institutions participating in RMB business ("**Participating AIs**") in Hong Kong. The facility will make use of the currency

swap arrangement between the PBOC and the HKMA. With effect from 15 June 2012, the HKMA will, in response to requests from individual Participating AIs, provide RMB term funds to the Participating AIs against eligible collateral acceptable to the HKMA. The facility is intended to address short-term RMB liquidity tightness which may arise from time to time, for example due to capital market activities or sudden need for RMB liquidity by the Participating AIs' overseas bank customers.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that no new PRC regulations will be promulgated, or the Settlement Agreement will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi offshore. The limited availability of Renminbi outside the PRC may affect the liquidity of its Renminbi Notes. To the extent the Bank is required to source Renminbi in the offshore market to service its Renminbi Notes, there is no assurance that the Bank will be able to source such Renminbi on satisfactory terms, if at all.

Investment in Renminbi Notes is subject to exchange rate risks.

The value of Renminbi against the US dollar and other foreign currencies fluctuates and is affected by changes in the PRC and international political and economic conditions and by many other factors. Subject to the applicable Pricing Supplement and Terms and Conditions, all payments of interest and principal with respect to Renminbi Notes will be made in Renminbi. As a result, the value of these Renminbi payments in US dollar terms may vary with the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the US dollar or other foreign currencies, the value of investments in US dollar or other applicable foreign currency terms will decline.

Payments in respect of Renminbi Notes will only be made to investors in the manner specified in such Renminbi Notes.

All payments to investors in respect of Renminbi Notes will be made solely by (i) when Renminbi Notes are represented by a Global Note, transfer to a Renminbi bank account maintained in Hong Kong in accordance with the rules and procedures of the relevant clearing system, or (ii) when Renminbi Notes are in definitive form, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The Bank cannot be required to make payment by any other means (including, but not limited to, in any other currency, by bank notes, by cheques or drafts or by transferring to a bank account in the PRC).

Risks Relating to Information in this Offering Circular

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

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

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

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

However, because of potentially flawed methodologies, discrepancies in market practice and other problems, these facts, forecasts and other statistics may be inaccurate or may not be comparable from period to period or to facts, forecasts or statistics of other economies.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the indebtedness and capitalisation of the Bank as of 31 December 2023. This table should be read in conjunction with the Bank's audited consolidated financial statements as of and for the year ended 31 December 2023 and the notes presented elsewhere herein.

	As of 31 December 2023	
	(P millions) (audited)	(U.S.\$ millions) ⁽¹⁾ (unaudited)
Liabilities		
Deposit Liabilities ⁽²⁾	606,531.4	10,954.2
Financial Liabilities at Fair Value through Profit or Loss	2,968.7	53.6
Bills Payable and Securities Sold Under Repurchase Agreements	51,339.1	927.2
Acceptances Payable	2,782.7	50.3
Margin Deposits and Cash letters of Credit	57.6	1.0
Manager's and Certified Checks Outstanding	5,208.9	94.1
Income Tax Payable	802.1	14.5
Notes and Bonds payable	48,963.5	884.3
Accrued Interest, Taxes and Other Expenses	4,844.7	87.5
Other liabilities	11,880.4	214.6
Total liabilities	735,379.1	13,281.3
Equity		
Capital stock	7,635.4	137.9
Additional paid-in capital	38,524.3	695.8
Surplus	95,555.3	1,725.8
Net unrealized (loss) on financial assets at fair value through other comprehensive income	(5,534.4)	(100.0)
Net unrealized gain on subsidiaries' financial assets at fair value through other comprehensive income	20.6	0.4
Cumulative foreign currency translation	(70.8)	(1.3)
Total equity	136,130.4	2,458.6
Total capitalization and indebtedness	871,509.5	15,739.9

Notes:

- (1) Translations from Pesos to US dollars for convenience of the reader have been made at the BAP Rate on 29 December 2023 of ₱55.37= U.S.\$1.00.
- (2) Deposit liabilities include Demand, Savings and Time Deposits and Long-term negotiable certificates of deposit.

Except as described above, there has been no significant change in the indebtedness or capitalisation or contingent liabilities of the Bank since 31 December 2023.

CAPITAL ADEQUACY RATIOS

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, which is determined on the basis of regulatory policies. In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.0% for both the Bank on a standalone basis (head office and branches) and consolidated basis (Bank and subsidiaries engaged in financial allied undertakings).

To implement Basel III standards, the BSP adopted new categorisations of capital and issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, effective 1 January 2014. The Circular sets out a minimum Common Equity Tier 1 ("CET 1") ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET 1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10.0% and these ratios shall be maintained at all times. In addition to changes in minimum capital requirements, Circular No. 781 also requires various regulatory adjustments in the calculation of qualifying capital. See "*Banking Regulations and Supervision*".

The following table sets forth details of consolidated capital resources of the Bank as reported to the BSP, as of the dates indicated. Qualifying capital and risk-weighted assets are computed based on BSP regulations.

	As of 31 December		
	2021	2022	2023
		(P millions)	
Tier 1 Capital	122,044.0	120,397.9	130,488.8
Less: Required deductions.....	14,519.4	15,286.1	21,235.2
	107,524.6	105,111.8	109,253.6
Excess from Tier 2 deducted to Tier 1 Capital*.....	-	-	-
Net Tier 1 Capital	107,524.6	105,111.8	109,253.6
Tier 2 Capital	3,736.5	3,191.7	6,327.3
Less: Required deductions.....	-	-	-
	3,736.5	3,191.7	6,327.3
Excess of Tier 2 deducted to Tier 1 Capital*.....	-	-	-
Net Tier 2 Capital	3,736.5	3,191.7	6,327.3
Total Qualifying Capital.....	111,261.1	108,303.5	115,580.9
Credit Risk-Weighted Assets	497,852.0	582,441.1	632,168.9
Market Risk-Weighted Assets.....	7,615.9	7,257.9	16,489.1
Operational Risk-Weighted Assets	57,745.6	62,891.1	65,420.1
Total Risk Weighted Assets.....	563,213.5	652,590.1	714,078.1

Note: *Deductions to Tier 2 Capital are capped at its total gross amount and any excess shall be deducted from Tier 1 Capital

As of 31 December 2023, the Bank was in compliance with the required capital adequacy ratios. The following table sets out the consolidated capital adequacy ratios of the Group, as reported to the BSP, as of the dates indicated:

	As of 31 December		
	2021	2022	2023
CET 1 Ratio	19.1%	16.1%	15.3%
Tier 1 Capital Adequacy Ratio.....	19.1%	16.1%	15.3%
Total Capital Adequacy Ratio	19.8%	16.6%	16.2%

Note: Capital adequacy ratios above are computed on Basel III standards.

The regulatory Gross Qualifying Capital of the Bank consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprises share capital, retained earnings (including current year profit) and non-controlling interest less required deductions such as deferred tax, intangible assets and unsecured credit accommodations to DOSRI. Tier 2 capital includes unsecured subordinated note, revaluation reserves and general loan loss provision. Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to equity investments in

unconsolidated subsidiary banks and other financial allied undertakings, but excluding investments in debt capital instruments of unconsolidated subsidiary banks (for solo basis) and equity investments in subsidiary nonfinancial allied undertakings.

Risk-weighted assets are determined by assigning defined risk weights to statement of financial position exposures and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary depending on the type of exposure, with the risk weights of off-balance sheet exposures being subjected further to credit conversion factors. For the purpose of determining the relevant risk weight, third party credit assessments provided by Standard & Poor's, Moody's, Fitch and PhilRatings were used.

The following table sets out the breakdown of the Bank's risk-weighted assets by category as of the dates indicated:

	As of 31 December		
	2021	2022	2023
	(P millions, except percentages)		
Credit Risk			
On Balance Sheet Assets			
20%.....	1,846.5	2,962.1	1,470.8
50%.....	44,165.0	51,876.7	52,383.2
75%.....			13,723.5
100%.....	418,913.2	485,551.3	508,366.9
150%.....	8,835.3	11,221.2	15,749.6
Off Balance Sheet Exposure			
100%.....	22,322.1	25,970.7	29,357.6
Counterparty – Derivatives and Repostyle Transactions.....	1,769.9	4,859.1	11,117.3
Credit Risk-weighted Assets.....	497,852.0	582,441.1	632,168.9
Market risk.....	7,615.9	7,257.9	16,489.1
Operational risk.....	57,745.6	62,891.1	65,420.1
Total Risk-Weighted Assets.....	<u>563,213.5</u>	<u>652,590.1</u>	<u>714,078.1</u>

Note: Capital adequacy ratios above are computed on Basel III standards.

On 27 June 2014, the BSP issued Circular No. 839, *REST Limit for Real Estate Exposures*, which provides the implementing guidelines on the prudential REST limit for universal, commercial, and thrift banks on their aggregate real estate exposures. The Circular sets out a minimum REST limit of 6.0% CET 1 capital ratio and 10.0% risk-based capital adequacy ratio, on a solo and consolidated basis, under a prescribed write-off rate of 25.0% on the Group's real estate exposure. These limits shall be complied with at all times.

On 9 June 2015, the BSP issued Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, which provides implementing guidelines for universal, commercial, and their subsidiary banks/quasi banks. The circular sets out a minimum leverage ratio of 5.0% on a solo and consolidated basis and shall be complied with at all times.

The Group has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present selected consolidated financial information of the Bank and should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this Offering Circular and the section entitled “Description of the Bank” in this Offering Circular. The selected financial information presented below as of and for the years ended 31 December 2021, 2022, and 2023 were derived from the consolidated financial statements of the Group and audited by SyCip Gorres Velayo & Co. (“SGV”) in accordance with Philippine Standards on Auditing. The selected financial information set out below does not purport to project the consolidated results of operations or financial position of the Bank for any future period or date. Translations from Pesos to US dollars for the convenience of the reader have been made at the BAP Rate on 29 December 2023 of ₱55.37 to U.S.\$1.00.

Consolidated Statements of Income

	For the year ended 31 December			
	2021	2022	2023	
	(in millions, except for earnings per share) (Audited)			(Unaudited) U.S.\$
	P	P	P	
Interest income on				
Loans and receivables	28,061.2	29,686.4	38,140.1	688.8
Financial assets in fair value through other comprehensive income and investment securities at amortized cost	3,246.7	5,848.2	8,555.2	154.5
Financial assets at fair value through profit or loss	662.9	759.6	1,303.8	23.5
Interbank loans receivable and securities purchased under resale agreements with the Bangko Sentral ng Pilipinas.....	320.5	374.0	993.8	17.9
Deposits with banks and others.....	612.3	86.8	102.2	1.8
	<u>32,903.6</u>	<u>36,755.0</u>	<u>49,095.1</u>	<u>886.5</u>
Interest expense on				
Deposit liabilities	2,940.8	5,043.1	8,195.1	148.0
Subordinated note, bills payable, securities sold under repurchase agreements, notes payable and other borrowings	2,073.7	1,987.7	5,473.2	98.8
Derivatives instruments.....	348.8	406.4	612.1	11.1
Lease liabilities.....	84.0	71.5	81.0	1.5
	<u>5,447.3</u>	<u>7,508.7</u>	<u>14,361.4</u>	<u>259.4</u>
Net interest income	<u>27,456.3</u>	<u>29,246.3</u>	<u>34,733.7</u>	<u>627.1</u>
Service charges, fees and commissions.....	4,530.9	5,285.0	6,068.0	109.6
Profit from assets sold/exchanged.....	1,390.9	1,496.9	1,211.8	21.9
Rent	570.2	631.1	708.4	12.8
Trading and securities gain (loss) - net	1,091.7	(25.9)	288.6	5.2
Share in net income of subsidiaries and a joint venture.....	81.3	147.4	179.6	3.2
Foreign exchange gain (loss) - net	170.3	966.7	(2,092.8)	(37.8)
Gain on disposal/redemption of investment securities at amortised cost.....	66.0	4.0	-	-
Miscellaneous.....	1,453.1	1,883.9	1,861.5	33.6
Total Operating Income	<u>36,810.7</u>	<u>39,635.4</u>	<u>42,958.8</u>	<u>775.6</u>
Operating expenses				
Compensation and fringe benefits.....	6,922.4	7,538.9	8,912.8	161.0
Provision for credit losses	5,280.5	2,634.3	4,666.2	84.3
Taxes and licenses	3,301.8	3,060.0	3,195.4	57.7
Depreciation and amortization	2,173.1	2,114.5	2,150.2	38.8
Amortization of software costs	362.3	551.2	675.0	12.2
Occupancy costs.....	375.4	370.1	388.5	7.0
Provision for (recovery of) impairment losses	(15.2)	207.1	134.7	2.4
Miscellaneous.....	8,148.5	9,273.9	10,777.0	194.6
Total operating expenses	<u>26,548.8</u>	<u>25,750.0</u>	<u>30,899.8</u>	<u>558.0</u>
Income before income tax	<u>10,261.9</u>	<u>13,885.4</u>	<u>12,059.0</u>	<u>217.6</u>
Provision for income tax	<u>3,344.6</u>	<u>3,329.5</u>	<u>2,953.5</u>	<u>53.3</u>

	For the year ended 31 December				
	2021	2022	2023		
	(in millions, except for earnings per share) (Audited)			(Unaudited)	
P	P	P	U.S.\$		
Net income	6,917.3	10,555.9	9,105.5	164.3	
Attributable to:					
Equity holders of the Parent Company	6,917.3	10,555.9	9,105.5	164.3	
Net income	6,917.3	10,555.9	9,105.5	164.3	
Basic/Diluted Earnings Per Share	9.2	14.0	12.1	0.2	

Consolidated Statements of Financial Position

Consolidated Statements of Financial Position as of 31 December 2021, 2022 and 2023

	As of 31 December				
	2021	2022	2023		
	(in millions) (Audited)			(Unaudited)	
P	P	P	U.S.\$		
Assets					
Cash and Other Cash Items.....	11,083.3	13,180.2	13,947.1	251.9	
Due from Bangko Sentral ng Pilipinas	67,391.5	63,011.4	45,821.2	827.5	
Due from Other Banks.....	13,126.2	20,097.3	12,022.0	217.1	
Interbank Loans Receivable and Securities Purchased Under Resale Agreements with the Bangko Sentral ng Pilipinas	29,424.6	27,515.4	4,081.0	73.7	
Financial Assets at Fair Value Through Profit or Loss	6,922.5	7,566.6	10,886.4	196.6	
Financial Assets at Fair Value through Other Comprehensive Income.....	80,669.2	112,891.5	139,861.0	2,525.9	
Investment Securities at Amortized Cost.....	21,836.6	69,230.0	76,156.1	1,375.4	
Loans and Receivables.....	448,583.9	502,617.4	538,329.4	9,722.4	
Investments in Subsidiaries and Joint Ventures	1,540.2	2,440.5	2,625.1	47.4	
Property, Equipment, and Right-of-use Assets	5,185.0	5,278.9	6,429.5	116.1	
Investment Properties	1,182.8	3,204.7	4,790.6	86.5	
Deferred Tax Assets.....	5,246.3	4,851.1	5,703.1	103.0	
Goodwill	841.6	841.6	841.6	15.2	
Intangible Assets.....	3,221.1	3,735.2	4,969.1	89.7	
Other Assets.....	3,362.2	5,829.3	5,046.3	91.5	
Total Assets	699,617.0	842,291.1	871,509.5	15,739.9	
Liabilities and Equity					
Liabilities					
Deposit Liabilities					
Demand	216,470.9	232,536.2	245,268.2	4,429.6	
Savings	110,567.3	117,513.4	118,280.8	2,136.2	
Time	171,822.5	231,020.1	232,566.4	4,200.2	
Long Term Negotiable Certificates of Deposits	24,728.6	24,766.8	10,416.0	188.2	
	523,589.3	605,836.5	606,531.4	10,954.2	
Financial Liabilities at Fair Value Through Profit or Loss	1,285.4	1,752.8	2,968.7	53.6	
Bills Payable and Securities Sold Under Repurchase Agreements	3,464.4	40,920.4	51,339.1	927.2	
Acceptances Payable.....	1,001.5	1,085.3	2,782.7	50.3	
Margin Deposits and Cash Letters of Credit . Manager's and Certified Checks Outstanding	40.2	63.9	57.6	1.0	
Income Tax Payable.....	4,221.4	4,103.1	5,208.9	94.1	
Notes and Bonds Payable	85.8	198.3	802.1	14.5	
Accrued Interest, Taxes and Other Expenses	28,721.3	47,111.7	48,963.5	884.3	
Other Liabilities	2,896.5	4,153.5	4,844.7	87.5	
	9,241.6	11,217.6	11,880.4	214.6	
Total Liabilities	574,547.4	716,443.1	735,379.1	13,281.3	
Equity Attributable to Equity Holders of the Parent Company					
Capital Stock.....	7,635.4	7,635.4	7,635.4	137.9	
Additional paid-in capital	38,524.3	38,524.3	38,524.3	695.8	

	As of 31 December			
	2021	2022	2023	
Surplus	80,852.5	89,004.6	95,555.3	1,725.8
Net unrealized gain (loss) on financial assets at fair value through other comprehensive income	(2,043.2)	(9,238.9)	(5,534.4)	(100.0)
Net unrealized gain on subsidiaries' financial assets at fair value through other comprehensive income	8.2	16.6	20.6	0.4
Cumulative foreign currency translation	92.4	(94.0)	(70.8)	(1.3)
Total Equity	125,069.6	125,848.0	136,130.4	2,458.6
Total Liabilities and Equity	699,617.0	842,291.1	871,509.5	15,739.9

Selected Consolidated Statements of Cash Flows

	For the years ended 31 December			
	2021	2022	2023	
	P	P (Audited) (in millions)	P	U.S.\$ (Unaudited)
Net cash flows provided by (used in) operating activities	84,391.7	35,330.4	(10,561.9)	(190.8)
Net cash flows used in investing activities.....	(12,824.7)	(84,906.9)	(35,571.3)	(642.4)
Net cash flows provided by (used in) financing activities	(39,148.6)	51,371.5	(3,986.8)	(72.0)
Effect of exchange rate differences .	272.9	(3,013.1)	187.0	3.4
Net increase (decrease) in cash and cash equivalents	32,691.3	(1,218.1)	(49,933.0)	(901.8)
Cash and cash equivalents at beginning of the year.....	88,334.4	121,025.7	123,804.2	2,235.9
Cash and cash equivalents at end of the year	<u>121,025.7</u>	<u>119,807.6</u>	<u>73,871.2</u>	<u>1,334.1</u>

Selected Financial Ratios

	As of 31 December		
	2021	2022	2023
	(Unaudited)		
	(P millions, except percentages and per share data)		
Return on average assets ⁽¹⁾	1.0	1.4	1.1
Return on average equity ⁽²⁾	5.6	8.4	7.0
Net interest margin ⁽³⁾	4.4	4.2	4.5
CET1 ratio ⁽⁴⁾	19.1	16.1	15.3
CAR ⁽⁵⁾	19.8	16.6	16.2
Net non-performing loans ratio ⁽⁶⁾	1.5	1.0	1.4
Non-performing loans-net ⁽¹⁰⁾	7,241.3	5,684.8	7,543.4
Total gross loans ⁽⁹⁾	491,448.7	542,574.7	551,660.3
Non-performing loan cover ⁽⁹⁾	92.7	101.1	82.1
Total allowance for credit losses ⁽¹¹⁾	17,957.5	16,159.7	15,202.0
Total NPLs gross of specific allowance ⁽⁹⁾ .	19,378.7	15,981.2	18,510.2
Allowance for credit losses to total non-performing assets ⁽⁹⁾	86.4	83.5	65.7
Allowance for credit losses ⁽¹²⁾	17,957.5	16,160.0	15,202.9
Total non-performing assets ⁽⁸⁾	20,793.0	19,344.8	23,139.8
Earnings per share (P) ⁽⁷⁾	9.2	14.0	12.1
Cost to income ratio	57.8	57.8	60.8
Total operating expenses	26,548.8	25,750.0	30,899.8
Less: Provision for credit losses	5,280.5	2,634.3	4,666.2
Provision for (recovery of) impairment losses	(15.2)	207.1	134.7
Total operating expenses before Provision for credit and impairment losses	21,283.5	22,908.6	26,098.9
Total operating income	36,810.7	39,635.4	42,958.8
Net loans to deposits	85.7	83.0	88.8
Loans and receivables, net	448,583.9	502,617.4	538,329.4
Total deposits	523,589.3	605,836.5	606,531.4
Total assets to equity	5.6	6.7	6.4

	As of 31 December		
	2021	2022	2023
	(Unaudited)		
	(P millions, except percentages and per share data)		
Total assets.....	699,617.0	842,291.1	871,509.5
Total equity	125,069.6	125,848.0	136,130.4

Notes:

- (1) Net income after income tax divided by average total assets.
- (2) Net income after income tax divided by average total capital accounts.
- (3) Net interest income divided by average interest-earning assets.
- (4) Net Tier 1 capital divided by total risk weighted assets, as reported to BSP.
- (5) Total qualifying capital less deductions divided by total risk weighted assets, as reported to BSP.
- (6) Total non-performing loans - net ("NPL") divided by total gross loans per BSP.
- (7) Net income divided by weighted average number of outstanding common shares.
- (8) Computed based on BSP Circulars 941 and 1011.
- (9) Computed based on BSP guidelines.
- (10) Total NPL (net of specific allowance, computed based on BSP guidelines).
- (11) Computed based on BSP guidelines (parent).
- (12) Computed based on BSP guidelines (consolidated).

DESCRIPTION OF THE BANK

Overview

Security Bank Corporation (the “**Bank**”) is a publicly listed Philippine universal bank which serves wholesale and retail clients. Established in 1951, Security Bank has remained steadfast in its focus and commitment to serve its clients and stakeholders with distinction. Its headquarters is located at the Security Bank Centre, 6776 Ayala Avenue, Makati City, Metro Manila, Philippines.

Based on the published and publicly available balance sheet report to the BSP (the “**Published Balance Sheet Report**”) as of 31 December 2023, Security Bank ranked as the 8th largest in total assets and 8th largest in capital funds (P999.1 billion and P134.1 billion, respectively), among private domestic universal banks (“**PDUBs**”) in the Philippines. Security Bank ranked 7th largest in market capitalization among listed PDUBs in the Philippines as of end 2023. The Bank’s strategy, execution and results are guided by its strong focus on our clients, our employees, and shareholders.

As of 31 December 2023, the Bank had a network of 325 branches located across the Philippines, 183 branches of which are strategically located in Metro Manila and 142 situated outside Metro Manila. The Bank also has 662 ATMs, Cash Recycler Machines (“**CRMs**”) and Cash Acceptance Machines (“**CAMs**”).

The Bank has been listed on the PSE since its initial public offering in 1995. Its market capitalisation as of 12 April 2024 was P51.58 billion (based on a closing price of P68.45 per share). The Bank’s largest shareholders are the Dy Group and MUFG.

The products and services offered by the Bank are divided into the following main operating business segments: (i) retail banking (the “**Retail Banking**”), (ii) wholesale banking (“**Wholesale Banking**”), (iii) business banking (“**Business Banking**”), (iv) financial markets (“**Financial Markets**”), and (v) all other segments (“**Other Segments**”).

For further information on the Bank’s main operating business segments, see “*Principal Business Activities.*”

As of 31 December 2023, the Bank’s Tier 1 capital ratio and total capital adequacy ratio remained greater than the minimum regulatory requirements of 7.5% and 10.0%, respectively, with a Tier 1 CAR of 15.3% and a Total CAR of 16.2%.

As of 31 December 2021, 2022 and 2023, the Bank had total assets of P699.6 billion, P842.3 billion and P871.5 billion, respectively, and net income of P6.9 billion, P10.6 billion and P9.1 billion for the years ended 31 December 2021, 2022 and 2023, respectively.

History

The Bank was incorporated on 8 May 1951 and started its operations as a commercial bank on 18 June 1951. In the late 1950s, the Bank expanded its distribution capabilities by setting up branches in various parts of Metro Manila. Beginning in the 1960s, the Bank began expanding its branch network outside of Metro Manila with the opening of its first provincial branch. Throughout the decade, branches were established in various parts of the Visayas and Mindanao regions.

In 1989, the new majority owners, led by Frederick Y. Dy, assumed control of the Bank. As part of the strategy of the new management, the Bank secured approval from the BSP in 1994 to operate as a universal bank, allowing the Bank to expand its financial services and revenue sources. In 1995, the Bank was publicly listed on the PSE.

In 2016, the Bank entered into a strategic partnership with MUFG, the largest bank in Japan and member of the Mitsubishi UFJ Financial Group. The transaction was completed on 1 April 2016, with MUFG infusing capital of P36.9 billion, representing a 20.0% stake in the Bank. The Bank believes that this collaboration has resulted in greater access to Japanese corporates and enhancement of the Wholesale to Retail (“**W2R**”) business. In the same year, SB Cards Corporation (“**SB Cards**”) sold a substantial portion of its existing Diners Club International credit card portfolio and its cardholder base.

In 2018, the Bank issued USD 300.0 million of 5-Year senior unsecured fixed rate notes under the USD 1 billion Medium Term Note (“MTN”) Program on 17 September 2018; priced at U.S.\$298.8 million, yield of 4.6%, coupon rate of 4.5% p.a. (semi-annual payment).

In August 2019, the Bank announced that it has formed a strategic partnership with the Bank of Ayudhya (“Krungsri”) through the Bank’s consumer finance subsidiary SBF. Both banks have MUFG Bank, Ltd. as a common shareholder. The partnership intends to provide top-notch consumer finance products to more Filipinos and plans to explore opportunities in personal loans, motorcycle loans and insurance, while leveraging on Krungsri’s expertise in the ASEAN retail financial market. Regulatory approvals in the Philippines and in Thailand were subsequently obtained on 20 October 2020 and the Joint Venture Agreement (“JVA”) between the Bank and Krungsri was executed, with the Bank completing the sale of 50.0% outstanding shares of SBF to Krungsri.

The Bank also raised funds in 2019 via the issuance of the following: P18.0 billion 5.9% fixed rate peso corporate bonds due 2021, P6.1 billion 4.0% fixed rate long term negotiable certificates of deposits (“LTNCD”) due 2025, and P2.3 billion 4.0% fixed rate LTNCD due 2025.

In February 2020, the Bank issued P2.1 billion 4.0% fixed rate LTNCD due 2025.

In July 2020, the Bank raised P13.5 billion 3.1% fixed rate peso corporate bonds due 2022.

The Bank returned to the bond capital market on year 2022 with two issuances that received strong investor support. In July 2022, the Bank issued P16.0 billion 3.7% fixed rate peso corporate bonds due 2024. Subsequently, it issued P14.6 billion 5.3% fixed rate peso corporate bonds due 2024.

In July 2023, the Bank raised P18.5 billion 6.4% fixed rate peso corporate bonds due 2025.

Strengths

Security Bank differentiates itself from competition as a strong, independent, domestic bank with a global reach. The Bank is committed to provide superior customer experience in line with its branch promise of *BetterBanking*, stemming from an in-depth understanding of customers’ needs and providing solutions in a professional, problem-free, personalized, and prompt manner. The Bank’s strategic partnership with Mitsubishi UFJ Financial Group (“MUFG”), the largest financial group in Japan, enables it to provide customers with access to an extensive global network.

Established independent banking entity that has cultivated strong relationships with conglomerate clients

The Bank is not a member of or allied with any business conglomerate in the Philippines, unlike many of the larger commercial banks in the Philippines. As a result, the Bank believes that it has established itself as an independent banking entity that does not directly or indirectly compete with its clients, particularly large conglomerates. Thus, the Bank is able to avoid potential conflicts of interest while building trust in the banking relationship. The Bank believes that its customers seek out this independence when choosing to bank with it and that its independence helps to cultivate strong relationships of trust and confidence with its clients.

Access to global networks through MUFG and other alliances

The Bank differentiates itself in the industry as a strong, domestic bank with a network of global alliances that allow it to serve the international needs of its customers. In 2016, the Bank entered into a strategic partnership with MUFG, the largest bank in Japan and member of the Mitsubishi UFJ Financial Group, which allows the Bank to offer clients access to MUFG’s products, services, expertise, and global network. The collaboration has resulted in expansion of relationships with Japanese corporates to include their employees and ecosystem, driving continuous improvement in several areas such as Retail Banking, Wholesale Banking, Wholesale to Retail, and Risk Management.

In August 2019, the Bank announced its strategic partnership with Thailand’s Bank of Ayudhya (otherwise known as Krungsri, the number one consumer finance provider in Thailand, with presence in Laos, Cambodia and Myanmar). The partnership is through SB Finance (a 50:50 joint venture with Krungsri). SB Finance is a nonbank finance company that services the mass retail market in the Philippines. Within the first half of 2022, SB Finance launched several digital product offerings, e.g., mobile app branded as “Zuki”, and loan products for the mass

retail segment in the country (“Car4Cash”, “Hoologan”, motorcycle loans, personal loans, and “eSALAD”). The partnership intends to provide top-notch consumer finance products to more Filipinos while leveraging on Krungsri’s expertise in the ASEAN retail finance market. Both Security Bank and Krungsri have MUFG Bank, Ltd. as a common shareholder.

Recognized franchise and brand with a diversified business portfolio

The Bank has a solid niche among the mass-affluent Filipino-Chinese community and has consistently been recognized and awarded by reputable institutions through the years (see “*Awards and Recognition*”).

The Bank offers a diversified range of banking and financial products and services, allowing for a varied stream of income from its four core businesses, including financial markets, wholesale banking, business banking and retail banking. It maintains a balanced loan portfolio with corporate, middle market, and consumer and micro-, small-, and medium-sized enterprises (“MSME”) loans, comprising 40%, 31% and 29%, respectively, of the Bank’s total loan portfolio as of 31 December 2023.

Prudent management of capital, liquidity, and balance sheet

Based on publicly available audited financial statements of major Philippine banks’, the Bank stands as one of the most well-capitalized private domestic universal banks in the Philippines, with a robust capital base supported by resilient core businesses. Total capital adequacy ratio, Tier 1 capital adequacy ratio and liquidity coverage ratio was at 16.2%, 15.3%, and 158.0% for the year ended 31 December 2023.

Above-industry net margins

The Bank has maintained an above-industry net interest margin of 4.4%, 4.2% and 4.5% relative to industry average of 3.2%, 3.4% and 3.8% for the years ended 31 December 2021, 2022, and 2023, respectively. The Bank’s net interest margin performance is underpinned by its strong earning asset yield, which amounted to 5.3%, 5.3% and 6.3% as compared to its funding cost of 1.0%, 1.2% and 2.1% for the years ended 31 December 2021, 2022, and 2023, respectively.

Strong and experienced management team

The Bank’s management team and BOD comprise highly experienced individuals with expertise in key areas, including retail, corporate and commercial banking, treasury, and risk management with proven abilities to grow the Bank’s business. The Bank believes that its management team is well regarded and connected within the industry as evidenced through senior representation within various industry associations, as well as in affluent communities, such as the Filipino-Chinese community. The Bank’s day-to-day business is based on a streamlined management structure and managed by officers who have extensive experience in banking operations from leading banks in the country and abroad. Given the experience and track record of the Bank’s senior management, the Bank believes that it possesses extensive knowledge of all aspects of the banking industry, strong relationships with other banks and financial institutions, and familiarity with the Bank’s target clients and their banking needs. The management team also provides the Bank with a broad perspective from which it can make strategic management and operational decisions.

Strategies

The Bank’s vision is to become the most customer-centric bank in the Philippines. To be customer-centric, the Bank will strengthen its capabilities to address its customers’ evolving needs and continue to invest in what matters to them.

To track the Bank’s progress in reaching its vision, it has set the following goals:

Grow mass affluent and corporate share, focusing on customers with high potential for growth and where the Bank can differentiate on service

Integral to the Bank is customer acquisition and satisfaction. By improving processes and providing optimized points for customer interaction, the Bank strives to continue to grow its share in the mass affluent and corporate market while providing differentiated service.

Become the industry leader in Net Promoter Score (“NPS”) for Retail, Corporate, Commercial, and Business MSME segments – serving clients’ financial needs and partnering with them for success

Delivering BetterBanking requires an understanding of clients’ concerns and expectations. Through multiple forms of engagement, the Bank is able to identify what matters to its clients. Through continuous improvement backed by data-driven insights, the Bank strives to become the industry leader in NPS. The Bank has invested heavily in critical areas to enhance customer experience: its employees, data and digital infrastructure, cybersecurity, core technology, process excellence, and automation.

Be an Employer of Choice, promoting a healthy environment, flexible working, and a connected culture

The Bank champions employee well-being and development. This is demonstrated by its recognition as the top local bank for employment at the 2023 Philippines’ Best Employers survey led by Statista, the world’s leading data and business intelligence portal. Among Philippine banks, the Bank ranked no. 1 in Forbes’ World’s Best Employers in 2023. Further, the Bank has been named the Philippines’ Best Bank for Diversity and Inclusion at the 2022 Asiamoney Best Bank Awards and was recognized as having the Best Advance in Managing a Remote Workforce by Retail Banker International (RBI) at the 2022 RBI Asia Trailblazer Awards.

Enhance shareholder value by targeting the Top 3 Peer Return on Equity (ROE)

The Bank believes that its track record of strong results led to MUFG’s investment of ₱36.9 billion in equity capital for a 20.0% stake in the Bank in 2016. To date, this is the largest equity investment in a Philippine financial institution by a foreign investor. The Bank will continue to transform and innovate, with a focus on ROE leadership by driving profitability through execution on growth engines while maintaining disciplined cost management.

The strategic priorities of the Bank include the following:

Retail Banking

The Retail Banking Segment strategy is: “Grow faster than market, be financially viable, and establish a sustainable market share in the segment of choice.” To execute this, the Retail Banking Segment will continue to focus on the mass affluent market, expand existing-to-bank share of wallet and capture new-to-bank growth opportunities, execute its customer value propositions, and improve the customer journey by engaging in different transformation initiatives and leverage on data analytics. It will manage credit risk through quality acquisition, portfolio management and collections.

Wholesale Banking

The Wholesale Banking Segment strategy is: “Be the thought leader and preferred advisor by building strong client relationships through innovative solutions.” To execute this, the Wholesale Banking Segment will enhance collaboration to offer complex cash management solutions, increase cross-selling, and achieve commercial excellence by streamlining lending processes and improving both asset quality and service management. It will also focus on expanding its customer coverage and banking experience through digital platform/s and innovative solutions.

Business Banking

The Business Banking Segment strategy is: “Driven by data and serving MSMEs with holistic offerings via a multi-channel approach”. To execute this, the Business Banking Segment will focus on broadening sales coverage to serve high growth areas, expanding core offerings through digital campaigns and client engagements as well as launching partnerships. It aims to achieve best-in-market loan turnaround time and to enhance its customer experience by continuing with the lending journey re-engineering.

Enablers

To support these strategic priorities, the Bank continues to fortify the following key enablers:

Human Capital Management

The Human Capital Management (“HCM”) team transforms the employee lifecycle to equip them to deliver on the Bank’s strategic ambition. Initiatives to manage employees’ learning and development, leadership and performance, and personal well-being are implemented by HCM.

Risk Management Group

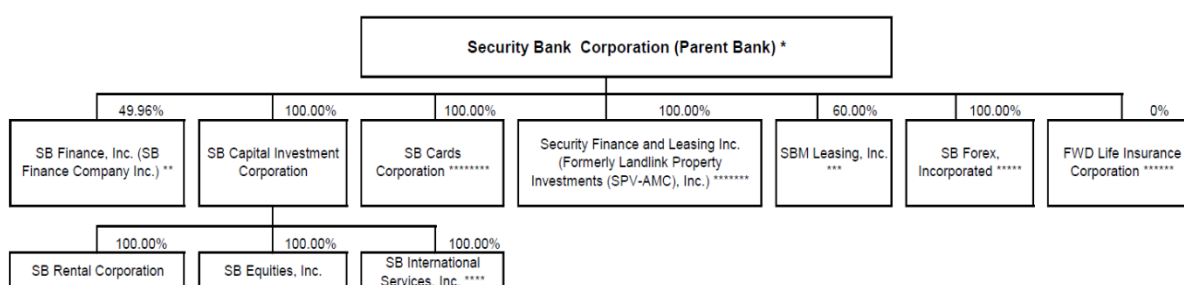
The Risk Management Group (“RMG”) builds the Bank’s capabilities to allow for agility, the ability to take calculated risks, and pivot when challenges arise. RMG maintains a proactive approach towards risk management through a robust and well-established Risk Management Framework, ensuring appropriate mitigation strategies are deployed to navigate uncertainties.

Information Technology Group

The Information Technology Group (“ITG”) modernizes and future-proofs the Bank’s infrastructure, while building technical resource capacity and enhancing capability to execute on business goals.

Corporate Structure

The following chart sets forth the Bank’s corporate structure as of 31 December 2023:



* MUFG owns 20% of voting shares of SBC

Common Shares: Par value is P10.00; Total Outstanding Shares – 753,538,887
Preferred Shares: Par Value is P0.10; Total Outstanding Shares – 1,000,000,000

** Joint venture from a subsidiary (sold 50% in October 2020).

*** Joint venture

**** Non-operating. Corporate term ended December 31, 2021. Awaiting clearance from Bureau of Internal Revenue (BIR)

***** Non-operating. Corporate term ended February 28, 2022. Awaiting clearance from BIR

***** With irrevocable power of attorney/proxy to vote certain shares of FWD Life Insurance Corporation

***** With BOD approval in 2022 to shorten corporate life on December 31, 2023. Approval to shorten life was revoked by the BOD last December 12, 2023

***** With BOD approval to shorten corporate life on December 31, 2024

For further information on the Bank’s subsidiaries, see “*Subsidiaries and Affiliates.*”

Principal Business Activities

The Bank’s operating businesses are recognized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit. The products and services offered by the Bank are divided into the following main operating business segments: (i) Retail Banking, (ii) Wholesale Banking, (iii) Business Banking, (iv) Financial Markets, and (v) Other Segments.

The following table sets forth the revenues, net of interest expense of each business segment for the periods presented:

	For the years ended 31 December			
	2022		2023	
	Amount	%	Amount	%
	(P millions, except percentages)			
Retail banking	18,002	45.4	22,451	52.3
Wholesale banking	14,300	36.1	15,086	35.1
Business banking	2,846	7.2	4,192	9.8

	For the years ended 31 December			
	2022		2023	
	Amount	%	Amount	%
	(P millions, except percentages)			
Financial markets.....	4,239	10.7	1,619	3.8
Elimination and Others	249	0.6	(389)	(1.0)
Total.....	39,636	100.0	42,959	100.0

Retail Banking

The Retail Banking segment serves individual clients. It covers deposits, consumer loans, credit cards, bancassurance and investments. Share in net income from SBF is also part of the segment.

The Retail Banking segment makes up 52.3% of the Bank's revenue, net of interest expense, for the year ended 31 December 2023.

The Bank's principal consumer banking products and services include branch banking and consumer finance including credit card products, home mortgage loans, and vehicle finance.

Branch Banking

The Bank's branch banking business offers a wide range of products and services, ranging from demand deposit accounts, savings and time deposits, to lending facilities. In addition, dedicated trade finance and foreign exchange facilities are offered at branches where such services may be required.

As of 31 December 2023, the Bank's branch network comprised 325 branches across the Philippines, 183 branches of which are strategically located in Metro Manila and 142 situated outside Metro Manila. All of the Bank's branches are connected and networked to the Bank's IT systems and infrastructure to facilitate daily operations.

The Bank provides 24-hour banking services through its online banking facility and its 662 ATMs, located on-site in its branches and at off-site locations, such as shopping malls. As of 31 December 2023, 359 ATMs are on-site while 303 ATMs are off-site. Customers are given access to the ATM facilities through the Bank's ATM cards issued to checking and savings account holders. The Bank is a member of the Bancnet ATM network, allowing customers to use ATM terminals operated by other banks in the Bancnet network. Clients can also use ATM terminals worldwide that are part of the MasterCard network.

The Bank's branch banking group manages the entire branch network of the Bank. It monitors each branch's profitability, and each branch accounts for its own expenses and revenues. Each branch is subject to spot audits, as well as a more comprehensive annual audit. Each of the Bank's branches has electronic security systems and armed guards. The Bank also ensures that the amount of cash held in the vaults of its branches is maintained within authorised limits. The Bank believes that it maintains adequate insurance coverage for loss and theft.

Credit Cards

The Bank's credit card business is focused on selected customers in the affluent and mass affluent market. As of 31 December 2021, 2022, and 2023, the Bank had a credit card receivable portfolio of P17.8 billion, P23.1 billion and P33.1 billion, respectively. In 2023, The Bank's Complete Cashback Platinum Mastercard bagged the New Consumer Lending Product of the Year award at the Asian Banking and Finance Retail Banking Awards.

Real estate mortgages and motor vehicle loans

The Bank strives to deliver to prospective home and motor vehicle buyers fast processing times, competitive rates, flexible payment terms and innovative loan products. The Bank's nationwide branch network enables it to efficiently serve its customers. The Bank intends to grow this business with its increased focus on the retail banking market.

The Bank offers home mortgage loans to individuals for home acquisition, construction, improvement and refinancing of their property. Consumer lending tailors loan terms, which offer customers competitive rates and more flexibility regarding their repayments. Home mortgage loans are typically payable in monthly amortisations with interest rates that are repriced periodically based on prevailing market rates, although borrowers also have

fixed rate options. As of 31 December 2023, the Group's residential mortgage loan portfolio (gross of unearned discounts and deferred credits and allowance for credit losses) stood at ₱83.7 billion.

The Bank provides motor vehicle financing to individuals for the acquisition or refinancing of new and used motor vehicles. The Bank also provides fleet financing for companies in need of motor vehicles for their operations. The applicable interest rate is generally fixed with amortising repayment schedules over the term of the loan. As of 31 December 2023, the Group's motor vehicle loan portfolio (gross of unearned discounts and deferred credits and allowance for credit losses) stood at ₱30.1 billion.

Wholesale Banking

The Wholesale Banking segment addresses corporates, institutional, and public sector markets and commercial clients. Services include relationship management, loans, trade, cash management, deposits and investments. It also provides structured financing and advisory services, debt and equity capital raising, project financing, and mergers and acquisitions advisory via SB Capital. Operating leases via SB Rental Corporation ("SBRC") and share in net income from SBM Leasing, Inc., ("SBML") are also part of the segment.

The Wholesale Banking segment constitutes 35.1% of the Bank's revenue, net of interest expense, for the year ended 31 December 2023.

Commercial Banking

The Bank provides a wide range of banking products and services to its commercial customers classified as those belonging to the middle market and small-and-medium enterprises and excluding the top 1,000 corporations. In addition to term loans and revolving credit facilities, the banking products and services offered by the Bank to its commercial banking customers include deposit products, bills purchase facilities, trade finance, payment remittances and foreign exchange transactions. In addition, the Bank cross-sells the other products and services of the Group, including investment and trust banking services, to its commercial banking customers.

As of 31 December 2021, 2022, and 2023, accounts of the Bank's commercial customers represented 31.0%, 32.2%, and 31.0% of the Bank's receivable from customers (gross of unearned discounts and deferred credits and allowance for credit losses), respectively. As of 31 December 2021, 2022, 2023, the contribution of the Bank's commercial banking business to the Bank's receivable from customers (gross of unearned discounts and deferred credits and allowance for credit losses) was ₱152.7 billion, ₱165.6 billion, and ₱170.1 billion, respectively.

Most of the Bank's commercial customers are engaged in the wholesale and retail trade, utilities, manufacturing, financial intermediation and real estate industries. The predominant needs of the Bank's Filipino-Chinese commercial middle-market customers are trade financing facilities (such as letters of credit, trust receipts, export-financing and the discounting of commercial bills, as well as inventory financing) and term loans.

The Bank offers both Peso-denominated and foreign currency (primarily U.S. dollar-denominated) loans. It is the Bank's policy to extend foreign currency loans primarily to customers who have foreign currency revenues or who are otherwise hedged.

Corporate Banking

The Bank offers a wide range of products and services to its corporate customers, including term loans, revolving credit lines, foreign currency loans, infrastructure loans, trade finance and transaction banking such as cash management products and services.

As of 31 December 2021, 2022, and 2023, accounts of corporate banking customers of the Bank represented 46.4%, 43.2%, and 39.5% of the Bank's receivable from customers (gross of unearned discounts and deferred credits and allowance for credit losses), respectively. The Bank believes that a majority of the top 1,000 Philippine companies are currently customers of the Bank. Most of the Bank's corporate lending is typically undertaken on a non-syndicated basis, although the Bank does syndicate certain large transactions. Substantially all of the Bank's corporate clients are based in the Philippines and are engaged in the wholesale and retail trade, utilities, manufacturing, financial intermediation and real estate industries. Almost all of the Bank's corporate lending activities support projects and businesses in the Philippines. Facilities offered to corporate customers include both secured and unsecured loan products, with pricing based on the credit risks associated with the customer and their business. The majority of the Bank's current corporate lending consists of short- to medium-term term loans.

The Bank participates in syndicated loans and provides a limited amount of working capital funding by way of bills purchased and/or trade finance. The Bank also offers deposit taking and cash management services for its corporate clients.

The Bank uses the transaction banking business to further entrench the Bank in its relationships with its customers. The Bank's cash management system is known as Security DigiBanker and the Bank believes it provides a wide array of cash management solutions to its customers. The Bank will continue to enhance its Cash and Trade portals in the Digibanker system to provide clients with improved user experiences.

The Bank offers both Peso-denominated and foreign currency (primarily U.S. dollar-denominated) loans. It is the Bank's policy to extend foreign currency loans only to those customers who have U.S. dollar revenues or who are otherwise hedged.

The Bank has a customer-focused strategy and has recruited qualified professionals, including relationship managers and other management personnel, to strengthen its business development and portfolio management capabilities. The Bank aims to develop and maintain mutually beneficial relationships with institutional clients within its target market segments by providing wholesale banking services including, but not limited to, corporate finance, investment banking, cash management, trade services and structured finance. The Bank's relationship managers are responsible for business generation, new product development, customer satisfaction and maintenance of a high-quality loan portfolio. Relationship managers are also focused on selling the Bank's wide range of financial products and services. The expanded line of non-lending services offered by the Bank, including investment and trust banking services, are actively promoted by the Bank's relationship managers to existing and potential clients. As of 31 December 2023, the Group's corporate loan portfolio was highly concentrated on utilities (power, electricity and water distribution), real estate, manufacturing, financial intermediaries and information and communication. These sectors comprised 80.8% of the Bank's corporate banking total loans portfolio (gross of unearned discounts and deferred credits and allowance for credit losses) as of 31 December 2023.

The Bank has also directed its efforts toward increasing deposits from its corporate banking clients.

Investment Banking

The Bank's investment banking activities are principally undertaken through SB Capital, a wholly-owned subsidiary of the Bank. SB Capital is a leading underwriter and arranger of loan syndications and issues of debt equity and equity-linked securities in the Philippine capital markets. It also deals in project finance, private placements, financial advisory and mergers and acquisitions. SB Capital has been involved in major fund-raising exercises for top-tier business conglomerates, middle-market clients and the public sector such as the San Miguel group, the Ayala group, the Aboitiz group, the Lopez group, the Metro Pacific Group, the JG Summit group, the Sy group and the Bureau of Treasury (Republic of the Philippines).

SB Capital's (including SB Equities, Inc.) total assets amounted to P3.0 billion, P3.5 billion and P2.9 billion as of 31 December 2021, 2022 and 2023, respectively. For the years ended 31 December 2021, 2022 and 2023, SB Capital's net income was P12.0 million, P180.4 million and P285.6 million, respectively.

Leasing

The Group operates its leasing business through the 60.0%-owned subsidiary SBML and the wholly-owned subsidiary SBRC.

SBML is a joint venture leasing company 60.0% owned by the Bank and 40.0% owned by Marubeni Corporation of Japan. SBML specializes in heavy equipment financing, servicing the leasing and financing requirements to Maxima Machineries Inc.'s customers involved in the construction and mining industries.

SBRC is principally engaged in the business of renting, leasing (excluding financial leases) and hiring a wide range of machinery and equipment, automotive equipment, automobiles, motor vehicles and land, air or water transportation systems.

For the years ended 31 December 2021, 2022, and 2023, SBML generated a net income of P10.0 million, P19.7 million and P29.5 million, respectively. SBRC generated net income of P93.6 million for the year ended 31 December 2023.

Business Banking

The Business Banking segment serves MSMEs with holistic propositions covering deposits, loans, cash management, insurance, and investments. The Business Banking segment constitutes 9.8% the Bank's revenue, net of interest expense, for the year ended 31 December 2023.

Financial Markets

This segment focuses on providing money market, foreign exchange, financial derivatives, debt and equity securities brokerage, asset management, trust and fiduciary services, as well as the management of the funding operations for the Group. The Group's equity brokerage operations is also part of this segment.

The Financial Markets segment represents 3.8% of the Bank's revenue, net of interest expense, for the year ended 31 December 2023.

Treasury

The Treasury Group is responsible for managing the Bank's sources of funding and ensuring that the Bank has adequate liquidity at all times. As part of this function, Treasury manages the Bank's domestic and foreign currency denominated investment instruments. Treasury actively engages in securities dealership, foreign exchange trading, and derivatives transactions for its own account, as well as for the accounts of individual and institutional investors. The customers of the Bank's Treasury Group include domestic and offshore banks, insurance companies, financial institutions, corporations, small and medium enterprises, high net worth individuals, and retail companies.

Treasury manages the securities trading and investment portfolios of the Bank. As a Government Securities Eligible Dealer, the Bank has been an active participant in the primary and secondary trading of Government Securities. The Treasury Group also manages the Bank's foreign currency exposure, engaging in proprietary trading of currencies and offering foreign exchange and risk hedging derivative instruments to the Bank's customers such as forward contracts, interest rate swaps, currency swaps, and foreign currency options.

The following table sets out, as of the dates indicated, information relating to the Bank's total investment portfolio:

	As of 31 December		
	2021	2022	2023
		(audited)	
		(P millions)	
Investment Portfolio			
Debt Securities			
Government securities	81,761.6	125,221.2	165,781.2
Other debt securities	26,097.3	61,388.0	59,678.7
Total debt securities	107,858.8	186,609.2	225,459.9
Non-debt securities	329.1	414.5	521.3
Derivative financial assets	1,240.3	2,664.4	922.4
Total ⁽¹⁾	109,428.3	189,688.0	226,903.6

Note:

(1) Net of allowance

The Bank's investment portfolio is mainly domestic, with relatively minimal overseas exposure, and comprised 26.0% of total assets as of 31 December 2023. In particular, the Bank does not have any direct exposure to European sovereign instruments.

Fixed Income Securities Distribution

The Fixed Income Securities Division ("FISD") is the Bank's main distribution arm for financial instruments in the primary and secondary markets. The division caters to the fixed income needs of Corporate, Institutional, and Retail Investors who require direct access to the bond market without paying steep management fees.

Foreign Exchange & Rates Hedging

The Foreign Exchange & Rates Hedging (“**FXRH**”) Division of the Bank focuses on providing institutional, corporate, and retail clients with a solutions-driven approach to hedging their FX and Interest Rate Risk. These range from traditional FX spot transactions to derivative-based solutions that best fit the requirements of clients.

Investment Solutions Group

The Investment Solutions Group (“**ISG**”) services the investment requirements of the Bank’s Wealth Management clients. ISG provides data-driven research, offering clients personalized financial solutions to help them achieve their financial goals.

SBC Trust and Asset Management Group

The Bank’s Trust and Asset Management Group (“**TAMG**”) has managed assets of institutional and individual investors since the Bank’s incorporation in 1951.

SBC Trust offers a wide range of trust products and services that address the needs of each of the market segments it serves, including fund and investment management of unit investment trust funds, employee benefit trusts or retirement funds, personal, corporate, and pre-need funds as well as management and administration of other fiduciary services such as escrows, facility and collateral agency services or mortgage trust indentures for corporate and individual clients. Revenue from the Trust & Fiduciary business is generated through trust fees. In 2023, TAMG clinched the title of “Philippines’ Best Customer Service 2023” in the Banking-Asset Management category, awarded by Philippine Daily Inquirer and Statista. This prestigious recognition stemmed from a comprehensive survey conducted by Statista in partnership with the Philippine Daily Inquirer, engaging over 11,000 Filipinos. On the same year, TAMG also secured the title of Top Investment House (Rank 2) from The Asset Benchmark Research.

SBC Trust’s assets under management (“**AUM**”) totalled P83.8 billion, P95.1 billion and P108.6 billion, respectively, as of 31 December 2021, 2022 and 2023. These were primarily invested in a combination of fixed income investments comprising of government securities, corporate bonds and notes, bank deposits and equities mainly comprising of common and preferred shares listed on the PSE. Gross revenues from trust operations were P280.2 million, P285.9 million and P291.0 million for the years ended 31 December 2021, 2022 and 2023, respectively.

SB Equities, Inc.

The Bank’s stock brokerage activities are undertaken through SB Equities, Inc., a wholly-owned subsidiary of SB Capital. SB Equities, Inc. participates in stock market trading and investment advisory and research services to business units within the Bank and institutional funds for its customers.

Other segments

This segment includes the Bank’s non-reportable segments such as support services and eliminations in accordance with the Bank’s group internal reporting.

Alternative Delivery Channels

In addition to the Bank’s branches located across the Philippines, the Bank also offers its customers access to banking services through internet banking, phone banking, and mobile phone banking.

Internet banking

The Bank offers internet banking to both individual and corporate clients. Using industry-standard security measures, the Bank’s internet banking allows clients to perform their banking transactions at their own convenience by allowing access to their accounts.

Retail customers can view their account balance, credit card statements, and other accounts such as trust investments. They can also pay bills, transfer funds to their own or other enrolled accounts, reload bank cards,

buy load for their prepaid mobile phone account, order checkbooks, execute wire transfers and issue stop payment orders.

Corporate customers can maximize the use of their funds through the Bank's Corporate Internet Banking Platform (Digibanker). Apart from account information, up to date and relevant collection information is available, as well as disbursement facilities which allows clients to make bulk or individual payments digitally or through traditional means.

Phone Banking

The Bank's customer contact center was established in 2003 to service the credit card business of the Bank. It was expanded in 2010 to provide customer service assistance to the Bank's retail customers, specialising in deposits, consumer loans, credit cards, remittance and other retail products. The customer contact center also supports the Bank's acquiring business and its electronic banking services.

The customer contact center operates 24 hours a day, seven days a week, with personnel who are equipped with a customer relationship management system which allows them to deliver personalised customer service. It also enables customer service officers to build customer contact data, which helps the Bank to manage and respond to customers' needs more effectively and efficiently.

The Bank also utilises interactive voice response service technology via the telephone to provide retail customers access to their accounts and make banking transactions such as balance inquiries via a touchtone phone.

Mobile Phone Banking

Retail customers can manage their money while on-the-go using mobile banking which allows them to access their accounts for balance inquiry, funds transfer, prepaid mobile phone reload, bills payments services, and locating nearby branches and ATMs. It also includes card management features where the card can be locked and unlocked, when necessary, especially during emergencies. The mobile application is available to download for iOS and Android users. It comes with a QuickLogin feature where users can log in using FaceID or biometric validation.

Subsidiaries and Affiliates

SB Finance, Inc. ("SBF"), formerly a private development bank incorporated in 1960 as Premiere Development Bank, renamed Security Bank Savings ("SBS") after the Bank's acquisition of its shares in February 2012 and subsequently converted into a financing company after securing regulatory approvals from the BSP and SEC in 2017. On 21 September 2022, SEC approved the Amended Articles of Incorporation and By-Laws of the company amending the corporate name from SB Finance Company, Inc. to SB Finance, Inc.

On 8 August 2019, the BOD of the Bank approved the terms and conditions of the JVA and other transaction documents necessary to establish a consumer finance joint venture with Bank of Ayudhya Public Company Ltd (BAY), commonly known as Krungsri ("**Krungsri**"), including the sale of 50% of the outstanding shares of SBF to Krungsri.

On 20 October 2020, after obtaining regulatory approvals in the Philippines and in Thailand, the JVA between the Bank and Krungsri was executed, with the Bank completing the sale of 50% outstanding shares of SBF shares to Krungsri. Accordingly, SBF ceased to be a subsidiary of the Bank. The financial statements of SBF were deconsolidated from the consolidated financial statements of the Group. Under the JVA, the parties agreed to use SBF as a joint venture entity and requires the unanimous consent of both the Bank and Krungsri for any significant decisions made in the ordinary course of business of SBF.

SB Capital Investment Corporation ("SB Capital") is the Bank's wholly-owned investment banking arm. It provides a wide range of investment banking and financial services aimed at satisfying the diverse financial needs of institutions and individuals. Since the onset of its commercial operations in 1996, SB Capital has participated in a myriad of significant capital raising and advisory services involving conglomerates, top-tier and middle-market clients as well as the public sector.

Despite the unfavorable market environment in 2023 caused primarily by global economic headwinds (e.g. elevated interest rate environment, geo-political uncertainties, etc.), SB Capital was able to remain resilient in its

business operations and managed to deliver a decent financial performance as the company completed notable investment banking transactions for the year.

In 2023, despite the slowdown in public debt and equity capital market transactions, SB Capital acted in joint lead capacities in big-ticket fixed rate bond offerings of top-tier corporations including SM Prime Holdings, Inc. (P33.3 billion in May 2023); Ayala Land, Inc. (P15.0 billion in June 2023); Robinsons Land Corporation (P15.0 billion in June 2023); Aboitiz Equity Ventures (P17.5 billion in September 2023); Filinvest Land, Inc. (P11.4 billion in December 2023); and Vista Land & Lifescapes, Inc. (P6.0 billion in December 2023). SB Capital was also joint issue manager, joint lead underwriter and joint bookrunner for Citicore Energy REIT Corp.'s maiden P4.5 billion ASEAN fixed rate Green Bonds issued in February 2023.

Proceeds from the foregoing debt capital market issuances were utilized to fund expansions, refinance debt obligations, and for general corporate purposes.

SB Capital likewise acted as one of the joint issue managers for the Bureau of the Treasury's P283.7 billion retail treasury bonds issuance tranche 29 in February 2023 and USD1.3 billion retail dollar bonds tranche 2 in November 2023.

SB Capital was also present in notable perpetual preferred shares offerings of its clients during the year amid the muted equities capital market environment acting as joint lead underwriter and joint bookrunner for the following transactions: Ayala Corporation (P13.1 billion in May 2023); Petron Corporation (P14.0 billion in July 2023); ACEN Corporation (P25.0 billion in September 2023); and San Miguel Corporation (P34.0 billion in December 2023). The ACEN Perpetual Preferred Shares issue was the first ever fixed for life perpetual preferred share instrument in the Philippines and was recognized by The Asset Triple A Awards and Finance Asia Achievement Awards as 2023's Best Equity Deal.

Moreover, SB Capital arranged or co-arranged a series of privately placed corporate notes and syndicated loan facilities during the year to include: Unistar Finance & Credit Corp.'s P3.0 billion corporate notes facility in February 2023 (as mandated lead arranger); Vista Land & Lifescapes, Inc.'s P10.0 billion corporate notes facility in April 2023 (as mandated lead arranger); SMC Mass Rail Transit, Inc.'s P100.0 billion syndicated project finance term loan facility in June 2023 (as joint lead arranger); Calabanga Renewable Energy Inc.'s P2.4 billion senior secured project finance term loan facility in June 2023 (as sole arranger); Advantage Concrete Industries Corp.'s P37.2 billion senior term loan facility in December 2023 (as arranger); 8990 Housing Development Corporation P6.5 billion corporate notes in December 2023 (as co-lead arranger); and Primeworld Land Holdings, Inc.'s P800 million term loan facility in December 2023 (as co-arranger). Notably, the SMC Mass Rail Transit, Inc. Project Finance Facility is the country's largest onshore Peso project finance facility to date.

Other notable private debt transactions lead arranged by SB Capital during the year featured that of ISON Tower Assets Company Phils.' up to P4.8 billion project finance term loan facility which SB Capital co-arranged with the Asian Development Bank. The proceeds from said financing exercise will be utilized by the company to support the construction, development, and operation of 800 shared telecommunication towers to help expand digital connectivity for underserved communities across the Philippines. SB Capital also lead-arranged and spearheaded the maiden debt corporate note issuances of the Asialink Group of Companies, to wit: Asialink Finance Corp.'s P2.0 billion corporate notes facility in August 2023; Global Dominion Financing, Inc.'s up to P1.0 billion corporate notes facility in November 2023; and South Asialink Finance Corp.'s P500.0 million corporate notes facility in December 2023. Proceeds from said note issuances will be used by the said financing companies mainly to support and further grow their respective loan portfolios which cater to serve the needs of medium and small market enterprises and other unbanked and underserved customers in line with their commitment to provide financial inclusion to those who have limited access to formal financing channels.

SB Capital also rendered advisory services involving joint venture partnerships, sale of assets/business as well as IPO preparations of some of its clients. One of the most notable advisory transactions of SB Capital during the year was serving as financial adviser to local real estate player, OviaLand, Inc. in connection with its joint venture partnership with one of Japan's leading real-estate condominium developers, Takara Leben, to expand its development portfolio and offer more premium affordable homes to its target market. The partnership was formally sealed with the signing of the joint venture agreement between the parties in early 2024.

SB Capital also acted as financial advisor to Sumitomo Osaka Cement's equity block sale to Holderfin BV, which is the parent company of Holcim Philippines. Subsequent to this, SB Capital acted as Holderfin BV's financial adviser with regard to the company's mandatory tender offer exercise of Holcim Philippines' common shares and

the voluntary delisting of the latter from the Philippine Stock Exchange, Inc. Lastly, towards the end of 2023, SB Capital acted as consent solicitation adviser for Phinma Corporation to align its debt-to-equity ratio definition with peers, for its existing ₱3.0 billion fixed rate bonds, successfully obtaining majority bondholders' consent given a tight timeline.

SB Rental Corporation (“**SBRC**”) is a wholly owned subsidiary of SB Capital. The company is the operating lease arm of Security Bank group of companies with the primary purpose is to engage in the business of renting, leasing (excluding financial leases) of various machineries and equipment, automotive equipment, automotive vehicles such as cars, vans, pick-ups, trucks, tractors, trailers, buses and a variety of land, air or water transportation equipment.

SB Equities, Inc., a subsidiary of SB Capital, was incorporated on 1 August 1987, ranks 14th overall among domestic brokerages in the country in terms of volume turnover according to the Philippine Stock Exchange (“PSE”) as of 31 December 2023.

SB Cards Corporation (“**SB Cards**”) was incorporated on 9 October 1980 as Security Diners International Corporation and formerly also known as Security International Card Corporation. SB Cards acquired the exclusive franchise ownership of Diners Club international credit card in the Philippines. In September 2016, SB Cards sold the Diners Card portfolio to Banco de Oro.

SBM Leasing, Inc. (“**SBML**”), (formerly Security Finance, Inc.) was incorporated on 1 August 1994 is a joint venture leasing and finance company of the Bank (60.0%) and Marubeni Corporation of Japan (40.0%). SBML specializes in heavy equipment (i.e., construction and mining), finance and services the clientele of Maxima Machineries, Inc. (a Marubeni subsidiary and exclusive distributor of Komatsu Trucks and Heavy Equipment in the Philippines) and of Security Bank.

SB Forex, Incorporated (“**SB Forex**”) was incorporated on 27 September 1994 to handle the foreign exchange brokerage business of the Bank but has been inactive due to changes in the regulatory environment. The Bank has absorbed the foreign exchange business previously coursed through SB Forex. The operations for this subsidiary were suspended in 2008. The corporate term of SB Forex ended on 28 February 2022.

Security Finance and Leasing Inc. (formerly Landlink Property Investments (SPV-AMC), Inc.), was incorporated in the Philippines primarily to engage third parties to manage, operate, collect and dispose of nonperforming assets acquired from a financial institution. The Company started its commercial operations in February 2020.

Insurance

It is the Bank's policy to adequately insure all of its properties against different types of risks. The Bank maintains insurance for operational risks, for cyber liability, and for officers and directors.

The Bank also has a policy of requiring appropriate insurance coverage based on the market value of collateral provided by its customers.

The Bank's insurance policies are subject to exclusions which are customary for insurance of the type held by the Bank, including those exclusions which relate to war and terrorism-related events.

The Group believes that its insurance policies as described above are appropriate and sufficient for its business.

Capital Expenditures

As part of the Bank's strategy, capital expenditures in the past few years were mainly attributed to investments in information technology and branch expansion. The efficient use of technology is expected to boost productivity, reduce transaction processing costs, improve management information preparation and delivery, result in alternative customer channels, efficient business communications, and more timely risk management. It would also assist in reducing operations at the branch level, thereby allowing branch personnel to focus more on customer service. Investment in the branch network is consistent with the strategy to grow the retail business.

The following table provides the Bank's capital expenditures for the three years ended 31 December 2021, 2022 and 2023:

	For the year ended 31 December		
	2021	2022	2023
Capital Expenditure	P2,131	(P millions) P2,383	P4,398

Properties

The Bank's head office is located at Security Bank Centre, 6776 Ayala Avenue, Makati City, Philippines. The Bank has ownership of approximately 81.22% of the 6776 Ayala Avenue property which is not limited by any mortgage or lien.

The Bank has a network of 325 branches of which 44 are bank owned premise while the remaining are leased. Most of the lease contracts include renewal options which give the Bank the right to extend the lease for varying periods at terms agreed upon with the lessors.

The following table provides a geographic breakdown of the Bank's Philippine branches:

<u>Location</u>	Number of Branches as of 31 December	
	2022	2023
Metro Manila.....	183	183
Luzon.....	73	77
Visayas.....	30	32
Mindanao.....	30	33
Total.....	316	325

Intellectual Property

The Bank has applied for, and received, intellectual property protection for a number of trademarks and tradenames, including the logo of the Bank and "Security Bank". The Bank has not been the subject of any disputes relating to its intellectual property rights.

Awards and Recognition

The Bank has received numerous awards and industry recognitions for its products and services as well as its market leading position among universal banks in the Philippines.

In 2023, the Bank was awarded with the following, among others:

- Asiamoney
 - Best Corporate Bank in the Philippines
 - Best for High Net Worth in the Philippines
- Alpha Southeast Asia
 - Best Retail Bank in the Philippines
 - Best Payment Solution in the Philippines – BIPPS (Billing Invoice Presentment and Payment System)
- Institute of Corporate Directors
 - 4 Golden Arrow Recognition
- Corporate Governance Asia
 - Best Investor Relations Company (Philippines)
 - Asia's Best CSR Company
- FinanceAsia
 - Best Small Cap Company, Philippines 2023 – Silver
- ESGBusiness Awards
 - Workplace Wellness Programme Award – Philippines
- Forbes' World's Best Employers in 2023

- Ranked #1 among Philippine banks
- Ranked #2 among Philippine companies
- Ranked #54 in the world

In 2022, the Bank was awarded with the following, among others:

- Alpha Southeast Asia
 - Best Retail Bank in the Philippines
- Corporate Governance Asia
 - Best Investor Relations Company (Philippines)
 - Asia's Best CSR Company
- Euromoney
 - Market Leader in Corporate Social Responsibility
 - Market Leader in Diversity & Inclusion
- Asiamoney
 - Best for Mass Affluence/HNW in the Philippines
 - Best Bank for Diversity and Inclusion in the Philippines
- The Asian Banker
 - Best Credit Card Product in the Philippines (Security Bank's Complete Cashback Platinum Mastercard)

In 2021, Security Bank garnered the following awards, among others:

- Alpha Southeast Asia
 - Best Retail Bank in the Philippines
- Euromoney
 - Philippines' Best Bank
- Asiamoney
 - Best Bank for HNW (High Net Worth) Clients in the Philippines
- Corporate Governance Asia
 - Best Investor Relationship Company (Philippines)
 - Asia's Best CSR
- BankQuality – Corporate Survey on Transaction Banks
 - Most Recommended Transaction Bank in the Philippines
 - Most Helpful Transaction Bank during COVID-19
- Institute of Corporate Directors – Two Golden Arrow Citation
- Retail Banking International – Trailblazer in Product Innovation
 - Best Loan Offering – Doctor's Loans
- LinkedIn Talent Awards
 - Best Culture of Learning
 - Diversity Champion

Competition

The Philippine banking industry is characterized by a highly competitive price and service offerings and high level of regulation. All banks have similar products and compete via differentiation in servicing and targeting specific niches. In 2023, the industry experienced intensified competition alongside increased customer service standards.

There are total of 22 universal banks in the Philippine banking system, of which 13 are domestic private universal banks, three are government banks and six are branches/subsidiaries of foreign banks, as of March 2024. In addition, there are 23 commercial banks in the country. Six domestic universal banks have branches and/or remittance offices abroad while Security Bank and the rest of the players in the industry compete mainly in the

domestic market, serving their respective mix of corporate, middle market, small/micro size enterprise and retail clients.

There are three big banks which dominate the industry with resources of at least P2.9 trillion and capital funds of at least P355.0 billion. The other eight banks are clustered in the category where asset size is between P124.0 billion to P1.2 trillion, and capital funds are between P16.0 billion to P159.0 billion.

Employees and Labour Relations

In support of the Group’s strategic growth initiatives, the Bank’s complement increased from 7,338 in 2022 to 8,190 in 2023.

The following table presents the number of employees by category as of 31 December 2023:

	As of 31 December 2023
Rank and File	2,669
Officers.....	5,521
Total	<u>8,190</u>

As of 31 December 2023, 16.0% of the Bank’s employees were rank and file employees who are subject to Collective Bargaining Agreements (“CBA”). The current CBA will expire on 31 August 2024.

The Bank believes in supporting the growth of the whole person, recognizing that people’s lives have different aspects that should be given appropriate time and attention.

HCM has been a major mover for championing Security Bankers’ well-being and development. In 2023, HCM launched the Bank’s Employee Value Proposition (“EVP”) – “YOU matter”. This core people mandate is anchored around the following pillars: Care (health and wellness, assistance programs, occupational health and safety, mental health service); Enablement (digital learning through LinkedIn Learning, personalized learning pathways through mandatory and competency-based modules); Flexibility (hybrid work arrangements, eased dress code); Listening (employee feedback, learning caravans, town halls); Purpose (Corporate Social Responsibility and sustainability programs); and Rewards and Recognition (annual performance bonus and merit increase, annual promotion cycle, role-based salary structure, and career development progression). These initiatives led to Security Bank’s recognition on Forbes’ World’s Best Employers list and the Philippines’ Best Employers list.

Legal Proceedings

The Bank is a party in legal proceedings which arose from normal business activities. However, management believes that these cases are without merit or that the ultimate liability, if any, resulting therefrom, has no material effect to the Bank’s financial position.

RISK MANAGEMENT

The Bank's risk management organization and culture is a fundamental component of its corporate governance.

Policy Statement

The BOD and Management of the Bank and its subsidiaries commit to the principles and best practices that promote good corporate governance such as the "Principles for Enhancing Corporate Governance" issued by the Basel Committee on Banking Supervision as embodied in the regulations of the regulatory authorities of the Philippines such as the BSP and the SEC.

Security Bank's BOD and Management believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness and ensure compliance with corporate governance policies and practices within the organization.

Under the Bank's Governance System, the BOD has ultimate responsibility for the Bank's business and risk strategy, organization, financial soundness and governance.

The Board reviews and approves the strategic plans and the operational plans of the Bank, taking into account the Bank's long-term financial interests, its exposure to risks and its ability to manage risks effectively. Accordingly, the Board monitors the overall business strategy execution of the Bank.

Risk Management Organization

The Group is faced with multiple risks inherent to the business it has chosen, largely in the form of market, liquidity, credit, operational and sustainability risks. To protect the customers and stakeholders, as well as the opportunities for growth and value creation, the Group's risk management is structured to continuously and effectively address these risks by category where risk is managed primarily via structures of policies, processes and measurement tools established and provided by the RMG for the Bank. The same structures are adapted by the subsidiaries and tailor-fitted to suit their specific activities.

In 2021, the Bank's Board approved an Environmental and Social Risk Management Framework which sets out policy and process in identifying, assessing, and managing environmental and social risks.

The Group's risk management, internal control process and infrastructure are designed to keep pace with developments of the Group, including balance sheet and revenue growth, increasing complexity of the business, risk configuration or operating structure, geographical expansion, mergers and acquisitions, or the introduction of new products or business lines, as well as with the external risk landscape, business environment and industry practice. In this respect, the Group's risk data aggregation and risk reporting are conducted with accuracy, integrity, completeness, timeliness and adaptability. Actual risk management processes are outlined by risk category.

The RMG's activities primarily consist of assisting the BOD, through the Risk Oversight Committee (ROC), in fulfilling its risk management responsibilities mainly through the following fundamental tasks:

- 1 Development and review of risk appetite/limits and policies;
- 2 Assessment, measurement, monitoring and reporting of the Group's risk-taking and risk management activities, including risk limit utilization and performance;
- 3 Providing subject matter expertise in business, product and project developments, and other strategic decision-making activities;
- 4 Elevation of issues and findings to Senior Management and the ROC.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to perform or complete in a timely manner its obligations during the life of a transaction. This includes risk of non-payment by borrowers or issuers, failed settlement of transactions, and default on contracts. Credit risk arises from both the lending and

investment activities of the Group. As one of the primary risks inherent to the banking business, the Group manages credit risk through a systemized approach which includes:

- **Policy Development and Implementation** - The Credit Risk Management Unit maintains and develops credit policies and procedures to guide business and support units involved in the credit process to make appropriate actions and decisions pertaining to credit transactions. Policy formulation also supports the Bank's "Single Credit Engine" concept which provides for a uniform understanding and consistent application of credit policies and procedures across the entire institution.
- **Risk Assessment and Measurement** - Credit risk officers identify and evaluate existing and potential exposures, assess the probability of each risk materializing and estimate possible effect and cost of risk factors. The team uses different credit risk measurement and valuation methods such as Probability of Default (PD), ECL, Credit Classification, credit concentrations, residual risks on collateral, and credit stress testing.
- **Risk Control and Mitigation** - Credit facilities are granted primarily based on the borrower's credit quality and repayment capacity. Where possible, the Bank takes credit risk mitigants as a secondary recourse to the borrower to mitigate credit risk. On the Wholesale Credit side, the Bank accepts collateral such as cash, real estate, marketable securities, trade receivables, and standby letters of credit. In addition, the Bank limits vulnerabilities and manages risks to an acceptable level through the following: (i) lending limits that encompass industry, single name, group and large exposures; (ii) proactive impairment process involving the Lending Units as well as the Remedial Management Division; and (iii) timely ECL provisioning. On the Retail Credit side, acceptable collateral includes cash, automobile, equipment, and real estate. In addition, the Bank limits vulnerabilities and manages risks to an acceptable level through the following: (i) Minimum Risk Acceptance Criteria; (ii) regular Portfolio Quality Reviews with Business, Credit, Collections and Risk Units; and (iii) timely ECL provisioning.
- **Risk Monitoring and Reporting** - Continuous monitoring and periodic reporting of credit risk positions are integral parts of the Bank's credit risk management activities. Regular reporting to the ROC and Senior Management covers credit risk exposures, concentration risks, credit mitigation and residual risks across the Group.
- **Independent Risk Assessment ("IRA")** - The IRA is the pre-approval evaluation of individual credits by the IRA Department. In scope credit proposals are subject to IRAs which evaluate the soundness of credits by documenting identified risk issues, assessing alignment of account plans with industry risk-reward portfolio actions, and providing recommendations on risk mitigations and credit structures to ensure portfolio quality.
- **Business Risk Review ("BRR")** - The BRR is an independent audit exercise conducted by the Wholesale Credit Risk & Portfolio Monitoring Department to assess both portfolio quality as well as credit process quality. The BRR's emphasis is on identifying weaknesses, trends, and other risk issues to allow for proactive mitigation as needed via collateral, covenants and alternative repayment sources, as well as adjustments to policies, procedures or awareness activities where applicable.
- **Remedial Management** - The remediation function on Wholesale Banking Segment borrowing accounts encountering payment difficulties is likewise within the responsibility of the RMG through the Remedial Management Division ("**RMD**"). The RMD is tasked to devise and implement remedial strategies to correct the problem and/or maximize recovery/minimize loss within the shortest possible time of the accounts endorsed to it for handling.

Market Risk

Market risk is the risk that movements in market factors will have an adverse impact on the Bank's portfolio values, income and/or capital. Market factors include foreign exchange rates, interest rates, equity prices and their volatilities. The risk applies to both the Group's trading and banking book positions, largely in two forms:

- 1) **Price Risk**: the risk that the Bank's capital and gains will decline due to the impact of changes in the level or volatility of market factors to positions taken or held in the trading books.
- 2) **Interest Rate Risk in the Banking Book ("IRRBB")**: the risk that the Bank's capital and earnings will deteriorate due to effects of interest rate movements on the Bank's balance sheet, mainly on the accrual books.

Given the sensitivity to, and the pace of change of, market factors, the Bank manages market risk through a variety of structures involving the following:

- 1 Use of Value at Risk (“**VaR**”) methodologies, Earnings at Risk (“**EaR**”) techniques, Economic Value of Equity (“**EVE**”) measures, loss triggers and stress testing;
- 2 Adoption of limits aside from those related to VaR, EaR, EVE and Profit and Loss (“**P&L**”), such as exposure and position limits, and performance of stress- testing to augment the primary measures.;
- 3 Periodic reporting of limit status, re-pricing gaps (for IRRBB) and P&L to the ROC, Senior Management and other concerned parties;
- 4 Development and review of risk models that are used for monitoring market risk, as well as validating the models developed internally or by third-party vendors.

Risk appetite is defined in terms of limits assigned by the ROC to cover all market risk-taking activities of the Bank and its subsidiaries. The Market Risk Management Team establishes these limits annually based on the targets set in the planning process. The Bank likewise manages concentration and market liquidity risks by setting exposure/position limits to specific investment types and products as needed.

The Chief Risk Officer, Market Risk Officer, Risk Analysts and Model Development Officers ensure the continuous enhancement of market risk management across the Bank, monitoring and reporting regularly to Senior Management, the Assets and Liabilities Committee (“**ALCO**”) and the ROC.

Integral to the effectiveness of the Bank’s market risk management infrastructure is the dynamic relationship between the independent risk management unit and the business unit it supports and looks after. Risk Management goes beyond the traditional control function and seeks to add greater value to the institution by being an independent risk partner with its own voice and assessments of proposals and exposures. By being in step with the developments in the business side, Risk Management not only readily identifies potential risk areas, but also helps the business manage risks from the onset.

Liquidity Risk

Liquidity risk is the risk that the Bank will not be able to meet its obligations when they become due. It may be classified into two sub-types:

- *Funding Liquidity Risk* - The risk that a firm cannot obtain the necessary funds to meet its obligations as they fall due. It occurs from the mismatch of asset, liability, exchange contract and contingent commitment maturities.
- *Trading Liquidity Risk* - The risk that an entity will be unable to unwind a position in a particular instrument at or near its market value because of lack of depth or disruption in the market for that instrument.

Liquidity risk is mainly monitored through tools such as liquidity gap reports including the Maximum Cumulative Outflow (“**MCO**”) status, Basel liquidity ratios and assessment of deposit concentration. This is further augmented by periodic liquidity stress testing. Regular reports and dashboards are then provided to Senior Management, the ALCO and the ROC. Moreover, the Bank has established Contingency Funding Plans to deal with potential liquidity crisis situations.

RMG assists the ALCO by providing the relevant information with respect to the management of all risks related to the Group’s assets and liabilities, and the trading and accrual books. The impact of the Group’s activities on capital is also monitored by the ALCO with the RMG providing the necessary data to the Committee for assessment. Results of their analysis are reported on a periodic basis to the ROC. Through the ALCO, RMG provides an independent assessment of the depth and magnitude of funding liquidity risk that the Bank takes and suggests ways that can be explored to enhance the Bank’s liquidity risk profile or keep exposure within risk appetite. RMG also provides its views on proposals or strategies concerning balance sheet structure, funding mix or concentration, and bond or note issuance.

To address market liquidity concerns, the Group also established bond issue concentration limits effective across the trading and investment entities of the Group. The limit puts a cap on the relative share of the Group vis-à-vis the total bond issue size. The aim is to minimize concentration risk.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Bank defines Interest Rate Risk in the Banking Book as the risk of deterioration in the net interest income or capital of the bank arising from the timing and rate mismatch of its assets and liabilities combined with unfavorable movements in interest rates.

SBC follows a prudent policy on managing its assets and liabilities to ensure that exposure to fluctuations in interest rates is kept within acceptable limits. Management of IRRBB entails identifications of risks in the banking book, modelling of balance sheet account behavior, measurement of interest rate gap, estimation of Earnings-at-Risk, interest rate stress-testing, reporting to ALCO, Risk Oversight Committee and the BOD, model validation and maintenance, and regular audit.

Interest rate risk exposures are reported via the monthly repricing gap schedule. The repricing gap report highlights mismatches in the repricing tenors of assets and liabilities. Repricing gaps are calculated by distributing the statements of financial position accounts into time buckets based on the next repricing dates of individual items. For non-maturing deposits, distinction is made between the stable (i.e., core) and non-stable portions, where the former is spread in time buckets aligned with Basel's IRRBB Document while the latter is bucketed in short-term tenors. For time deposits and loans, model assumptions were developed based on historical experience of the Bank to capture early redemption risk and prepayment risk. These are adjusted using scaling factors under different interest rate shocks and stress scenarios when measuring the impact of IRRBB in economic value. After slotting the balance sheet items into time buckets, the resulting difference between the amount of the assets and the amount of the liabilities that will reprice within a particular time bucket constitutes a repricing gap.

The Bank employs gap analysis to measure the sensitivity of its assets and liabilities to fluctuations in market interest rates for any given period. A positive gap occurs when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities and is favorable to the Group during a period of rising interest rates since it is in a better position to invest in higher yielding assets more quickly than it would need to refinance its interest-bearing liabilities. Conversely, during a period of falling interest rates, a positively gapped position could result in restrained growth or even a declining net interest income.

The Delta EVE is a cash flow calculation that takes the present value of all asset cash flows and subtracts the present value of all liability cash flows. This measure is defined as a bank's value sensitivity to changes in market rates. Delta EVE will complement earnings-at-risk (EaR) and value-at-risk (VaR) as the Group's measure of interest rate risk. As of 31 December 2023, the Parent Company's Delta EVE is at 8.9%, arising from parallel up interest rate shock scenario.

In 2022, to manage repricing gaps in relation to the re-establishment of the HTC government securities business model, the Parent Company has applied a notional limit to its HTC government securities as a percentage of its total interest earning assets.

The following tables set forth the asset-liability gap position of the Bank as of 31 December 2021, 2022, and 2023 (amounts in millions):

	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	Total
31 December 2021						
Rate-sensitive Financial Assets						
Financial assets at FVTPL:						
HFT investments:						
Government securities	P5,656	P-	P-	P-	P-	P5,656
Private bonds	26	-	-	-	-	26
Total HFT investments	5,682	-	-	-	-	5,682
Derivative assets	228	69	526	83	334	1,240
Total financial assets at FVTPL	5,910	69	526	83	334	6,922
Financial assets at amortized cost:						
Due from BSP and other banks and Interbank loans receivable and SPURA with the BSP	109,942	-	-	-	-	109,942
Investment securities at amortized cost - gross of allowance	-	400	1,657	-	19,847	21,904
Receivable from customers and other receivables - gross of allowance	68,252	58,642	39,691	25,678	274,512	466,775
Total financial assets at amortized cost	178,194	59,042	41,348	25,678	294,359	598,621

	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	Total
Financial assets at FVTOCI	1,199	–	307	199	78,964	80,669
Total rate-sensitive assets	185,303	59,111	42,181	25,960	373,657	686,212
Rate-sensitive Financial Liabilities						
Deposit liabilities	245,309	15,897	91,475	–	170,908	523,589
Bills payable and SSURA	–	–	–	–	3,464	3,464
Notes and bonds payable	–	–	–	13,468	15,253	28,721
Total rate-sensitive liabilities	245,309	15,897	91,475	13,468	189,625	555,774
Asset-Liability Gap	(P60,006)	P43,214	(P49,294)	P12,492	P184,032	P130,438

	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	Total
31 December 2022						
Rate-sensitive Financial Assets						
Financial assets at FVTPL:						
HFT investments:						
Government securities	P4,804	P–	P–	P–	P–	P4,804
Private bonds	98	–	–	–	–	98
Total HFT investments	4,902	–	–	–	–	4,902
Derivative assets	622	536	303	455	748	2,664
Total financial assets at FVTPL	5,524	536	303	455	748	7,566
Financial assets at amortized cost:						
Due from BSP and other banks and Interbank loans receivable and SPURA with the BSP						
	106,626	–	2,000	–	1,998	110,624
Investment securities at amortized cost - gross of allowance	328	1,030	737	3,519	63,616	69,230
Receivable from customers and other receivables - gross of allowance	108,095	27,193	37,947	74,622	271,239	519,096
Total financial assets at amortized cost	215,049	28,223	40,684	78,141	336,853	698,950
Financial assets at FVTOCI	2,302	518	222	231	109,204	112,477
Total rate-sensitive assets	222,875	29,277	41,209	78,827	446,805	818,993
Rate-sensitive Financial Liabilities						
Deposit liabilities	439,036	46,946	43,642	52,574	23,640	605,838
Bills payable and SSURA	18,701	10,854	6,181	33	5,151	40,920
Notes and bonds payable	–	–	–	16,705	30,407	47,112
Total rate-sensitive liabilities	457,737	57,800	49,823	69,312	59,198	693,870
Asset-Liability Gap	(P234,862)	(P28,523)	(P8,614)	P9,515	P387,607	P125,123

	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	Total
31 December 2023						
Rate-sensitive Financial Assets						
Financial assets at FVTPL:						
HFT investments:						
Government securities	P9,682	P–	P–	P–	P–	P9,682
Private bonds	282	–	–	–	–	282
Total HFT investments	9,964	–	–	–	–	9,964
Derivative assets	147	98	370	297	10	922
Total financial assets at FVTPL	10,111	98	370	297	10	10,886
Financial assets at amortized cost:						
Due from BSP and other banks and Interbank loans receivable and SPURA with the BSP						
	57,925	–	2,000	500	1,500	61,925
Investment securities at amortized cost - gross of allowance	–	140	7,548	7,114	61,405	76,207
Receivable from customers and other receivables - gross of allowance	114,832	39,096	67,019	31,118	301,782	553,847
Total financial assets at amortized cost	172,757	39,236	76,567	38,732	364,687	691,979
Financial assets at FVTOCI	2,286	3,579	1,470	291	131,714	139,340
Total rate-sensitive assets	185,154	42,913	78,407	39,320	496,411	842,205
Rate-sensitive Financial Liabilities						
Deposit liabilities	428,011	68,749	21,906	30,213	57,652	606,531
Bills payable and SSURA	12,151	6,043	27,521	3,266	2,358	51,339
Notes and bonds payable	15,995	–	14,572	–	18,397	48,964
Total rate-sensitive liabilities	456,157	74,792	63,999	33,479	78,407	706,834
Asset-Liability Gap	(P271,003)	(P31,879)	P14,408	P5,841	P418,004	P135,371

Operational Risk

SBC aligns with the Basel II framework's definition of operational risk as the risk of loss due to inadequate or failed internal processes, people, and systems, or from external events. Operational risk management covers processing lapses, fraudulent activities, inappropriate behavior of staff, systems failure, inability to deliver products and services to customers, natural and man-made disasters.

The Bank's Operational Risk Management Division ("ORMD") is currently composed of the following:

- *Information Security and Technology Risk* – This team monitors the technology and information security risks of the Bank and its Subsidiaries, aligning with corporate plans, strategies, and objectives of the Group. Actively working with Information Technology Group ("ITG") and other support functions of the Group, it monitors the key risk levels, assists in process and control improvements to protect information assets, and ensures confidentiality, integrity, and availability of systems.
- *Business Continuity* – The Business Continuity Unit focuses on maintaining and developing the Bank's capabilities to recover from system failures, natural or man-made disasters, pandemics, and other crisis events, to ensure that the Bank's operations and core business functions remain up and running through disruptive events.
- *Fraud Risk* – The Fraud Risk team within ORMD is responsible for defining and monitoring adherence to policies specific to fraud risk. It provides complementary expertise, support, monitoring, challenge to, as well as independent oversight of the Enterprise Fraud Team as second line of defense.
- *Third Party Risk* – The Third-Party Risk team leads oversight of third-party risk management processes such as third-party relationship management, due diligence, contract management, eligibility assessment, materiality assessment, on-boarding, performance management, contingency planning, off-boarding and other similar activities.
- *Risk Monitoring* – The Risk Monitoring team helps develop and implement the mechanisms used by the Bank to manage operational risk. These include policies, procedures, and tools used by the various businesses in identifying, assessing, mitigating, and monitoring non-financial risks, as well as those for resolving identified issues and managing operational risk incidents.

Model Risk

Model Risk is the potential loss that an institution may incur primarily due to fundamental errors in the design, implementation or use of a model. A model refers to a quantitative method, system or approach that applies statistical, economic, financial or mathematical theories, techniques and assumptions to process input data into quantitative estimates for decision making. This also includes expert judgement models which are based on views of subject matter experts provided that the outputs are quantitative in nature.

- *Model Development* – Model development represents the very beginning of the model lifecycle where the model owner identifies its objectives and business requirements. The development of the models can be carried out by an internal unit with sufficient expertise in model development, or externally if there are no available resources.
- *Model Validation* – The Model Risk Management Division ("MRMD") is responsible for the independent review, attestation and validation of all models to support existing supervisory guidance and business objectives. All model components (inputs, processes and outputs) shall be subjected to both quantitative and qualitative review to ensure that the model is sound and can be relied upon for decision-making purposes. This is to ensure that the models are within the model risk appetite of the Bank and are compliant to the internal policies and regulatory requirement/s.
- *Model Approval* – Once the model passes the validation, the model will be endorsed by the model owner to the designated approving body for approval. For models that cannot be validated prior to use, this will be approved by the designated Board-level committee and the BOD prior to implementation.
- *Testing and Implementation* – Testing is an integral part of the model lifecycle to ensure an accurate and smooth implementation of the model. As such, there will be a rigorous pre- and post-implementation testing procedures to determine if the model is performing as intended and is producing accurate results.

- Model Monitoring – When the model goes into use, its performance shall be validated against experience to make sure that the model functions as intended. The monitoring will serve as an early warning indicator for any performance deterioration and trigger appropriate action. The MRMD shall monitor the models on an ongoing basis – the frequency of which depends on the model rating, the nature of the model, and best practices. To aid in the monitoring of the models, a model inventory will be maintained by the MRMD to provide a comprehensive overview of all models in use. It will contain all implemented, developed, and recently discontinued models.

Management of Other Risks

While the risks that the Bank faces are chiefly categorized either as credit, market, liquidity or operational types, the Bank recognizes with as much importance the other risks that can hinder its pursuit of value creation. In particular, the Bank acknowledges the threats posed by reputational and strategic (or business) risks.

- Reputational risk refers to the potential adverse effects arising from the Bank’s reputation deviating negatively from its expected level with regard to competence, integrity and reliability. The Bank manages this risk within the institution through policies and processes implemented under Operational Risk (including Information Security), Compliance and Human Resources, such as those related to complaints resolution and management; fraud detection, prevention and overall management; and service quality assurance. As part of the Bank’s corporate-wide risk management, the Board ensures the maintenance of a sound consumer protection risk management system.
- Sustainability risk refers to the negative impact of an environmental, social or governance event or condition to the Bank’s financial and operating performance. To mitigate sustainability risk, the Bank has begun to incorporate environmental and social factors into the lending process and customer dialogue to ensure sustainable lending. The Bank understands the consequences of failing to appropriately manage environmental, social, and governance (“ESG”) issues can directly impact its reputation, its clients’ operations, and its environment and communities where the Bank and its clients operate.
- Strategic or business risk is the current and prospective impact on earnings or capital arising from adverse business decisions, ineffective or failed implementation of decisions, or lack of responsiveness to industry changes that may affect the franchise value of the Bank. This risk is not managed separately from other risks. In essence, the Bank manages this risk through careful planning and close monitoring of execution of plans.

The Group undergoes an annual Planning Cycle, where the business environment, medium-term plans of business units and potential risks to the Bank are assessed. Budget Plan is produced at the end of this activity. Through this plan, the BOD provides direction for the Group taking into account probable new risks that may emerge over the planning cycle.

Periodic review of the strategies and performance of key functional areas of indicators are undertaken by Senior Management and the BOD. The Bank understands that the risk universe is not limited to the ones enumerated above. As such, other types of risk – new or evolving – are uncovered and addressed through the different initiatives in the main risk management groups, which motivate risk-taking and risk management units to assess and to attend to emerging threats to capital adequacy and profitability.

DESCRIPTION OF THE BANK'S ASSETS AND LIABILITIES

Funding and Liquidity

Overview

The Bank's funding is primarily provided by savings, demand, time deposits and long-term negotiable certificates of deposits ("LTNCD"). Of the total amount of deposits of P606.5 billion as of 31 December 2023, these amounted to 19.5%, 40.4%, 38.3% and 1.7%, respectively. The Bank also sources part of its funding requirements from the interbank market, particularly in periods of high liquidity which generally results in lower overall funding cost.

Sources of Funding

The Bank's principal source of funding is deposits. It also sources funds through bills payable.

The following table sets forth the principal sources of funding:

	As of 31 December		
	2021	2022	2023
	(P millions)		
Deposits by type			
Demand.....	216,470.9	232,536.2	245,268.2
Savings.....	110,567.3	117,513.4	118,280.8
Time.....	171,822.5	231,020.1	232,566.4
LTNCD.....	24,728.6	24,766.8	10,416.0
Total	<u>523,589.3</u>	<u>605,836.5</u>	<u>606,531.4</u>
Deposits by currency			
Peso.....	462,070.8	513,762.7	422,515.3
Foreign.....	61,518.5	92,073.8	184,016.1
Total	<u>523,589.3</u>	<u>605,836.5</u>	<u>606,531.4</u>
Bills Payable and SSURA			
Peso.....	686.8	12,541.6	383.7
Foreign.....	2,777.6	28,378.8	50,955.4
Total	<u>3,464.4</u>	<u>40,920.4</u>	<u>51,339.1</u>

Interest expense on deposit liabilities and bills payable and SSURA are as follows:

	As of 31 December		
	2021	2022	2023
	(P millions)		
Demand.....	204.5	242.6	371.4
Savings.....	107.4	70.1	129.6
Time.....	1,581.2	3,683.1	6,909.6
LTNCD.....	1,047.6	1,047.4	784.6
Total	<u>2,940.7</u>	<u>5,043.2</u>	<u>8,195.2</u>
Bills payable and SSURA	<u>324.7</u>	<u>528.2</u>	<u>2,771.8</u>

Ranges of annual fixed interest on deposit liabilities excluding LTNCD follow:

	2021	2022	2023
Peso-denominated	0.01%-3.28%	0.01%-6.65%	0.01%-6.75%
Foreign currency-denominated	0.01%-1.97%	0.01%-5.10%	0.01%-5.50%

The Bank has been successful in attracting and retaining its low-cost deposit base. While the cost of deposits has largely been driven by interest rate movements, the average cost of deposits is also bolstered by the continued rise in the share of checking and savings accounts ("CASA"). The Group will continue to emphasize growth in its CASA through the launching of differentiated CASA products geared towards the retail, middle market, and

corporate customers. The Bank's depositors typically roll over their deposits at maturity, effectively providing the Bank with a base of core liquidity.

Liquidity

Effective 30 June 2023, both peso deposits and deposit substitutes are subject to a unified statutory and liquidity reserve requirement of 9.5% (down from 12%), pursuant to BSP Circular No. 1175, which was approved on 23 June 2023.

The entire reserve requirement is required to be deposited with the BSP. Amounts kept by banks in their vaults are now excluded from the reserve requirement.

The Bank's liquidity is adequate with a liquid assets-to-total assets ratio of 34.7% as of 31 December 2023. Liquid assets consist of cash and other cash items, due from BSP, due from other banks, interbank loans receivable, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and investment securities at amortized cost.

In connection with foreign currencies, the BSP requires banks to maintain an asset cover of 100.0% for foreign currency liabilities, of which 30.0% must be in liquid assets until 31 December 2017. Effective 1 January 2018, the liquid asset cover requirement for universal/commercial banks' foreign currency liabilities is 0% pursuant to BSP Circular No. 946. The Bank currently complies with all of the above requirements.

The scheduled maturity of the Bank's loan portfolio and other financial assets follow:

	<u>Due within one year</u>	<u>Over one year</u>
	%	%
31 December 2023		
Receivable from customers and other receivables*	45.6	54.4
Other financial assets	36.0	64.0

*Gross of unearned discounts and deferred credits and allowance for credit losses

The main source of the Bank's funding are deposits, the bulk of which are in CASA, which may be withdrawn on demand without any prior notice from the customer. Although the majority of the Bank's customer deposits are short-term, they typically roll over their deposits at maturity, effectively providing the Bank with a source of long-term funds.

The Bank measures its liquidity risk via the MCO or "Liquidity Gaps" Report. Separate limits have been established for both the Peso book and the U.S. dollar book.

The following table sets forth information with respect to the Bank's liquidity position as of the dates indicated:

	As of 31 December		
	2021	2022	2023
	(P millions, except percentages)		
Liquid assets ⁽¹⁾	230,453.9	313,492.4	302,774.8
Cash and other cash items	11,083.3	13,180.2	13,947.1
Due from Bangko Sentral ng Pilipinas	67,391.5	63,011.4	45,821.2
Due from other banks	13,126.2	20,097.3	12,022.0
Interbank loans receivable and SPURA with BSP	29,424.6	27,515.4	4,081.0
Financial assets at fair value through profit or loss	6,922.5	7,566.6	10,886.4
Financial assets at fair value through other comprehensive income	80,669.2	112,891.5	139,861.0
Investment securities at amortized cost	21,836.6	69,230.0	76,156.1
Financial ratios			
Liquid assets-to-total assets	32.9	37.2	34.7
Liquid assets-to-total deposits	44.0	51.7	49.9
Net loans ⁽²⁾ -to-total deposits	85.7	83.0	88.8

Notes:

(1) Including investment securities at amortized cost.

(2) Loans and receivables, net.

Loan Portfolio

As of 31 December 2023, the Bank's total loans portfolio amounted to P548.2 billion, representing 62.9% of the total assets. As of 31 December 2023, loans to corporates represented 70.5% of the Bank's total receivable from customers, 15.3% composed of residential mortgages while 14.1% and 0.1% composed of consumer business lending and small business lending, respectively.

The following table sets out, for the periods indicated, the allocation of the total loan portfolio held by the Bank among its principal lending units (gross of unearned discounts and deferred credits and allowance for credit losses).

	As of 31 December		
	2021	2022	2023
		(P millions)	
Corporate lending	352,294.4	388,777.5	386,695.6
Consumer lending.....	50,338.7	53,639.3	77,207.4
Residential mortgages	58,627.0	71,311.8	83,664.5
Small business lending	1,217.7	718.2	585.8
Total.....	462,477.0	514,446.8	548,153.3

The following table indicates total consumer loans (gross of unearned discounts and deferred credits and allowance for credit losses) as of the dates indicated:

	As of 31 December		
	2021	2022	2023
		(P millions)	
Auto loans.....	24,329.4	22,253.6	30,107.9
Credit cards	18,520.2	23,643.7	34,111.0
Personal loans and others	7,489.1	7,742.0	12,988.5
Total.....	50,338.7	53,639.3	77,207.4

The following table sets forth, for the periods indicated, an analysis of the Bank's loan portfolio as to industry, net of unearned discounts and deferred credits, as defined and categorized by the BSP:

	As of 31 December					
	2021		2022		2023	
	Amount	%	Amount	%	Amount	%
			(audited)			
			(P millions except percentages)			
Real estate activities.....	107,582	23.3	124,325	24.3	148,272	27.2
Wholesale and retail trade; repair of motor vehicles and motorcycles	70,906	15.4	85,691	16.7	92,584	17.0
Electricity, gas, steam and air conditioning supply	70,250	15.2	76,678	15.0	77,611	14.2
Activities of households as employers undifferentiated goods and services producing activities of households for own use*.....	41,601	9.0	43,305	8.4	61,035	11.2
Manufacturing	51,750	11.2	60,430	11.8	46,917	8.6
Financial and insurance activities	33,443	7.2	15,583	3.0	22,199	4.1
Transportation and storage	20,539	4.5	21,631	4.2	21,750	4.0
Construction	14,270	3.1	17,156	3.3	20,504	3.8
Information and communication	18,769	4.1	23,783	4.6	17,239	3.2
Agriculture, forestry and fishing	9,058	2.0	10,407	2.0	9,881	1.8
Water supply, sewerage, waste management and remediation activities	5,082	1.1	9,892	1.9	9,418	1.7
Professional scientific and technical services	5,734	1.2	10,298	2.0	4,310	0.8
Others	12,423	2.7	13,392	2.6	14,291	2.6
Total	461,407	100.0	512,571	100.0	546,011	100.0

*Excludes loans and receivables on real estate or dwelling units which are considered production activities and classified under "Real estate"

Loans to the manufacturing sector include exposure to the following sub-sectors: metals, machinery and equipment, food, chemicals, petroleum, coal, rubber and plastic, non-metallic mineral products, wood and wood products, paper and paper products, textiles, wearing apparels, leather and others. The BSP considers that loan

concentration exists when the total loan exposure to a particular industry or economic sector exceeds 30% of the total loan portfolio.

Bank monitors its exposure to specific sectors of the economy such as agriculture and SMEs to comply with BSP regulations. The BSP regulations currently require all Philippine banks to set aside 25.0% of their loanable funds for loans to the Agricultural, Fisheries and Rural Development Financing (AFRD) sector (or invest in eligible securities as other modes of compliance per BSP Cir. No. 1159 series of 2022). The Bank endeavours to comply with regulatory requirements.

Loan Maturity Profile

The following table sets out an analysis of the Group's total loan and receivables (gross of unearned discounts and deferred credits and allowance for credit losses) by maturity:

	As of 31 December					
	2021		2022		2023	
	Amount	%	Amount	%	Amount	%
	(audited)					
	(P millions, except percentages)					
Within one year.....	211,312.5	45.2	276,721.4	53.1	253,416.7	45.6
More than one year	256,533.2	54.8	244,249.6	46.9	302,572.5	54.4
Total	<u>467,845.7</u>	<u>100.0</u>	<u>520,971.0</u>	<u>100.0</u>	<u>555,989.2</u>	<u>100.0</u>

As of 31 December 2023, 45.6% of the Group's loan portfolio had a maturity of less than one year.

Foreign Currencies

The following table sets out an analysis of the Group's total receivable from customers (gross of unearned discounts and deferred credits and allowance for credit losses) by currency:

	As of 31 December					
	2021		2022		2023	
	Amount	%	Amount	%	Amount	%
	(audited)					
	(P millions except percentages)					
Philippine peso.....	429,370.1	92.8	475,874.1	92.5	513,002.7	93.6
Foreign currency	33,107.8	7.2	38,572.7	7.5	35,150.6	6.4
Total	<u>462,477.9</u>	<u>100.0</u>	<u>514,446.8</u>	<u>100.0</u>	<u>548,153.3</u>	<u>100.0</u>

As of 31 December 2023, 93.6% of the Group's total receivable from customers was denominated in Peso with 6.4% being denominated in foreign currency, a substantial proportion of which was in U.S. dollars.

Lending in foreign currency is now primarily to customers who have identifiable source of foreign currency earnings from which to repay the loans, and to importers who have authorization from the BSP to purchase foreign currency to service their foreign currency obligations.

Interest Rates

As of 31 December 2023, 32.7% of the Group's total loan portfolio are subject to periodic interest repricing. The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

Interest rate risk exposures are reported via the weekly repricing gap schedule. The repricing gap report highlights mismatches in the repricing tenors of assets and liabilities. Repricing gaps are calculated by distributing the statement of financial position accounts into time buckets based on the next repricing dates of individual items. For non-maturing deposits, distinction is made between the core (i.e., stable) and non-core portions, where the former is spread in time buckets aligned with Basel's IRRBB Document while the latter is bucketed in short-term tenors. For time deposits and loans, model assumptions were developed based on the historical experience of the Bank to capture early redemption risk and prepayment risk. These are adjusted using scaling factors under different interest rate shocks and stress scenarios when measuring the impact of IRRBB to economic value. After

slotting the balance sheet items into time buckets, the resulting difference between the amount of the assets and the amount of the liabilities that will reprice within a particular time bucket constitutes a repricing gap.

The following table shows the total amount of the Group's receivables from customers (gross of unearned discounts and deferred credits and allowance for credit losses) that have fixed interest rates and variable or adjustable interest rates:

	As of 31 December					
	2021		2022		2023	
	Amount	%	Amount	%	Amount	%
	(audited)					
	(P millions except percentages)					
Fixed rate.....	265,630.9	57.4	322,367.2	62.7	369,044.3	67.3
Variable.....	196,847.0	42.6	192,079.6	37.3	179,109.0	32.7
Total	462,477.9	100.0	514,446.8	100.0	548,153.3	100.0

Size and Concentration of Loans

The Group monitors its financial exposure to its customers in order to ensure that concentration risk is prudently managed. As of 31 December 2023, the Group's single largest corporate borrower accounted for 3.2% of the Bank's consolidated receivable from customers (gross of unearned discounts and deferred credits and allowance for credit losses). As of 31 December 2023, the Bank's ten largest borrowers in the aggregate accounted for P86.7 billion, or 15.8% of its outstanding loan portfolio. There are no NPLs in the top ten loan accounts.

The BSP generally disallows any bank from maintaining a financial exposure to any single person or group of connected persons in excess of 25.0% of the Bank's unimpaired capital and surplus, which includes combined capital accounts, paid-in-capital and surplus, but excludes reserves for valuation purposes, liabilities and deferred income tax.

The following table sets out a breakdown of the Bank's total receivables from customers (gross of unearned discounts and deferred credits and allowance for credit losses) by security:

	As of 31 December					
	2021		2022		2023	
	Amount	%	Amount	%	Amount	%
	(audited)					
	(P millions except percentages)					
Secured						
Real estate mortgage..	70,793	15.3	74,325	14.4	84,439	15.4
Assignment of projects/company assets/contracts	21,086	4.6	20,661	4.0	22,556	4.1
Chattel mortgage	18,052	3.9	16,883	3.3	18,032	3.3
Mortgage trust indenture	9,670	2.1	9,485	1.8	8,338	1.5
Deposit hold-out	2,962	0.6	3,278	0.6	2,945	0.5
Others	14,590	3.2	11,655	2.4	10,765	2.0
Total secured	137,153	29.7	136,287	26.5	147,075	26.8
Unsecured	325,325	70.3	378,160	73.5	401,078	73.2
Total	462,478	100.0	514,447	100.0	548,153	100.0

As of 31 December 2023, 73.2% of the Group's total loans are unsecured.

Loan Administration and Loss Provisioning

In compliance with BSP Circular No. 855, the Bank has developed and continually reviews and calibrates its internal risk rating system for credit exposures aimed at uniformly assessing its credit portfolio in terms of risk profile. Where appropriate, it obtains security, enters into master netting agreements, and limits the duration of exposures to maintain and even further enhance the quality of the Bank's credit exposures.

The credit quality of financial assets is monitored and managed using internal ratings and where available, external ratings.

The credit quality of trading and financial investment securities is generally monitored through internal ratings except for foreign entities which use external ratings of eligible external credit rating institutions. Credit exposures to foreign corporations and foreign financial institutions are limited to entities that are rated investment grade. The minimum acceptable risk rating is BBB- stable (for S&P) and Baa3 (for Moody's).

In the Bank's mapping of risk ratings of its asset classes, S&P and Moody's investment grade ratings and BB+/Ba1 are considered high grade, BB/Ba2 down to B-/B3 ratings are considered medium grade, and below B-/B3 ratings are considered low grade.

For loan exposures, the credit quality is generally monitored using its internal credit risk ratings system. It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates management to focus on major potential risks and the comparison of credit exposures across all lines of business, demographics and products. The rating system is supported by a variety of financial analytics, combined with an assessment of qualitative factors such as management and market information to provide the main inputs for the measurement of credit or counterparty risk. Other variables that may impact the borrower's creditworthiness but are not yet factored into the baseline rating are considered in the model overlay to arrive at the final PD rating. All PD ratings are tailored with various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

The Bank uses PD Ratings to classify the credit quality of its receivables portfolio. This is currently undergoing upgrade to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment. The description of the loan grades used by the Bank for receivable from customers, except credit card receivables and receivables of SBEI, are as follows:

Wholesale Banking Segment Scorecards

The Bank has two (2) Wholesale Banking Segment scorecards, differentiated according to the revenue size of the borrower: Big Accounts scorecard for borrowers with at least P2.0 billion in revenue size, and Small Accounts scorecard for borrowers with less than P2.0 billion revenue size. Both scorecards are mapped to an 11-grade scale masterscale with each grade having a corresponding probability of default (PD).

- *High Grade (PD Rating of 1 to 7)*

Accounts in this category have a low probability of defaulting on their obligations over the next 12 months. A comfortable degree of stability and diversity can be found in these borrowers.

- *Medium Grade (PD Rating of 8 to 9)*

The PD of accounts in this category is slightly higher than high grade borrowers. Accounts whose financial ratios exhibit an amount of buffer though somewhat limited. These accounts can withstand minor economic weaknesses but may suffer if conditions deteriorate in a significant way and therefore, default risk is present under such adverse conditions. Repayment ability is more or less assured if economic and industry conditions remain stable

- *Low Grade (PD Rating of 10 to 11)*

Accounts for which default risk are very much present and those that have defaulted already are included in this category.

For SBEI's receivable portfolio, the Bank classifies accounts that are neither past due nor impaired as follows:

- *High Grade* - receivables from counterparties with no history of default and with apparent ability to settle the obligation. In case of receivables from customers, the outstanding amount must be more than 200.0% secured by collateral.
- *Medium Grade* - receivable from counterparties with no history of default, with apparent ability to settle the obligation and the outstanding amount must be 100.0% - 200.0% secured by collateral.
- *Low Grade* - receivable from counterparties with history of default and partially secured or unsecured accounts.
- *Unrated* - receivable from employees and refundable deposits.

For Auto Loans Receivables, the Bank classifies accounts that are neither past due nor impaired as follows:

- *High Grade* – Accounts with behavioral score >752
- *Medium Grade* – Accounts with behavioral score >679-752; or with behavioral score >565-679 and uses 0 Delinquency Segment scorecard.
- *Low Grade* – Accounts with behavioral score >565-679 and uses 0+ Delinquency Segment scorecard; or with behavioral score <=564.
- *Unrated* – Accounts with no behavioral score such as new bookings.

For Credit Card receivables, the Bank classifies accounts that are neither past due nor impaired as follows:

- *High Grade* – Accounts with behavioral score >715
- *Medium Grade* – Accounts with behavioral score >580-715
- *Low Grade* – Accounts with score <=580
- *Unrated* – Accounts which are inactive in the last 12 months; too early or not enough information to rate;

For Business Banking Loan receivables, scorecards are used to determine the PD of the account. The Bank classifies accounts that are neither past due nor impaired as follows:

- *High Grade (PD Rating of <1%)*
Accounts in this category have a low probability of defaulting on their obligations over the next 12 months. A comfortable degree of stability and diversity can be found in these borrowers.
- *Medium Grade (PD Rating of 1% to 10%)*
The PD of accounts in this category is slightly higher than high grade borrowers. These accounts can withstand minor economic weaknesses but may suffer if conditions deteriorate in a significant way and therefore, default risk is present under such adverse conditions. Repayment ability is more or less assured if economic and industry conditions remain stable.
- *Low Grade (PD Rating of 10+% and above)*
Accounts for which an assumed default risk is present.
- *Unrated*
Accounts which are unrated and 0-30 Days Past Due.

For the other products in the consumer loans portfolio, the Bank is currently building a separate credit rating system to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment. Accounts which are neither past due nor impaired are presented as unrated.

The tables below show the credit quality by class of receivable from customers (gross of allowance for credit losses and net of unearned discounts and deferred credits) of the Group.

	<u>Neither Past Due nor Individually Impaired</u>				<u>Past due but not impaired</u>	<u>Past due and impaired</u>	<u>Total</u>
	<u>High Grade</u>	<u>Medium Grade</u>	<u>Low Grade</u>	<u>Unrated</u>			
	(P millions)						
31 December 2021							
Receivable from customers:							
Corporate lending.....	173,706.7	74,025.4	90,698.6	-	413.3	12,555.2	351,399.2
Consumer lending	4,932.9	10,490.9	3,129.3	8,750.6	1,345.2	2,973.7	31,622.6
Small business lending.....	37.7	457.8	672.2	-	-	49.5	1,217.2
Residential mortgages	2,287.4	170.8	309.6	51,647.6	977.0	3,234.0	58,626.4
Credit card receivables - individual	2,556.3	12,670.6	468.5	710.0	513.1	906.3	17,824.8

	Neither Past Due nor Individually Impaired				Past due but not impaired	Past due and impaired	Total
	High Grade	Medium Grade	Low Grade	Unrated			
Receivable from customers (SBEI)	43.0	24.0	569.9	79.7	-	-	716.6
Total receivable from customers	183,564.0	97,839.5	95,848.1	61,187.9	3,248.6	19,718.7	461,406.8

31 December 2022

Receivable from customers:							
Corporate lending	194,660.8	119,062.6	61,036.1	-	677.0	11,705.4	387,141.9
Consumer lending	4,989.2	13,003.0	3,145.6	6,101.8	957.6	1,543.7	29,740.9
Small business lending	9.0	274.8	371.4	-	-	62.9	718.1
Residential mortgages	2,082.6	294.0	1,029.4	65,051.5	636.8	1,757.0	70,851.3
Credit card receivables - individual	3,458.5	16,274.0	570.2	1,196.1	700.7	889.4	23,088.9
Receivable from customers (SBEI)	121.7	582.9	292.7	-	33.0	-	1,030.3
Total receivable from customers	205,321.8	149,491.3	66,445.4	72,349.4	3,005.1	15,958.4	512,571.4

31 December 2023

Receivable from customers:							
Corporate lending	225,037.8	103,506.6	42,866.6	-	86.9	14,060.7	385,558.6
Consumer lending	10,326.0	27,946.8	2,094.3	285.4	922.3	1,434.3	43,009.1
Small business lending	9.0	465.3	55.5	-	4.0	51.8	585.6
Residential mortgages	6,988.1	72,452.1	1,438.5	-	861.8	1,635.4	83,375.9
Credit card receivables - individual	6,667.6	20,919.9	603.1	2,413.0	1,027.9	1,511.7	33,143.2
Receivable from customers (SBEI)	74.7	201.5	51.5	-	10.5	-	338.2
Total receivable from customers	249,103.2	225,492.2	47,109.5	2,698.4	2,913.4	18,693.9	546,010.6

As of 31 December 2023, the Bank's allowance for credit losses on loans on a consolidated basis per BSP was P15.2 billion. As a percentage of the Bank's NPL portfolio, such allowance for credit losses was 82.1% as of 31 December 2023.

Non-Performing Assets

The following table sets forth details of the Group's NPLs, non-performing assets ("NPAs") (as described below), restructured loans, and write-offs for loan losses for the specified periods:

	As of 31 December		
	2021	2022	2023
	(P millions, except percentages)		
Non-performing loans - net ⁽¹⁾	7,241.3	5,684.8	7,543.4
Total gross loans ⁽²⁾	491,448.7	542,574.7	551,660.3
Net non-performing loans ratio ⁽³⁾	1.5%	1.0%	1.4%
Non-accruing loans	20,707.4	17,231.3	18,942.5
Non-accruing loans-to-total loans	4.2%	3.2%	3.4%
Non-performing assets	20,793.0	19,344.8	23,139.8
Non-performing assets as a percentage of total assets	3.0%	2.3%	2.7%
Allowance for credit losses (loans)	17,957.5	16,159.7	15,202.0
Non-performing loans - gross ⁽²⁾	19,378.7	15,981.2	18,510.2
Non-performing loan cover ⁽⁴⁾	92.7%	101.1%	82.1%
Total restructured loans	13,767.4	13,011.3	11,333.0
Non-performing restructured loans	6,674.0	4,559.8	5,011.1
Non-performing restructured loans as a percentage of total loans	1.0%	0.5%	0.6%
Loans - written off	(5,872.3)	(3,280.9)	(3,905.3)

Notes:

- (1) *Total NPL (net of specific allowance, computed based on BSP guidelines).*
- (2) *Computed based on BSP guidelines.*
- (3) *Net NPL divided by total gross loans.*
- (4) *Total allowance for credit losses divided by total gross NPLs (Computed based on BSP Circular 941 and 1011 (31 December 2018, 31 December 2019, and 31 March 2020) and BSP Circular 772 (31 December 2017).*

As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due. However, BSP supervised financial institutions (“BSFIs”) may provide a cure period on a credit product-specific basis, not to exceed 30 days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due: Provided, that any cure period policy shall be based on verifiable collection experience and reasonable judgment that support tolerance of occasional payment delays: Provided further, that the observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness/es, and that BSFIs shall regularly review the reasonableness of its cure period policy. For microfinance and other small loans that feature high frequency payments, the cure period allowable by policy shall not exceed 10 days.

Loans which have been foreclosed or transferred to the investment properties account are no longer classified as NPLs. Accrued interest arising from the loan accounts are classified according to the classification of their corresponding loan accounts except for those which remain uncollected after six months from the date such loans or instalments have matured or have become past due for which a 100.0% allowance is set up for uncollected accrued interest receivables.

Loans are restructured on a case-to-case basis. Restructured loans are loans and other credit accommodations wherein the original contractual terms and conditions of which have been modified in accordance with a formal restructuring agreement that sets forth a revised schedule of payments for the purpose of lessening the financial difficulty of the borrower and maximizing collection and realizable economic value on an obligation within a reasonable period of time. The modification may include, but is not limited to, change in principal due, maturity, interest rate and other charges, collateral, or other terms and conditions.

In accordance with BSP guidelines, NPLs, which are successfully restructured, are considered to be current and no longer non-performing, in general, following a period of six months of continued payments on the restructured loan. As of 31 December 2023, the Group had a portfolio of P6.3 billion of restructured loans which were treated as performing.

Effective 1 January 2018, the BSP implemented Circular 941, “Amendments to Guidelines on Past Due and Non-Performing Loans” which changed the definition of past due accounts and non-performing loans as detailed below.

Past Due

As a general rule, loans, investments, receivables or any financial assets, including restructured loans shall be considered past due when any principal and/or interest or instalment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due. However, the BSP allows banks to provide a cure period on a credit product-specific basis, not to exceed 30 days (10 days for small loans with high frequency payments) within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due.

Non-Performing Loans

Loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and/or interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

As 31 December 2023, the Bank’s 10 largest NPLs accounted for 1.0% of the Bank’s total loans to customers and 28.3% of its gross NPLs to customers. As of the same date, the Bank’s exposure to its 10 largest NPLs ranged from P264.0 million to P1.5 billion and amounted to P5.2 billion in aggregate.

The following table shows the breakdown of non-performing receivable from customers net of unearned discounts and deferred credits as of 31 December 2021, 2022 and 2023, which are stage 3 accounts based on PFRS guidelines:

	2021	2022	2023
Corporate lending	₱12,555.2	₱11,705.4	₱14,060.7
Consumer lending	3,880.0	2,433.0	2,946.0
Residential mortgages	3,234.0	1,757.0	1,635.3
Small business lending	49.5	62.9	51.8
	₱19,718.7	₱15,958.3	₱18,693.8

The Bank's gross NPLs represented 3.4% of the Bank's total gross loan portfolio as of 31 December 2023.

As of 31 December 2023, the Group had no DOSRI loans that are non-performing.

Credit Management Policies and Procedures

The credit management process involves all levels of the organization, from line personnel up to the BOD. This section discusses the broad responsibilities of the various functions in the credit management process.

Board of Directors

The BOD directs the Bank's over-all risk management strategy. The risk management processes of the subsidiaries are the separate responsibilities of their respective BOD. The BOD performs an oversight function on the Bank's implementation of its risk policies through various committees that it has created as follows:

Executive Committee

The Executive Committee may act on specific matters within the competence of the BOD and as delegated to it by the BOD from time to time.

Risk Oversight Committee

The Risk Oversight Committee ("**ROC**") reviews, approves, and ensures effective implementation of the risk management framework. It approves risk-related policies, oversees limits to discretionary authority that the BOD delegates to management, and evaluates the magnitude, distribution and direction of risks in the Bank.

Corporate Governance Committee

The Corporate Governance Committee oversees the compliance function and assists the BOD in fulfilling its corporate governance responsibilities across a broad range of areas including sustainability. It is responsible for ensuring the Board's effectiveness and due observance of corporate governance principles and guidelines.

Audit Committee

The Audit Committee through the Internal Audit Division provides the independent assessment of the overall effectiveness of, and compliance with the Bank's governance, internal controls, and risk management functions.

Senior Credit Committee

The Senior Credit Committee is the highest credit decision-making body in the Bank and works closely with the ROC in managing the overall credit risk of the Bank. The committee reviews and approves proposals and facilities related to credit, except for Directors, Officers, Stockholders, and Relation Interests ("**DOSRI**") and material related party transactions (RPT) accounts.

Restructuring Committee

The Restructuring Committee approves remedial and/or recovery strategies of the Bank for identified problem loan accounts.

Related Party Transaction Committee

The Related Party Transaction Committee ensures that transactions with related parties are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders.

Nominations and Remunerations Committee

The Nominations and Remunerations Committee has oversight over the Board nominees and other appointments requiring Board approval, as well as their remuneration commensurate with corporate and individual performance.

Trust Committee

The Trust Committee ensures that funds and properties held in trust or in any fiduciary capacity shall be administered with the skill, care, prudence and diligence necessary under the circumstances then prevailing that a prudent person, acting in like capacity and familiar matters, would exercise in the conduct of an enterprise of like character and with similar aims.

Transformation and Technology Committee

The Transformation and Technology Committee oversees the development and implementation of strategy, transformation, innovation and information technology initiatives of the Bank and its subsidiaries and affiliates, in support of the Group's vision, mission and strategic objectives.

The Bank's organizational structure includes the RMG which is responsible for driving the following risk management processes of the Group:

- Independent assessment, measurement, monitoring and reporting of the Group's risk-taking activities; and
- Formulation, review and recommendation of risk-related policies and control structures.

Nevertheless, the Group's risk management framework adopts the basic tenet that risks are owned by the respective business and process owners. Everyone in the organization is therefore expected to proactively manage the risks inherent to their respective area by complying with the Group's risk management framework, policies and standards.

The Bank and its subsidiaries manage their respective financial risks separately. The subsidiaries have their own risk management procedures but are structured similar to that of the Bank. To a certain extent, the respective risk management programs and objectives are the same across the Group.

Credit Rating / Scoring System

The Bank has credit rating/scoring systems in place to assess the credit risk associated with a prospective or existing loan account for corporate, retail, and MSME lending business. The Bank's credit rating system uses a combination of quantitative and qualitative factors, which generally assess the financial position and probability of default of the borrower.

Credit risk rating is carried out by the Enterprise Risk Evaluation Division for top corporations and by the Business Risk Evaluation and Development Unit for the middle-market accounts. The Bank updates the rating of an existing loan account at least once a year, which is normally the credit renewal date. However, the Bank may adjust the credit rating within a shorter period if there are identified factors which could affect the borrower's credit quality, or the Bank becomes aware of any adverse development with respect to the borrower or secured collateral. For the consumer lending business, application and behaviour scores are implemented in the various products and embedded in the system which automatically calculates based on the profile of the borrower.

Credit Approval Process

Before the Bank approves any extension of credit, it first identifies the needs of the prospective borrower, analyses the appropriateness of the exposure and evaluates any inherent risks. For the corporate and middle market accounts, the Bank assigns an account officer to every prospective borrower to start the credit approval process. The account officer identifies the borrowing requirements of the client and assists in the preparation of the loan application together with the required documentary support. Full credit evaluation is undertaken by the Enterprise Risk Evaluation Division for corporate accounts and the Business Risk Evaluation and Development Unit for middle market accounts.

The Credit Committee is one of the credit approving bodies of the Bank. As delegated by the BOD, it has the authority to review and approve proposals for the granting and extension of credit facilities and transactions. Should the size of the credit proposal exceed a certain cap, the same is elevated to the Executive Committee for approval.

The Senior Credit Committee is the highest credit decision-making body in the Bank. The committee reviews and approves credit risk proposals for large exposures except for DOSRI loans which are approved by the Board of the Bank regardless of the amount involved.

For retail and MSME loans, the credit approval process is based on Minimum Risk Acceptance Criteria (“MRAC”) and Approved Credit Guidelines. Credit Underwriters review and evaluate a loan application based on the credit worthiness and documents submitted by the client. Approval of regular loan applications will be based on the recommended credit limit or loan amount that will be endorsed to the approving officer based on the delegated authority. However, accounts with a significant deviation require one level higher approval.

Credit Administration Process

The Bank has a credit administration unit that ensures the following: (a) proper documentation of approved credit proposals; (b) proper encoding of approved credit limits in the systems used by the Bank to ensure that exposures do not exceed the approved limits; (c) proper safekeeping of loan and collateral documents with the Central Records Section or authorized branch custodians; and (d) proper maintenance and confidentiality of credit files for borrowing clients. No loan drawdowns are implemented without the clearance obtained from the Credit Documentation and Review Unit to ensure all loans and collateral documents are in order or the necessary approval for any deviation is duly approved by the appropriate approving authority.

Credit Committee

The Credit Committee is responsible for executing and managing the credit strategy of the Bank as defined by the BOD and the Senior Credit Committee. In line with this, the Credit Committee is responsible for:

- Maintaining a sound and effective credit risk management system;
- Participating in portfolio planning;
- Reviewing and approving exceptions to standard credit policies up to its authority limit;
- Keeping aggregate credit risk levels within established limits;
- Reviewing the effectiveness of credit training policies across the Unibank;
- Ensuring that completeness and validity of information contained in all credit media presented to the Senior Credit Committee for approval or ratification;
- Approving and reviewing credit transactions/decisions, within its authority as established by the BOD; and,
- Reviewing large or complex exposures and potential transactions, and provides advise on matters

Loan Administration and Provisioning

See “*Description of the Bank’s Assets and Liabilities—Funding and Liquidity—Loan Portfolio—Loan Administration and Provisioning.*”

Remedial Management

The Bank has an RMD that manages and administers problem loan accounts. The Bank's relationship officers identify and transfer accounts which in their assessment exhibit early warning signals of a deteriorating credit or have been classified as substandard or worse.

RMD seeks to maximize the recovery of the loan through continued payments, rehabilitation of the problem account or through alternative means of payment. In cases of accounts involving a credit consortium of banks, the RMD strives to take a lead role in the recovery efforts to protect the Bank's interest.

In instances where the remedial action implemented provides for payment via *dacion en pago* or other actions such as foreclosure, management of the resulting investment property is handled by the Bank's Property and Management Division ("PMD"). The Legal Division provides PMD with any legal assistance that may be required for investment property management. RMD also provides case-to-case assistance to the PMD in cases where investment property management may require account management approaches and solutions.

Securities Portfolio Management

The Group classifies its securities in three categories, in line with the Bank's business model: Hold to collect ("HTC"), Fair Value Through Other Comprehensive Income ("FVTOCI") and Held for Trading ("HFT") securities.

The classification depends on the objective for which the investments were acquired. Securities classified as HFT are held to realize fair value changes arising from changes in stock prices, credit spreads, and yield curves. Securities classified as FVTOCI are held to collect both contractual cash flows and to realize fair value changes through sales. Securities classified as HTC are held to collect contractual cash flows over the life of the instrument and are measured at amortized cost.

The table below compares the book value of the Group's financial investments to their market value as of the dates indicated:

	As of 31 December 2021		As of 31 December 2022		As of 31 December 2023	
	Carrying Value	Market Value	Carrying Value	Market Value	Carrying Value	Market Value
	(P millions)					
Financial assets at FVTPL:						
HFT investments:						
Government securities	5,655.8	5,655.8	4,804.0	4,804.0	9,681.9	9,681.9
Private bonds.....	26.4	26.4	98.1	98.1	282.1	282.1
Total HFT investments	<u>5,682.2</u>	<u>5,682.2</u>	<u>4,902.1</u>	<u>4,902.1</u>	<u>9,964.0</u>	<u>9,964.0</u>
Derivative assets:						
Currency forwards	858.5	858.5	1,646.3	1,646.3	629.9	629.9
Interest rate swaps.....	211.7	211.7	710.8	710.8	239.9	239.9
Interest rate future	3.2	3.2	-	-	40.8	40.8
Cross-currency swaps	161.5	161.5	304.8	304.8	11.8	11.8
Bond forwards and options ..	5.5	5.5	2.5	2.5	-	-
Total derivative assets	<u>1,240.4</u>	<u>1,240.4</u>	<u>2,664.4</u>	<u>2,664.4</u>	<u>922.4</u>	<u>922.4</u>
Total financial assets at FVTPL...	<u>6,922.6</u>	<u>6,922.6</u>	<u>7,566.5</u>	<u>7,566.5</u>	<u>10,886.4</u>	<u>10,886.4</u>
Financial assets at FVTOCI.....						
Treasury notes and bills	40,538.2	40,538.2	52,666.2	52,666.2	82,365.4	82,365.4
Treasury bonds.....	35,567.6	35,567.6	55,759.9	55,759.9	55,451.2	55,451.2
Private bonds.....	4,234.3	4,234.3	4,051.0	4,051.0	1,523.2	1,523.2
Equity securities.....	329.1	329.1	414.5	414.5	521.3	521.3
Total financial assets at FVTOCI	<u>80,669.2</u>	<u>80,669.2</u>	<u>112,891.6</u>	<u>112,891.6</u>	<u>139,861.1</u>	<u>139,861.1</u>
Financial assets at amortized cost						
Investment securities at amortized						

	As of 31 December 2021		As of 31 December 2022		As of 31 December 2023	
	Carrying Value	Market Value	Carrying Value	Market Value	Carrying Value	Market Value
	(P millions)					
cost:						
Private bonds.....	21,836.6	22,109.9	57,224.4	54,764.9	57,825.1	56,775.0
Treasury bonds.....	-	-	9,308.4	9,045.3	14,958.5	14,988.7
Treasury notes and bills	-	-	2,697.2	2,705.8	3,372.5	3,447.4
Total investment securities at amortized cost	<u>21,836.6</u>	<u>22,109.9</u>	<u>69,230.0</u>	<u>66,516.0</u>	<u>76,156.1</u>	<u>75,211.1</u>

MANAGEMENT

Board of Directors

The names and positions of the Bank's directors follow. The members of the BOD are elected at the annual stockholders' meeting to hold office until the next annual meeting and until their respective successors have been elected.

Name	Position	Date Elected To The Board	Citizenship	Age
Frederick Y. Dy	Chairman Emeritus	4 April 1989	Filipino	68
Cirilo P. Noel	Interim Chairman	24 April 2018	Filipino	66
Diana P. Aguilar	Director	26 April 2017	Filipino	60
Daniel S. Dy	Director/Executive Director	27 April 2021	Filipino	37
Nobuya Kawasaki	Director	25 April 2023	Japanese	51
Maria Cristina A. Tingson	Director	27 June 2023	Filipino	63
Juichi Umeno	Director/Alliance Segment Head	25 April 2023	Japanese	49
Sanjiv Vohra	Director/President & CEO	1 July 2019	Indian	62
Gerard H. Brimo	Independent Director	30 April 2019	Filipino	72
Enrico S. Cruz	Independent Director	1 August 2019	Filipino	66
Esther Wileen S. Go	Independent Director	27 April 2021	Filipino	53
Dr. Jikyeong Kang	Independent Director	26 April 2017	British	62
Jose Perpetuo M. Lotilla	Independent Director	27 April 2021	Filipino	67
Napoleon L. Nazareno	Lead Independent Director	26 April 2017	Filipino	74
Stephen G. Tan	Independent Director	New Nominee for Election	Filipino	47

**Age as of 31 December 2023*

FREDERICK Y. DY, 68, Filipino, was elected Chairman Emeritus on 28 April 2015. He was elected Vice Chairman of the Board on 4 April 1989 before assuming the Chairman's position from April 1991 to April 2015. He is the Chairman of St. Luke's Medical Center (since August 2011).

CIRILO P. NOEL, 66, Filipino, was elected to the Board on 24 April 2018, and appointed as Vice Chairman in April 2020. He is the interim Chairman since May 2023. He is the Chairman of the Executive Committee and Vice Chairman of the Senior Credit, Corporate Governance, and Audit Committees, and a member for the Risk Oversight Committee.

He is the Chairman of Palm Concepcion Power Corporation (since June 2018), Juxtapose Ergo Consultus, Inc. (since May 2019), and Confiar Land Corp since September 2021.

He is a member of the Board of Directors of Eton Properties, Inc. (since April 2019), Transnational Diversified Group Holdings (since August 2019), Amber Kinetics Holdings Co., PTE Ltd. (since March 2018), PLC-Globe Telecom, Inc. (since April 2018), LH Paragon Group, Golden ABC (since January 2018), PLC-San Miguel Foods and Beverage, Inc. (since September 2018), PLC-Robinsons Retail Holdings (since August 2020), and PLC-First Philippine Holdings Corporation (since May 2021).

He is a member of the Board of Trustees of St. Luke's Medical Center Quezon City (since August 2017) and St. Luke's Medical Center College of Medicine (since September 2018). He sits as a board member of St. Luke's Medical Center- Global City (since August 2017) and St. Luke's Foundation, Inc. (since August 2018).

He is currently affiliated with the Makati Business Club, Harvard Law School Association of the Philippines, and Harvard Club of the Philippines.

He was a member of the Board of Directors of Philippine Airlines (from 2018 to 2019), PLC-PAL Holdings, Inc. (from 2018 to 2019), and PLC-JG Summit Holdings (from 2018 to 2021).

He was recognized as the 2019 Outstanding Professional of the Year in the field of Accountancy by the Professional Regulations Commission for his distinguished contributions to the fields of accountancy, tax, and law. He was also awarded as one of the 75 Most Outstanding UE Alumni by the University of the East in 2021. In March 2023, he was presented the Accountancy Centenary Award of Excellence by the Professional Regulatory Board of Accountancy for being one of the notable CPAs in the country.

Before joining the Bank, he held various positions in SGV & Co., including Chairman (from 2010 to 2017), Managing Partner (from 2009 to 2010), Vice Chairman & Deputy Managing Director (from 2004 to 2009), Head of Tax Division (from 2001 to 2008) and Partner, Tax Services (from 1993 to 2017).

For two terms, he was an E&Y Global Advisory Council member. He was also Ernst & Young (EY) ASEAN Tax Head and Far East Area Tax Leader from 2004 to 2009 and the Presiding Partner of E&Y Asia Pacific Council.

He graduated from the University of the East with a Bachelor of Science degree in Business Administration and obtained his Bachelor of Laws from the Ateneo Law School. He took Master of Laws at Harvard Law School. He is a Harvard International Tax Program fellow and attended the Asian Institute of Management's Management Development Program.

DIANA P. AGUILAR, 60, Filipino, was elected to the Board on 25 April 2017. Prior to this, she was a Director of Security Bank Corporation (November 2010-April 2016) and was appointed Senior Advisor to the Board (July 2016-April 2017).

She is the Chairperson of the Trust Committee and a Member of the Related Party Transactions and Executive Committees. She also serves as Chairperson of SB Capital Investment Corporation (since August 2016).

Ms. Aguilar is an investment banker with extensive experience in capital markets transactions and an entrepreneur with businesses in the fields of information technology and electronic payments, retail trade, and property management. Ms. Aguilar holds concurrent directorships in the fields of investment and commercial banking, social protection, information technology and e-payments, retail and supply chain, education, and property management.

She was also appointed as one of the Commissioners of the Social Security System (since August 2010). She also serves as the Chairperson of the Risk Management and Investment Committee, and Member of the Audit Committee, and the Social Security Commission's Governance Committee.

Ms. Aguilar's concurrent board positions are Chairperson of the Board of Trustees of La Salle Greenhills (since September 2021); Member of La Salle Institute's International Economic Council in Rome (since October 2022); Member of De La Salle Philippines Investment Committee (since July 2018); Member of De La Salle Medical and Health Sciences Institute's Finance Committee of the Board (since November 2022). She also sits as Director of PXP Energy Corporation (since February 2018); an Independent Director, Board Member and Chairperson of the Audit Committee of Makati Medical Center (since July 2018); Consultant Advisor to the Board of Philippine Seven Corporation (since January 2015); Independent Director of Science Park of the Philippines, Inc., (since June 2020); Governor and Vice President of Employers Confederation of the Philippines (since January 2017); and Board Member of Capital Markets Development Board (since 2013).

Her past board positions include Board of Trustees of De La Salle Medical and Health Science Institute (October 2020-November 2022); Member of De La Salle-College of Saint Benilde, Inc. Executive Finance Committee of the Board (July 2020-November 2022); Member of La Salle East Asia Boards LEAD Economic Council and LEAD Investment Board (August 2020-May 2023); Chairperson of Finance Committee and Treasurer of La Salle Greenhills (December 2019-September 2021); Director of PXP Mining Corporation (November 2019-February 2021); Director of Wenphil Corporation (June 2012-October 2019); Director of Electronic Commerce Payments, Inc., (2004-2019); Director of Ionics, Inc., (December 2016-August 2019); Treasurer of De La Salle Santiago Zobel (2004-2017); Director of PXP Energy Corporation (May 2014-March 2017); Director of Philippine Seven Corporation (1999-January 2015), and Director of Phoenix Petroleum Philippines, Inc. (2010-March 2013).

Ms. Aguilar's academic background is in the fields of International Business, Finance and Computer Science. She earned her Master's degree in International Business and Finance, with honors at Pepperdine University, Malibu, California, and her Bachelor of Science Degree in Computer Studies at De La Salle University, Taft Ave., Manila.

DANIEL S. DY, 37, Filipino, was elected to the Board on 27 April 2021.

He is a Senior Vice President and Executive Director. He is a member of the Transformation and Technology, the Executive, the Nominations and Remuneration Committees, and an alternate member of the Senior Credit Committee. He is also a Director of SB Finance, Inc. Mr. Dy has held various positions in Security Bank Corporation since he joined in 2012, working at the intersection of business, technology, and data and taking on a range of front-office and back-office leadership roles. Prior to moving to Manila, he was an Assistant Vice President in the Mortgage-Backed Securities Group of Trust Company of the West in Los Angeles.

He graduated with a Bachelor of Science degree in Economics - Accounting from Claremont McKenna College.

NOBUYA KAWASAKI, 51, Japanese, was elected to the Board on 25 April 2023. He is a member of the Bank's Corporate Governance Committee.

He is a Commissioner of PT Bank Danamon Indonesia, TBK since 2019.

Mr. Kawasaki joined The Bank of Tokyo Mitsubishi, Ltd. (now known as MUFG Bank, Ltd.) in 1997 where he held various roles in areas of global commercial banking, M & A advisory, and corporate finance. He is an Executive Officer & Deputy Group Head of Global Commercial Banking Business Group in pacific rim area.

Prior to his assignment in Global Commercial Banking, he was the Managing Director for the M & A Division of Mitsubishi UFJ Morgan Stanley Securities. Mr. Kawasaki was involved in various M&As including the strategic investment in Bank Danamon in Indonesia, and Security Bank Corporation in the Philippines.

Mr. Kawasaki graduated from Keio University, Tokyo with a Bachelor of Mechanical Engineering. He earned his Master of Mechanical Engineering from the same university.

MARIA CRISTINA A. TINGSON, 63, Filipino, was elected to the Board on 27 June 2023. She is a member of the Bank's Nominations and Remuneration, Senior Credit, and Restructuring Committees.

She is a Director of SB Finance, Inc. (since May 2013) and SB Rental Corporation (since May 2014). She is also the Chairperson of SB Cards Corporation (since May 2019).

Ms. Tingson was an Executive Vice President and Retail Banking Segment Head of Security Bank Corporation (SBC) until 31 December 2022. She was also a member of the Bank's Assets and Liabilities and People Empowerment Committees and an alternate member of the Credit Committee.

She was the President of SB Cards Corporation (2015-2017). Prior to her appointment as President of SB Cards Corporation, she was the Senior Vice President and Head of Corporate Banking until 2013. She joined the Security Bank Corporation as an Account Service Assistant in 1982 and assumed various positions including Relationship Manager and Head of Enterprise Risk Management of the Corporate Banking Division before assuming her position as Corporate Banking Head in 2009.

She holds a Bachelor of Arts degree in Business Administration from Maryknoll College.

JUICHI UMENO, 49, Japanese, was elected to the Board on 25 April 2023.

He is an Executive Vice President and Alliance Segment Head since April 2023. He is a member of the Bank's Risk Oversight Committee.

Mr. Umeno joined The Bank of Tokyo Mitsubishi, Ltd. (now known as MUFG Bank, Ltd.) in 1996 where he held various roles in the areas of strategic industry research, credit assessment, risk management, corporate planning, governance, and financial planning. In terms of the overseas assignment, he was assigned in Singapore from 2013 to 2019 and engaged in the regional planning for Asia. He also served as a Director of MUFG Bank China in charge of risk management from 2020 to 2021. Prior to joining Security Bank Corporation, he was a Managing Director, MUFG Bank (Europe) N.V. ("MBE") based in Amsterdam, the Netherlands from 2021 to 2023.

He graduated from Waseda University with a Bachelor of Political Science and Economics.

SANJIV VOHRA, 62, Indian, was elected as Director and appointed as President and Chief Executive Officer effective 1 July 2019. He is the Chairman of People Empowerment Committee and a member of the Bank's Executive, Transformation and Technology, Senior Credit, Restructuring and Trust Committees. He is also the Chairman of SB Finance, Inc.

He has over 30 years of experience in banking, having held a number of senior leadership positions in Asia, in Citibank India in various roles from 1986 to 1999, Corporate Bank Head at ABN AMRO Bank, India (1999-2000), Consumer Industry Head, Asia-Pacific at ABN AMRO Bank Singapore (2001-2002), Managing Director, Head of Corporate Banking (India, Sri Lanka, Bangladesh) at Citigroup India (2002-2005), Country Executive at Royal Bank of Scotland in India (2013), Head of Corporate Banking (Asia Pacific) at Deutsche Bank (2014-2017) and Managing Director, Head of Corporate Banking for Asia & Oceania and Co-Head of Investment Banking for Asia & Oceania at MUFG Bank, Ltd. (2017- 2019); as well as experience in the domestic market as Country Head of Citibank Philippines (2006-2013).

He graduated with a degree of Bachelor in Technology from the Indian Institute of Technology and a Master's degree in Business Administration from the University of Delhi in India.

INDEPENDENT DIRECTORS

GERARD H. BRIMO, 72, Filipino, was elected to the Board on 30 April 2019. He is the Chairman of the Audit Committee, Vice Chairman of the Related Party Transactions Committee, and a member of the Corporate Governance and Nominations and Remuneration Committees.

He is the Chairman of PLC-Nickel Asia Corporation (since August 2018) and its subsidiary companies: Cagdianao Mining Corporation (since August 2018), Cordillera Exploration Co., Inc. (since August 2018), Dinapigue Mining Corporation (since August 2018), and Newminco Pacific Mining Corporation (since 2018). He is also a Director of Nickel Asia Corporation subsidiaries Rio Tuba Nickel Mining Corporation, Taganito Mining Corporation, and Emerging Power, Inc., and served as Chairman of the Board of Directors of these companies from 2018 to 2022. He is also a Director and Vice Chairman of Nickel Asia Corporation subsidiary Hinatuan Mining Corporation and was Chairman of the Board thereof from 2018 until 2023. He is an Independent Director of Commonwealth Foods, Inc.(since 19 January 2021).

Prior to his career in mining, he worked for Citibank for a period of eight years, resigning as Vice President of the Capital Markets Group in Hong Kong, before joining Philex Mining Corporation as Vice President-Finance. He served as Chairman and CEO of Philex Mining Corporation from 1994 until his retirement in December 2003. He served as President of the Chamber of Mines of the Philippines from 1993 to 1995, and as Chairman from 1995-2003. He was again elected Chairman in 2017-2021 and is currently Vice Chairman.

He received his Bachelor of Science degree in Business Administration from Manhattan College, USA, and his Master's in Business Management degree from the Asian Institute of Management.

ENRICO S. CRUZ, 66, Filipino, was elected to the Board on 1 August 2019. He is the Chairman of the Bank's Risk Oversight Committee, Vice Chairman of the Nominations and Remuneration Committee, Member (Independent – Non-Voting) of the Senior Credit and Executive Committees, and member of the Operational Risk Management Committee.

He is also an Independent Director of SB Capital Investment Corporation, Maxicare Healthcare Corporation, Maxicare Life Insurance Corporation (Maxilife) AREIT, Inc., CIBI Information Inc, The Keepers Holdings Inc., DITO CME Holdings Corporation, and Robinsons Retail Holdings Inc.

Prior to joining the Bank, he was the Managing Director and Chief Country Officer for Deutsche Bank AG Manila Branch (DB). He joined Deutsche Bank in 1995 as a Director and Head of Global Markets. Prior to DB, he served as Senior Vice President and Head of Treasury at Citytrust Banking Corporation (CTBC), an affiliate of Citibank NA. He joined CTBC in 1979 as an Executive Development Program Trainee and worked in various operations departments until his appointment as Head of Treasury in 1989.

He graduated from the University of the Philippines with a Bachelor of Science degree in Business Economics and a Master's degree in Business Administration.

ESTHER WILEEN S. GO, 53, Filipino, was elected to the Board on 27 April 2021. She is the Chairperson of the Transformation and Technology and Operational Risk Management Committees. She is the Vice Chairperson of the Risk Oversight Committee and a Member (Independent – Non-Voting) of the Executive Committee.

She is currently the President and Chief Executive Officer of MediLink Network, an electronic network serving the health ecosystem. She is also a Director of Equicom Savings Bank, Maxicare Healthcare Corporation, and Maxicare Life Insurance Corporation.

She was a Vice President of CitiGroup New York handling Operations, Product Development, e-Strategy and Implementation, and Payment Innovation. Prior to this, she worked with Booz Allen Hamilton, SM Department Stores, Equitable Card Network, and the US Committee for UNICEF.

She holds a Master's degree in Business Administration from Harvard Business School and a Bachelor of Arts degree with double majors in Computer Science and Economics (magna cum laude) from Smith College.

DR. JIKYEONG KANG, 62, British, was elected to the Board on 25 April 2017. She is the Chairperson of the Nominations and Remuneration Committee,. She is also the Vice Chairperson of the Transformation and Technology Committee and a member of the Risk Oversight Committee.

Dr. Kang has been the President and Dean of the Asian Institute of Management (AIM), and its MVP Chair in Marketing since 2015.

Dr. Kang is a Board member of the European Foundation for Management Development (EFMD), a Board member of the UN Global Compact Principles for Responsible Management Education (PRME), a Board member of the Global Business School Network (GBSN), and a Council member of the Association of Asia-Pacific Business Schools (AAPBS). She is a Fellow of the prestigious International Academy of Management (IAOM), an exclusive, invitation-only forum of world-class global thought and business leaders committed to co-creating a leadership agenda to address critical opportunities created by global challenges. Dr. Kang was a Board member of the Association to Advance Collegiate Schools of Business (AACSB) for the maximum term of 6 years, during which she was elected by an international membership for a 3-year term as Vice Chair, Chair, and Immediate Past Chair.

Dr. Kang is an Independent Director Kesoram Industries, part of the BK Birla Group of Companies in India. In addition, she serves on the international advisory boards of several premier international business schools, including Stockholm School of Economics (Sweden), ESADE Business School (Spain), Hanken School of Economics (Finland), Insper Instituto de Ensino e Pesquisa (Brazil), LUMS Business School (Pakistan), and Yonsei Business School (Korea). Dr. Kang She is also a member of local business organizations such as the Management Association of the Philippines, the Makati Business Club, the American Chamber of Commerce, and the British Chamber of Commerce, among others.

In 2017, Dr. Kang received The Asia HRD Award for Contribution to Organization. This award is bestowed upon individuals who have built their success on innovative systems, processes, and practices that have impacted overall employee development and productivity with an accompanying effect on the bottom line. She also received the Brand Laureate Best Brands' International Brand Personality Award in 2018. With her leadership, AIM was given the 2019 Asia Pacific Entrepreneurship Award for Corporate Excellence in Education and Training for demonstrating sustainable growth, responsible leadership, and operational excellence. Most recently, she was awarded the 2021 Philippines Education Leadership Award, presented by the Asian Confederation of Businesses and endorsed by the World Federation of Academic and Educational Institutions, to recognize excellence in the application of leadership principles to education.

JOSE PERPETUO M. LOTILLA, 67, Filipino, was elected to the Board on 27 April 2021. He is the Chairman of the Related Party Transactions Committee, and a member of the Corporate Governance and Audit Committees.

He is currently an Independent Director of Synergy Grid and Development Philippines, Inc. (since 2019), Philippine Commercial Capital, Inc. (since 2021), and Land Registration Systems, Inc. (since 2023). He is also the Chairman of Carabineros Development, Inc., the Corporate Secretary of Amber Kinetics Phil., and a Legal Consultant of San Miguel Corporation. He is also a member of the Integrated Bar of the Philippines (IBP) and a Special Adviser to the Roman Catholic Diocese of San Jose de Buenavista Antique. Mr. Lotilla served as Undersecretary for Legal Affairs and Undersecretary in charge of Civil Aviation at the Department of Transportation and Communications (2012-2015).

Prior to joining the government, he was a Senior Partner at Sycip Salazar Feliciano and Hernandez Law Offices. He became a partner in the firm's Corporate, Special Projects and Banking, Finance and Securities Practice Groups in 1989. He was a former President and Trustee of the Philippine Bar Association. He also served as government representative to the Board of PNOC Petrochemical Corporation for several years. He was Corporate Secretary of GD Searle Philippines for many years. He was an Independent Director of Security Bank Corporation (2002-2012), SB Capital Investment Corporation (2004-2012), and Security Finance, Inc. (2010-2011). He was involved in major mergers and acquisitions, banking, finance, securities, and capital markets transactions in the Philippines. He was a former Governor of the Integrated Bar of the Philippines for Western Visayas, Director of the Philippine Bar Association, and Chairman of the Committee on Bar Discipline of the Integrated Bar of the Philippines. As a banking and finance lawyer, he was rated as the sole band 1 Philippine lawyer for several years by Chambers until he retired from Sycip Law.

He graduated from the Ateneo de Manila University with a Bachelor of Arts degree in Economics and earned his degree in Bachelor of Laws from the University of the Philippines.

NAPOLEON L. NAZARENO, 74, Filipino, was elected to the Board on 25 April 2017. He is the Chairman of the Corporate Governance Committee, Vice Chairman of the Trust and Operational Risk Management Committees, and member of the Risk Oversight Committee.

He is an Independent Director of Paymongo Philippines Inc. since 2023. He was a Member of the Supervisory Board of Rocket Internet (2014-2017), Trustee of Philippine Disaster Recovery Foundation, Inc. (2013-2015) and Ideospace (2012-2015), President and Trustee of First Pacific Leadership Academy (2012-2015), and Chairman of the Board of Trustees and Board of Governors of the Asian Institute of Management (2011-2017).

He was the Chairman of several subsidiaries of PLDT and Smart, including PLDT Communications and Energy Ventures, Inc. (PCEV), ePLDT, Inc. (from 2013 to 2015), Digital Telecommunications Phils., Inc. (Digitel) (2012-2015), Digitel Mobile Philippines Inc. (Digitel Mobile) (2012-2015), Smart Broadband Inc. (2005-2015) and i-Contacts Corporation (2001-2015). He was the President and Chief Executive Officer of PLC Philippine Long Distance Telephone Company (PLDT) (February 2004-2015), PLC-Smart Communications, Inc. (January 2000-2015), Connectivity Unlimited Resources Enterprise, Inc. (2008-2015), Aces Philippines Cellular Satellite Corporation (2000-2015), and PLDT Communications and Energy Ventures (2004-2011).

He likewise served as Director of PLC-Manila Electric Company, PLDT Global Corporation, Mabuhay Satellite Corporation, Rufino Pacific Tower Condominium, and Operation Smile. He was a non-executive director of First Pacific, a Hong Kong Stock Exchange-listed company, and a Supervisory Board Member of Rocket Internet AG, a company which provides a platform for the rapid creation and scaling of consumer internet businesses outside the US and China. Mr. Nazareno's business experience spans several countries in over 40 years and his exposure cuts across a broad range of industries, namely packaging, bottling, petrochemicals, real estate and, in the last 16 years, telecommunications and information technology.

Mr. Nazareno received his Master's degree in Business Management from the Asian Institute of Management, completed the INSEAD Executive Program of the European Institute of Business Administration in Fontainebleau, France, and was conferred a Doctor of Technology degree (Honoris Causa) by the University of San Carlos in Cebu City.

NEW NOMINEE

STEPHEN G. TAN, 47, Filipino, is currently the Senior Pastor of Grace Christian Church of the Philippines. He has spoken at conferences, schools, and churches, throughout North America, Europe, and Asia and has served as a guest lecturer at several seminaries and Bible colleges.

He currently serves on several boards of non-profits and NGOs working toward community transformation such as Wycliffe Philippines (Chairman of the Board), Spartan Scholarships (since 2006), and Center for Community Transformation (since 2023), and educational institutions such as FEBIAS College of the Bible (since 2021), Biblical Seminary of the Philippines (since 2022), and Grace Christian College (since 2006).

Previously, he worked as a management consultant for Deloitte Consulting, consistently ranked as a top performing analyst. He also worked at SBC Communications (now AT&T) as a Manager of Engineering Design

and as a Research Assistant in the Solid State Research Group of SMU, with a published article on Semiconductor Microbolometers in the prestigious IEEE journal.

He holds a Doctorate (research focusing on transformational leadership and change management) from Dallas Seminary and a Master of Theology (summa cum laude) degree from the same school. He also has a Bachelor of Science in Electrical Engineering (cum laude) and a Bachelor's of Science in Mathematics (cum laude) from Southern Methodist University in Texas.

Corporate Secretary

JOEL RAYMOND R. AYSON, 59, Filipino, was elected Corporate Secretary on 29 July 2004.

He is a Partner in Quasha Law (since May 1998 to the present). He is a member of Integrated Bar of the Philippines, First Vice President and Trustee of the Philippine Bar Association, member of Immigration Lawyers Association of the Philippines and University of the Philippines Law Alumni Association. He is a Founding member of Students Law for Integrity and Democracy-UP College of Law and the UP Association of Political Science Majors.

He is the Chairman of Unigrowth Resources & Development Corporation and President and Director of Dubor Backtrenmittel Und Apparatebau AG (Philippines), Inc., President of Bristol Technology System, Vice President and Director of Amtel Trading Corporation, Chairman and President of Ceragon Networks (Philippines), Inc. and Chairman and President of Eastern Western Connections Property, Inc.

He is a Director of Quo Vadis Palawan Resort, Inc., Kayak Holdings, Inc., Back Office Superior Services, Inc., Asiamed Inc., Parex Realty Corporation, Trevi Foundations Philippines, Inc., Avaloq Philippines, Inc. and Konika Minolta Marketing Services (Philippines), Inc.

He is also a Corporate Secretary and Director of IXSFORALL, Inc., Himlayang Pilipino, Inc., Himlayang Pilipino Plans, Inc., List International, Blue Sky Sea Resort Corp., Bohol Agro Marine Development Corp., Artbank Holdings, Inc., Tambuli Development Corp., Metropolitan Philippines Resort Corporation and Corporate Secretary of Lapu Lapu Resort Development, Inc., Bohol Resort Dev., Inc., Lapu Lapu Resort, Nexlogic Telecommunications Network, Inc., SELC-Global Center Philippines Corporation. He is a Resident Agent of Ceragon Network (HK) Ltd., Medical Services of America Inc., Tanis Food Tec BV, Wagenborg Shipping Holdings BV, Dubor RHQ, OTV France Philippines and Rademaker B.V.

He was the Treasurer and Vice President /Director of the Integrated Bar of the Philippines, Makati City Chapter (from 2001-2009) before he assumed his position as President (from 2009 to 2011). He is the Treasurer of Instoremedia Philippines, Inc. and Strategic Workforce Solutions Corporation. His practice areas are Corporate Law, Civil Litigation, Administrative Law, Immigration Law, Insurance Law, Regulatory, General Practice and Special Projects.

He graduated Cum Laude with a degree in Political Science and took post graduate studies of Bachelor of Laws at the University of the Philippines.

Executive Officers

Position	Name	Age	Citizenship
President & Chief Executive Officer	Sanjiv Vohra *	62	Indian
Executive Vice Presidents	Arnold Q. Bengco	51	Filipino
	Nerissa Gloria C. Berba	54	Filipino
	Leslie Y. Cham	58	Filipino
	Lucese T. Eralil***	55	Indian
	Gina S. Go	63	Filipino
	Joselito E. Mape	61	Filipino
	Eduardo M. Olbes	54	Filipino
	John Cary L. Ong	50	Filipino
	Rahul S. Rasal	56	Indian
	Juichi Umeno *	49	Japanese

Position	Name	Age	Citizenship
Senior Vice Presidents	Jason T. Ang	53	Filipino
	Ronald I. Austria	52	Filipino
	Stephen John Bell	56	British
	Marlette P. Brodett	52	Filipino
	Abigail Marie D. Casanova	49	Filipino
	Charles Malvin T. Ching	46	Filipino
	Anna Christina M. Chinjen	52	Filipino
	Aristotle I. Cruz	52	Filipino
	Criselda Q. De Sagun-Madrid	41	Filipino
	Amaneci Grace R. De Silva	47	Filipino
	Jonathan C. Diokno	51	Filipino
	Daniel S. Dy *	37	Filipino
	Ma. Paz Victoria R. Gonzalez	56	Filipino
	Irene E. Guban	48	Filipino
	Cristina V. Henson	59	Filipino
	Orencio Andre P. Ibarra III	50	Filipino
	Yoshimasa Itaka	48	Japanese
	Sohel H. Kanchwala	58	Indian
	Jefferson T. Ko	48	Singaporean
	Kim O. Lim	52	Filipino
	Ma. Carmencita R. Lopez	58	Filipino
	Prakash Sudhakar Mahajan	51	Indian
	Luis Gregorio M. Maloles	55	Filipino
	Yvonne Joanna P. Marcelo	53	Filipino
	Jiri Matousek	37	Czech
	Patrick M. Meneses	50	Filipino
	Juan A. Mestas **	41	Peruvian
	Maria Margarita R. Mirabueno	51	Filipino
	Jorge Lindley S. Ong	51	Filipino
	Rahul M. Sadarangani	43	Indian
	Ma. Patricia N. Tan****	49	Filipino
	Dennis M. Tangonan	49	Filipino
	Ricardo G. Torres	62	Filipino
Hirofumi Umeno	47	Japanese	
Myla R. Untalan	53	Filipino	
Balaji B. Vijayan	56	Indian	
John David G. Yap	46	Singaporean	
Price Edward C. Yap	50	Singaporean	
Malcolm C. Yow	45	Australian	

*Member of the BOD

** Also known as Juan Alfredo Mestas Jara

*** Appointed as Chief Operating Officer (COO) effective 1 March 2024

**** Appointed as Chief Marketing Officer (CMO) effective 1 March 2024

ARNOLD Q. BENGCO, 51, Filipino, is Executive Vice President and Financial Markets Segment Head. He is a member of the Bank's Assets and Liabilities, People Empowerment, Anti-Money Laundering & Counter Financing of Terrorism, Credit and Sustainability Committees.

He is the Chairman of SB Equities, Inc. and Director of SB Capital Investment Corporation since May 2023. Prior to this, he was the President of Old Sun Cap Inc (Back Alley Barbershop) from 2022 to 2023; Treasury Technical Consultant of Temasek Holdings Singapore (Trusted Services Subsidiary) from 2021 to 2023; Emerging Markets FX Head of Barclays Bank PLC Singapore from 2018 to 2019; Treasury Trading Management Vice President of OCBC Bank Singapore from 2016 to 2017; Portfolio Manager of Dymon Asia Capital Singapore from 2013 to 2015. He

also served in various positions in Citibank NA Singapore from 1999 to 2013. He also worked as FX Trader in Citibank NA Philippines from 1996 to 1999 and Far East Bank and Trust Co. from 1992 to 1994.

He graduated with a bachelor's degree in Applied Mathematics (Actuarial Science) in De La Salle University and earned his Master's Degree in Business Management in Asian Institute of Management.

NERISSA GLORIA C. BERBA, 54, Filipino, is Executive Vice President and Group Head / Chief People Officer of Human Capital Management. She is a member of the Bank's Integrity, Outsourcing, Sustainability and People Empowerment Committees. She is also the Chairperson of the Bank's Occupational Safety and Health Committee.

Prior to this, she was Senior Vice President and Head of Human Resources of The Hongkong and Shanghai Banking Corporation Limited (2018 to 2019); HR Director/Country Head of Deutsche Bank (2015 to 2018); HR Leader in Asia in General Electric (2010 to 2015); Vice President-Talent Acquisition/Career Management in the Bank of the Philippine Islands (February 2010-August 2010); Senior Vice President and Head of HR in GE Money Bank (2006 to 2010); First Vice President and Senior Human Relationship Manager in Standard Chartered Bank (2004 to 2006); Senior Business HR Manager in Philips Electronics and Lighting Inc. (2003 to 2004); Associate/Human Resource Manager in Bo'Le' Associated Ltd. (2000 to 2003); and Human Resource Manager in New Zealand Milk Products, Phils. (1999 to 2000).

She graduated with a Bachelor of Science degree in Psychology from Assumption College.

LESLIE Y. CHAM, 58, Filipino, is Executive Vice President and Head of the Branch Banking Group (since 1 October 2008). He is a member of the Bank's Assets & Liabilities, People Empowerment, Occupational Safety & Health, and Anti-Money Laundering & Counter Financing of Terrorism Committees.

He was a Director of SB Finance, Inc., formerly known as Security Bank Savings Corporation (from 2012 to 2020).

He has over 25 years of work experience and has extensive exposure in the fields of Sales, Distribution, Wealth Management, International Banking, Trust and Investment services, and Bancassurance. Before joining the Bank, he served as Senior Vice President and Head of Sales and Distribution of Chinatrust Phils. Commercial Bank Corp. until September 2008. He served in various positions in other institutions, including First Vice President of Standard Chartered Bank (from 1999 to 2003), Vice President of Philippine Commercial International Bank (1997-1999), and Vickers Ballas Asset Management LTD PTE (1995-1997). He was an Assistant Vice President of Citytrust Banking Corporation (1987-1995).

He received a Bachelor of Science degree in Commerce, Major in Marketing Management from De La Salle University and completed with Distinction the one-year course of the Trust Institute Foundation of the Philippines.

LUCOSE T. ERALIL, 55, Indian, is Executive Vice President and Enterprise Technology and Operations Segment Head. He is a member of the Bank's People Empowerment, Transformation and Technology and Enterprise Control Board Committees.

Mr. Eralil brings with him 30 years of work experience from Helius Technologies Pte. Ltd., AlphaEl Enterprises Pte. Ltd., Credit Suisse, and NIIT Ltd. He has extensive exposure in the fields of cross-segment banking, product architecture, and transformation management. Prior joining the Bank, he was a Director, Consulting and Advisory for Helius Technologies Pte. Ltd. Prior to Helius Technologies, he was a Managing Director at Credit Suisse, where he was the Global Head of Technology Operations and member of the Global Technology Operations and a member of the Global Technology Management Team.

He graduated with an Advanced Diploma in Systems Management from National Institute of Information Technology, has Post Graduate Diplomas in Digital Business, Innovation & Design Thinking from the Emeritus Institute of Management and holds the following certifications: Big Data Analytics and Data Science Foundation, Microsoft Product Specialist, Prince 2 Foundation, and Blockchain for Technical Executives.

GINA S. GO, 63, Filipino, is Executive Vice President and Chief Risk Officer of the Bank. She is a member of the Bank's Asset Disposal, Integrity, Outsourcing and Sustainability Committees.

She was the President of Security Bank Savings Corporation (now known as SB Finance, Inc.) from February 2012-2016. Prior to this, she was Chief Risk Officer of the Bank (2006-2011) and Head of Remedial Management Division (2000-2005). Prior to joining the Bank in September 2000, she was connected with Equitable where she accumulated 20 years of solid credit experience, having assumed various PCI Bank responsibilities in their Corporate Banking, Middle Market Lending and Specialized Financial Services Divisions.

She graduated from the University of the Philippines with a bachelor's degree in business economics and a master's degree in business administration.

JOSELITO E. MAPE, 61, Filipino, is Executive Vice President and Special Adviser to the Chairman (since 1 February 2023). Prior to this, He was the Chief Administrative Officer from February 2020 to January 2023 and was the Chief Financial Officer from January 2012 to 31 January 2020.

He is the Bank's Chairman of, Integrity, and Outsourcing Committees.

He is a Director of SB Equities, Inc. (since May 2015) and SB Forex, Inc. (since July 2003), and Director/Treasurer of SB Rental Corporation (since May 2014). He is the Treasurer of SBM Leasing, Inc. (since 2011) and Security Finance and Leasing, Inc., and Trustee/Treasurer of Security Bank Foundation, Inc. (since April 2009). He is the Treasurer of Tany Foundation (since October 2018) and an Independent Director of Cityland for Social Progress Foundation, Inc. (since January 2018).

He was a Director of Security Land Corporation (from 2010 to 2015) and SB Finance, Inc. (from 2018 to 2020). Prior to joining the Bank in July 1996, he was a Senior Manager of Cityland Development Corporation's Financial Management Services Division.

He is a Certified Public Accountant and graduated from the University of Santo Tomas (Cum Laude) with a Bachelor of Science degree in Commerce, Major in Accounting.

EDUARDO M. OLBES, 54, Filipino, is Executive Vice President and Chief Financial Officer. He was Executive Vice President for the Wholesale Banking Segment until 31 January 2020. He is the Chairman of Sustainability Committees and the Vice Chairman of the Assets & Liabilities Committees.

He is also a member of the People Empowerment, Asset Disposal, Enterprise Control Board and Transformation and Technology Committees. He was the Chairman of SB Rental Corporation (until May 2020) and SBM Leasing, Inc. (until May 2021). He was Chairman of SB Equities, Inc. from 2010 to 2022. He was Director of SB Capital Investment Corporation from 2010 to 2022. He is a member of the Financial Executives of the Philippines (since November 2010), the Management Association of the Philippines (since December 2010) and Philippine Interpretations Committee (since September 2020). He is also a Trustee of the SBC Retirement Plan (since 2011).

Prior to joining the Bank in June 2010, he held various positions in Citibank N.A. (Philippines) Global Banking Unit (2006-2010) including his last position as Director responsible for the local corporate unit under Citi's Global Corporate & Investment Bank. Between 2003 and 2006, he was a restructuring advisor to various Philippine-based corporates. Previously, he worked in the Investment Banking Division of Morgan Stanley & Co. in New York (2000-2003) and the Investment Banking Division of Bear Stearns & Co. Inc. in New York (1997-2000). He also worked in several areas within investment banking across various geographies and industries, including the Global Communications and Media and Global Retail and Consumer groups.

He holds a master's degree in finance and management from Leonard N. Stern School of Management, New York University and a bachelor's degree, Major in Economics, from the University of California, Berkeley.

JOHN CARY L. ONG, 50, Filipino, is Executive Vice President and Wholesale Banking Segment Head. He was the Transaction Banking Group / Channel Network Head from May 2020 to July 2023. He is a member of the Bank's Assets and Liabilities, People Empowerment, Anti-Money Laundering & Counter Financing of Terrorism, Sustainability Committees and Chairman of Credit Committee. He is also assigned as Chairman of SBM Leasing, Inc; Director of SB Capital Investment Corporation and SB Rental Corporation, member of Engagement Underwriting Committee and act as SBC Representative in Bancnet.

Prior to this, he was Head of Transaction Banking Center of Union Bank of the Philippines (2016-April 2020); Country Head, Treasury and Trade Solutions (2013-2016) and Client Sales Management Head (2011-2013) in Citibank N.A.; Head of Trade Finance and Cash Management for Corporates (2006-2011); Head of Operations

(2005); and Head of Global Markets Operations (2003-2005) in Deutsche Bank AG Manila; and Senior Banking Consultant in Misys International Banking Systems (2000-2003).

He has extensive exposure in the fields of Electronic Payments, Transaction Banking, Treasury, Trade Finance, and Fixed Income Instruments.

He graduated Cum Laude with a bachelor's degree in Legal Management from the Ateneo de Manila University.

RAHUL S. RASAL, 56, Indian, is Executive Vice President and Retail Banking Segment Head. He is a member of the Bank's Assets and Liabilities, People Empowerment and Sustainability Committees.

Prior to joining the Bank, he held such various positions as Chief Operating Officer & Executive Vice President at Future Generali India Life (2018-2021); Managing Director at Citibank NA (1995-2017).

He graduated with a degree in Engineering and earned his master's degree in Management Studies from Jammalal Bajaj Institute of Management Studies at the University of Mumbai, India.

JUICHI UMENO, 49, Japanese, was elected to the Board on 25 April 2023.

He is an Executive Vice President and Alliance Segment Head since April 2023. He is a member of the Bank's Risk Oversight Committee.

Mr. Umeno joined The Bank of Tokyo Mitsubishi, Ltd. (now known as MUFG Bank, Ltd.) in 1996 where he held various roles in the areas of strategic industry research, credit assessment, risk management, corporate planning, governance, and financial planning. In terms of the overseas assignment, he was assigned in Singapore from 2013 to 2019 and engaged in the regional planning for Asia. He also served as a Director of MUFG Bank China in charge of risk management from 2020 to 2021. Prior to joining Security Bank Corporation, he was a Managing Director, MUFG Bank (Europe) N.V. ("MBE") based in Amsterdam, the Netherlands from 2021 to 2023.

He graduated from Waseda University with a Bachelor of Political Science and Economics.

JASON T. ANG, 53, Filipino, is Senior Vice President and Region 4 Head under Branch Banking Group.

He joined the Bank in 2007 as First Vice President and Area Head for Visayas and Mindanao. Prior to this, he was Vice President and Region Head of International Exchange Bank (1996-2007). Previously, he was with Citytrust Banking Corporation where he held various positions (1991-1996).

He graduated from the Ateneo de Davao University with a Bachelor of Science and Commerce degree, Major in Accounting.

RONALD I. AUSTRIA, 52, Filipino, is Senior Vice President and Region 2 Head under Branch Banking Group. He joined the Bank in November 2009 as First Vice President and Area Head.

Prior to this, he served in various positions in Standard Chartered Bank (1999-2008), PCI Bank (1996-1999), Far East Bank and Trust Company (1995-1996), and Citytrust Banking Group (1992-1995).

He holds a Bachelor of Arts degree in Economics from the Ateneo de Manila University.

STEPHEN JOHN BELL, 56, British, is Senior Vice President, Channel Network Head under Payment Channel Division.

Before joining Security Bank, he held various positions including Director at PricewaterhouseCoopers (PWC) Vietnam (2018-2021); Partner at KPISOFT (Malaysia) (2017-2018); Head of Technology (2013-2016) and Senior Program Director (2011-2013) at ANZ Regional Office APEA (Singapore); Global Head of Product at ANZ Group (Australia) (2009-2011); Global Head of the Program Management Office (PMO) and Head of Asia Product at HSBC Hong Kong (1998-2009); Assistant Vice President at Bank of America (London & Hong Kong) (1994-1998); and Assistance Manager for Electronic Banking and Branch Banking roles at Lloyds Bank in London (1986-1994).

He completed the UK General Certification of Secondary Education from Shenfield Comprehensive.

MARLETTE P. BRODETT, 52, Filipino, is Senior Vice President and Region 3 Head under Branch Banking Group. She joined the Bank in 2004 as Senior Assistant Vice President and Area Business Manager.

Prior to joining the Bank, she was Vice President and Region Head in Maybank Philippines, Inc. (2003-2004); First Assistant Vice President in Asiatrust Development Bank (2000-2003); and Branch Head with the Bank of the Philippine Islands (1992-2000).

She graduated with a Bachelor of Science degree in Communication Arts from Miriam College.

ABIGAIL MARIE D. CASANOVA, 49, Filipino, is Senior Vice President and SB Finance, Inc.'s President & CEO since April 2020.

She joined the Bank in 2015 as First Vice President. Her last position with the Bank was heading the Consumer Business and Operations Group.

She has extensive exposure in the various areas of the credit cycle for consumer finance, small business loans, and credit cards. She has held key management roles in multinational and domestic banks like Citibank, GE Money, and BDO.

She earned a masters-level Post Graduate Diploma in Global Business at the University of Oxford and graduated with a Bachelor of Science degree in Business Economics (Cum Laude) from the University of the Philippines. She is also a certified Six Sigma Black Belt.

CHARLES MALVIN T. CHING, 46, Filipino, is Senior Vice President and Chief Administrative Officer under Office of the Chief Administrative Office. He is a member of the Bank's Asset & Liabilities, Asset Disposal and Outsourcing Committees.

Prior to joining the Bank, he was the Director/Chief Operating Officer and headed various units such as Legal Entity Close Manila, Head Office and Branch Reporting at Deutsche Bank Group (2013-2021). He was also Assistant Manager and Deputy Team Lead (2005-2006), Manager and Asia Financial Reporting Production Head (2007-2008), Assistant Vice President and Head Office Migration Lead for Korea (2009), Vice President and Financial Reporting Head Korea and Hongkong (2010-2011), Senior Vice President and Corporate Reporting Production Head (2012 -2013) at Citibank N.A. ROHQ.

He graduated with a Bachelor of Science degree in Management Engineering from Ateneo de Manila University.

ANNA CHRISTINA M. CHINJEN, 52, Filipino, is Senior Vice President and Chief Compliance Officer. She is the Chairman of the Anti-Money Laundering & Counter financing of Terrorism Committee, Vice-Chairman of the Sustainability Committee and member of the Outsourcing and Integrity Committees.

She is a Director of the Association of Bank Compliance Officers, Inc. (ABCOMP) and member of the Bankers Institute of the Philippines (BAIPHIL).

She has 22 years of work experience, with extensive exposure in the field of financial crime compliance, risk management, corporate banking, and payment & cash management implementation.

Prior to joining the Bank, she was with The Hongkong and Shanghai Banking Corporation Limited in various positions including Senior Vice President for Wholesale Banking & Markets Advisory Lead for Financial Crimes Compliance (2017-2019), Anti-Money Laundering Lead (2016-2017), Global Standards Execution Lead (2013-2016), Chief Risk & Administration Officer (2012-2013), Strategy, Planning & Business Management (2009-2012), Vice President for Operations, Solutions and Support (2006-2009), Assistant Vice President and Relationship Manager (2003-2006), Head of Implementation - Payments and Cash Management (2001-2003), Relationship Manager for Non-Borrowing Companies (2000-2001), and Resident Manager (1999-2000).

She graduated with a bachelor's degree in Business Administration from the University of the Philippines Diliman. She earned her master's degree in Business Administration from the same university.

ARISTOTLE I. CRUZ, 52, Filipino, is Senior Vice President and Senior Relationship Manager / Team Head under Corporate Banking Group.

Prior to joining the Bank in 2004, he held various positions in Metrobank & Trust Company (2002-2004), Global Business Bank (2000-2002), Bank of the Philippine Islands (2000-2005), Far East Bank & Trust Company (1995-2000), First Bank (1994-1995), and Citibank (1993-1994).

He graduated with a degree in Economics from De La Salle University and earned his master's degree in Business Administration from the Ateneo Graduate School of Business.

CRISELDA Q. DE SAGUN-MADRID, 41, Filipino, is Senior Vice President and Data Science & AI COE Head under Enterprise Data Office.

Prior to joining the Bank, she held the position of Vice President at Metrobank Bank & Trust Company (2018 to 2023). She also held the position in Vitamin Shoppe Industries as Distribution Analyst from 2012 to 2014 and as Manager of Inventory Control Accuracy from 2015 to 2017; General Manager under Brightcloud, Incorporated from 2008 to 2012; Junior Associate under Mitchell Madison Group from 2005 to 2008.

She graduated with a bachelor's degree in Business Administration and Accountancy from University of the Philippines, Diliman and earned her Master's Degree in Business Analytics from New York University, Stern School of Business.

AMANECI GRACE R. DE SILVA, 47, Filipino, is Senior Vice President and Shared Services Technology Head under ITG – Change the Bank Group.

Prior to joining the Bank, she worked with Banco de Oro Unibank Incorporated for 10 years from January 2013 to June 2023. She also held a various position in Chartis Technology and Operations Management Group from 2006 to 2012; Avon Cosmetics, Incorporated from 2001 to 2006; Systems Standards, Incorporated from 1999 to 2001; Bayan Telecommunications as Account Specialist last 1999.

She graduated with a bachelor's degree in Electronics and Communication Engineering from Saint Louis University.

JONATHAN C. DIOKNO, 51, Filipino, is Senior Vice President and Cash Management Head under Deposit Business Division.

He has extensive exposure in the fields of cash management services, remittance origination and retail banking. Prior to joining the Bank in February 2019, he was First Senior Vice President and Global Filipino Banking Head of Rizal Commercial Banking Corporation (2017-2019). He served in various positions in Banco de Oro (2001-2016), Citibank N.A. (1999-2001), Standard Chartered Bank (1997-1999), and the Bank of the Philippine Islands/Citytrust Banking Corporation (1994-1997).

He graduated with a Bachelor of Science degree in Business Administration from the University of the Philippines.

DANIEL S. DY, 37, Filipino, was elected to the Board on 27 April 2021.

He is a Senior Vice President and Executive Director. He is a member of the Transformation and Technology, the Executive, the Nominations and Remuneration Committees, and an alternate member of the Senior Credit Committee. He is also a Director of SB Finance, Inc. Mr. Dy has held various positions in Security Bank Corporation since he joined in 2012, working at the intersection of business, technology, and data and taking on a range of front-office and back-office leadership roles. Prior to moving to Manila, he was an Assistant Vice President in the Mortgage-Backed Securities Group of Trust Company of the West in Los Angeles.

He graduated with a Bachelor of Science degree in Economics - Accounting from Claremont McKenna College.

MA. PAZ VICTORIA R. GONZALEZ, 56, Filipino, is Senior Vice President and Head of Secured Lending. She was assigned as the Mortgage Banking Head from 2015 to 2023 before her current role.

She has worked in various bank industries for 20 years before joining Security Bank where she held several position from BDO Unibank (2009 – 2010), GE Money Bank (2007 – 2009), Philippine Savings Bank (2000-2006), Solid Bank (1996 – 2000) and Bank of Commerce (1990 – 1996)

She graduated with a bachelor's degree in Commerce major in Marketing Management from De La Salle University.

IRENE E. GUBAN, 48, Filipino, is Senior Vice President and Head of Retail Strategy and Analytics Group.

Prior to joining the Bank, she worked with Eastwest Banking Corporation as Auto Credit Policy & Consumer Lending Cluster Risk Support Head (2016-2018), Standard Chartered Bank as Credit Risk Head (2009 – 2016), GE Money Bank as Portfolio Analytics Head (2008 – 2009), Standard Chartered Bank as Credit Risk Manager (2006-2008), Optimum PTE Solutions as Analyst (2006), and Globe Telecom as Senior Credit Specialist (1996-2006).

She graduated with a bachelor's degree in Mathematics from University of the Philippines, Los Banos and earned her master's degree in Business Administration from Ateneo de Manila Graduate School of Business.

CRISTINA V. HENSON, 59, Filipino, is Senior Vice President and Operations Head. She is a member of the Bank's Anti-Money Laundering & Counter Financing of Terrorism and Occupational Safety and Health Committees.

She joined the Bank as Bookkeeper in 1988 and assumed various positions in branches and operations, including Service Channels & Support Division Head and Branch Banking Operations Group Deputy Head until her appointment as First Vice President and Operations Head in 2019.

She graduated from Holy Angel University with a Bachelor of Science degree in Accounting.

ORENCIO ANDRE P. IBARRA III, 50, Filipino, is Senior Vice President and Treasurer. He is the Chairman of the Bank's Assets and Liabilities Committee.

Prior to this, he was First Vice President and Head of the ALM and Trading Division. He joined the Bank as Manager in 2000 and assumed various positions in the Treasury Group before he assumed the position of Chief Dealer in 2013. He was also ACI Philippines (The Financial Markets Association Inc.) President in 2017, Vice President in 2016, Secretary in 2015 and a member of the Board of Directors from 2014-2017.

He holds a Bachelor of Arts degree in Management Economics from the Ateneo de Manila University and a master's degree in Business Management from the Asian Institute of Management.

YOSHIMASA ITAKA, 48, Japanese, is Senior Vice President and Senior Relationship Manager / Team Head of the Corporate Banking Group.

Before joining Security Bank, he held various positions at MUFG Bank, Ltd., Ho Chi Minh City (from 2019-2021) and MUFG Bank Brasil, Ltd. (from 2015-2019). He rose through the ranks at the Bank of Tokyo-Mitsubishi UFJ (2006-2015) and started his career at the Bank of UFJ (1999-2005).

He completed his degree in Environmental Engineering from Kyoto University.

SOHEL H. KANCHWALA, 58, Indian, is Senior Vice President and Head of Collections Department under Risk Management Group.

Prior to joining the Bank he was Senior Consultant for Kuwait Finance House (2019); Senior Vice President for First Abu Dhabi Bank (2017-2018); Director for Citibank N.A. Mumbai (2010-2017); Region Head for Quattro Risk Management Services (2007-2010); Senior Managing Consultant for Mastercard Worldwide-Advisors (2003-2007); Credit and Risk Operations Head for Citibank N.A. Manila (1998-2003); Senior Manager for Saudi American Bank (Citigroup) (1994-1997); Manager for Citibank N.A. India (1990-1994).

He completed his bachelor's degree in Commerce from Kishinchad Chellaram College and his Diploma in Business Management (Finance) from Sydenham Institute of Management and Research. He earned his master's

degree in Management Studies (Marketing) from Chetana's Ramprasad Khandelwal Institute of Management and Research.

JEFFERSON T. KO, 48, Singaporean, is Senior Vice President and Head of Investment Solutions Group. He is a Director of SB Equities, Inc. since May 2023.

Prior to joining the Bank, he was Head of Market Sales Group for China Banking Corporation (2021-2022). He was also Consultant at China Banking Corporation (2020), Director of Market Sales under NORDBANK Singapore (2015-2017), Senior Director and Head of Structured Products and FX under Maybank Singapore (2013-2015), Director, Structured Products under DZ BANK AG Singapore (2007- 2013), Vice President, Structured Products under ING Bank NV Singapore (2004-2007) and Vice President, Sales Under ING Bank NV Manila (1997-2004).

He graduated with a Bachelor of Science degree in Management Engineering from Ateneo de Manila University.

KIM O. LIM, 52, Filipino, is Senior Vice President and Region Head of Region 1 under the Branch Banking Group.

He joined the bank in 2013 as Vice President/Area Head (2013-2017), became Vice President/Region Head in 2017 and First Vice President/Region Head in 2018.

Prior to joining the Bank, he held the position of Retail Branch Head and Area Head (from 2011 to 2013) and Retail Branch Head (2010-2011) under Hongkong Shanghai Banking Corporation Savings Bank. He also held the position of District Manager (2009-2010), Business Manager (2007-2009), Relationship Officer and OIC (2006-2007) and Relationship Officer (2006) under Citibank Savings Incorporation, Customer Service Head (2003-2006), Senior Personal Bank (2002-2003), Reserved Assistant (2000-2002), Policy Analyst (2000), Control Assistant (1995-1999) and Bank Statement Clerk (1993- 1995) under Rizal Commercial Banking Corporation.

He graduated with a Bachelor of Science degree in Commerce, majoring in Accounting from Zamboanga A.E. College.

MA. CARMENCITA R. LOPEZ, 58, Filipino, is Senior Vice President and Head of Trust and Asset Management Group.

She started to work with the Bank as Department Head of Account Management & Servicing Division last 2022. Prior to this, she worked with 1st Ebank Corp as Senior Manager (1994 – 2002). She graduated with a bachelor's degree in Commerce major in Business Management from De La Salle University.

PRAKASH SUDHAKAR MAHAJAN, 51, Indian, is Senior Vice President and Corp & FMS Technology Head under ITG-Change Bank Group. He is an advisor member of Enterprise Control Board Committee.

Prior joining the bank, He held positions as Digital Vice President from NSEIT Limited (2019-2022). He also worked with Helius Technologies Limited (2018-2019), Indus Software Technologies Private Limited (2014-2018), Sakal Media Group (2013-2014), S1 Services, India (2005-2012), Indus Software, India (2002-2005), Intermedia Interactive Solutions, India (2001 – 2002), Octon Technologies Limited (1998-2001), Ajay Metachem Limited (1997-1998). He has extensive exposure in the fields of project management and digital transformation.

He graduated with Bachelor of Mechanical Engineering from Walchand College, India and holds various certifications.

LUIS GREGORIO M. MALOLES, 55, Filipino, is Senior Vice President and Senior Relationship Manager/Team Head under the Corporate Banking Group.

He joined the Bank in 2016 and has extensive exposure in the fields of Corporate Banking and Corporate Finance. He was the Executive Director and Unit Head for the Local Corporates, Commodities, Trading and Agricultural client segment of Standard Chartered Bank, Philippines (2013-2015). He also worked regionally as Director and Regional Account Manager for the Global Subsidiaries Group of Citibank Hong Kong, Ltd. (from 2011-2013) and started within the Citi Network as part of the Global Subsidiaries Group of Citibank N.A. (Philippine Branch) (2004-2013). He is a Corporate Banking veteran having held various positions in Asia United Bank (2001-2004), Banco Santander Philippines, Inc. (1999-2000), Philippine Commercial International Bank (from 1996 to 1999),

Far East Bank and Trust Company (1995-1996) and Rizal Commercial Banking Corporation (1992-1995) before transitioning to work for 11 years with multinational banks.

He graduated with a Bachelor of Arts degree in Development Studies from the University of the Philippines.

YVONNE JOANNA P. MARCELO, 53, Filipino, is Senior Vice President and Head of Corporate Banking Group. He is a member of the Bank's Asset and Liabilities Committee and alternate member of Credit Committee.

She joined the Bank in 2001. Prior to her current role, she was a Team Head and Senior Relationship Manager in Corporate Banking Group. She has extensive experience in corporate and project finance in infrastructure, real estate, power and energy, utilities, mining, and other industries. She was Relationship Manager in Far East Bank and Trust Company (1996-2000), Assistant Manager in UnionBank of the Philippines (1995-1996), and Management Trainee and Pro-Manager in Bank of Commerce (1991-1994)

She graduated with a Bachelor of Science degree in Business Economics from the University of the Philippines and earned units for a Master's degree in Business Administration from the Ateneo de Manila University.

JIRI MATOUSEK, 37, Czech, is Senior Vice President and Retail Transformation Head of the Retail Banking Segment.

He first joined Security Bank as Consultant in 2021 and was Director for Asia and the Pacific at Adastra Business Consulting S.R.O. in Czech Republic (2011-2021).

He completed his general education with specialization in German from Gymnázium Na Pražačce; his Master's in Mathematical and Computer Modelling from Charles University, Prague, Czech Republic; and Mathematical Modelling from the University of Hamburg in Germany.

PATRICK M. MENESES, 50, Filipino, is Senior Vice President and Chief Data Officer of Enterprise Data Office.

Prior to joining the Bank, he was the Chief Data and Analytics Officer with MDI Novare (2021-2022). He also held the position of ASEAN Director of Business Solutions under SAS Institute Singapore (2018-2021), Senior Engineering Manager under General Motors (2012-2018), Senior Technical Program Manager under Electronic Arts (2010-2012), Senior Technical Manager under SUN Microsystem (1999-2009), Project Manager under Hewlett-Packard (1997-1999) and Operations Manager under UNILAB (1996 -1997).

As an Advanced Analytics Platform Principal at General Motors Company in Austin, Texas, he designed, built, and maintained an Enterprise Data and Analytic service. Lastly, he has extensive experience with Enterprise Data Warehouse builds and roles across other big technology companies in Silicon Valley such as Sun Microsystems and Hewlett Packard. Prior to that, he attended Purdue University at West Lafayette, Indiana, with a focus on Business Management and Communications.

JUAN A. MESTAS, 41, Peruvian, is Senior Vice President and Architecture & Integration Head under ITG – Change the Bank Group since February 2023 and was assigned as IT – Central API Team Head from September 2022 to January 2023.

Prior to joining the Bank, he was the Group Head of Enterprise Architecture and Platform under Group 42, UAE (2021-2022), He also held the position of Managing Director under PricewaterhouseCoopers, Singapore (2020), Enterprise Architecture Lead under United Overseas Bank Limited (UOB) Group Bank, Singapore (2017-2019), Senior Manager and Digital Architecture under Allied Irish Banks PLC (AIB Bank) Ireland (2016-2017), Architecture Manager under Deloitte & Touche Europe, the Middle East, and Africa (EMEA) (2011-2016), Regional Director of Microsoft LatAm (2007-2011), Software Architect under Banco Financiero (2004-2006), Oracle HLR Architect under Sixbell, Chile (2002-2004) and Senior Software Engineer under SONDA, Peru (1999-2000).

He graduated with an Engineering degree from Ricardo Palma University in Peru. He also earned his Master's degree in Computer Software Engineering from University of Tarapaca in Chile and holds various certifications.

MARIA MARGARITA R. MIRABUENO, 51, Filipino, is Senior Vice President and Division Head of Wealth Management Division.

She joined the bank as Wealth Management Head and First Vice President in 2015.

Prior to joining the Bank, she held the position of Citigold Head (2011-2014) and Investment Specialist (2004-2010). She also held the position of Investment Officer under Chinatrust (Philippines) (1999-2002), Investment Officer under ALL Asia Capital & Trust Corporation (1998) and Marketing Assistant under Metrobank (1993-1997).

She completed her Bachelor of Arts degree in Interdisciplinary Studies and her master's degree in Business Administration from Ateneo De Manila University.

JORGE LINDLEY S. ONG, 51, Filipino, is Senior Vice President and Head of Commercial Banking Group. He is a member of the Bank's Assets & Liabilities Committees, and an alternate member of the Credit Committee.

He joined the Bank in 2007. He was the Head of Kalookan and North Metro Banking Center. Prior to joining the Bank, he was a Senior Relationship Manager in BDO Unibank (1995-2007).

He graduated from the University of Santo Tomas with a Bachelor of Science degree in Commerce.

RAHUL M. SADARANGANI, 43, Indian, is Senior Vice President and Enterprise Transformation Head under Office of the President.

Prior joining the bank, he held position as Executive Director with Morgan Stanley Advantage Services Private Limited (2021-2023). He used to work also with Arson Techsolutions Private Limited as Chief Technology Officer (2019-2021); Nuvama Wealth and Investment Limited as Associate Director (2017-2019); SMFG India Credit Company Limited as Senior Vice President (2014-2017); Credit Suisse Business Analytics Private Limited as Vice President (2013-2014); Deutsche Bank Group as Vice President (2006-2013).

He graduated with Bachelor of Commerce from JAI Hind College and earned his higher diploma in software from Aptech Computer Education.

MA. PATRICIA N. TAN, 49, Filipino, is Senior Vice President and Head of Customer Segmentation Group.

She is a member of the Bank's Assets & Liabilities Committee.

Prior to joining the Bank in 2013, she served as OFW Segment Head of Philippine National Bank (2006-2013), Marketing Head of Globe Telecom (2004-2006), and Cards Marketing Head of Union Bank of the Philippines (1997-2004).

She graduated with a bachelor's degree in Management of Financial Institutions from De La Salle University.

DENNIS M. TANGONAN, 49, Filipino, is Senior Vice President and Chief Technology Officer under ITG – Run the Bank Group. He is an advisor member of Enterprise Control Board Committee.

Prior joining the bank, he worked with Banco De Oro Unibank from 2010 to 2023; Citibank from 2007 to 2009, UOB Singapore from 2005 to 2006. He has extensive exposure in the field of design and architecture, project delivery, operations management and technology transformation.

He graduated with Bachelor of Science in Computer Science from University of Saint Louis and he earned his master's in Business Administration – Executive from Ateneo de Manila University.

RICARDO G. TORRES, 62, Filipino, is Senior Vice President and Special Projects Head under Enterprise Technology & Operations Segment.

Prior to joining the Bank in 2003 as Senior Assistant Vice President and IT Systems Development Head, he was IT Assistant General Manager in Saudi American Bank (1999-2003); Manager Systems Development & Support

in United Saudi Bank (1994-1999); Systems Analyst/Programmer and Project Manager in United Saudi Commercial Bank - SGV Arabia (1987-1994); and Technical Staff member in

SGV Institute of Advanced Computer Technology (1985-1987).

He graduated from the University of the Philippines with a Bachelor of Science degree in Civil Engineering.

Note: Extended Retirement until 31 December 2024

HIROFUMI UMENO, 47, Japanese, is Senior Vice President and MUFG Business Development Head. He is a member of the Bank's Sustainability Committee.

Prior to joining the Bank, he held the position of Managing Director (2019-2022) and Director (2018-2019) under Mitsubishi UFJ Financial Group Bank, Limited, Singapore. He also held the position of Senior Manager (2012-2018), Manager (2007-2012) and Officer (2000-2001) under The Bank of Tokyo Mitsubishi, Limited.

He earned his degree in School of Policy Studies from Kwansai Gakuin University (Hyogo, Japan).

MYLA R. UNTALAN, 53, Filipino, is Senior Vice President and Head of Retail Channels Group.

Prior to joining the Bank, she brings with her 30 years of work experience from BDO Unibank, RCBC Bankard, AIG Credit Card Company Philippines and Solidbank Corporation. She has well-rounded exposure in digital transformation, data and analytics, project management and business process engineering. Her most recent assignment was as Senior Vice President and Data Protection Officer at BDO Unibank.

She graduated with a bachelor's degree in Commerce major in Accounting from University of Sto. Tomas, Manila.

BALAJI B. VIJAYAN, 56, Indian, is Senior Vice President and Head of Retail Credit Risk Management Division.

Prior to joining the Bank, he held various positions including Advisor to Retail Risk Directorate of Bank Mandiri-Indonesia (2015-2020); Director and Risk Head for Middle East-Consumer Bank of Citibank N.A.-UAE (2007-2014); Vice President and Risk Head for Bank of Handlowy - Consumer Bank of Citibank N.A.-Poland (2004-2007); Vice President and Risk Head in ABN Amro Bank in Taiwan and Indonesia (1999-2003); Vice President and Credit Policy Head in Citibank N.A.-Indonesia (1997-1999); various positions in Citibank N.A.-India (1990-1996); Account Executive in Ogilvy & Mather Direct in India (1989); and Marketing Executive in Wipro Systems in India (1988). He has extensive exposure in the field of retail credit and fraud risk.

He earned his master's degree in Management from BITS Pilani, India.

JOHN DAVID G. YAP, 46, Singaporean, is Senior Vice President and Segment Head of the Business Banking Segment. He is a member of the Bank's Assets and Liabilities Committee.

Prior to joining the Bank, he was based in Singapore and held regional leadership roles at Grab Finance (2019-2020), United Overseas Bank (2015-2019); Fullerton Financial Holdings (2010-2015); and Standard Chartered Bank (2005-2010). He started his career in IT in the Philippines from 1999-2003.

He completed his Bachelor of Science degree in Management Information Systems from Ateneo de Manila University. He earned his master's degree in Business Administration from Nanyang Technological University.

PRICE EDWARD C. YAP, 50, Singaporean, is Senior Vice President and Head under Treasury Sales Group. He is a member of the Bank's Assets & Liabilities Committee.

Prior to joining the Bank in 2016, he accumulated 22 years of work experience from Mitsubishi UFJ Securities (Singapore), Ltd. (2011-2015); held various positions in Citigroup, Inc. (2000-2011); and Solid Bank Corporation (1997-2000).

He graduated with a Bachelor of Science degree in Management, major in Legal Management from the Ateneo de Manila University. He earned his master's degree in Business Administration from the Ateneo Graduate School of Business.

MALCOLM C. YOW, 45, Australian, is Senior Vice President and Retail Technology Head under ITG – Change the Bank Group. He is a member of Enterprise Control Board Committee.

Prior to joining the Bank, he held the position of Centre Director under Vietnam Software Development Centre Co. LTD/Vietnam (2020-2022). He also held the position of Senior Consultant, Vietnam Delivery Centre under Hays Talent Solutions Contracted to National Australia Bank (NAB) (2019-2020), Executive Manager, Digital Delivery and Engineering under Commonwealth Bank of Australia (2015-2019), Engineering Manager, Development Manager, Team Leader, Senior IT Specialist and IT Specialist under BWA Group Services PTY Limited, Australia (2004-2015).

He graduated with a bachelor's degree in Engineering from University of Western Australia and holds the following certifications: 2018 Certified LeSS Practitioner, 2014 Certified Product Owner, 2012 Agile Fundamentals, and 2010 Foundation Certificate in ITIL v3.

Corporate Governance

On 21 October 2011, the SEC issued SEC Memorandum Circular No. 8 directing all publicly-listed companies to participate as respondents in the Corporate Governance (“CG”) Survey using the CG Scorecard as the survey instrument. Accomplishment of the CG Scorecard entailed doing a self-assessment of the Bank’s current corporate governance practices. The Bank submitted the accomplished CG Scorecard on 25 November 2011 to the Corporation Finance Department of the SEC. Out of this exercise, action programs were recommended to match best practices.

In 2011, the BOD approved amendments to the Manual on Corporate Governance as well as the Manual on the Money Laundering and Terrorist Financing Program. Revisions incorporate compliance to new rules and regulations issued by the regulatory bodies, as well as conformity to best practices.

The Bank is led by a BOD composed of 15 members, 6 of whom are independent directors. The roles of the Chairman and the President/CEO are separate and clearly defined. The independent directors are a strong source of independent advice and judgment. The BOD establishes the vision, strategic objectives, key policies of the Bank, as well as the mechanisms for evaluating performance. The BOD likewise ensures the presence and adequacy of internal control mechanisms for good governance.

The BOD meets regularly on a monthly basis. In compliance with the principles of good corporate governance, the BOD has constituted the Corporate Governance, Nominations and Remuneration, Risk Oversight, Audit, Related Party Transactions, Trust, Executive, Restructuring, and Finance Committees to which it delegated specific responsibilities. Management committees like the ALCO, Credit Committee, Personnel Committee, Technology Steering Committee, AMLA Committee, Investigation Committee, Outsourcing Committee and the Management Committee are in place to implement strategy and corporate directions consistent with the principles behind the various board constituted committees.

Corporate Social Responsibility

As a corporation serving the banking and financial needs of the communities in the Philippine, the Bank believes in doing good from inside out. This is reflected in the Bank’s approach to conducting its business in a manner consistent with acting as a responsible corporate citizen. It supports Corporate Social Responsibility programs that promote education, health and wellness, enterprise and livelihood development, and community-building. Encouraging employee participation and through its social development arm, Security Bank Foundation, Inc. (“SBFI”), the Bank continues to promote positive social impact.

Building Schools

- In 2023, the Bank’s flagship Build a School, Build a Nation program donated 108 classrooms (17 school buildings) to 16 beneficiary schools, reaching 5,400 students across 12 cities/municipalities. Since its launch in 2011, the program has benefited 221,500 students from the kindergarten, elementary, junior and senior high school levels, with 771 classrooms in 79 cities/municipalities across the country. Twenty of these are central elementary schools, 18 are central national high schools, and four are special education schools, while another is for the indigenous B’laan and Taga-Kaolo tribes.

- In celebration of MUFG Bank – Manila Branch’s 70th anniversary, the Bank constructed a two-story, six-classroom school building at Pusok Elementary School in Lapu-Lapu City, Cebu.
- SBFI celebrated its 30th anniversary in 2023 with official recognition by Department of Education (“**DepEd**”) as one of its biggest donors for its Adopt a School program, which over ₱1 billion in investments since 2011.

Training Educators

- In 2023, the Bank enhanced its training program for principals and teachers from its beneficiary schools with a three-year curriculum in partnership with the DepEd to help these educators transform themselves, their schools, and their communities. The goal of the program is to turn participants into mentors to stimulate academic performance and improve the overall school environment.
- The program utilized the four-month International Certificate in Educational Studies in Leadership (“**CESL**”) program from The HEAD Foundation in Singapore and the University of Nottingham in the United Kingdom, as well as the modules on instructional leadership, contextual problem solving, and stakeholder engagement from Ateneo de Manila University.
- As of 2023, 30 principals and 60 teachers completed their first year of training. Since its launch in 2024, the program has trained 36,374 teachers and 124 principals.

Assisting Scholars

- Providing educational assistance to underprivileged but high potential students was another key initiative. In 2023, the Scholars for Better Communities program supported 398 students in the school year 2023-2024. In 2023, 104 scholars graduated across all levels with 12 graduating from college with Latin Honors.
- The program was open to Bank employees, agency personnel, and their children, and college students from eight partner universities across Metro Manila. On top of financial support, scholars also received professional and personality development training, internship opportunities at the Bank, and were considered for hiring at the Bank upon graduation when positions became available.

Health, wellness, and resiliency

- A mission, led by Operation Smile Philippines (“**OSP**”) in partnership with the Bank, Rio Tuba, and Colgate-Palmolive Philippines, sent 48 specialist cleft care volunteers, including surgeons, pediatricians, anesthesiologists, orthodontists, nurses, and speech pathologists to treat 63 cleft lip and palate patients, with 17 sponsored by the Bank.
- In partnership with the International Care Ministries (“**ICM**”), the Bank organized a gamified food packing activity where employee volunteers and SBFI scholars packed 6,048 meal kits to be delivered to thousands of families across Visayas and Mindanao, where both the Bank and ICM operate. Since then, over 2,100 meal packs were distributed to communities in Sarangani Province and Kalibo affected by earthquakes and flooding.
- Throughout the year, SBFI repaired 148 previously donated classrooms that were damaged by typhoons, earthquakes, and general wear and tear – including three schools in Cebu, Lanao del Norte, and Nueva Ecija where 180 Security Bank employees volunteered a total of 1,440 hours to repaint these facilities.

PRINCIPAL SHAREHOLDERS

The Bank had approximately 1,731 common shareholders and 407 preferred shareholders of 31 March 2024. Common shares outstanding as of said date stood at 753,538,887 and outstanding Preferred shares stood at 1,000,000,000.

The top 20 Shareholders as of 31 March 2024 are:

Common Shares

	Stockholders Name	No. of Shares	% to Total Voting Shares
1	PCD NOMINEE CORP. (FILIPINO)	194,938,117	11.12%
2	THE BANK OF TOKYO-MITSUBISHI UFJ LTD. (BTMU)	150,707,778	8.59%
3	PCD NOMINEE CORPORATION (NON-FILIPINO)	133,221,082	7.60%
4	ASIASEC EQUITIES INC.	120,676,957	6.88%
5	FREDERICK Y. DY	86,865,273	4.95%
6	DANIEL S. DY	30,229,655	1.72%
7	SOCIAL SECURITY SYSTEM	20,000,002	1.14%
8	GOODWOOD RESOURCES DEVELOPMENT INC	6,283,322	0.36%
9	JAMES J.K. HUNG	2,406,708	0.14%
10	SB EQUITIES, INC.	1,887,793	0.11%
11	CAROUSEL HOLDINGS INC.	400,000	0.02%
12	HENRY O CHUSUEY OR ANNA LISSA CHUSUEY	400,000	0.02%
13	MEPCO EMPLOYEES' RETIREMENT PLAN	331,709	0.02%
14	RAFAEL F. SIMPAO, JR.	217,296	0.01%
15	SB EQUITIES INC. FAO L0015	175,902	0.01%
16	CENTRAL COLLEGES OF THE PHILS.	159,214	0.01%
17	BEE BEE CHUA	138,212	0.01%
18	ELECTRONIC TELEPHONE SYSTEMS IND. INC.	117,936	0.01%
19	EARNST BEHRENS	82,926	0.00%
20	ERIC RUBEN TAN	72,000	0.00%

* Including 150,707,778 shares of shares of MUFG lodged with PCD Nominee Corporation (Non-Filipino).

Preferred Shares

	Stockholders Name	No. of Shares	% to Total Voting Shares
1	FREDRICK Y. DY	335,207,671	19.12%
2	THE BANK OF TOKYO-MITSUBISHI UFJ LTD. (BTMU)	200,000,000	11.41%
3	DANIEL S. DY	256,951,638	14.65%
4	ASIASEC EQUITIES INC.	95,996,204	5.47%
5	ANATASIA Y. DY	33,000,000	1.88%
6	SOCIAL SECURITY SYSTEM	37,644,497	2.15%
7	GOODWOOD RESOURCES DEVELOPMENT INC	21,014,591	1.20%
8	GERALDINE S. DY	17,329,149	0.99%
9	SB EQUITIES, INC.	12,252,527	0.70%
10	SCB OBO SSBTC FUND JY63 ACCT 000260706069	3,771,656	0.22%
11	SB EQUITIES INC.	3,200,000	0.18%
12	SB EQUITIES, INC.	2,184,329	0.12%
13	BPI SECURITIES CORPORATION	2,149,799	0.12%
14	HSBC OBO A/C 026-100297-557	1,846,813	0.11%

	Stockholders Name	No. of Shares	% to Total Voting Shares
15	ABACUS SECURITIES CORPORATION	1,771,202	0.10%
16	ASIASEC EQUITIES INC.	1,524,917	0.09%
17	HSBC MANILA OBO A/C 000-595686-550	1,400,000	0.08%
18	SCB OBO SSBTC FUND JX7D ACCT 000260706027	1,267,172	0.07%
19	SCB OBO RBC INVESTOR SERVICES TRUST CLIENT ACCOUNT	1,260,000	0.07%
20	SCB OBO SSBTC FUND WS5E ACCT 000260708025	1,190,216	0.07%

PCD Nominee Corporation, a subsidiary of Philippine Depository & Trust Corp. (“**PDTC**”), is the registered owner of the shares in the books of the Bank’s transfer agent, Stock Transfer Service, Inc. The beneficial owners of such shares are PCD’s participants, who hold the shares on their behalf or on behalf of their clients. The participants have the power to decide how the PCD shares are to be voted. The Social Security System (“**SSS**”) is the state-sponsored agency responsible for administering social security protection to workers in the private sector.

RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank engages in transactions with its subsidiaries and affiliates, and with certain DOSRI.

The Bank's policy with respect to related party transactions is to ensure that related party transactions are all entered into at arm's length and in compliance with applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders. These transactions are made and entered into substantially on the same terms as other individuals and businesses of comparable risks.

Information related to transactions with related parties and with certain DOSRI is shown under Note 31 of the audited financial statements of the Bank included in this Offering Circular.

DOSRI Loans and Deposits

In the ordinary course of business, the Bank has loan transactions with investees and certain DOSRI (as discussed in BSP MORB Sections 341-348). Republic Act No. 8791 or the General Banking Law (the "**General Banking Law**") and BSP regulations require that (a) the amount of individual outstanding loans, other credit accommodations, and guarantees to DOSRI should not exceed an amount equivalent to their unencumbered deposits and the book value of their paid-in capital investment in the bank; (b) unsecured loans, other credit accommodations, and guarantees to DOSRI should not exceed 30.0% of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower (except if granted to subsidiary or affiliate for the purpose of project finance as defined in the MORB which shall have an individual limit of 25.0%, subject to certain conditions); (c) the total outstanding loans, other credit accommodations and guarantees to DOSRI may not, without the prior approval of the Monetary Board, exceed 15.0% of the bank's total loan portfolio or 100.0% of the bank's net worth, whichever is lower. As of 31 December 2023, the Bank was in compliance with such BSP regulations.

The following table shows information relating to the Bank's DOSRI loans as of the dates indicated:

	As of 31 December		
	2021	2022	2023
	(P millions, except percentages)		
Total outstanding DOSRI loans	449.0	344.0	376.0
Percent of DOSRI loans to total loans	0.9%	0.7%	0.7%
Percent of unsecured DOSRI loans to total DOSRI loans	4.4%	5.2%	5.3%

Total interest income on the DOSRI loans in 2021, 2022 and 2023 amounted to P52.1 million, P66.9 million and P161.5 million, respectively, for the Bank.

On 31 January 2007, BSP Circular No. 560 was issued providing the rules and regulations that shall govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 10.0% of bank's net worth, and the unsecured portion shall not exceed 5.0% of such net worth. Further, the total outstanding exposures shall not exceed 20.0% of the net worth of the lending bank. The said Circular became effective on 15 February 2007.

As of 31 December 2021, 2022 and 2023, the total outstanding loans, other credit accommodations, and guarantees to each of the Bank's subsidiaries and affiliates did not exceed 10.0% of the Bank's net worth, and the unsecured portion did not exceed 5.0% of such net worth. The BSP issued Circular No. 654 allowing a separate individual limit to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation, i.e., a separate individual limit of 25.0% of the net worth of the lending bank/quasi-bank: provided, that the unsecured portion thereof shall not exceed 12.5% of such net worth: provided further, that these subsidiaries and affiliates are not related interests of any of the director, officer and/or stockholder of the lending bank/quasi-bank; except where such director, officer or stockholder sits in the board of directors or is appointed officer of such corporation as representative of the bank/quasi-bank. As of 31 December 2023, the Bank had no outstanding loans, other credit accommodations and guarantees to subsidiaries and affiliates engaged in energy and power generation.

The year-end balances as of 31 December 2022 and 2023 in respect of subsidiaries included in the Bank's financial statements are as follows (amounts in P millions):

	As of 31 December 2022	As of 31 December 2023
Loans and receivables	1,201.2	1,909.1
Deposit liabilities.....	1,714.0	2,249.3

The income and expenses for the year ended 31 December 2022 and 2023 in respect of subsidiaries included in the Bank's financial statements are as follows (amounts in P millions):

	For the year ended 31 December 2022	For the year ended 31 December 2023
Interest income	7.8	6.5
Interest expense.....	-	-

The effects of the foregoing transactions are shown under the appropriate accounts in the Bank's financial statements.

The significant inter-company transactions and outstanding balances of the Bank with its subsidiaries were eliminated in consolidation. The Bank is not a subsidiary of any corporation and had no transactions with promoters.

THE PHILIPPINE BANKING INDUSTRY

The information presented in this section has been extracted from publicly available documents from various sources, including officially prepared materials from the Government, and has not been prepared or independently verified by the Bank, the Arranger, or any of their respective affiliates or advisers. None of the Bank, the Arranger, or any of their respective affiliates or advisers makes any representation as to the accuracy or completeness of this information.

The banking industry in the Philippines is composed of universal banks, commercial banks, savings banks, savings and mortgage banks, private development banks, stock savings and loan associations, rural banks and cooperative banks.

As of 11 April 2024, 45 universal and commercial banks operated in the Philippines. These banks comprised three domestic Government-owned banks, 17 private domestic banks and 234 banks that are either branches or subsidiaries of foreign banks, all of which compete with the Bank in at least certain of its targeted sectors and products.

Commercial banks have all the general powers incident to corporations and all powers that may be necessary to carry on the business of commercial banking, such as the power to accept drafts and to issue letters of credit, to discount and negotiate promissory notes, drafts, bills of exchange and other evidences of indebtedness, accept or create demand deposits, receive deposits and deposit substitutes, buy and sell foreign exchange and gold and silver bullion, and lend money on a secured or unsecured basis. Universal banks are banks that have authority, in addition to commercial banking powers, to exercise the powers of investment houses, invest in the equity of business not related to banking and own up to 100.0% of the equity in a thrift bank, a rural bank or financial allied enterprise. A publicly listed universal or commercial bank may own up to 100.0% of the voting stock of only one other universal or commercial bank.

Thrift banks primarily accumulate the savings of depositors and invest them, together with their capital, in secured or unsecured loans, or in financing for home building and home development, in readily marketable debt securities, in commercial paper and accounts receivable, drafts, bills of exchange, acceptances or notes arising out of commercial transactions. Thrift banks also provide short-term working capital and medium- and long-term financing for businesses engaged in agriculture, services, industry, housing and other financial and allied services for its chosen market and constituencies, especially for small and medium-sized enterprises and individuals. As of 11 April 2024, there were 43 thrift banks in the Philippines.

Rural banks are organized primarily to make credit available and readily accessible in the rural areas on reasonable terms. Loans and advances extended by rural banks are primarily for the purpose of meeting the normal credit needs of farmers and fishermen, as well as the normal credit needs of cooperatives and merchants. As of 11 April 2024, there were 399 rural banks in the Philippines.

Specialized Government banks are organized to serve a particular purpose. The existing specialized banks are DBP, Land Bank, and Al-Amanah Islamic Investment Bank of the Philippines (“AAIIB”). DBP was organized primarily to provide banking services catering to the medium and long-term needs of agricultural and industrial enterprises, particularly in rural areas and preferably for small- and medium-sized enterprises. Land Bank primarily provides financial support in all phases of the Philippines’ agrarian reform program. In addition to their special functions, DBP and Land Bank are allowed to operate as universal banks. AAIIB was organized to promote and accelerate the socio- economic development of the Autonomous Region of Muslim Mindanao through banking, financing and investment operations and to establish and participate in agricultural, commercial and industrial ventures based on Islamic banking principles and rulings.

During the past decade, the Philippine banking industry has been marked by two major trends - the liberalization of the industry, and mergers and consolidation.

The entry of foreign banks in the industry was liberalized in 1994, enabling foreign banks to invest in up to 60.0% of the voting stock of an existing bank or a new banking subsidiary, or to establish branches with full banking authority. This led to the establishment of 10 new foreign bank branches in 1995. The General Banking Law further liberalized the industry by providing that the Monetary Board may authorize foreign banks to acquire up to 100.0% of the voting stock of one domestic bank within seven years from the effectivity of said law on 13 June 2000 or until 13 June 2007. Within the same period, the Monetary Board may authorize a foreign bank, which had availed of the privilege of acquiring up to 60.0% of the voting stock of a domestic bank prior to 13 June 2000

to further acquire voting shares of such bank to the extent necessary for it to own 100.0% of the voting stock thereof.

On 15 July 2014, former President Benigno S. Aquino III signed into law Republic Act No. 10641 (“**RA 10641**”) or “An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act No. 7721.” Under RA 10641, established, reputable and financially sound foreign banks may be authorized by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing or owning up to one hundred percent (100.0%) of the voting stock of an existing bank; (b) by investing in up to one hundred percent (100.0%) of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches with full banking authority. The foreign bank applicant must also be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin.

Under RA 10641, in the exercise of the authority to approve entry applications, the Monetary Board shall adopt such measures as may be necessary to ensure that control of at least sixty percent (60.0%) of the resources or assets of the entire banking system is held by domestic banks which are majority-owned by Filipinos. A foreign bank branch authorized to do banking business in the Philippines under RA 10641 may open up to five (5) sub-branches as may be approved by the Monetary Board. Locally incorporated subsidiaries of foreign banks authorized to do banking business in the Philippines under RA 10641 shall have the same branching privileges as domestic banks of the same category.

The BSP has also been encouraging mergers and consolidations in the banking industry, seeing this as a means to create stronger and more globally competitive banking institutions. On 11 October 2012, BSP Circular No. 771 was issued in order to grant incentives for investors who purchase a controlling stake in a bank. Accordingly, the coverage of relief incentives for mergers and consolidations now includes the purchase and acquisition of a majority of or all of the outstanding shares of stock in a bank. On 21 December 2016, BSP issued Memorandum No. M-2016-023 listing the possible regulatory incentives that may be requested by merging/consolidating banks and quasi-banks (“**QBs**”). The granting of regulatory incentives for consolidating banks and QBs is in support of the BSP’s goal of strengthening the financial capabilities and enhancing overall competitiveness of banks and QBs. We note, however, that with the enactment of the Philippine Competition Act, parties to a merger or acquisition must notify the Philippine Competition Commission (“**PCC**”), if the following circumstances or conditions are present: (a) the aggregate annual gross revenues in, into or from the Philippines, or the value of the assets in the Philippines of the ultimate parent entity of at least one of the acquiring or acquired entities, including that of all entities that the ultimate parent entity controls, directly or indirectly, exceeds P5.0 billion; and (b) value of the transaction exceeds P2.0 billion, as determined under the PCC implementing rules and regulations as amended by PCC Memorandum Circular No. 18-001. The parties are required to notify the PCC within thirty (30) days from the execution of the definitive agreements covering the transaction, and are prohibited from consummating the transaction before the expiration of the relevant periods set out under the PCC implementing rules and regulations or until the PCC favorably acts on the notice.

BANKING REGULATION AND SUPERVISION

The following is a general discussion of the Philippine Banking Regulation and Supervision. It is based on the laws, regulations, and administrative rulings in force as of the date of this Offering Circular and is subject to any changes in law occurring after such date, which changes can be made on a retroactive basis. It does not purport to be a comprehensive description of all of the laws, regulations, and administrative rulings of the Philippine banking industry.

Banking Regulation and Supervision

The New Central Bank Act of 1993 (Republic Act No. 7653) (the “**New Central Bank Act**”) and the General Banking Law of 2000 (Republic Act No. 8791) (the “**General Banking Law**”) vest the Monetary Board of the BSP with the power to regulate and supervise financial intermediaries in the Philippines. Financial intermediaries include banks or banking institutions such as universal banks, commercial banks, thrift banks (composed of savings and mortgage banks, stock savings and loan associations, and private development banks), rural banks, cooperative banks as well as branches and agencies of foreign banks in the Philippines. Entities performing quasi-banking functions, trust companies, building and loan associations, non-stock savings and loan associations and other non-deposit accepting entities, while not considered banking institutions, are also subject to regulation by the Monetary Board.

The supervisory power of the BSP under the New Central Bank Act extends to the subsidiaries and affiliates of banks and quasi-banking institutions engaged in allied activities. A subsidiary is defined as a corporation with more than 50.0% of its voting stock is directly or indirectly owned, controlled, or held with power to vote by a bank or quasi-bank. The New Central Bank Act generally defines an affiliate as a corporation whose voting stock, to the extent of 50% or less, is owned by a bank or quasi-bank or which is related or linked directly or indirectly to such institution or intermediary through common stockholders or such other factors as may be determined by the Monetary Board. In this regard, the BSP Manual of Regulations for Banks (“**BSP MORB**”) defines an affiliate as an entity linked directly or indirectly to a bank by means of: (a) ownership, control (as defined under the relevant portion of the BSP MORB), or power to vote, of at least twenty percent (20.0%) of the outstanding voting stock of the entity, or vice-versa; (b) interlocking directorship or officership, where the concerned director or officer owns, controls (as defined under the relevant portion of the BSP MORB), or has the power to vote of at least 20.0% of the outstanding voting stock of the entity; (c) common stockholders owning at least 10.0% of the outstanding voting stock of the bank and at least 20.0% of the outstanding voting stock of the entity; (d) management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the entity; and (e) permanent proxy or voting trusts in favor of the bank constituting at least 20.0% of the outstanding voting stock of the entity, or vice-versa.

Under the General Banking Law, the BSP, in the exercise of its supervisory powers, may: (a) issue rules of conduct or standards of operation for uniform application; (b) conduct examination to determine compliance with laws and regulations; (c) oversee compliance with such rules and regulations; and (d) inquire into the solvency and liquidity of the covered entities. Furthermore, Section 7 of the General Banking Law provides that the BSP, in examining a bank, shall have the authority to examine an enterprise which is owned or majority-owned or controlled by a bank.

As a general rule, no restraining order or injunction may be issued by a court to enjoin the BSP from exercising its powers to examine any institution subject to its supervision. The refusal of any officer, owner, agent, manager, director or officer-in-charge of an institution subject to the supervision or examination of the BSP to make a report or permit an examination is criminally punishable under Section 34 of the New Central Bank Act.

Furthermore, Anti-Money Laundering Act, as amended, provides, among others, that banks must, in addition to the general laws such as the General Banking Law and the Anti-Money Laundering Act, likewise comply with letters, circulars and memoranda issued by the BSP, some of which are contained in the BSP MORB. Under the Anti-Money Laundering Act, as amended, the BSP may, in the course of a periodic or special examination, check compliance of banks with the requirements of Anti-Money Laundering Act, as amended, and its implementing rules and regulations.

The BSP MORB is the principal source of rules and regulations that must be complied with by banks in the Philippines. The BSP MORB contains regulations applicable to universal banks, commercial banks, thrift banks, rural banks and non-bank financial intermediaries performing quasi-banking functions. These regulations include those relating to the organization, management and administration, deposit and borrowing operations,

loans, investments and special financing program, and trust and other fiduciary functions of the relevant financial intermediary. Supplementing the BSP MORB are rules and regulations disseminated through various circulars, memoranda, circular letters and other directives issued by the Monetary Board of the BSP.

The BSP MORB and other BSP rules and regulations issued through circulars and memoranda are principally implemented by the Financial Supervision Sector (“FSS”) of the BSP. The FSS is responsible for monitoring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines (including Government credit institutions, their subsidiaries and affiliates, non-bank financial intermediaries, and subsidiaries and affiliates of non-bank financial intermediaries performing quasi-banking functions, non-bank financial intermediaries performing trust and other fiduciary activities under the General Banking Law, non-stock and savings loans associations under Republic Act No. 3779 or the Savings and Loan Association Act, and pawnshops under Presidential Decree No. 114 or the Pawnshop Regulation Act).

Permitted Activities

A universal bank, such as the Bank, in addition to the general powers incidental to corporations, has the authority to exercise (i) the powers of a regular commercial bank, (ii) the powers of an investment house and (iii) the power to invest in non-allied enterprises. In addition, a universal bank may own up to 100.0% of the equity in a thrift bank, a rural bank or a financial allied enterprise (other than a venture capital corporations). A publicly listed universal or commercial bank may own up to 100.0% of the voting stock of only one other universal or commercial bank. A universal bank may also own up to 100.0% of the equity in a non-financial allied enterprise.

In addition to those functions specifically authorized by applicable law and the BSP MORB, banking institutions in general (other than building and loan associations) are allowed to (i) receive in custody funds, documents and valuable objects, (ii) rent out safety deposit boxes, (iii) act as financial agents and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities and (iv) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with the banking business. Subject to existing regulations, financial intermediaries are also allowed to a certain extent to invest in allied (both financial and non-financial) or non-allied undertakings, or both.

Financial allied undertakings include leasing companies, banks, investment houses, financing companies, credit card companies, and financial institutions catering to small-and medium scale industries, including venture capital companies, companies engaged in stock brokerage, securities dealership and brokerage and companies engaged in foreign exchange dealership/brokerage.

The total equity investments of a universal bank in all enterprises, whether allied or non-allied, are not permitted to exceed 50.0% of its net worth. Its equity investment in any one enterprise, whether allied or non-allied, is not permitted to exceed 25.0% of the net worth of the bank.

Regulations

The BSP MORB and various BSP regulations impose the following restrictions on universal, commercial and thrift banks.

Minimum Capitalization

Pursuant to the General Banking Law, no entity may operate as a bank without the permit of the BSP through the Monetary Board. The Philippine SEC will not register the incorporation documents of any bank or any amendments thereto without a certificate of authority issued by the Monetary Board.

A bank can only issue par value stocks and it must comply with the minimum capital requirements prescribed by the Monetary Board. A bank cannot purchase or acquire its own capital stock or accept the same as security for a loan, except when authorized by the Monetary Board. All treasury shares of a bank must be sold within six months from the time of purchase or acquisition thereof.

Under the BSP MORB, universal banks, such as the Bank, are required to have combined capital accounts of at least ₱3.0 billion (for head office only); ₱6.0 billion (for up to 10 branches, inclusive of the head office); ₱15.0 billion (for 11 to 100 branches, inclusive of the head office); and ₱20.0 billion (for more than 100 branches, inclusive of the head office). Commercial banks are required to have combined capital accounts of at least ₱2.0

billion (for head office only); P4.0 billion (for up to 10 branches, inclusive of the head office); P10.0 billion (for 11 to 100 branches, inclusive of the head office); and P15.0 billion (for more than 100 branches, inclusive of the head office). Thrift banks with a head office in the National Capital Region (NCR) are required to have combined capital accounts of at least P500.0 million (for head office only); P750.0 million (for up to 10 branches, inclusive of the head office); P1.0 billion (for 11 to 50 branches, inclusive of the head office); and P2.0 billion (for more than 50 branches, inclusive of the head office). Thrift banks with head office in all other areas outside NCR are required to have combined capital accounts of at least P200.0 million (for head office only); P300.0 million (for up to 10 branches, inclusive of the head office); P400.0 million (for 11 to 50 branches, inclusive of the head office); and P800.0 million (for more than 50 branches, inclusive of the head office). In August 2022, the BSP issued BSP Circular No. 1151 wherein the BSP adjusted the minimum capitalization for rural banks. Under these new guidelines, rural banks are required to have capital accounts of at least P50.0 million for head office only (without regard to the location of the head office), P50.0 million for head office with up to 5 branches (inclusive of head office), P120.0 million for head office with 6 to 10 branches (inclusive of head office), and P200.0 million for head office with more than 10 branches (inclusive of head office). These minimum levels of capitalization may be changed by the Monetary Board from time-to-time.

Capital Adequacy Requirements

In July 2001, the Philippines adopted the capital adequacy framework (“**Basel I**”) of the Basel Committee on Banking Supervision.

In June 2004, the Basel Committee on Banking Supervision adopted a revised framework on the International Convergence of Capital Measurement and Capital Standards (“**Basel II**”) to replace Basel I. The Basel II framework prescribes more risk-sensitive minimum capital requirements for banking organizations.

On 13 December 2004, the BSP issued a memorandum to all banks mandating the following: (a) all universal banks, commercial banks and thrift banks associated with universal and/or commercial banks to comply with Basel II; (b) thrift banks that are not associated with universal and/or commercial banks, rural banks and cooperative banks to comply with an enhanced form of Basel I. In August 2006, the BSP issued Circular No. 538 which set forth the implementing guidelines of Basel II applicable to all universal banks and commercial banks as well as their subsidiary banks and quasi-banks. The guidelines relate to, among others, the banks’ capital adequacy structure, investment policies and risk management procedures. BSP Circular No. 538 took effect on 1 July 2007.

Subsequently, the Basel Committee on Banking Supervision adopted a series of reforms to the Basel II framework (collectively, “**Basel III**”). The Basel III framework prescribes measures to strengthen the regulation, supervision and risk management of the banking sector.

On 10 January 2011, the BSP issued Circular No. 709 which amended the risk-based capital adequacy framework for Philippine banks and quasi-banks in accordance with the new standards on regulatory capital under Basel III. In particular, the circular aligned the eligibility of capital instruments to be issued as hybrid Tier 1 and lower Tier 2 capital under Basel III.

In January 2012, the BSP announced that Philippine’s universal and commercial banks, including their subsidiary banks and quasi-banks, will be required to adopt in full the capital adequacy standards under Basel III starting 1 January 2014. On 15 January 2013, the BSP issued Circular No. 781, as amended, which prescribes the new capital adequacy standards in accordance with Basel III, effective 1 January 2014. The new capital adequacy standards apply to Philippine universal and commercial banks, including their subsidiary banks and quasi-banks, except for thrift banks and rural banks (as well as quasi-banks that are not subsidiaries of universal banks and commercial banks) which shall be subject to a different set of guidelines other than the criteria for eligibility as qualifying capital.

The Basel III capital standards set by the BSP are as follows: (a) common equity Tier 1 (“**CET 1**”) capital at a regulatory minimum of 6.0% of risk-weighted assets; (b) total Tier 1 capital at a regulatory minimum of 7.5% of risk-weighted assets; and (c) risk-based capital ratio, expressed as a percentage of qualifying capital to risk-weighted assets, of at least 10.0% on a solo basis (head office plus branches) and a consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies). These ratios are more stringent and higher than the minimum international norms of 4.5%, 6.0% and 8.0%, respectively. In addition, the BSP requires covered banks to maintain a capital conservation buffer (comprised of CET 1 capital) of 2.5%. In determining compliance with the foregoing risk-based capital adequacy ratios, qualifying capital shall refer to

the sum of Tier 1 capital (or core plus hybrid capital) and Tier 2 capital (or supplementary capital) of the bank, less deductions of the value of certain assets. Risk-weighted assets, on the other hand, refer to the sum of credit-risk weighted assets, market-risk weighted assets and operational risk-weighted assets.

On 14 February 2014, the BSP issued Circular No. 826 which provides for amendments to the risk disclosure requirements on loss absorbency features of capital instruments. The said circular requires the following from banks or quasi-banks when marketing, selling and/or distributing additional Tier 1 and Tier 2 instruments eligible as capital under the Basel III framework in the Philippines:

- The banks/quasi-banks must subject investors to a client suitability test to determine their understanding of the specific risks related to these investments and their ability to absorb risks arising from these instruments;
- The banks/quasi-banks must provide appropriate risk disclosure statement for the issuance of additional Tier 1 and Tier 2 capital instruments;
- The banks/quasi-banks must secure a written certification from each investor stating that:
 - The investor has been provided a risk disclosure statement which, among others, explains the concept of loss absorbency for additional Tier 1 and Tier 2 capital instruments as well as the resulting processes should the case triggers be breached;
 - The investor has read and understood the terms and conditions of the issuance;
 - The investor is aware of the risks associated with the capital instruments; and
 - Said risks include permanent write-down or conversion of the debt instrument into common equity at a specific discount; and
- The banks/quasi-banks must make available to the BSP, as may be required, the:
 - Risk disclosure statement;
 - Certificate from the investor; and
 - Client suitability test of the investor.

For offshore issuances of additional Tier 1 and Tier 2 capital instruments, the risk disclosure requirements will be governed by the rules and regulations of the country where these instruments are issued. The subsequent sale and/or distribution of additional Tier 1 and Tier 2 capital instruments in the Philippines, originally issued overseas, shall comply with all the risk disclosure requirements for issuance in the Philippines.

On 29 October 2014, the Monetary Board approved the guidelines for the implementation of higher capital requirements on D-SIBs by the BSP under Basel III. Banks deemed as D-SIBs by the BSP are required to maintain capital surcharges to enhance their loss absorbency and thus mitigate any adverse side effects both to the banking system and to the economy should any of the D-SIBs fail. The assessment started in 2014 with the BSP informing banks confidentially of their D-SIB status in 2015. To determine the banks' systemic importance, the BSP will assess and assign weights using the indicator-based measurement approach based on the following: size, interconnectedness, substitutability, and complexity. Depending on how they score against these indicators and the buckets to which the scores correspond, the D-SIBs will have varying levels of additional loss absorbency requirements ranging from 1.0% to 2.5%. Aside from the added capital pressure, D-SIBs may be put at an undue disadvantage compared to G-SIBs given that this framework was patterned for regional/global banks and thus may not be appropriate for local banks. The phased-in compliance started on 1 January 2017 and became fully effective on 1 January 2019.

On 12 February 2016, the Monetary Board approved the guidelines on the submission of a recovery plan by D-SIBs which shall form part of the D-SIBs' ICAAP submitted to the BSP every 31st of March of each year. This was amended by Circular No. 1113, Series of 2021, which now requires that the recovery plan be separate and distinct from the ICAAP document. D-SIBs must submit a separate recovery plan every 30th of June of each year, starting 30 June 2022. The submission of the ICAAP document remains to be every 31st of March of each year. The recovery plan identifies the course of action that a D-SIB should undertake to restore its viability in cases of significant deterioration of its financial condition in different scenarios. At the latest, the recovery plan shall be activated when the D-SIB breaches the total required CET1 capital, the higher loss absorbency ("HLA") capital requirement and/or the minimum liquidity ratios as may be prescribed by the BSP. As a pre-emptive measure, the recovery plan should use early warning indicators with specific levels (i.e., quantitative indicators

supplemented by qualitative indicators) that will activate the recovery plan even before the above-said breaches happen. This preparatory mechanism, including the operational procedures, monitoring, escalation and approval process should be clearly defined in the recovery plan. The ICAAP document which includes the first recovery plan was submitted on 30 June 2016 and will be resubmitted on the 31st of March of each year.

In addition, Basel III capital rules for banks include setting up a Countercyclical Capital Buffer (“CCyB”) wherein banks may be required by the relevant regulator to build up the required level of capital during boom times and draw down on the buffer in the event of an adverse turn in the cycle or during periods of stress, thus helping to absorb losses. The CCyB will require banks to hold additional common equity or other fully loss absorbing capital in amounts ranging from 0.0% to 2.5% of the risk-weighted assets. On 6 December 2018, the BSP issued the guidelines on CCyB. BSP Circular No. 1024 imposes a CCB of 2.5% and a CCyB of 0.0% subject to upwards adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed 2.5%. Any increase in the CCyB rate shall be effective 12 months after its announcement, while decreases shall be effective immediately. The circular further provides that the HLA requirement shall be on top of the combined requirement for CCB and CCyB. Under the BIS, the CCyB became fully effective on 1 January 2019.

On 27 September 2019, the BSP issued Circular No. 1051 which amended the framework for D-SIBs. Said Circular amended the list of indicators and their respective weights in order to identify D-SIBS. In addition, said Circular revised the range of the HLA requirement as percentage of risk-weighted assets.

Domestic Systematically Important Banks

On 29 October 2014, the BSP issued BSP Circular No. 856 which set forth the implementing guidelines on the framework for dealing with Domestic Systematically Important Banks (“DSIBs”) in accordance with reform packages proposed by the Basel Committee on Banking Supervision. The guidelines are intended to address systemic risk and interconnectedness by identifying banks which are deemed systemically important within the domestic banking industry. Banks that will be identified as DSIBs shall be required to have higher loss absorbency, on top of the minimum CET 1 capital and capital conservation buffer. Compliance with this requirement shall be phased-in starting 1 January 2017, with full compliance on 1 January 2019.

On 12 February 2016, the BSP issued BSP Circular No. 904 which provides the guidelines on the recovery plan required to be submitted by DSIBs, which forms an integral part of the bank’s internal capital adequacy assessment process (“ICAAP”) document submitted to the BSP every 31st of March of each year. The recovery plan sets out the actions that a DSIB will take to restore its viability in cases of significant deterioration of its financial condition in different scenarios and shall be activated, at the latest, when the DSIB breaches the total required CET 1 capital and/or the minimum liquidity ratios as may be prescribed by the BSP. The recovery plan shall be applied on a group-wide basis. On 18 October 2022, the BSP issued BSP Circular No. 1158 which set forth amendments to BSP Circular No. 904.

Real Estate Exposure

On 27 June 2014, the BSP issued Circular 839 which set a prudential REST limit for universal and commercial banks and thrift banks, on a solo and consolidated basis, on their aggregate real estate exposures and other real estate property. Under the circular, covered banks must maintain REST limits as follows: (a) for universal banks and commercial banks, a CET 1 capital ratio of 6.0% and a risk-based capital adequacy ratio of 10.0%, on a solo and consolidated basis, under the prescribed write-off rate of 25.0%; (b) for thrift banks that are subsidiaries of universal banks and commercial banks, a CET 1 capital ratio of 6.0% and a risk-based capital adequacy ratio of 10.0%, under the prescribed write-off rate of 25.0%; and (c) for standalone thrift banks, a Tier 1 capital ratio of 6.0% and a risk-based capital adequacy ratio of 10.0%, under the prescribed write-off rate of 25.0%.

Real estate exposures include, among others, (a) residential real estate loans extended to individuals to finance the acquisition or construction of residential real estate for own-occupancy; (b) commercial real estate loans extended to individuals, land developers or construction companies or other borrowers (such as real estate brokers, real estate lessors, property management companies, and holding companies) for purposes of financing real estate activities (such as the acquisition, construction and improvement of real estate, buying and selling of real estate, rental of self-owned or leased rental estate, and management of real estate/real property); (c) investment in debt securities issued by land developers/construction companies or other corporate borrowers for purposes of financing real estate activities; and (d) investments in equity securities issued by land developers/construction companies or other corporate borrowers for purposes of financing real estate activities. Real estate exposures shall not include loans and investments in debt and equity securities the proceeds of which are used to finance

infrastructure projects for public use, such as, the construction, rehabilitation, and improvement of highways, streets, bridges, tunnels, railways, railroad, transport systems, ports, airports, power plants, hydropower projects, canals, dams, water supply, irrigation, telecommunications, land reclamation projects, industrial estates or townships, government buildings and housing projects, public markets, slaughterhouses, warehouses, civil work components of information technology networks and database infrastructure projects, solid waste management, sewerage, flood control, drainage, dredging, and other infrastructure that are intended for public use.

Leverage Ratio Framework

The BSP has likewise adopted the Basel III leverage ratio framework under BSP Circular No. 881 (2015). The leverage ratio of universal and commercial banks as well as their subsidiary banks and quasi-banks, which is computed as the level of a bank's Tier 1 capital against its total on-book and off-book exposures, must not be less than 5.0% on both solo (head office plus branches) and consolidated (parent bank plus subsidiary financial allied undertakings but excluding insurance companies). On 26 January 2017, the BSP issued Circular No. 943, which extended the Basel III leverage ratio framework monitoring period until 31 December 2017. On 22 January 2018, the BSP issued BSP Circular No. 990, which further extended the monitoring period of the Basel III leverage ratio framework until 30 June 2018. During the monitoring period up to end-2017, sanctions will not be imposed on covered institutions falling below the 5.0% minimum leverage ratio but covered institutions are required to submit periodic reports. Erroneous, delayed, erroneous and delayed, or unsubmitted reports of banks shall be subject to penalties provided under the Manual of Regulations for Banks.

The monitoring of the leverage ratio will be implemented as a Pillar 1 minimum requirement effective 1 July 2018. Upon migration to a Pillar 1 requirement, the Basel III leverage ratio report shall be submitted quarterly along with the Basel III capital adequacy ratio report, on both solo and consolidated bases. The mandatory disclosure requirements provided under Appendix 111 of the Manual of Regulations for Banks shall be published in the quarterly published balance sheet as well as in the annual reports or published financial reports (e.g., audited financial statements).

Liquidity Framework

Banks also face new liquidity requirements under Basel III's new liquidity framework, namely, the LCR and the NSFR.

The BSP adopted Basel III's LCR under BSP Circular No. 905 (2016), which initially covers universal and commercial banks. The LCR framework adopted by the BSP requires banks to hold a sufficient level of unencumbered high-quality liquid assets ("HQLAs") to enable them to withstand a 30 day-liquidity stress scenario. As of date, the LCR framework applies to all universal and commercial banks (including branches of foreign banks) and their subsidiary banks and quasi-banks on both solo (head office plus branches/other offices) and consolidated (parent bank plus subsidiary financial allied undertakings but excluding insurance companies) bases. The LCR is the ratio of HQLAs to total net cash outflows. Under a normal situation, the value of the LCR shall not be lower than 100.0% on an ongoing basis. While the LCR is expected to be met in a single currency (i.e., the Philippine Peso equivalent terms of all currencies), banks and quasi-banks are expected to be able to meet their liquidity needs in each currency and maintain HQLA consistent with the distribution of their liquidity needs by currency.

Beginning 1 January 2018, the LCR threshold that universal and commercial banks will be required to meet will be 90.0% which will then be increased to 100.0% beginning 1 January 2019. Covered institutions shall comply with the minimum LCR requirement on a daily basis and shall have appropriate systems in place to ensure the same. For reporting purposes, covered institutions are required to submit monthly and quarterly reports on their LCR, per single currency and per significant currency, to the BSP.

Subsidiary banks and quasi-banks of universal and commercial banks and quasi-banks are given an observation period until 31 December 2018, during which period such banks shall not be required to maintain the minimum liquidity coverage ratio but must submit quarterly reports of their liquidity coverage ratio per single currency and per significant currency, to the BSP. Beginning 1 January 2019, the subsidiary banks and quasi-banks of universal and commercial banks and quasi-banks shall be subject to an LCR threshold of 100.0%.

If a shortfall in the stock of HQLAs or eligible liquid assets occurs on three (3) banking days within any two (2) week rolling calendar period, thereby causing a bank's or quasi-bank's LCR to fall below the applicable minimum threshold, the bank or quasi-bank must notify the BSP of such non-compliance within the banking day

immediately following the occurrence of the third liquidity shortfall, notwithstanding the restoration of the LCR/compliance with the applicable minimum threshold on the day that the shortfall must be reported. A shortfall will not necessarily result in supervisory or enforcement action. However, at a minimum, it will entail heightened monitoring. Depending on the assessment by the BSP of the extent of the liquidity deficit, cause, and recurrence thereof, the BSP may require effective and timely remedial action to address the deficiency in the liquidity position of the bank or quasi-bank within a committed timeline. In such a case, and subject to approval of the Monetary Board, the relevant bank or quasi-bank may continue to have access to credit and liquidity facilities of the BSP during the period the liquidity requirement is being restored notwithstanding non-compliance with standard conditions of access to such facilities that pertain to a bank's or quasi-bank's liquidity position.

Under BSP Circular No. 996 (2018), the BSP clarified that minimum prudential liquidity requirements are minimum supervisory requirements and, as such, covered banks and quasi-banks are expected to conduct their own stress testing as part of their liquidity risk management process in order to identify the risk drivers that may lead to drastic fluctuations in their liquidity positions. In the event that the BSP is not satisfied with the adequacy of the bank's or quasi-bank's liquidity management framework or where it has particular concerns about a bank's or quasi-bank's liquidity exposures, it may require the bank or quasi-bank to comply with a higher liquidity requirement.

Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources.

On 6 June 2018, the BSP issued Circular No. 1007, or the "Implementation Guidelines on the adoption of the Basel III Framework on Liquidity Standards – Net Stable Funding Ratio". The NSFR complements the LCR, which promotes short term resilience of a bank's or quasi-bank's liquidity profile. The NSFR is the ratio of a covered bank's or quasi-bank's available stable funding to its required stable funding. Beginning 1 January 2019, universal banks and commercial banks will be required to maintain an NSFR of at least 100.0% at all times. During the observation period prior to 1 January 2019, covered banks and quasi-banks are required to submit shall submit the solo and consolidated NSFR Reports.

In the event that a shortfall in the stock of HQLA or eligible liquid assets or available stable funding occurs on three (3) banking days within any two (2) week rolling calendar period, thereby causing the LCR or NSFR to fall below the minimum threshold or the minimum liquidity ratio to be breached on such days, the bank or quasi-bank must notify the BSP, through the appropriate supervising department, of such noncompliance within the banking day immediately following the occurrence of the third liquidity or stable funding shortfall, notwithstanding the restoration of the LCR or NSFR or compliance with the minimum liquidity ratio on the day that the shortfall must be reported. A shortfall will not necessarily result in supervisory or enforcement. If the liquidity requirement is not met for a prolonged period of time or if the BSP has determined that the bank or quasi bank is otherwise materially non-compliant with the minimum LCR, NSFR, or the minimum liquidity ratio or the reported shortfall is caused by a firm-specific stress situation, the BSP will require effective and timely remedial action from the bank or quasi-bank to address the deficiency in its liquidity position within a committed timeline.

On 15 March 2019, the Monetary Board approved the extension of the observation period for the NSFR of the subsidiary banks and quasi banks of universal and commercial banks until 31 December 2019, moving the effectivity dates of said ratios to 1 January 2010. During the extended observation period, subsidiary banks and quasi-banks of universal and commercial banks are required to comply with a 70.0% LCR and NSFR, which shall increase to 100.0% on 1 January 2020. The Monetary Board also approved enhancements to the LRC and minimum liquidity ratio guidelines, including netting of cash inflows and outflows to and from the same derivative counterparty for the LCR framework, and counting interbank placements as eligible liquid assets and adjusting qualifying liabilities through conversion factors to retail current and regular savings deposits worth ₱500,000.00 and below and certain liability accounts. The internationally agreed start date for the phase-in of liquidity requirements is 1 January 2015.

On 13 February 2020, the BSP issued Memorandum No. M-2020-003 which provided guidelines on the electronic submission of the Basel III NSFR Report and Liquidity Coverage Ratio Report ("LCR"). It states that all subsidiary banks and quasi-banks must observe the guidelines for the live implementation of the NSFR and LCR reports beginning reporting period ended 31 January 2020, in line with BSP Circular Nos. 1034 and 1035 both dated 15 March 2019 on the Amendments to the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio and the Amendments to the Basel III Liquidity Coverage Ratio Framework and Minimum Liquidity Ratio Framework.

On 4 May 2020, the BSP issued BSP Memorandum Circular No. M-2020-039, which allows universal and commercial banks, and their subsidiary banks and quasi-banks, which have built up their CCB and LCR buffer, to utilise the same during this state of health emergency, subject to the following:

- (a) the bank or quasi-bank which draws down its 2.5% minimum CCB will not be considered in breach of the Basel III risk-based capital adequacy framework but will be restricted from making distributions in the form of dividends (in the case of banks incorporated and established under Philippine laws) or, profit remittance (in the case of a foreign bank branch), share buybacks, discretionary payments on other Tier 1 capital instruments, or discretionary bonus payments to staff; and
- (b) the bank or quasi-bank may draw on its stock of liquid assets to meet liquidity demands to respond to the current circumstances, even if this may cause its LCR to fall below the 100.0% minimum requirement. In the event the bank or quasi bank has recorded a shortfall in the stock of its HLA for three banking days within any two-week rolling calendar period, thereby causing the LCR to fall below the 100.0%, such bank or quasi bank must notify the BSP of such a breach on the banking day immediately following the occurrence of the third liquidity shortfall.

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

Countercyclical Capital Buffer

An integral part of the standards for risk-based capital under Basel III is the implementation of a countercyclical capital buffer wherein banks build up the required level of capital during boom times and draw down on the buffer in the event of an adverse turn in the cycle or during periods of stress. The Basel III countercyclical capital buffer is calculated as the weighted average of the buffers in effect in the jurisdiction to which banks have a credit exposure. The Basel III countercyclical capital buffer consists entirely of CET 1 capital and, if the minimum buffer requirements are breached, capital distribution constraints will be imposed on the bank.

On 6 December 2018, the BSP issued guidelines on CCyB. BSP Circular No. 1024 imposes a capital conservation buffer (“CCB”) of 2.5% and a CCyB of 0.0% subject to upwards adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed 2.5%. Any increase in the CCyB rate shall be effective 12 months after its announcement, while decreases will be effective immediately. The circular further provides that the HLA requirement is required to be on top of the combined requirement for CCB and CCyB. Under the BIS, the CCB became fully effective on 1 January 2019. As of date, the BSP has not mandated the countercyclical capital buffer for Philippine banks

Reserve Requirements

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to the BSP on the amount of any deficiency.

With effect from reserve week of 6 January 2024, the rates of required reserves against deposit and deposit substitute liabilities in local currency of universal and commercial banks, are as follows: (a) 9.5% against demand deposits, NOW accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable CTDs, long-term non-negotiable tax-exempt CTDs, deposit substitutes, Peso deposits lodged under due to foreign banks and Peso deposits lodged under due to head office/branches/agencies abroad of banks (Philippine branch of a foreign bank); (b) 0.0% against deposit substitutes evidenced by repurchase agreements; (c) 4.0% against LTNCDs; (d) 1.0% against green, social sustainable bonds as defined under the relevant regulations of the SEC or other relevant regional or international standards acceptable to the market (“**Sustainable Bonds**”) issued within one year from 6 January 2024; (e) 0.0% for Sustainable Bonds issued one year after 6 January 2024, effective for another 12 months, (f) 3.0% against bonds other than Sustainable Bonds; and (g) 0.0% against basic deposit accounts as defined under Section 213 of the BSP MORB and for interbank call loan transactions.

On 22 April 2020, the BSP issued BSP Circular No. 1083 to recognize loans granted to MSMEs after 15 March 2020 as allowable alternative compliance with the required reserves against deposit and deposit substitute from 24 April 2020 to 30 December 2021. To be considered as compliant, the MSME loan should be granted after 15 March 2020 and should not be hypothecated or encumbered in any way, rediscounted with the BSP, or earmarked

for any other purpose. The willful making of a false or misleading statement in relation to the reporting of MSME loans for compliance shall subject the bank and the directors/officers responsible for violation of Sections 35 and 37 of Republic Act No. 7653 or the New Central Bank Act, as amended by Republic Act No. 11211.

Pursuant to BSP Memorandum No. M 2020-029, issued on 23 April 2020, MSME loans that are utilized as alternative compliance with reserve requirements shall be temporarily reported by Universal Banks under Investments in bonds and Other Debt Instruments.

On 27 May 2020, the BSP, pursuant to BSP Circular No. 1087, provided more alternative modes of compliance with the reserve requirement such as: (a) Peso-denominated loans that are granted to MSMEs, and (b) Peso-denominated loans that are granted to large enterprises, subject to conditions set out in the circular.

Loan Limit to a Single Borrower

The total amount of loans, credit accommodations and guarantees that may be extended by a bank to any person, partnership, association, corporation or other entity shall at no time exceed twenty-five percent (25.0%) of the net worth of such bank. The basis for determining compliance with the single borrower's limit is the total credit commitment of the bank to or on behalf of the borrower. The total amount of loans, credit accommodations and guarantees above may be increased for specific circumstances as laid out in the relevant provisions of the BSP MORB.

BSP Circular 779 issued on 9 January 2013, amended the BSP MORB provisions on Regulations on Single Borrower's Limit. The amendments allowed for increases (on top of the 25.0% as already mentioned) on the amount of loans, credit accommodations and guarantees that a bank may issue to a borrower. The following are the increases that are conditional: (a) an additional 10.0% of the net worth of the bank as long as the additional liabilities are secured by shipping documents, trust or warehouse receipts or other similar documents which cover marketable, non-perishable goods which must be full covered by insurance, (b) an additional 25.0% of the net worth of the bank provided that: (i) the additional loans, credit accommodations and guarantees are used to finance the infrastructure and/or development projects under the Philippine Government's Public-Private Partnership ("PPP") Program; (ii) these additional liabilities should not exceed 25.0% of the net worth of the bank; and (iii) the additional 25% shall only be allowed for a period 6 years from 28 December 2010 or until 28 December 2016, (c) by an additional 15.0% of the net worth of the bank provided that the additional loans, credit accommodations and guarantees are used to finance oil importation of oil companies which are not subsidiaries or affiliates of the lending bank which is also engaged in energy and power generation until 3 March 2014, (d) by an additional 25.0% of the net worth of the bank provided that the additional loans, credit accommodations and guarantees are granted to entities which act as value chain aggregators of the lending bank's clients and/or economically-linked entities that are also actors/players in the value chain, provided that such increase shall apply only to loans other than loans to related parties of the lending bank and loans extended to directors, officers, stockholders and their related interests ("DOSRI") of the lending bank, and by an additional 15.0% of the net worth of the bank, provided that the additional loans, credit accommodations and guarantees are used to finance eligible green or sustainable projects that meet any of the principles or categories in (i) Tier II of the 2022 Strategic Investment Priority Plan (Green Ecosystems, Health security related activities, and Food security related activities) approved in Memorandum Order No. 61 dated 24 May 2022, (ii) Republic of the Philippines Sustainable Finance Framework, (iii) Philippine Sustainable Finance Guiding Principles, (iv) ASEAN Taxonomy for Sustainable Finance, or (v) Implementing regulations of the Philippine Sustainable Finance Taxonomy Guidelines, among other requirements. The additional 15.0% under item (e) shall apply only to non-DOSRI/subsidiary/affiliate loans, credit accommodations and guarantees, and shall be allowed only for a period of two years from the date of effectivity of BSP Circular No. 1185 (i.e., 6 January 2024).

For purposes of determining credit exposure limits to a single borrower, loans, other credit accommodations and guarantees shall exclude: (1) loans and other credit accommodations secured by obligations of the BSP or of the Philippine Government; (2) loans and other credit accommodations fully guaranteed by the government as to the payment of principal and interest; (3) loans and other credit accommodations secured by U.S. Treasury Notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two (2) internationally accepted rating agencies; (4) loans and other credit accommodations to the extent covered by the hold-out on or assignment of, deposits maintained in the lending bank and held in the Philippines; (5) loans, credit accommodations and acceptances under letters of credit to the extent covered by margin deposits; and (6) other loans or credit accommodations which the Monetary Board may from time to time specify as non-risk items.

On 5 July 2017, the BSP issued BSP Circular No. 965 approving the guidelines on the exclusion from the single borrower's limit of banks' and quasi-banks' short-term exposures to clearing and settlement banks arising from payment transactions pertaining to fund transfer services, check clearing, foreign exchange trades, security trades, security custody services, and other short-term payment transactions.

In an effort to mitigate the adverse effects of the COVID-19 pandemic on the operations of BSFIs, the BSP issued BSP Memorandum No. M-2020-011 dated 19 March 2020 and Memorandum No. M-2020-057 dated 21 July 2020, which granted additional operational relief to BSFIs. The relief measures include an increase in this single borrower's limit from 25.0% to 30.0% until 31 March 2021, which was extended until 31 December 2022 by Memorandum No. M-2022-004.

On 22 July 2020, the BSP issued BSP Memorandum Circular No. 1091, excluding debt securities held by market makers from the SBL for a period not exceeding 90 days if acquired from 1 August 2020 to 31 July 2021 and for a period of 60 days if acquired from 1 August 2021 onwards, provided that:

1. the market-making positions shall be taken up in the trading book in accordance with Section 614/614-Q on investment activities of BSFI;
2. the market-making positions shall be properly identified and segregated from the BSFI's proprietary positions; and
3. the BSFI shall periodically monitor the market value of the subject debt securities and the number of days the securities have been outstanding from date of acquisition.

On 5 January 2023, the BSP issued Circular No. 1164 which provides for the definition of credit risk transfer and which clarifies that loans and other credit accommodations or portion thereof covered by an effective credit risk transfer arrangement in the form of a guarantee or credit derivative that complies with the minimum operational requirements provided under the MORB shall be excluded from the total credit commitment of the bank to a borrower in reckoning compliance with the SBL. Meanwhile, the portion of the loans and other credit accommodations that is not covered by an effective credit risk transfer arrangement, if any, shall still form part of the credit commitment of the bank to the borrower in reckoning compliance with the SBL.

Trust Regulation

The BSP MORB contains the regulations governing the grant of authority to and the management, administration and conduct of trust, other fiduciary business and investment management activities of trust corporations and financial institutions allowed by law to perform such operations. Trust corporations, banks and investment houses may engage in trust and other fiduciary business after complying with the requirements imposed by the Manual of Regulations for Banks. The Bank may, under its charter documents, accept and manage trust funds and properties and carry on the business of a trust corporation.

Foreign Currency Deposit System

FCDU is a unit of a local bank or of a local branch of a foreign bank authorized by the BSP to engage in foreign currency-denominated transactions. Universal banks and commercial banks which meet the minimum capital requirements prescribed for local banks and subsidiaries or branches of foreign banks under prevailing regulations may be authorized to operate an FCDU or an expanded FCDU ("EFCDU"). Thrift banks with a net worth or combined capital accounts of at least ₱325.0 million if their head offices are located in Metro Manila, and ₱52.0 million if their head offices are located outside Metro Manila, may be authorized to operate an FCDU.

In general, FCDUs of such banks may, in any acceptable foreign currency (a) accept deposits and trust accounts (if the bank is authorized to engage in trust operations) from residents and non-residents; (b) deposits, regardless of maturity, deposit with foreign banks abroad, offshore banking units ("OBUs") and other FCDUs or EFCDUs; (c) invest in readily marketable foreign currency-denominated debt instruments; (d) grant short-term foreign currency loans as may be allowed by the BSP; (e) borrow, regardless of term maturity, from other EFCDUs, foreign banks abroad and OBUs, and, on short-term, from other FCDUs, in each case, subject to existing rules on foreign borrowings; and (f) engage in foreign currency to foreign currency swaps with the BSP, OBUs and other FCDUs or EFCDUs.

In addition to the foregoing, commercial banks and universal banks authorized to operate under the EFCDU system may: (a) engage in foreign exchange trading and, with prior BSP approval, engage in financial futures

and options trading; (b) on request/instruction from its foreign correspondent banks and provided that the foreign correspondent banks deposit sufficient foreign exchange with the EFCDU: (i) issue LCs for a non-resident importer in favor of a non-resident exporter, (ii) pay, accept, or negotiate drafts/bills of exchange drawn under the letter of credit and (iii) make payment to the order of the non-resident exporter; (c) engage in direct purchase of export bills of resident exporters, securities lending activities, repurchase agreements involving foreign currency denominated government securities, purchase foreign currency denominated government securities under resale agreements from other bank's FCDU or EFCDU, non-resident financial institutions and OBUs, in each case, subject to certain conditions; (d) invest in foreign currency denominated structure products issued by banks and special purpose vehicles of high credit quality subject to applicable regulations; (e) issue hybrid Tier 1 capital instruments subject to applicable regulations; and (f) engage in U.S.\$ denominated repurchase agreements with the BSP subject to applicable regulations.

Banks under the FCDU and EFCDU systems are required to maintain a 100.0% cover for their foreign currency liabilities, except for U.S.\$ denominated repurchase agreements with the BSP. However, if the bank violates the terms and conditions of the U.S.\$ denominated repurchase agreement with the BSP, the borrowings of the bank thereunder shall be subject to the asset and liquid asset cover requirements applicable to FCDUs and EFCDUs.

Under current regulations, at least 30.0% of the cover requirement for foreign currency liabilities in the FCDU and EFCDU shall be in the form of liquid assets. Effective 1 January 2018, the liquid asset cover requirements for FCDU and EFCDU liabilities shall be as follows: (a) for universal and commercial banks, 0.0% liquid asset cover, and (b) for thrift, rural and cooperative banks, 30.0% liquid asset cover. Further, beginning on 1 January 2019, the liquid asset cover requirement for FCDU and EFCDU liabilities for all banks shall be 0.0%.

FCDUs and EFCDUs of universal banks and commercial banks may maintain its foreign currency cover in any foreign currency acceptable with the BSP. However, FCDUs and EFCDUs of thrift banks and rural banks are required to maintain foreign currency cover in the same currency as that of the corresponding foreign currency deposit liability until 31 December 2018. Beginning 1 January 2019, FCDUs and EFCDUs of thrift banks and rural banks may maintain its foreign currency cover in any foreign currency acceptable with the BSP.

FCDUs and EFCDUs of universal banks, commercial banks, and thrift banks have the option to maintain foreign currency deposits with the BSP equivalent to 15.0% of their foreign currency deposit liabilities as a form of foreign exchange cover.

On 1 June 2018, the BSP issued BSP Circular No. 1006 which sets forth the amendments to the rules on the conversion or transfer of foreign currency loans to peso loans. FCDU or EFCDU loans may be converted to peso loans and transferred from a bank's FCDU books to the bank's regular banking unit books without prior BSP approval, subject to the following conditions: (i) The board of directors of the bank has approved sound policies for the redenomination of FCDU or EFCDU loans; (ii) The bank has put in place the appropriate risk management system and has ensured compliance with the FCDU or EFCDU cover requirement and other relevant FCDU or EFCDU regulations including the timely and accurate accounting and reporting of transactions. No income shall be recognized in the FCDU or EFCDU or regular banking unit books arising from the redenomination of loans; and (iii) There shall be actual settlement in foreign currency, simultaneous with the transfer, by the regular banking unit to the FCDU or EFCDU of the total amount of foreign currency-denominated loans or real or other properties acquired (ROPA) being transferred to the regular banking unit using the prevailing foreign exchange or conversion rate at the time of transfer. FCDU or EFCDU ROPA may also be converted to peso ROPA and transferred to the RBU books without prior BSP approval, subject to items (i) to (iii) above.

Lending Policies: Secured and Unsecured Lending

In general, banks shall extend loans only in amounts and for the periods of time essential for the effective completion of the activity to be financed and after ascertaining the borrower's capability to fulfil its obligations.

Under existing regulations, commercial and universal banks are generally prohibited from extending loans and other credit accommodations against real estate in an amount exceeding 60.0% of the appraised value of the real estate. Further, total real estate loans are not to exceed 20.0% of a commercial and universal bank's total loan portfolio, net of interbank loans. Excluded from this, however, are loans granted to individual households to finance the associated land acquisition, construction, and/or improvement, loans extended to land developers of socialized and low-cost residential properties, loans to the extent guaranteed by Home Guarantee Corporation, and loans to the extent collateralized by non-risk assets under existing regulations.

Under BSP Circular No. 855 (2014) on the Guidelines on Sound Credit Risk Management Practices, banks are required to put in place adequate and effective credit risk management systems commensurate to their credit risk-taking activities and, for such purpose, the BSP will evaluate a bank's credit risk management system not only at the level of the individual legal entities but also across its subsidiaries within the consolidated banking organization. The board of directors of the bank shall be responsible for the approval and regular review of credit risk strategy and credit policy, as well as the oversight of the implementation of a comprehensive and effective credit risk management system appropriate for the size, complexity and scope of operations of the bank. Meanwhile, the senior management shall be responsible for ensuring that the credit risk-taking activities of a bank are aligned with the credit risk strategy approved by the board of directors. Senior management or an appropriate level of management shall implement a board-approved credit risk management structure that clearly delineates lines of authority, establish accountabilities and responsibilities of individuals involved in the different phases of the credit risk management process. Banks are required to have in place a sound, comprehensive and clearly defined credit policies, processes and procedures consistent with prudent standards, practices, and relevant regulatory requirements adequate for the size, complexity and scope of their operations.

Priority Lending Requirements

Agriculture and Agrarian Reform Lending

The Mandatory Agriculture, Fisheries and Rural Development Financing under Republic Act (R.A.) No. 11901 or "The Agriculture, Fisheries and Rural Development ("AFRD") Financing Enhancement Act of 2022", mandates that banks shall for a period of 10 years from approval of R.A. No. 11901, or from 18 August 2022 to 27 July 2032, set aside at least twenty-five percent (25%) of their total loanable funds for AFRD financing.

The compliance with AFRD mandatory allocation of funds under R.A. No.11901 shall be allowed on a groupwide basis (i.e., consolidation of parent foreign bank branch and subsidiary bank/s) so that excess compliance of any bank in the group can be used as compliance for any deficient bank in the group. Provided, that the subsidiary bank/s is/are at least directly or indirectly majority owned by the parent bank and/or foreign bank branch: Provided, further, that the parent bank foreign bank branch shall be held responsible for the compliance of the group.

Banks may comply with the mandatory credit requirement through the following modes, which shall be reckoned in accordance with the applicable reference cut-off date:

- a. Actual extension of loans to rural community beneficiaries (gross of allowance for credit losses) for purposes of financing AFRD activities.
- b. Purchase of eligible loans listed in Item "a" above on a "without recourse" basis from other banks and FIs.
- c. Purchase of eligible securities (gross of allowance for credit losses but net of unamortized premium or discount), to wit:
 1. Investments in debt securities, including those issued by the DBP and LBP, the proceeds of which shall be used to finance AFRD activities as well as electronic platforms that facilitate agricultural value chain financing ("AVCF") and supply chain financing transactions among actors in agriculture. The proceeds from the debt securities issued by the DBP and the LBP shall be separately accounted for by these banks;
 2. Investments in sustainable finance instruments, which shall include but are not limited to green bonds, social bonds, sustainability bonds, sustainability-linked bonds, transition bonds and green equity, among others, and such other sustainable finance instruments which are issued in accordance with domestic guidelines or international standards accepted by the market, the proceeds of which shall be used for sustainable projects or programs that will benefit the country;
 3. Investments in shares of stock in the following institutions, subject to existing rules and regulations governing equity investments of banks:
 - a. Rural financial institutions ("RFIs");
 - b. Philippine Crop Insurance Corporation ("PCIC"); or

- c. Companies that primarily engage in AFRD activities, including venture capital corporations that benefit rural community beneficiaries and companies that maintain and operate electronic platforms that facilitate AVCF and supply chain financing transactions among actors in agriculture;
- 4. Investments in unsecured subordinated debt securities that meet the definition of regulatory capital under Appendix 59 and are issued by banks that are RFIs;
- 5. Investments in MSMEs of farmers, fisherfolk, agrarian reform beneficiaries (“**ARBs**”), agrarian reform communities (“**ARCs**”), settlers, agricultural lessees, amortizing owners, farmworkers, fish workers, owner cultivators, compact farmers and tenant farmers by way of purchase of their securities through an organized market, initial public offering, follow-on offering, or through registered crowdfunding intermediaries;
- d. Grant of loans and other credits (gross of allowance for credit losses) to wit:
 - 1. Placements in deposit accounts and/or fixed term deposit products with RFIs. The deposit accounts/products shall be separately accounted for by the depository bank that meets the definition of an RFI;
 - 2. Wholesale lending granted by banks to RFIs which shall only be considered as compliance of the bank acting as wholesale lender alone;
 - 3. Rediscounting facility granted by banks to other banks covering eligible AFRD financing. The rediscounted paper shall no longer be eligible as compliance on the part of the originating bank;
 - 4. Actual extension of loans intended for the construction and upgrading of infrastructure, including, but not limited to, farm-to-market roads, as well as the provision of post-harvest facilities and other public rural infrastructure, for the benefit of the rural community;
 - 5. Actual extension of loans to agri-business enterprises that maintain agricultural commodity supply-chain arrangements directly with qualified rural community beneficiaries;
 - 6. AVCF, including financing to electronic platforms that will facilitate AVCF and supply chain financing transactions among actors in agriculture that benefits rural communities;
 - 7. Actual extension of sustainable finance in the form of loans; or
 - 8. Purchase of eligible loans listed under Item Nos. d(4) to d(7) in this section on a "without recourse" basis from other banks and FIs:

Annual monetary penalty of one-half of one percent (0.5%) of amount of non-compliance/under-compliance shall be computed on a quarterly basis following this formula:

$$\text{Penalty} = 0.00125 \times \text{amount of non-compliance/under-compliance as of the end of the reference quarter}$$

Amount of non-compliance/under-compliance = twenty-five percent (25%) of total loanable funds less reported amount of compliance with the mandatory AFRD financing.

Lending to Barangay Micro Business Enterprises

Under Republic Act No. 9178, otherwise known as the Barangay Micro Business Enterprises Act of 2002, private banks and other financial institutions are encouraged to lend to barangay micro business enterprises. Among the incentives granted under the law, all loans extended to barangay micro business enterprises shall be considered as part of alternative compliance to Presidential Decree No. 717 and Republic Act No. 6977 (Magna Carta for Small Enterprises).

Certain Prohibited Holders under Philippine Banking Regulations

BSP regulations applicable to the Bank prohibit certain persons from acquiring and/or holding the Notes. These prohibited holders are:

- (a) the Issuer, including its related parties such as its subsidiaries, affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the Issuer exerts direct/indirect control over; the Issuer's DOSRI (as defined under the BSP MORB) and their close family members, and corresponding persons in affiliated companies; and such other person or entity whose interests may pose potential conflict with the Issuer's interest or who are identified as related parties pursuant to Section 131 of the MORB in relation with BSP Circular No. 1062 as further clarified in BSP Memorandum No. 2020-001, except (i) the Issuer's trust department or related trust entities, or (ii) an underwriter or arranger that is an Issuer's related party, provided that the holding of the Notes is part of the underwriting agreement, and such underwriter or arranger has complied with the requirements of Governing Regulations; or
- (b) such persons who are otherwise not qualified under the Governing Regulations including any other person whose acquisition, holding or transfer of the Notes would violate any applicable law or regulation, including but not limited to the rules of the PDEX, BSP, AMLC, or other government regulation in any relevant jurisdiction; or
- (c) persons classified as U.S. Persons under the Foreign Account Tax Compliance Act of the United States, as this may be amended from time to time, which include: (a) a U.S. citizen (including a dual citizen who may have another citizenship besides having a U.S. citizenship); (b) a U.S. resident alien for tax purposes, which includes a person who has substantial presence in the U.S. ("substantial presence" is defined as more than 31 days in the current calendar year or a total of 183 days over the previous three years from the current tax year); (c) a U.S. partnership, U.S. corporation, or U.S. entity; (d) a U.S. estate; (e) a U.S. trust if a court within the United States is able to exercise primary supervision over the administration of the trust, or one or more U.S. persons have the authority to control all substantial decisions of the trust; or (f) any other person that is not a non-US person; or
- (d) Persons classified as a Specific Related Parties. Specific Related Parties are the Bank's related parties who are in possession or have access to material and non-public information which can affect the pricing and marketability of upcoming and outstanding Bank bond or note issuances,

(collectively, "**Prohibited Holders**")

For purposes of the definition of Prohibited Holders, a "Subsidiary" means, a corporation or firm more than fifty percent (50.0%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held, with power to vote, by the Bank. An "Affiliate" means, at any particular time, an entity linked directly or indirectly to the Bank by means of: (1) ownership, control, or power to vote of at least twenty percent (20.0%) of the outstanding voting stock of the entity, or vice-versa; (2) interlocking directorship or officership, where the director or officer concerned owns, controls, or has the power to vote, at least twenty percent (20.0%) of the outstanding voting stock of the entity; (3) common ownership, whereby the common stockholders own at least ten percent (10.0%) of the outstanding voting stock of the Bank and at least twenty percent (20.0%) of the outstanding voting stock of the entity; (4) management contract or any arrangement granting power to the Bank to direct or cause the direction of management and policies of the entity; or (5) permanent proxy or voting trusts in favor of the Bank constituting at least twenty percent (20.0%) of the outstanding voting stock of the entity, or vice versa. For a company to be "controlled" by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has power over more than one-half of the voting rights by virtue of an agreement with other stockholders, power to govern the financial and operating policies of the enterprise under a statute or an agreement, the power to appoint or remove the majority of the members of the board of directors or other equivalent governing body of that company, power to cast the majority votes at meetings of the board of directors or equivalent governing body, or otherwise controls or has the power to control the company through similar arrangements.

Regulations with Respect to Management of Banks

The board of directors of a bank must have at least five and a maximum of 15 members. According to Republic Act No. 11232, or the Revised Corporation Code, the board of banks and quasi-banks must have independent directors comprising at least 20.0% of such board. In case of merged or consolidated banks, the number of directors shall not exceed 21.

Under the MORB, at least one-third (1/3) but not less than two members of the board of directors of universal and commercial banks shall be independent directors. Further, SEC Memorandum Circular No. 24, Series of 2019, on the Code of Corporate Governance for Publicly-Listed Companies requires the board of directors of publicly-listed companies, such as the Bank, to have a board composed of a majority of non-executive directors and at least two independent directors, or such number as to constitute at least one-third (1/3) of the members of the board, whichever is higher. An independent director is a person who is not an officer or employee of a bank, its subsidiaries or affiliate or related interests during the past three years counted from the date of his election or appointment. The Revised Corporation Code likewise requires independent directors, apart from shareholdings and fees received from the bank, to be free from any business or other relationship which could, or could reasonably be perceived to materially interfere with the exercise of independent judgment in carrying out their responsibilities as a director. Foreigners are allowed to have board seats to the extent of the foreign equity in the bank.

Material contracts of a corporation vested with public interest with one or more of its directors, trustees, officers or their spouses and relatives within the fourth civil degree of consanguinity or affinity must also be approved by at least two-thirds (2/3) of the members of the board, with at least majority of the independent directors approving the same, in addition to common requirements for similar contracts for other companies pursuant to Section 31 of the Revised Corporation Code.

The Monetary Board shall issue regulations that provide for the qualifications and disqualifications to become a director or officer of a bank. After due notice to the board of directors of a bank, the Monetary Board may disqualify, suspend or remove any bank director or officer who commits or omits to perform an act which renders him unfit for the position.

The Monetary Board may regulate the payment by the bank of compensation, allowances, bonus, fees, stock options and fringe benefits to the bank officers and directors only in exceptional cases such as when a bank is under conservatorship, or is found by the Monetary Board to be conducting business in an unsafe or unsound manner or when the Monetary Board deems it to be in unsatisfactory condition.

Except in cases allowed under the Rural Bank Act and BSP Circular No. 1076, Series of 2020, no appointive or elective public official, whether full time or part time, may serve as officer of any private bank, except if the service is incidental to financial assistance provided by government or government owned and controlled corporation or when allowed by law.

Qualifications of Directors and Officers

Under BSP MORB, bank directors and officers must meet certain minimum qualifications. For instance, directors must be at least 25 years old at the time of election or appointment, have a college degree or have at least five years' business experience, while officers must be at least 21 years old, have a college degree, or have at least five years' banking or trust experience or related activities or in a field related to his position and responsibilities, and be fit and proper for the position he is being proposed/appointed to.

Certain persons are permanently disqualified from acting as bank directors, including (a) persons who have been convicted by final judgment of a court (i) for an offense involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of Batas Pambansa Blg. 22 (which penalizes the issuance of checks that are not sufficiently funded), violation of Anti-Graft and Corrupt Practices Act and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees), (ii) sentencing them to serve a maximum term of imprisonment of more than six years, (iii) for violation of banking laws, rules and regulations; (b) persons who have been judicially declared insolvent, spendthrift or incapacitated; (c) directors, officers or employees of closed banks who were found to be culpable for such institution's closure as determined by the Monetary Board; (d) directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board has become final and executory; and (e) directors and officers of banks or any person found by the Monetary Board to be unfit for the position of directors or officers because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency has become final and executory.

Meanwhile, certain persons are temporarily disqualified from holding a director position including (a) persons who refuse to fully disclose the extent of their business interests or any material information to the appropriate department of the SES when required pursuant to a provision of law or of a circular, memorandum, rule or regulation of the BSP; (b) directors who have been absent for more than half of directors' meetings during their incumbency and directors who failed to physically attend 25.0% of all board meetings in any year; (c) persons who are delinquent in the payment of their obligations with the bank where he/she is a director or officer or at least two obligations with other banks or financial institutions under different credit lines or loan contracts are past due; (d) directors and officers of closed banks pending their clearance by the Monetary Board; (e) directors disqualified for failure to observe their duties and responsibilities prescribed under existing regulations; (f) directors who failed to attend the required special seminar for board of directors; (g) persons who have been dismissed/terminated from employment for cause; (h) those under preventive suspension; (i) persons with derogatory records as certified by, or on official files of, the judiciary, National Bureau of Investigation, Philippine National Police, quasi-judicial bodies, other government agencies, international police, monetary authorities and similar agencies or authorities; (j) directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by court; and (k) directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of suspension from office or fine is imposed.

When the ground for disqualification ceases to exist, the director or officer concerned may subsequently become a director or officer of institutions regulated by the BSP only upon approval of the Monetary Board. In addition, except as may be permitted by the Monetary Board of the BSP, directors or officers of banks are also generally prohibited from simultaneously serving as directors or officers of other banks or non-bank financial intermediaries. The same prohibition applies to persons appointed to such positions as representatives of the government or government-owned or controlled entities holding voting shares of stock of banks/quasi-banks/nonbank financial institutions/trust corporations unless otherwise provided under existing laws.

Under the BSP MORB, independent directors shall have the additional qualifications that he or she: (a) is not or has not been an officer or employee of the bank, its subsidiaries or affiliates within three years from his election; (b) is not a director or officer of the related companies of the bank's majority stockholder; (c) is not a stockholder of the bank with shares of stock sufficient to elect one seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders; (d) is not a relative (spouse, parent, child, brother, sister, parent-in-law, son-/daughter-in-law, and brother-/sister-in-law) of any director, officer or a shareholder holding shares of stock sufficient to elect one seat in the board of the bank or any of its related companies, or any of its substantial shareholders; (e) is not acting as a nominee or representative of any director or substantial shareholder or any of its related companies; and (f) is not retained as a professional adviser, consultant or counsel of the bank, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm, and is independent of the management and free from any business or other relationship.

Loans to DOSRI and Subsidiaries and Affiliates

DOSRI Loans

In general, dealings of a bank with any of its directors, officers, stockholders and their related interests ("DOSRI") should be in the regular course of business and on terms not less favorable to the bank than those offered to others. The amount of individual outstanding loans, other credit accommodations and guarantees to DOSRI should not exceed an amount equivalent to their unencumbered deposits and book value of their paid-in capital contribution in the bank, provided that unsecured loans, other credit accommodations and guarantees extended to each DOSRI shall not exceed of 30.0% of the total loans, other credit accommodations and guarantees extended to such DOSRI. In the aggregate, outstanding loans, other credit accommodations and guarantees to DOSRI generally should not exceed 100.0% of the bank's net worth or 15.0% of the total loan portfolio of the bank, whichever is lower. In no case shall the total unsecured loans, other credit accommodations and guarantees to the DOSRI exceed 30.0% of the aggregate ceiling of the outstanding loans, other credit accommodations and guarantees, whichever is lower. For the purpose of determining compliance with the aggregate ceiling on unsecured credit accommodations and guarantees, banks shall be allowed to average their ceiling on unsecured loans, other credit accommodations and guarantees every week.

The credit card operations of banks shall not be subject to these regulations where the credit cardholders are the bank's directors, officers, stockholders and their related interests, subject to certain conditions.

On 2 June 2016, the Monetary Board approved the revisions to prudential policies on loans, other credit accommodations and guarantees granted to DOSRIs. The Monetary Board allowed the exclusion of loans granted by a bank to its DOSRI for the purpose of project finance from the 30.0% unsecured individual ceiling during the project gestation phase, provided that the lending bank shall ensure that standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include a pledge of the borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts and assignment of project documents.

On 23 June 2016, the BSP issued Circular No. 914, Series of 2016 amending the prudential policy on loans, other credit accommodations, and guarantees granted to DOSRI, subsidiaries and affiliates. Circular No. 914 has raised the ceilings on the exposures of subsidiaries and affiliates of banks to priority programs particularly infrastructure projects under the Philippine Development Plan / Public Investment Program ("**PDP/PIP**") needed to support economic growth. The exposures to subsidiaries and affiliates in PDP/PIP projects will now be subject to higher individual and unsecured limits of 25.0% instead of 10.0% and 12.5% instead of 5.0% of the net worth of the lending bank, respectively, subject to conditions. Further, the circular also provides for a refined definition of "related interest" and "affiliates" to maintain the prudential requirements and pre-empt potential abuse in a borrowing transaction between the related entities. The circular also amends the capital treatment of exposures to affiliates by weighing the risk of both the secured and unsecured loans granted to the latter.

On 27 October 2017, the BSP issued Circular No. 978 which provided for exclusion of the portion of loans and other credit accommodation covered by guarantees of international/regional institutions/multilateral financial institutions where the Philippine Government is a member/shareholder, from the ceilings on total outstanding loans, other credit accommodations and guarantees granted to banks' subsidiaries and affiliates. BSP Circular No. 978 excluded the following in determining compliance with the ceilings provided under Circular No. 914: (1) Loans, other credit accommodations and guarantees secured by assets considered as non-risk under existing BSP regulations; (2) Interbank call loans; and (3) The portion of loans and other credit accommodations covered by guarantees of international/regional institutions/multilateral financial institutions where the Philippine Government is a member/shareholder, such as the International Finance Corporation and the Asian Development Bank.

Loans to a Bank's Subsidiaries and Affiliates

BSP issued Circular No. 560, as amended, provides that total outstanding loans, other credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 10.0% of the net worth of the bank and the unsecured loans, other credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 5.0% of the bank's net worth. In the aggregate, outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.0% of the net worth of the bank. BSP Circular No. 560, as amended, further provides that these subsidiaries and affiliates should not be a related interest of any of the directors, officers and/or stockholders of the lending institution. However, the following loans, other credit accommodations and guarantees shall be excluded in determining compliance with these prescribed ceilings: (a) loans, other credit accommodations and guarantees secured by assets considered as non-risk under existing BSP regulations, (b) interbank call loans, and (c) the portion of loans and other credit accommodations covered by guarantees of international/regional institutions/multilateral financial institutions where the Philippine Government is a member/shareholder, such as the International Finance Corporation and the Asian Development Bank. In addition to the single borrower's limit, loans, credit accommodations and guarantees extended by a bank to its subsidiaries and affiliates shall be subject to applicable related party transaction regulations.

On 23 June 2016, the BSP issued Circular No. 914 which provides that loans, other credit accommodations and guarantees granted by a bank to its subsidiaries and affiliates engaged in, or for the purpose of undertaking infrastructure, energy and power generation, and other priority programs and projects, including those under the Public-Private Partnership Program of the government shall be subject to a separate individual limit of 25.0% of the net worth of the lending bank. The unsecured portion thereof shall not exceed 12.5% of such net worth.

Valuation Reserves for Credit Losses Against Loans

Prior to the issuance of BSP Circular No. 941 on 20 January 2017, banking regulations define past due accounts of a bank as referring to all accounts in a bank's loan portfolio, all receivable components of trading account securities, and other receivables that are not paid at maturity. In the case of loans or receivables payable in instalments, banking regulations consider the total outstanding obligation past due in accordance with the following schedule:

<u>Mode of Payment</u>	<u>Minimum number of instalments in arrears</u>
Monthly	3
Quarterly	1
Semestral	1
Annually	1

When the total amount of arrears reaches 20.0% of the total outstanding balance of the loan or receivable, the total outstanding balance of the loan or receivable is considered past due notwithstanding the number of instalments in arrears. For modes of payment other than those listed above (e.g., daily, weekly or semi-monthly), the entire outstanding balance of the loan/receivable are considered as past due when the total amount of arrearages reaches ten percent (10.0%) of the total loan/receivable balance.

However, under BSP Circular No. 941 issued on 20 January 2017, an account that does not pay on contractual date is deemed past due the following day. However, BSFIs are allowed to provide for a cure period policy on a credit product-specific basis within which clients may be allowed to catch up on a late payment without being considered past due as long as the cure period policy is based on actual collection experience and reasonable judgment that support tolerance of occasional payment delays. In the case of loans or receivables payable in instalments, banking regulations consider the total outstanding obligation past due in accordance with the following schedule:

Mode of Payment Past Due

Monthly/Quarterly/Semestral/Annually 1 day after due date excluding cure period, if any
Daily/Weekly/Semi-monthly/Microfinance 1 day after contractual due date; 11th day if with cure period

BSFIs are given until 31 December 2017 to make the necessary revisions in their management information and reporting systems relating to their past due and non-performing exposures. Effective 1 January 2018, past due and non-performing exposures shall be mandatorily reported in accordance with the requirements of the revised policy.

Policies for writing off problem credits must be approved by the board of directors in accordance with defined policies, and incorporate, at minimum, well-defined criteria (i.e., circumstances, conditions and historical write-off experience) under which credit exposures may be written off. Procedures must explicitly narrate and document the necessary operational steps and processes to execute the policies.

BSP regulations allow loans and advances to be written off as bad debts only if they can be justified to be uncollectible. The board of directors of a bank has discretion as to the frequency of write-off provided that these are made against provisions for credit losses or against current operations. The prior approval of the Monetary Board is required to write off loans to bank's directors, officers, stockholders and their related interests.

On 26 January 2003, the Special Purpose Vehicle ("SPV") Act came into force. The SPV Act provides the legal framework for the creation of private management companies that will acquire non-performing loans, real estate and other assets from financial institutions in order to encourage new lending to support economic growth. The Congress of the Philippines passed the SPV Act's implementing rules and regulations on 19 March 2003, which came into force on 12 April 2003. Under the SPV Act, the original deadline for the creation of asset management companies entitled to tax breaks was 19 September 2004. On 24 April 2006, the Philippine president signed into law an amendment to the SPV Act extending the deadline for the creation of asset management companies entitled to tax breaks for a period of 18 months from 14 May 2006, the date the amended SPV took effect, or until 14 November 2007.

Guidelines on General Reserves

Under existing BSP regulations, a general provision for loan losses equal to 1.0% of the outstanding balance of individually and collectively assessed loans for which no specific provisions are made and/or for which the estimated loan losses are less than one percent, less loans which are considered non-risk under existing laws and regulations.

Restrictions on Branch Openings

Section 20 of the General Banking Law provides that universal and commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision of law allows banks, with prior approval from the Monetary Board, to use any or all of their branches as outlets for the presentation and/or sale of financial products of their allied undertakings or investment house units. In line with this, BSP Circular No. 854 provides various minimum capitalization requirements for branches of banks, depending on the number of branches (e.g., ranging from a minimum of P6.0 billion for up to 10 branches of universal banks to a maximum of P20.0 billion for more than 100 branches of universal banks). For a discussion on the breakdown of minimum capital requirements for banks, please see “—*Minimum Capitalization*.”

Subject to compliance with the requirements provided in BSP Circular No. 624 (2008) as amended, the Bank may apply to the BSP for the establishment of branches outside its principal or head office. Once approved, a branch should be opened within one year from the date of approval (extendible for another two-year period, upon the presentation of justification therefore).

Pursuant to BSP Circular No. 505, issued on 22 December 2005, banks are allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Manila, Parañaque, Pasay, Pasig and Quezon, and San Juan, Metro Manila. However, branches of microfinance-oriented banks, microfinance-oriented branches of regular banks and branches that will cater primarily to the credit needs of BMBEs duly registered under Republic Act 9178 may be established anywhere upon the fulfilment of certain conditions. On 23 June 2011, the BSP issued a circular approving the phased lifting of branching restrictions in the eight restricted cities in Metro Manila which are Makati, Mandaluyong, Manila, Paranaque, Pasay, Pasig, Quezon, and San Juan. The BSP will implement a two-phased liberalization. For the first phase, only private domestically incorporated universal and commercial banks and thrift banks (with less than 200 branches in the restricted areas) will be allowed to establish branches in the said areas until 30 June 2014. The second phase allows all banks, except rural banks and cooperative banks, to establish branches in the said areas commencing on 1 July 2014. Banks will be allowed to establish as many branches as their qualifying capital can support subject to the final adjustment determined by the Monetary Board on the optimal number to be approved. Based on this, banks will be given a pro-rata share on the total number of branches they applied for.

BSP Circular No. 847 (2014) imposed licensing fees on relocation of head offices, branches and other banking offices, approved but unopened branches and other banking offices to restricted areas.

On 28 December 2017, the BSP issued BSP Circular No. 987 which sets forth rationalized prudential requirements on bank offices and guidelines on the establishment of branch-lite units. A branch-lite unit refers to any permanent office or place of business of a bank, other than its head office or a branch, which performs limited banking activities and records its transactions in the books of the head office or the branch to which it is annexed. Under the Circular, banks shall be given a six (6) month period from effectivity of the Circular to convert their extension offices, other banking offices, and micro-finance oriented other banking offices/micro-banking offices into branch-lite units.

Foreign Ownership in Domestic Banks

There are separate provisions in the Manual of Regulations for Banks regarding foreign ownership in domestic banks depending on whether the acquirer is a foreign bank, individual or non-bank corporation. For a qualified foreign bank, it can purchase or own up to 100.0% of the voting stock of an existing domestic bank (which include banks under receivership or liquidation, provided no final court liquidation order has been issued). These foreign banks will be subject to the following criteria to be reviewed by the Monetary Board: public ownership of the foreign bank (unless the foreign bank is owned and controlled by the government of its country of origin); established, reputable and financially sound; geographic representation and complementation; strategic trade and investment relationships between the Philippines and the foreign bank's country of incorporation; relationship between the foreign bank and the Philippines; demonstrated capacity and global

reputation for financial innovations; reciprocity rights enjoyed by Philippine banks in the foreign bank's country and willingness to fully share technology.

For foreign individuals and non-bank corporations, they can purchase or own up to 40.0% of the voting stock of a domestic universal, commercial or thrift bank and 60.0% of the voting stock of a domestic rural bank.

Electronic Banking and the National Retail Payment System Framework

The BSP has prescribed prudential guidelines in the conduct of electronic banking, which refers to systems that enable bank customers to avail themselves of the bank's products and services through a personal computer (using direct modem dial-in, internet access, or both) or a mobile/non-mobile phone. Applicant banks must prove that they have in place a risk management process that is adequate to assess, control, and monitor any risks arising from the proposed electronic banking activities.

On 1 September 2006, the BSP released new guidelines on the protection of electronic banking customers. These guidelines set specific requirements in the following areas: (a) oversight by a bank's board of directors, and other concerned officers over its electronic banking activities; (b) the development of a risk management policy and internal controls over its electronic banking activities; (c) the implementation of a consumer awareness program for the customers of banks; (d) development of policy on disclosures and transparencies, and the availability of electronic banking service; and (e) the development of complaint resolution procedure for unauthorised transactions in electronic banking.

Private domestic banks with BSP-approved electronic banking facility may accept payment of fees and other charges of similar nature for the account of the departments, bureaus, offices and agencies of the government as well as all government-owned and controlled corporations. The funds accepted shall be treated as deposit liabilities subject to existing regulations on government deposits and shall not exceed the minimum working balance of the said government entities.

BSP Circular No. 808, dated 22 August 2013, required BSP-supervised institutions to migrate their entire payment network to the more secure Europay, MasterCard and Visa ("EMV") chip-enabled cards. In 2014, BSP Circular No. 859 set out the EMV Implementation Guidelines which shall govern the implementation for debit cards in any card-accepting devices/terminals. The deadline set for compliance with the migration to the EMV was initially set for 1 January 2017. However, pursuant to BSP Memorandum No. M-2017-019 issued on 9 June 2017, BSP-supervised financial institutions are required to fully comply with the EMV requirement by 30 June 2018. Failure to do so is considered a serious offence and will subject these institutions to monetary sanctions provided under relevant provision of the BSP MORB.

On 6 November 2017, the BSP issued BSP Circular No. 980 which adopted the National Retail Payment System ("NRPS") framework which covers all retail payment-related activities, mechanisms, institutions, and users. Specifically, the framework applies to all domestic retail payments which are denominated in Philippine Peso and which may be for payments of goods and services, domestic remittances, or fund transfers. Retail payments under the NRPS framework are payments that meet at least one of the following characteristics: (a) the payment is not directly related to a financial market transaction; (b) the settlement is not time-critical; (c) the payor, the payee, or both are individuals or non-financial organizations; and (d) either the payor, the payee, or both are not direct participants in the payment system that is processing payment. Clearing and settlement of all payments shall be done within the NRPS governance structure. BSP Circular No. 980 further provides that non-discriminatory participation shall be espoused in the retail payment system and, as such, all BSFIs are highly encouraged to join the NRPS governance structure provided that they meet the prescribed criteria.

On 22 February 2019, the BSP issued Circular No. 1033, which amended the BSP MORB by adding regulations on Electronic Payment and Financial Services ("EPFS"). This allows BSP-supervised institution to offer products or services that would enable its customers to receive payments or initiate financial transactions and other related services through an electronic device such as computer, mobile phone, ATM and other devices. EPFS allow customers to electronically access information on their transactions, move or receive funds from one account to another, or avail of credit, investment, trust, or other banking products and/or services. Transactions can include online loan applications, electronic investment of funds, and the like. To be able to offer this kind of service, the bank must obtain a license from BSP and comply with its corresponding reportorial requirements.

On 26 November 2020, the Monetary Board approved the inclusion of digital banks as a distinct classification of banks. Digital banks offer financial products and services that are processed end-to-end through a digital platform

and/or electronic channels without any physical branch or sub-branch or branch-lite unit offering financial products and services. On 2 December 2020, the BSP issued BSP Circular No. 1105 which provides the guidelines on establishment of digital banks. While digital banks have no physical branch or sub-branch or branch-lite unit, digital banks are required to maintain a principal or head office in the Philippines to serve as the main point of contact for stakeholders, including the BSP and other regulators. Pursuant to the accelerated digitalization in the financial industry, the BSP issued Memorandum No. M-2022-016 on 22 March 2022, which provides the controls and processes supporting the operation, connectivity, and endpoint security of Application Programming Interface (“API”) and the good practices for API management. On 7 February 2023, the BSP issued Circular No. 1166, series of 2023, or the *Amendments to the Regulations on Electronic Money (E-Money) and the Operations of Electronic Money Issuers (EMI) in the Philippines*. The amended guidelines provide amendments to the regulations on E-money and the operations of EMI in the Philippines. BSP Circular No. 1166, series of 2023 provides that banks may offer E-money services subject to prior approval of the BSP under EPFS license and compliance with the prudential criteria and requirements on licensing of EPFS. The guidelines define “E-money” as any electronically-stored monetary value that is:

1. maintained in a non-interest-bearing non-deposit transaction account;
2. denominated in or pegged to Philippine Peso or other foreign currencies;
3. pre-funded by customers to enable payment transactions;
4. accepted as a means of payment by the issuer and by other persons or entities including merchants/sellers;
5. issued against receipt of funds of an amount equal to the monetary value issued;
6. represented by a claim on its issuer; and
7. withdrawable in cash or cash equivalent or transferable to other accounts/instruments that are withdrawable in cash.

Under BSP Circular No. 1166, banks may offer E-money services subject to prior approval of the BSP under an EPFS license. The guidelines also establish minimum requirements for the issuance of e-money and rules on consumer protection. The guidelines provide for minimum disclosure requirements that BSFIs must include in the terms and conditions that customers must acknowledge prior to the availment of e-money services. Further, the guidelines require BSFIs to have sufficient liquidity requirements to meet E-money redemptions and provide minimum amounts for BSFIs with outstanding E-money balance of at least ₱100,000,000.00 and those with outstanding E-money balance below ₱100,000,000.00.

The BSP Circular also requires EMI banks to have minimum capitalization, which is the higher of the bank’s required capitalization depending on its bank category or the bank’s required capitalization based on EMI category. Large-scale EMI banks are required to have a minimum capital of ₱200,000,000.00, whereas small-scale EMI banks are required to have a minimum capital of ₱100,000,000.00.

Violations of the guidelines shall constitute grounds for imposition of sanctions on the BSFIs and/or its directors/officers, with either a monetary penalty or a non-monetary penalty as may be authorized by the Monetary Board.

Anti-Money Laundering Law

The AMLA was passed on 29 September 2001 and was amended on 23 March 2003. Under its provisions, as amended, (i) certain financial intermediaries including banks, OBUs, quasi-banks, trust entities, non-stock savings and loan associations, and all other institutions including their subsidiaries and affiliates supervised and/or regulated by the BSP, (ii) insurance companies and/or institutions regulated by the Insurance Commission, and (iii) securities brokers, dealers, salesmen, associated persons of brokers and dealers, investment banks, mutual funds, foreign exchange corporations and certain other entities regulated by the SEC, are required to submit a “covered” transaction report involving a single transaction in cash or other equivalent monetary instruments in excess of ₱0.5 million within one banking day.

These institutions are also required to submit a “suspicious” transaction report if any of the circumstances mentioned in Section 3 of the Anti-Money Laundering Act exists or if there is a reasonable ground to believe that any amounts processed are the proceeds of money laundering activities.

BSP regulations also require all banks in the Philippines to have an electronic money laundering transaction monitoring system in place by October 2007. Each system will be required to detect and bring to the relevant institution’s attention all transactions and/or accounts that either qualify as “covered transactions” or “suspicious transactions”. Suspicious transactions are transactions with covered institutions such as a bank, regardless of the amount involved, where any of the following circumstances exists:

- there is no underlying legal or trade obligation, purpose or economic justification;
- the customer or client is not properly identified;
- the amount involved is not commensurate with the business or financial capacity of the client;
- the transaction is structured to avoid being the subject of reporting requirements under the AMLA;
- there is a deviation from the client’s profile or past transaction;
- the transaction is related to an unlawful activity or offence under the AMLA;
- similar or analogous transactions to the above.

Failure by any responsible official or employee of a bank to maintain and safely store all records of all transactions of the bank, including closed accounts, for five years from date of transaction/closure of account shall be subject to a penalty of six months to one-year imprisonment and/or fine of ₱0.5 million. In compliance with the law, banks, their officers and employees are prohibited from communicating directly or indirectly to any person or entity, the media, the fact that a covered or suspicious transaction has been reported or is about to be reported, the contents of the report, or any information relating to such report. Neither may such report be published or aired in any manner or form by the mass media, electronic mail, or other similar devices. A violation of this rule is deemed a criminal act.

The AMLC has also enumerated certain transactions considered red flags that would obligate covered institutions to exercise extra diligence, such as instances where a client was reported in the news to be involved in or is under investigation for terrorist activities.

These transactions are reported to the AMLC within five banking days from the discovery the transaction by the covered institution. The Court of Appeals, upon application by the AMLC, has the authority to order the freezing of any accounts that it suspects are being used for money laundering. When directed by the AMLC, supervising authorities may also require all suspicious transactions with covered institutions, irrespective of the amounts involved, to be reported to the AMLC when there is a reasonable belief that any money laundering activity or any money laundering offense or any violation of the law is being or has been committed.

BSP Memorandum No. M2012-017 (April 2012) likewise requires all covered banking institutions to comply with the Anti-Money Laundering Risk Rating System (“ARRS”), a supervisory system that aims to ensure that mechanisms to prevent money laundering and terrorist funding are in place and effectively implemented in banking institutions. Under the ARRS, each institution is rated based on the following factors: (a) efficient board of directors and senior management oversight; (b) sound anti-money laundering policies and procedures embodied in a money laundering and terrorist financing prevention program duly approved by the board of directors; (c) robust internal controls and audit; and (d) effective implementation.

Institutions that are subject to the Anti-Money Laundering Act are also required to establish and record the identities of their clients based on official documents. Covered institutions are required to develop clear customer acceptance policies and procedures when conducting business relations or specific transactions. Anonymous accounts, accounts under fictitious names, and all other similar accounts are absolutely prohibited. In addition, all records of transactions are required to be maintained and stored for five years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

In June 2012, the Senate ratified Senate Bill No. 3009 and Senate Bill No. 3127, which would later be known as Republic Act No. 10167 (“**RA 10167**”) and Republic Act No. 10168 (“**RA 10168**”) upon signing by the President of the Philippines. Both bills were aimed to amend and strengthen the present AMLA laws of the Philippines. RA 10167 allows an ex-parte inquiry into the account of persons when there is probable cause that the funds therein are related to money laundering or an unlawful activity or a predicate crime. It also empowers the Anti-Money Laundering Council (“**AMLC**”) to inquire into not just the main account but also related accounts, defined as “other bank deposits, investments, or other monetary instruments, owned or controlled by the person whose account is the subject of freeze order, or the funds which it originated from, or which were transferred to such

account” without consent of the suspected money launderers. RA 10168 penalizes any person who assisted the principal of the crime by concealing or destroying the effects of the crime, or by harboring or assisting the escape of criminals. The penalty for these offenses is two degrees lower than that prescribed for the principals of terror financing.

On 15 February 2013, the President of the Philippines signed into law Republic Act No. 10365 (An Act Further Strengthening the Anti-Money Laundering Law, Amending for the Purpose Republic Act No. 9160, Otherwise Known as the “Anti-Money Laundering Act of 2001”, As Amended), which act expanded the AMLA covered institutions and crimes. This law took effect on 07 March 2013.

Under Republic Act No. 10365, jewelry dealers will now be required to report transactions worth in excess of ₱1.0 million. The law also required the Land Registration Authority to submit to the Anti-Money Laundering Council reports covering real estate purchases worth in excess of ₱500,000.00.

Aside from this, predicate crimes- or those criminal acts where the law may also be applied if money is involved- were also expanded to cover 20 additional offenses or crimes, including bribery, extortion, malversation of public funds, fraud and financing of terrorism. The original law only mentioned 14 offenses or crimes connected to money laundering such as kidnapping, piracy on high seas, smuggling, robbery and plunder.

On 21 September 2016, the AMLC approved the 2016 Revised Implementing Rules and Regulations of the AMLA. On 15 March 2017, the BSP issued BSP Circular No. 950, series of 2017 prescribing the amendments to Part Eight (Anti-Money Laundering Regulations) of the Manual of Regulations for Banks and the Manual of Regulations for Non-Bank Financial Institutions.

Designated non-financial businesses and professions such as (a) jewelry dealers, dealers in precious metals, and dealers in precious stones, (b) company service providers which, as a business, provide any of the following services to third parties: (i) acting as a formation agent of juridical persons; (ii) acting as (or arranging for another person to act as) a director or corporate secretary of a company, a partner of a partnership, or a similar position in relation to other juridical persons; (iii) providing a registered office; business address or accommodation, correspondence or administrative address for a company, a partnership or any other legal person or arrangement; and (iv) acting as (or arranging for another person to act as) a nominee shareholder for another person, and (c) persons, including lawyers and accountants, who provide any of the following services: (i) managing of client money, securities or other assets; (ii) management of bank, savings, securities or other assets; (iii) organization of contributions for the creation, operation or management of companies; and (iv) creation, operation or management of juridical persons or arrangements, and buying and selling business entities, are now included as covered persons.

Furthermore, covered persons are required to establish and record the true and full identity of Politically Exposed Persons as well as their immediate family members and entities related to them. “Politically Exposed Person” (“PEP”) refers to an individual who is or has been entrusted with prominent public position in (a) the Philippines with substantial authority over policy, operations or the use or allocation of government-owned resources; (b) a foreign State; or (c) an international organization. Moreover, covered persons are required to adopt policies and procedures to prevent correspondent banking activities from being utilized for money laundering or terrorist financing activities.

In addition, if the covered person fails to satisfactorily complete the enhanced due diligence procedures or reasonably believes that performing the enhanced due diligence process will tip-off the customer, it shall file a suspicious transaction report, and closely monitor the account and review the business relationship. This is in stark contrast to the procedure under the previous regulations, where the covered person was directed to immediately close the account and refrain from further conducting business relationship with the customer.

The new regulations also added a new provision on the non-discrimination against certain types of customers, and clarified that for suspicious transactions, “occurrence” refers to the date of determination of the suspicious nature of the transaction, which determination should be made not exceeding ten calendar days from the date of the transaction.

On 19 July 2017, the President of the Philippines signed into law Republic Act No. 109271, which expanded the scope of covered persons to include casinos and the scope of covered transactions to include a single casino cash transaction involving an amount in excess of ₱5.0 million or its equivalent in any other currency. In addition, the law provides that (a) a freeze order issued by the Court of Appeals pursuant to an ex parte petition by the AMLC

shall not exceed six months and if no case is filed against a person whose account has been frozen within the period determined by the Court of Appeals (but not exceeding six months), the freeze order shall be deemed automatically lifted, provided, that a freeze order is without prejudice to an asset preservation order which the relevant trial court may issue upon the same assets; and (b) a freeze order or asset preservation order shall be limited only to the amount of cash or monetary instrument or value of property which the court finds probable cause to consider such property as proceeds of the predicate crime.

On 29 January 2021, the Anti-Money Laundering Act was further amended to include violations under the Securities Regulations Code and Strategic Trade Management Act. It also includes tax deficiencies in excess of ₱25,000,000.00. The AMLC is also empowered to issue ex parte freeze orders in cases of violations involving terrorist financing.

In compliance with the law, banks, their officers and employees are prohibited from communicating directly or indirectly to any person or entity, the media, the fact that a covered or suspicious transaction has been reported or is about to be reported, the contents of the report, or any information relating to such report. Neither may such report be published or aired in any manner or form by the mass media, electronic mail, or other similar devices. A violation of this rule is deemed a criminal act.

Money laundering is committed by any person who, knowing that any monetary instrument or property represents, involves, or relates to the proceeds of any unlawful activity:

- transacts said monetary instrument or property;
- converts, transfers, disposes of, moves, acquires, possesses or uses said monetary instrument or property;
- conceals or disguises the true nature, source, location, disposition, movement or ownership of or rights with respect to said monetary instrument or property;
- attempts or conspires to commit money laundering offenses referred to in paragraphs (a), (b) or (c);
- aids, abets, assists in or counsels the commission of the money laundering offenses referred to in paragraphs (a), (b), or (c) above; and
- performs or fails to perform any act as a result of which the person facilitates the offense of money laundering referred to in paragraphs (a), (b), or (c) above.

Money laundering is also committed by any covered person who, knowing that a covered or suspicious transaction is required under this Act to be reported to the AMLC, fails to do so.

Under AMLC Resolution No. 107, series of 2017, the AMLC approved the AMLC Registration and Reporting Guidelines (“ARRG”). The ARRG is the AMLC’s comprehensive effort to provide the legal and policy framework for registration by covered persons into the AMLC’s online system, and to ensure proper and timely compliance with reporting procedures. The ARRG took effect on 4 January 2018.

AMLA has been further amended by Republic Act No. 11521, which took effect on 8 February 2021. Republic Act No. 11521 adds two new covered persons who are now required to report covered and suspicious transactions to the AMLC: (a) real estate developers and brokers and (b) offshore gaming operators, as well as their service providers, supervised, accredited or regulated by the Philippine Amusement and Gaming Corporation (“PAGCOR”) or any government agency.

Republic Act No. 11521 also adds two new unlawful activities to be punished, which are: (1) violation of Section 19(a)(3) of Republic Act No. 10697, which penalizes activities prohibited by, or in contravention of, any orders or regulations issued by the National Security Council-Strategic Trade Management Committee to implement the provisions of Republic Act No. 10697; and (ii) tax evasion under Section 254 of the National Internal Revenue Code, as amended, where the deficiency basic tax due in the final assessment is in excess of Twenty-five million pesos (₱25,000,000.00) per taxable year, for each tax type covered and there has been a finding of probable cause by the competent authority.

On 18 July 2020, Republic Act No. 11479 or the Anti-Terrorism Act became effective. The Anti-Terrorism Act repealed Republic Act No. 9372 or the Human Security Act to provide stricter penalties and regulations against the inimical acts of terrorism. Section 35 of the Anti-Terrorism Act authorizes the AMLC, either upon its own initiative or at the request of the Anti-Terrorism Council, to investigate: (a) any property or funds that are in any way related to financing of terrorism or violation of Sections 4, 6, 7, 10, 11, or 12 of the Anti-Terrorism Act; and (b) property or funds of any person or persons in relation to whom there is probable cause to believe that such

person or persons are committing or attempting or conspiring to commit, or participating in or facilitating the financing of the aforementioned sections. In this regard, the AMLC is authorized to inquire into or examine deposits and investments with any banking institution or non-bank financial institution and their subsidiaries and affiliates without a court order. It also provides penalties to any person who maliciously, or without authorization, examines deposits, placements, trust accounts, assets, or records in a bank or financial institution and any employee, official, or a member of the board of directors of a bank or financial institution, who after being duly served with the written order of authorization from the Court of Appeals, refuses to allow the examination of the deposits, placements, trust accounts, assets, and records of a terrorist or an outlawed group of persons, organization, or association.

On 4 July 2023, the Office of the President issued Memorandum Circular No. 33, adopting the National Anti-Money Laundering/Counter-Terrorism Financing/Counter-Proliferation Financing Strategy 2023-2027. This provides seven strategic objectives that will respond to risks and deficiencies of the Philippines' AML/CFT systems. Each objective has action plan items that should be accomplished by the relevant government agencies. This is meant to address the findings of the Asia Pacific Group on Money Laundering and the FATF which, after a twelve-month observation period, placed the Philippines in the Grey List or "Jurisdictions Under Increased Monitoring" for its failure to show tangible and positive progress in addressing all key recommendations of the FATF. Through the reorganization of the National AML/CTF Coordinating Committee and the adoption of the National Anti-Money Laundering/Counter-Terrorism Financing/Counter-Proliferation Financing Strategy 2023-2027, the Philippines government hopes to strengthen existing measures to improve the effectiveness of the Philippines' anti-money laundering, counter-terrorism financing and counter-proliferation financing regime and allow the Philippines to exit the FATF Grey List.

Revised Corporation Code

Revised Corporation Code was signed into law on 20 February 2019 and became effective on 8 March 2019.

Aside from the discussions above relative to the management of banks, included among the salient features of the Revised Corporation Code are:

- Corporations are granted perpetual existence, unless the articles of incorporation provide otherwise. Perpetual existence shall also benefit corporations whose certificates of incorporation were issued before the effectivity of the Code, unless a corporation, upon a vote of majority of the stockholders of the outstanding capital stock notifies the Philippine SEC that it elects to retain its specific corporate term under its current Articles of Incorporation.
- A corporation vested with public interest must submit to its shareholders and to the Philippine SEC an annual report of the total compensation of each of its directors or trustees, and a director or trustee appraisal or performance report and the standards or criteria used to assess each director, or trustee.
- Banks, quasi-banks, pawnshops, non-stock savings and loan associations, and corporations engaged in money service business, preneed trust and insurance companies, and other financial required, must have at least 20.0% independent directors in the Board, in accordance with the SRC. This requirement also applies to other corporations engaged in businesses imbued with public interest, as may be determined by the Philippine SEC.
- The Code allows the creation of a "One Person Corporation." However, it expressly prohibits banks and quasi-banks, preneed, trust, insurance, public and publicly listed companies, among others, from being incorporated as such. This restriction also applies with respect to incorporations as Close Corporation.
- Material contracts between the Corporation and its own directors, trustees, officers, or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least two-thirds (2/3) of the entire membership of the Board, with at least a majority of the independent directors voting to approve the same.
- The right of stockholders to vote in the election of directors or trustees, or in shareholders' meetings, may now be done through remote communication or in absentia if authorized by the corporate by-laws. However, as to corporations vested with public interest, these votes are deemed available, even if not expressly stated in the corporate by-laws. The shareholders who participate through remote communication or in absentia are deemed present for purposes of quorum. When attendance,

participation and voting are allowed by remote communication or in absentia, the notice of meetings to the stockholders must state the requirements and procedures to be followed when a stockholder or member elects either option.

- As to amendments made to the by-laws of any bank, banking institution, building and loan association, trust company, insurance company, public utility, and other corporations governed by special laws, the Code requires that a prior certificate of the appropriate government agency to the effect that such by-laws or amendments are in accordance with law, must be submitted.
- A favorable recommendation by the appropriate government agency is likewise required for banks or banking institutions, building and loan associations, trust companies, insurance companies, public utilities, and other corporations governed by special laws, before the Commission approves any merger or consolidation; or any voluntary dissolution.
- In case of transfer of shares of listed companies, the Commission may require that these corporations whose securities are traded in trading markets and which can reasonably demonstrate their capability to do so, to issue their securities or shares of stock in uncertificated or scripless form in accordance with the Rules of the Commission.

The Revised Corporation Code refers to the Philippine Competition Act in case of covered transactions under said law involving the sale, lease, exchange, mortgage, pledge, or disposition of properties or assets; increase or decrease in the capital stock, incurring creating or increasing bonded indebtedness; or mergers or consolidations covered by the Philippine Competition Act thresholds.

Philippine Competition Act

On 21 July 2015, the Philippine Competition Act (the “**Philippine Competition Act**”), was signed into law. It took effect on 8 August 2015. The Competition Act is the first anti-trust statute in the Philippines and it provides the competition framework in the Philippines. The Competition Act was enacted to provide free and fair competition in trade, industry and all commercial economic activities. To implement its objectives, the Competition Act provides for the creation of a Philippine Competition Commission (the “**PCC**”), an independent quasi-judicial agency with five commissioners. Among its powers are to conduct investigations, issue subpoenas, conduct administrative proceedings and impose administrative fines and penalties. To conduct a search and seizure, the PCC must apply for a warrant with the relevant court. The PCC prohibits anti-competitive agreements between or among competitors and mergers and acquisitions which have the object or effect of substantially preventing, restricting or lessening competition. It also prohibits practices which involve abuse of a dominant position, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to exceptions.

Under the Implementing Rules and Regulations of the Philippine Competition Act (“**PCA IRR**”) (as amended), as a general rule, parties to a merger or acquisition with a transaction value that meets the thresholds and criteria set by the PCC are required to notify the PCC within 30 days from signing of definitive agreements relating to the merger or acquisition. The thresholds are automatically adjusted commencing on 1 March 2019 and on 1 March of every succeeding year, using as an index the Philippine Statistics Authority’s official estimate of the nominal gross domestic product growth of the previous calendar year rounded up to the nearest hundred million. The threshold amounts were last modified by the PCC in Commission Resolution No. 01-2024, effective 1 March 2024. Thus, under the PCA IRR, as amended, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity (“**UPE**”) of at least one of the acquiring or the acquired entities, including the entities that the UPE controls, exceeds ₱7.8 billion (“**Size of Party**”); and (b) the value of the transaction exceeds ₱3.2 billion (“**Size of Transaction**”). Parties to a joint venture transaction are required to provide notification if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱3.2 billion, or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱3.2 billion. The foregoing notification thresholds are effective 1 March 2024 to 28 February 2025. The latest revised thresholds, however, shall not apply to mergers or acquisitions pending review by the PCC, notifications filed before 1 March 2024 and transactions already reviewed and decided upon by the PCC.

Under the Philippine Competition Act and the PCA IRR, a transaction that meets the thresholds and does not comply with the notification requirements and waiting periods are considered void and will subject the parties to an administrative fine of 1.0% to 5.0% of the value of the transaction. Administrative fines of up to ₱250.0 million may also be imposed by the PCC on entities that: (a) enter into anti-competitive agreements between competitors that are either prohibited per se or that have the object of substantially preventing, restricting or lessening competition by setting, limiting or controlling production, markets, technical development or investment or by dividing or sharing the market or (b) fail to comply with the compulsory notification and/or enter into prohibited mergers and acquisitions. An entity that enters into anti-competitive agreements, may also be sentenced to imprisonment from two to seven years and a fine of not less than ₱50.0 million to ₱250.0 million. The penalty of imprisonment is imposed on the directors and/or management personnel who are knowingly and willfully responsible for the violation. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

On 15 September 2017, the PCC issued the 2017 Rules of Procedure which apply to investigations, hearings, and proceedings of the PCC, except to matters involving mergers and acquisitions unless otherwise provided. It prescribes procedures for fact-finding or preliminary inquiry and full administrative investigations by the PCC. The Rules also include non-adversarial remedies such as the issuance of binding rulings, show cause orders and consent orders.

On 10 September 2019, the Supreme Court of the Philippines approved the Rules on Administrative Search and Inspection under the Philippine Competition Act. The rules govern the application, issuance, and enforcement of inspection orders for administrative investigations of alleged violations of the Philippine Competition Act. Inspection orders will allow the PCC and its deputized agents to enter, search and inspect business premises, offices, land and vehicles to examine, copy, photograph, record or print information in order to prevent their removal, concealment, tampering with or destruction.

Financial Institutions Strategic Transfer Act

Pursuant to Republic Act No. 11523 or the financial institutions strategic transfer (“**FIST Act**”), a FSITC is a corporation organized under the laws of the Philippines that is authorized to invest in the NPAs of credit-granting institutions, such as banks, financing companies, investment houses, lending companies, insurance companies, accredited microfinance nongovernmental organizations, government financial institutions, government-owned or controlled corporations, other institutions licensed by the BSP to perform quasi-banking functions and credit-granting activities, and engage in other related activities (“**FISTC**”). Pursuant to the FIST Act, NPAs of financial institutions may be transferred to a FISTC after notice to but without the consent of the borrower. Such transfers from financial institutions to FISTCs and those from a FISTC to a third party, dation in payment by a borrower, a third party in favor of a financial institution or in favor of a FISTC are exempt from the following taxes:

- (a) Documentary stamp tax on such transfer of NPAs and dation in payment under the Tax Code;
- (b) Capital gains tax imposed on the transfer of lands and/or other assets treated as capital assets as defined under Section 39(A)(1) of the Tax Code;
- (c) Creditable withholding income taxes imposed on the transfer of land and/or buildings treated as ordinary assets pursuant to Revenue Regulations No. 2-98, as amended; and
- (d) Value-added tax on the transfer of NPAs, or gross receipts tax the Tax Code, whichever is applicable.

All sales or transfers of NPAs from a financial institution to a FISTC or transfers by way of dation in payment by the borrower or by a third party to a financial institution shall be entitled to the privileges enumerated herein for a period of not more than two years from the effectivity of the fist law.

Transfers from a FISTC to a third party of NPAs acquired by the FISTC within such two-year period, or within such extended period, or transfers by way of dation in payment by a borrower to a FISTC shall enjoy the privileges enumerated above for a period of not more than five years from the date of acquisition by the FISTC. Properties acquired by a FISTC from government financial institution or government operated and controlled corporations which are devoted to socialized or low-cost housing shall not be converted to other uses.

The provisions of these Rules shall be applicable to assets that have become non-performing on or before 31 December 2022.

The BSP issued Circular No. 1117 Series of 2021 implementing the FIST Act. It provides for the guidelines governing the sale/transfer and investment transactions of banks, and other institutions licensed by the BSP to perform quasi-banking functions and credit-granting activities pursuant to the FIST Act. The Circular sets out the provisions that the BSFIs must comply with in the sale/transfer transactions of non-performing assets for purposes of availing the tax exemptions and incentives/privileges under the FIST Act.

Liberalization of Entry of Foreign Banks

On 15 July 2014, President Aquino III signed into law Republic Act No. 10641 (“**RA 10641**”) or “An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act No. 7721.” Under RA 10641, established, reputable and financially sound foreign banks may be authorized by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing or owning up to 100.0% of the voting stock of an existing bank; (b) by investing in up to 100% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches with full banking authority. The foreign bank applicant must also be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin.

Under RA 10641, in the exercise of its authority to approve entry applications, the Monetary Board shall adopt such measures as may be necessary to ensure that control of at least 60.0% of the resources or assets of the entire banking system is held by domestic banks which are majority-owned by Filipinos.

A foreign bank branch authorized to do banking business in the Philippines under RA 10641 may open up to five (5) sub-branches as may be approved by the Monetary Board. Locally incorporated subsidiaries of foreign banks authorized to do banking business in the Philippines under RA 10641 shall have the same branching privileges as domestic banks of the same category.

Data Privacy

Republic Act No. 10173, otherwise known as the Data Privacy Act of 2012 (“**Data Privacy Act**”), was signed into law on 15 August 2012 to govern the processing of all types of personal information (i.e., personal, sensitive, and privileged information) in the hands of the government or private natural or juridical person through the use of Information and Communications System (“**ICT**”), which refers to a system for generating, sending, receiving, storing or otherwise processing electronic data messages or electronic documents and includes the computer system or other similar device by or which data is recorded, transmitted or stored and any procedure related to the recording, transmission or storage of electronic data, electronic message, or electronic document. While the Data Privacy Act does not apply to information necessary for banks and other financial institutions under the jurisdiction of the BSP to comply with the AMLA and other applicable laws, the said law applies to all other personal information obtained by banks for other purposes.

It mandated the creation of a National Privacy Commission, which shall administer and implement the provisions of the Data Privacy Act and ensure compliance of the Philippines with international standards set for data protection. The Philippines recognizes the need to protect the fundamental human right of privacy and of communication, while ensuring free flow of information to promote innovation and growth. It also identifies the vital role of information and communications technology in nation building and its inherent obligation to ensure that personal information in ICT in the government and in the private sector are secured and protected.

The Data Privacy Act seeks to protect the confidentiality of “personal information”, which is defined as “any information, whether recorded in material form or not, from which the identity of an individual is apparent or can be reasonably and directly ascertained by the entity holding the information, or when put together with other information would directly and certainly identify an individual.” The law provides for certain rights of a data subject or an individual whose personal information is being processed. The law imposes certain obligations on “personal information controllers” and “personal information processors”. It also provides for penal and monetary sanctions for violations of its provisions.

On 24 August 2016, the National Privacy Commission issued the Implementing Rules and Regulations of the Data Privacy Act.

National Payment Systems Act

On 30 October 2018, Congress enacted Republic Act No. 11127, or “An Act Providing for the Regulation and Supervision of Payment Systems.” R.A. No. 11127 seeks to regulate payment systems, recognizing that they are crucial parts of the financial infrastructure of the country. The law defines payment systems as the set of payment instruments, processes, procedures, and participants that ensures the circulation of money or movement of funds. Meanwhile, the same law defines operators as persons who provide clearing or settlement services in a payment system, or define, prescribe, design, control, or maintain the operational framework of the payment system.

Under R.A. No. 11127, all operators of payment systems (“**OPS**”) must register with the BSP. Furthermore, the SEC can no longer register the charter documents of any operator of a designated payment system (“**DPS**”), or any amendment thereto, or otherwise issue to an operator a license to do business in the Philippines, unless accompanied by a certificate of authority from the Monetary Board under its seal. The law also grants the BSP the power to designate a new payment system if it determines that an existing payment system is posing or has the potential to pose a systemic risk or the designation is necessary to protect the public interest.

On 9 September 2019, the BSP issued BSP Circular No. 1049 which implements the provisions of R.A. No. 11127. It requires banks, acting as payment systems operators, to register with the BSP through notification without having to separately file an application or pay registration fees. The BSP will then issue the registering bank a Provisional Certificate of Registration. Thereafter, the BSP will issue the bank a Certificate of Registration, if warranted, provided that the documents submitted by the bank meet all regulatory requirements. BSP Circular No. 1068, issued on 26 December 2019, extended the deadline for the registration of existing payment systems operations from 1 October 2019, as originally provided in Circular No. 1049, to 1 April 2020.

The BSP implemented the Payment System Oversight Framework (“**PSOF**”) on 7 July 2020 through the issuance of BSP Circular No. 1089, which addresses the need for comprehensive regulation over payment systems and other financial market infrastructures through cooperative oversight and periodic assessment. The PSOF follows a risk-based oversight approach mainly through the designation of payment systems. In the event that the operator of a DPS fails to satisfy regulatory expectations, resulting in a threat to the safety, efficiency, and reliability of the system, the PSOF empowers the BSP to appoint a manager to administer the operation of the DPS. On 14 September 2021, the BSP mandated the adoption of the Principles for Financial Market Infrastructures (“**PFMI**”) pursuant to the PSOF. The PFMI is a set of international standards designed to strengthen financial market infrastructures and make them more resilient to financial crises and participant defaults.

In line with the phased-in implementation of R.A. No. 11127, the BSP released BSP Circular No. 1127, otherwise known as the Governance Policy for Operators of Payment System, 17 on September 2021, which is patterned after its other existing corporate governance standards. It prescribes the regulatory expectations on governance arrangements and standards of OPS as well as the criteria for qualification of its directors and officers.

The BSP issued BSP Circular No. 1138 on 1 March 2022 which establishes the regulatory reporting standards for OPS. The circular requires an OPS to establish a reporting system that will aggregate all pertinent data and produce the reports required by the BSP under both business-as-usual and stressed conditions (i.e., emergency conditions for OPS such as a crisis, national or public health emergencies, weather-related events, or sudden closures of markets and/or clearing agencies the transactions therein are processed through an OPS for eventual settlement) in a timely manner. The circular also specifies sanctions that may be imposed on an OPS for non-compliance with reporting requirements. It also prescribes non-monetary penalties such as the disqualification or suspension of the Chief Executive Officer for at least one (1) month to one (1) year in case of unsubmitted reports. The top official and members of the board may also be disqualified from the industry for further offenses and the Monetary Board will have the power to designate a manager to take over the operations.

Certain Recent Regulations

On 20 January 2017, the BSP issued Circular No. 940 prescribing the Guidelines on Deposit and Cash Servicing Outside of Bank premises where the BSP upon prior approval of the Deputy Governor of SES of the BSP allowed banks to (1) solicit and accept deposits outside of their premises through their employees subject to certain conditions, and (2) accredit third party service providers, which may be authorized by customers to perform cash/check pick-up and cash delivery services, or contract third party service entities as cash agents to accept and

disburse cash on behalf of the banks in order to promote operational efficiency, improve their service delivery channel and for greater customer convenience.

On 20 January 2017, the BSP also issued Circular No. 941 amending the regulations on past due and non-performing loans, which includes the amendment of the definitions of past due and non-performing exposures, including restructured loans. Under the new definition, the general rule is that an account that does not pay on the contractual due date is deemed past due the following day. However, BSFIs are allowed to provide a cure period on a credit product-specific basis, not exceeding 30 days, within which clients may be allowed to catch up on a late payment without being considered as past due, provided that the cure period policy implemented by the BSFIs shall be based on actual collection experience and reasonable judgment that support tolerance of occasional payment delays.

Meanwhile, an account or exposure is considered non-performing, even without any missed contractual payments, when it is deemed impaired under existing applicable accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, in the case of secured accounts. All other accounts, even if not considered impaired, shall be considered non-performing if any contractual principal and/or interest are past due for more than ninety (90) days, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

BSFIs are given until 31 December 2017 to make the necessary revisions in their management information and reporting systems relating to their past due and non-performing exposures. Effective 1 January 2018, past due and non-performing exposures shall be mandatorily reported in accordance with the requirements of the revised policy.

On 6 February 2017, the BSP issued Circular No. 944 prescribing the Guidelines for Virtual Currency Exchanges i.e., entities that offer services or engage in activities that provide facility for the conversion or exchange of fiat currency (or the government-issued currency that is designated as legal tender in its country of issuance through government decree, regulation or law) to virtual currency, which is any type of digital unit that is used as a medium of exchange or a form of digitally stored value created by agreement within the community of virtual currency users.

On 15 February 2017, the BSP issued Circular No. 947 which established the enhanced supervisory policy of the BSP on granting licenses and authorities. The revised policy is intended to strengthen and align the screening function of the BSP in accordance with international standards and to rationalize and standardize the licensing process of the SES of the BSP.

On 17 February 2017, the BSP issued Circular No. 946 prescribing a liquidity floor reserve requirement effective 1 January 2018 as follows:

Type of Bank	Required liquidity floor
Universal banks/ Commercial banks	0% Government deposits and government deposit substitutes shall continue to be subject to the reserve requirements provided under Section X253.
Thrift banks/Rural banks/ Cooperative banks	50% Inclusive of the required reserves against deposits and/or deposit substitutes

On 15 March 2017, the BSP issued BSP Circular No. 949, series of 2017 prescribing the Guidelines on Social Media Risk Management.

On 20 March 2017, the BSP issued BSP Circular No. 951 prescribing the Guidelines on Business Continuity Management (“**BCM**”), which requires the BSFIs to adopt a cyclical, process-oriented BCM framework, which at a minimum, should include five phases, namely: business impact analysis and risk assessment, strategy formulation, plan development, plan testing, and personnel training and plan maintenance. The framework is intended to represent a continuous cycle capable of evolving over time based on changes in business and operating environment, audit recommendations and test results.

On 22 March 2017, the BSP issued BSP Circular No. 952 which requires banks to charge upfront applicable fees relating to domestic remittance transactions. The fees shall be charged to the sender or remitter, with appropriate disclosures to the sender or remitter of the components of the fees being charged. The BSP mandated BSFIs and

non-BSFIs to comply with the provisions of this circular (including, the disclosure requirements) by 27 April 2017.

On 17 April 2017, the BSP issued BSP Circular No. 956, requiring banks to submit its Annual Report and Annual Report Assessment Checklist within 180 calendar days after the close of the calendar or fiscal year adopted by the banks. The Annual Report must include a discussion and/or analysis of the following minimum information: corporate policy; financial summary/financial highlights; financial condition and results of operations; risk management framework; corporate governance; corporate information; and audited financial statements. A copy of the latest Annual Report must be posted/displayed in a conspicuous place in the head office, all branches and other offices of the banks, and published in the website of the banks.

On 27 June 2017, the BSP issued BSP Circular No. 963 setting forth the BSP’s expectation on banks to establish an effective reporting system with an appropriate governance process that enables the generation and timely submission of reports that are in accordance with the BSP’s reporting standards. The circular provides that an effective governance process over a bank’s reporting system must be established by the board and implemented by senior management to ensure the bank’s adherence to the reporting standards. The bank’s reporting system should be supported by a combination of systems, policies and procedures that are intended to facilitate the accurate and timely generation of bank reports. A bank’s periodic review of the governance process is likewise integral in determining whether its reporting system continues to be relevant and effective.

On 27 June 2017, the BSP issued BSP Circular No. 964 prescribing revisions to the banks’ rediscounting availments. The amendment seeks to reflect the termination of the sunset provision in favor of thrift banks, rural banks, and cooperative banks resulting in a unified rediscount window for all types of banks. The maturities of BSP rediscounts are now as follows:

<u>Type of Credit</u>	<u>Maturity Date</u>
a. Commercial Credits	180 days from date of rediscount but shall not go beyond the maturity date of the credit instrument
(1) Export Packing	
(2) Trading	
(3) Transport	
(4) Quedan	
(5) Export Bills (EBs)	
At Sight	Fifteen (15) days from date of purchase
Usance EB	Term of draft but not to exceed sixty (60) days from shipment date
b. Production Credits	180 days from date of rediscount but shall not go beyond the maturity date of the promissory note (PN). Renewable not to exceed 190 days
c. Other Credits	180 days from date of rediscount but shall not go beyond the maturity date of the PN. (Renewable depending on the type of credit).

BSP Circular No. 964 also provides that the rediscount rates for peso shall now be as follows:

<u>Rediscount Maturities</u>	<u>Rediscount Rates</u>
1-90 days	Bangko Sentral overnight (O/N) lending rate plus term premium: Bangko Sentral O/N lending rate +0.0625
91-180 days	Bangko Sentral O/N lending rate +0.1250

On 22 August 2017, the BSP issued BSP Circular No. 971 prescribing the Guidelines on Risk Governance for BSFIs and requiring the appointment of a Chief Risk Officer (“**CRO**”) to head the risk management function. The appointment, dismissal and other changes to the CRO must have prior approval of the board of directors. In cases when the CRO will be replaced, the BSFI must report the same to the BSP within five days from the time it has been approved by the board of directors.

On 22 August 2017, the BSP also issued BSP Circular No. 972 which prescribed the Enhanced Guidelines in Strengthening Compliance Frameworks for BSFIs, including the appointment of a Chief Compliance Officer (“**CCO**”) who shall serve on a full-time basis, functionally report to the board of directors or board-level committee. The CCO will oversee the identification and management of the BFSI’s compliance risk and supervise the compliance function staff.

On 3 November 2017, the BSP issued BSP Circular No. 981, which sets out amendments to the guidelines on liquidity risk management and the related amendments to the Manual of Regulations for Banks and the Manual of Regulations for Non-bank Financial Institutions. The amendments include the establishment of BSP’s policy on liquidity risk management and the inclusion of a new subsection on supervisory enforcement actions by the BSP, pursuant to which, the BSP is authorized to deploy enforcement actions to promote adherence with the requirements set forth in the prescribed guidelines and bring about timely corrective actions. If a bank’s exposures are not well managed, the BSP may direct such bank to augment its funds management practices and the level of its liquid assets, reduce its liquidity risk exposures, and/or strengthen its risk management system. The BSP may likewise impose sanctions to limit the level of or suspend any business activity that has adverse effects on the safety or soundness of the bank, among others. Sanctions may likewise be imposed on a bank and its directors, officers and employees. BSP Circular No. 981 also prescribed new guidelines on liquidity risk management.

On 9 November 2017, the BSP issued BSP Circular No. 982, which sets forth amendments to the guidelines on information security management of BSFIs in line with rapidly evolving technology and cyber-threat landscape under the relevant provisions of the Manual of Regulations for Banks and the Manual of Regulations for Non-bank Financial Institutions (the “**Enhanced Guidelines on Information Security Management**”). The amendments include, among others, (a) a restatement of the BSP’s policy on information security management, (b) a detailed information technology profile classification system, and (c) enhanced and comprehensive guidelines on implementation of information technology controls within the information security risk management framework. All BSFIs are required to comply with the Enhanced Guidelines on Information Security Management within a period of one year from the effective date of BSP Circular No. 982. In this regard, BSFIs should be able to show its plan of actions within specific timelines, as well as the status of initiatives being undertaken to fully comply with the provisions of the Circular, upon the request of the BSP starting December 2017.

On 20 December 2017, the BSP issued BSP Circular No. 988, which sets forth the revised guidelines on the imposition of monetary penalties on BSFIs, their directors/trustees and/or officers for violations falling under Section 37 of the New Central Bank Act and other applicable laws and BSP rules and regulations. The Circular also sets forth the procedures on appeals/requests for reconsideration, repayment and payment of monetary penalties arising from all types of violations.

On 29 December 2017, the BSP issued BSP Circular No. 986, which provided for the change in timelines for the return by a drawee bank of dishonoured checks to a presenting bank under the Check Image Clearing System and for the BSP reverse repurchase facility auction, and specified the start and cut-off time for settlement of interbank transactions with the BSP during normal and abnormal conditions.

On 4 January 2018, the BSP issued BSP Circular No. 989 which sets forth the guidelines governing the conduct of stress testing exercises in banks (the “**Guidelines on the Conduct of Stress Testing Exercises**”). The Guidelines on the Conduct of Stress Testing Exercises were developed by the BSP in recognition of the integral role of stress testing in risk management systems and capital planning process that would enable banks to effectively manage risk exposures and ultimately promote strong risk governance. Stress testing is a tool that evaluates the potential effects of a set of specified changes in risk factors on a bank’s financial position under a severe but plausible scenario to assist the board and management in decision making. The Guidelines on the Conduct of Stress Testing Exercises provides for the minimum prudential requirements on stress testing and establishing a stress testing framework.

On 1 February 2018, the BSP issued BSP Circular No. 992, which introduced a new framework for basic deposit accounts with a view of promoting financial inclusion, consistent with the BSP’s thrust to advance universal access to formal financial products and services.

A basic deposit account refers to an interest or non-interest bearing account designed to promote financial inclusion. It will have the basic functionalities that will characterize ease, accessibility, convenience, and reasonable cost for both banks and customers. Banks are given the liberty to customize their product offerings based on the needs of the identified market, provided, that banks shall adopt the following minimum key features:

(a) liberalized customer onboarding (i.e., follows simplified know-your-customer for low risk customers, wherein identifying the customer and verifying their true identity may be based on any document or information reduced in writing which the covered person deems sufficient to establish the customer’s identity, or other reliable, independent source documents, data, or information); (b) opening amount of not more than P100.00; (c) no minimum maintaining balance; (d) no dormancy charges; (e) a maximum balance of P50,000.00, provided, that if the depositor exceeds the said maximum balance, the bank shall convert the basic deposit account to a regular deposit account; and (f) no reserve requirement.

On 8 February 2018, the BSP issued BSP Circular No. 996 prescribing a liquidity floor reserve requirement effective 1 January 2019, as follows:

<u>Type of Bank</u>	<u>Required liquidity floor</u>
Universal banks/ banks/Thrift banks/Cooperative banks	Commercial banks/Rural
	0% Government deposits and government deposit substitutes shall continue to be subject to the reserve requirements provided under Section X253.

On 1 March 2018, the BSP issued Circular No. 998 which provided for the amendments to the guidelines governing the basic security deposit requirement for the faithful performance of trust and other fiduciary duties, investment management activities, securities custodianship operations, and duties of personal Equity Retirement Account Administrators.

On 14 March 2018, the BSP issued Circular No. 999 which sets forth the amendment on Allowable Investments of Unit Investment Trust Funds.

On 23 April 2018, the BSP issued Circular No. 1000 approving the guidelines on settlement of instant retail payments. The guidelines are in line with the thrust of the BSP that it is requiring BSFIs participating in an automated clearing house (“ACH”) for instant retail payments to ensure that this ACH provides for certainty of settlement of the multilateral clearing obligations of the clearing participants. It provides for the minimum requirements for the settlement mechanism for instant payments. Furthermore, the BSFIs participating in the instant retail payment ACH shall ensure that they have the necessary operational and liquidity risk management measures in place.

On 30 April 2018, the BSP issued Circular No. 1001 which sets forth the credit limits that shall be applied to project finance exposures of banks and quasi-banks. The total amount of loans, credit accommodations and guarantees that may be extended by a bank to any person, partnership, association, corporation or other entity shall not exceed twenty five percent (25.0%) of the net worth of such bank. The total liabilities of any person, company, corporation or firm, to a quasi-bank for money borrowed shall not exceed twenty-five percent (25.0%) of the combined capital accounts. The total outstanding loans, other credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed ten percent (10.0%) of the net worth of the lending bank. The total outstanding loans, other credit accommodations and guarantees to each of the quasi-bank's subsidiaries and affiliates shall not exceed ten percent (10.0%) of the net worth of the lending quasi-bank.

On 10 May 2018, the BSP issued BSP Circular No. 1002, which provided for the amendments to the guidelines on the proposed investments from third party investors and on the requirements on transactions requiring prior Monetary Board approval involving additional subscription of shares of stock. One of the amendments is that in the case of additional subscriptions, the bank shall not recognize the funds infused by the subscriber in its books as asset and liability or equity unless prior Monetary Board approval is obtained. Pending approval by the Monetary Board, the fund infused by the subscriber shall be placed in an independent bank, such as, in the form of an escrow deposit or deposit with hold-out agreement showing availability/hold-out of funds for the said purpose.

On 16 May 2018, the BSP issued BSP Circular No. 1003 which introduced the guidelines on the establishment and operations of credit card issuers, to implement Republic Act No. 10870 or the Philippine Credit Card Industry Regulations Law. The guidelines were developed to foster the development of the credit card industry to make consumer credit readily available under conditions of fair and sound business practices aligned with global best practices.

On 24 May 2018, the BSP issued BSP Circular No. 1004 which sets forth the reduction in required reserves against deposit and deposit substitute liabilities in local currency of banks starting 1 June 2018.

On 31 May 2018, the BSP issued BSP Circular No. 1005 which provided for the new BSRD form for foreign portfolio investments that the purchase of BSRD for foreign portfolio investment by the registering banks shall amount to a fee of ₱ 100.00/piece of the BSRD form printed by the BSP to be used in the registration of foreign portfolio investments.

On 1 June 2018, the BSP issued BSP Circular No. 1006 which sets forth the amendments to the rules on the conversion or transfer of foreign currency loans to peso loans. FCDU or EFCDU loans may be converted to peso loans and transferred from a bank's FCDU books to the bank's regular banking unit books without prior BSP approval, subject to the following conditions: (i) The board of directors of the bank has approved sound policies for the redenomination of FCDU or EFCDU loans; (ii) The bank has put in place the appropriate risk management system and has ensured compliance with the FCDU or EFCDU cover requirement and other relevant FCDU or EFCDU regulations including the timely and accurate accounting and reporting of transactions. No income shall be recognized in the FCDU or EFCDU or regular banking unit books arising from the redenomination of loans; and (iii) There shall be actual settlement in foreign currency, simultaneous with the transfer, by the regular banking unit to the FCDU or EFCDU of the total amount of foreign currency-denominated loans or real or other properties acquired (ROPA) being transferred to the regular banking unit using the prevailing foreign exchange or conversion rate at the time of transfer. FCDU or EFCDU ROPA may also be converted to peso ROPA and transferred to the RBU books without prior BSP approval, subject to items (i) to (iii) above.

On 18 July 2018, the BSP issued BSP Circular No. 1009 which provided for the amendments to the rules and regulations governing the mandatory credit allocation for agriculture and agrarian reform credit.

BSP Regulations on Issuances of Securities

Additional Requirements for the Issuance of Bonds and Commercial Papers

On 9 August 2018, the BSP issued additional requirements for the issuance by banks of bonds and commercial papers. Circular No. 1010 provides that a bank may issue bonds and/or commercial papers without prior BSP approval, provided that the following conditions are met:

- (a) the bank must have a CAMELS composite rating of at least "3" and a "Management" rating of not lower than "3";
- (b) the bank has no major supervisory concerns in governance, risk management systems, and internal controls and compliance system;
- (c) the bank/QB has complied with directives and/or is not subject of specific directives and/or enforcement actions by the BSP; and
- (d) the bonds issued are enrolled and/or traded in a market which is organised in accordance with the SEC rules and regulations.

Further, the issuing bank, including its subsidiaries, affiliates, and the wholly or majority-owned or -controlled entities of such subsidiaries and affiliates, except for its trust departments or related trust entities, is prohibited from holding or acting as a market maker of the bank's listed/traded bonds or commercial papers. Likewise, the registry bank, including the underwriter/arranger of the issuance, must be a third party with no subsidiary/affiliate relationship with the issuing bank and which is not related to the issuing bank in any manner that would undermine its independence.

Amendments to Existing Requirements for Issuances of Bank Securities

On 26 November 2019, the BSP issued Circular No. 1062 amending the provisions of the BSP MORB to relax certain requirements on the issuance of Long-Term Negotiable Certificates of Time Deposit, Bonds and Commercial Papers. Under the amendments, universal banks or commercial bank or investment house that is a related party of the issuing bank, may serve as the underwriter or arranger of the issuance, subject to the following conditions:

- (a) that there are other third party underwriters or arrangers that are not related in any manner to the issuing bank;

- (b) that the objective conduct of the due diligence review is not undermined; and
- (c) that the appropriate safeguards and controls as provided under Section 136 of the BSP MORB on related party transactions shall be instituted to prevent conflict of interest on the said arrangement.

Further, the underwriter or arranger that is a related party of the issuing bank may be a holder of the bonds or commercial papers, provided that it is part of the underwriting agreement.

Moratorium on the Issuance of Long-Term Negotiable Certificates of Time Deposit (LTNCTDs)

BSP Circular No. 1059 dated 15 November 2019 amended the Manual imposing an indefinite moratorium on the issuance of LTNCTDs beginning 1 January 2021. LTNCTDs that have been approved but remain unissued as of 31 December 2020 may still be issued, provided that this is done within the period allowed by the BSP. Requests for authority to issue LTNCTDs will only be accepted by the appropriate supervising department of the BSP until 30 September 2020.

Other Laws and Regulations

Set out below are other regulations applicable to banks operating in the Philippines:

- (1) *The Philippine Deposit Insurance Act, as amended.* The Philippine Deposit Insurance Corporation (“**PDIC**”), the PDIC through Republic Act No. 3591, as amended, has the authority to insure the deposits of all banks which are entitled to the benefits of insurance and impose penalties against those who engage in unsafe and unsound banking practices. The PDIC is mandated to provide deposit insurance coverage for the depositing public to help promote public confidence and stability in the economy. Its most recent amendment took effect on 20 July 2022. The amendment attaches the PDIC to the BSP for policy and program coordination, optimizing regulatory coordination efficiency. Further, the PDIC may now adjust the maximum deposit insurance coverage without need of legislation.
- (2) *The Financial Products and Services Consumer Protection Act.* Republic Act No. 11765 or the Financial Products and Services Consumer Protection Act (“**FCPA**”) was signed into law on 6 May 2022. The Act expands the powers of financial regulators such as the BSP and imposes duties on financial service providers such as banks. Violation of the Act will result in the imposition of enforcement actions from the BSP, penalties and/or administrative sanctions. On 28 November 2022, the Monetary Board issued Circular No. 1160, Series of 2022, which provides for the implementing guidelines of FCPA. According to the Circular, banks must meet the following standards in dealing with financial consumers:
 - a. Disclosure and Transparency;
 - b. Protection of Client Information;
 - c. Fair Treatment;
 - d. Effective Recourse; and
 - e. Protection of Consumer Assets against Fraud and Misuse

Pursuant to the FCPA, the BSP may, in addition to the enforcement actions under the BSP MORB, restriction the ability of banks to collect excessive or unreasonable interests, fees or charges, including other interests, fees and charges that are covered under Republic Act No. 10870, otherwise known as the "Philippine Credit Card Industry Regulation Law, and order requiring accounting and disgorgement of profits obtained, or losses avoided, as a result of a violation of the FCPA, its IRR and other existing laws, rules, and regulations under its jurisdiction, including reasonable interest.

- (3) *Guidelines for Virtual Asset Service Providers (VASP) in the Philippines.* On 26 January 2021, the BSP issued Circular No. 1108, relating to the Guidelines for Virtual Asset Service Providers (“**VASP**”) in the Philippines, which amends in its entirety Section 902-N of the Manual of Regulations for Non-Bank Financial Institutions (“**MORNBF**I”). In particular, Section 902-N on Virtual Currency Exchanges shall be replaced by VASP, as the BSP recognizes that once fiat currency is exchange or converted into a virtual

asset, the same becomes easily transferrable, facilitating expedient movement or transfer of funds and payment services, among others. As such, VASPs were considered as money service businesses which were subject to the regulatory authority and examination powers of the BSP. Under said guidelines, the covered entities are required to secure a Certificate of Authority to operate as a Money Service Business and are required to observe the capitalization requirements of either P50.0 Million or P10.0 Million, for VASPs with or without safekeeping and/or administration services as defined in said Circular, respectively.

- (4) *Ceiling on Interest or Finance Charges for Credit Card Receivables.* On 19 January 2023, the BSP issued Circular No. 1165 which amends the ceiling on interest or finance charges for credit card receivables to an annual rate of 36.0% from the 24.0% cap imposed by BSP Circular No. 1098, which was issued to alleviate the burden on Filipino consumers due to the COVID-19 pandemic. The current circular provides that banks may now impose a maximum annual interest rate of 36.0% except for credit card installment loans which shall be subject to a monthly add-on rate not exceeding one percent (1.0%). For credit card cash advances, aside from the foregoing applicable maximum interest rate caps, no other charge or fee shall be imposed or collected apart from the processing fee in the maximum amount of P200.0 per transaction. Further, the rate of interest and other charges on any loan or forbearance of any money, goods or credits regardless of maturity and whether secured or unsecured shall not be subject to any regulatory ceiling, except for the interest or finance charges imposed on credit card receivables, including cash advances and installment purchases and the maximum processing fee for credit card cash advances.
- (5) *Sustainable Finance Framework.* On 29 April 2020, the BSP issued Circular No. 1085 relating to the Sustainable Finance Framework that sets out the expectations of the BSP on the integration of sustainability principles, including those covering environmental and social (“E&S”) risk areas, in the corporate governance and risk management frameworks as well as in the strategic objectives and operations of banks. Pursuant to said guidelines, the Framework shall apply to all banks, and branches of foreign banks may adopt the relevant policies and strategies of their Head Office, which are consistent with the applicable provisions in Circular. Banks were provided three years from the effectivity of the Circular to fully comply with the same. On 21 October 2021, the Monetary Board approved the guidelines that shall govern the integration of E&S risks in the enterprise-wide risk management frameworks of banks that shall amend the provisions of the Sustainable Finance Framework. Pursuant to BSP Circular No. 1128, banks shall consider E&S risks in defining credit risk strategy and shall integrate E&S risks in operational risk management framework.
- (6) *Regulations Governing the Derivatives Activities of Banks.* In line with the policy of the BSP to support the development of the Philippine financial market by providing banks and their clients with expanded opportunities for financial risk management and investment diversification through the prudent use of derivatives, the BSP issued several guidelines on the determination of the credit risk-weighted assets for banks that will engage in derivatives activities as end users for hedging purposes and/or under limited-use authority.

Under Circular No. 891, banks must ensure that the financial products (e.g., debt and equity securities, hybrid securities, derivatives, securitization structures and similar products with substantial investment characteristics) it recommends to a client are appropriate for that client through a client suitability process which involves obtaining client information, classifying a client according to financial sophistication and risk tolerance, and conducting a suitability review. Any informational or promotional presentation must be undertaken only by personnel who are knowledgeable on the products involved and are qualified based on qualification standards established by the bank. Any disclosures regarding its products and services must meet the bank’s standards to ensure that its clients understand the nature of the financial transaction. The BSP may bring about timely corrective actions and impose sanctions on the bank and responsible persons, which may include warning, reprimand, suspension, removal, and disqualification of concerned directors, officers, and employees.

In February 2017, BSP issued Memorandum No. M-2017-004 advising all banks and quasi-banks that cross-border derivative transactions involving non-centrally cleared derivatives are subject to margin requirements pursuant to the policy framework adopted by the Basel Committee on Banking Supervision and the International Organisation of Securities Commissions. The framework requires all covered entities that engage in non-centrally cleared derivatives to exchange initial and variation margins. Assets collected as collateral for margin purposes should be highly liquid and should, after the application of an appropriate haircut, be able to hold their value in times of distress.

On 7 June 2021, the BSP issued Circular No. 1119 which added the following derivatives activities that may be engaged in by UBs and KBs in without need of prior BSP approval:

- a. originate, distribute, or act as market maker for the following financial derivatives as long as the bank complies with applicable market conventions and mechanisms for transparency and disclosure, and observes the provisions of the MORB and other pertinent securities laws, rules, and regulations:
 - i. deliverable FX forwards, FX swaps, currency swaps, and analogous financial futures;
 - ii. non-deliverable FX forwards and FX swaps; and
 - iii. interest rate swaps, forward rate agreements, and analogous financial futures;
- b. as end-user, enter in any financial derivatives transactions for the purpose of hedging its own risks;
- c. as end-user, enter into financial derivatives transactions in order to take positions for its own account in the financial instruments mentioned in item (a);
- d. global peso notes booked under the regular banking units (“**RBUs**”); and
- e. transactions involving warrants issued under the Republic of the Philippine’s “Paired Warrants Program.”

RBUs and expanded FCDUs (“**EFCDUs**”) of UBs and KBs may now invest, for their own account, in different structured products (“**SPs**”) as long as, among others, the total carrying value of all investments in SPs shall not exceed 100.0% of the bank's qualifying Tier 1 capital. For activities not expressly listed above, a bank needs to apply for prior BSP approval of additional derivatives authority. A bank applying for additional derivatives authority/ies must have and maintain a risk management system commensurate to the additional authority/ies being applied for.

- (7) *Amendments to UITFs Regulations.* On 3 September 2004, the BSP issued Circular No. 447 (as amended by BSP Circular No. 675 dated 22 December 2009) which provided guidelines for the launching and offering of new products to be known as unit investment trust funds (“**UITFs**”), and was intended to completely phase out common trust funds or convert them into UITFs within two years from the date of the circular. UITFs are open-ended pooled trust funds denominated in Pesos or any acceptable currency that are to be operated and administered by trust entities and made available by participation. Eligible assets of UITFs include bank deposits, securities issued by or guaranteed by the Government or the BSP, tradable securities issued by the government of a foreign country, exchange listed securities, marketable instruments that are traded in an organized exchange, loans traded in an organized market and such other tradable instruments as the BSP may allow. These assets are subject to mark-to-market valuation on a daily basis. The stated objective of the BSP is to align the operation of pooled funds with international best practices and enhance the credibility of pooled funds to investors. In January 2008, the BSP issued Circular No. 593 to improve risk disclosure on investing in UITFs, to require banks to conduct a client suitability assessment to profile the risk-return orientation and suitability of the client to the specific type of UITF that he wants to participate in and to update client’s profile at least every three years. In December 2009, the BSP issued Circular No. 676 allowing cross-currency investment for Peso trust, other fiduciary and investment management accounts, including Peso UITFs. In September 2012, the BSP issued Circular No. 767 to include investments by UITFs in units or shares in collective investment schemes as an allowable investment and recognizing UITF structures such as feeder funds and fund-of-funds. On 21 October 2014, the BSP issued Circular 852, amending the UITF Regulations. Through this circular, the BSP strengthened the disclosure requirements for UITFs by prescribing the use of the key information and investment disclosure statement and online posting of UITF information via a website. On 10 March 2016, the BSP issued Circular 907 to amend certain exposure limits and allowable investment and valuation on UITFs invested in feeder fund and fund-of-funds. UITF investments shall only be limited to bank deposits and collective investment schemes (i.e., target fund, exchange traded fund), subject to target fund not being structured nor similarly structured as a feeder fund or fund-of-funds.

On 5 September 2022, the BSP issued Circular No. 1152 which further modified the guidelines for creation of UITFs. The BSP delineated between different kinds of UITFs (money market funds, fixed income funds, multi-asset funds, equity funds, and distributing funds). Trust Entities (“TEs”) are now allowed to create, administer, and manage UITFs with prior approval or notification to the BSP. Prior BSP approval is needed if the TE will create, for the first time, a fixed income fund, multi-asset fund, equity fund, fund-of-funds, feeder fund, multi-class fund, or distributing fund. If the TE will create a UITF that is the same category as any of its existing ones, then only prior notification to the BSP is needed. UITFs will need to be governed by a written trust agreement drawn by the trustee which shall be approved by the board of directors and submitted to the BSP for approval or notification, as the case may be. Further, any amendment to a UITF shall be the subject of a written notification to the BSP if the amendment involves any of the following aspects:

- a. investment objectives, policies, or strategies;
- b. risk profile;
- c. benchmark;
- d. target investors of a multi-class fund;
- e. target fund/s of a feeder fund or a fund-of-funds;
- f. income distribution policy of a distributing class/fund;
- g. basis of the NAVPu computation;
- h. fees and other charges to the fund;
- i. custodian;
- j. investment manager, if separate from the trustee; and/or
- k. merger of funds.

On 9 August 2023, the BSP issued Circular No. 1178 which provided guidelines on the use of benchmarks for UITFs. These guidelines require the trustee to include a benchmark in the presentation of a UITF. Under the guidelines, a valid benchmark for a UITF has the following characteristics:

- a. has a clearly defined objective;
- b. appropriately reflects the market or sector it aims to represent;
- c. is comprised of sufficiently diversified financial instruments that are liquid;
- d. is objectively and consistently calculated;
- e. is a total return benchmark; and
- f. reflects returns that are net of taxes.

The trustee must ensure that its chosen benchmark reflects the investment mandate, objective, or strategy of the UITF and possesses the characteristics of a valid benchmark. It must also ensure that the underlying securities of the benchmark are identifiable and priced in accordance with BSP guidelines or international financial reporting standards on the valuation of assets. Trustees are required to prepare a Key Information and Investment Disclosure Statement (“KIIDS”) which shall contain the key features of the UITF, the fund performance against a benchmark, and the fund's prospective and outstanding investments. The KIIDS shall be updated and made available to participants at least every calendar quarter and made publicly available not later than forty-five (45) calendar days from the reference period.

In presenting the fund performance against a benchmark, the following minimum information shall be disclosed in the KIIDS:

- a. the description and key characteristics of the benchmark, and its use relative to the fund's objective or investment strategy (e.g., whether the fund aims to track the performance of the benchmark or to outperform the same);
- b. for a customised benchmark (i.e., a benchmark created by the trustee via the combination of multiple benchmarks), the description of each component benchmark and its corresponding weight as well as the rebalancing frequency, if any;
- c. if the benchmark is managed or administered by a related party of the trustee, how the trustee and the benchmark manager/administrator manage existing and potential conflicts of interest;
- d. if there are misalignments between the risk-return profile and/or characteristics of the UITF and those of the benchmark, the reason/s for and the extent of the misalignments; and
- e. if there has been a change in the benchmark, the date the benchmark was changed, as well as the description of and reason for the change in the benchmark. These details and the illustrative presentation of performance against the old and new benchmarks shall be disclosed in the KIIDS for a minimum of one (1) year from the date of adoption of the new benchmark.

- (8) *Exemption of Paired ROP Warrants from Capital Charge for Market Risk.* In connection with the Government's Paired Warrants Program, the BSP issued Circular No. 605 in 5 March 2008 exempting warrants paired with Government bonds from capital charges for market risk to the extent of a bank's holdings of bonds paired with warrants equivalent to not more than 50.0% of total qualifying capital.
- (9) *Guidelines on Securities Borrowing and Lending Transactions.* Guidelines by the PSE on securities borrowing and lending govern securities borrowing and lending transactions between local/foreign borrowers and local/foreign lenders. BSP Circular No. 611, Series of 2008 provides guidelines on securities borrowing and lending transactions in the PSE involving borrowings by foreign entities of PSE-listed shares from local investors and lenders. In May 2008, the Monetary Board authorized the issuance of BSP Registration documents to cover the PSE-listed shares of stock borrowed by foreign entities from local investors and lenders. This will allow foreign borrowers to purchase foreign exchange from the banking system for remittance abroad using the Peso sales proceeds of the borrowed shares including the related income from securities borrowing and lending transactions, i.e., rebates or shares in the income earned on the reinvestment of the cash collateral, interest and dividends earned on the Peso-denominated Government securities and PSE-listed shares used as collateral.
- (10) *Reclassification of Financial Assets between Categories.* The BSP issued Circular No. 628 dated 31 October 2008, amending Circular No. 626 dated 23 October 2008 and Resolution of the Monetary Board No. 1423 dated 30 October 2008, which approved the guidelines governing the reclassification of financial assets between categories. Financial institutions are allowed to reclassify all or a portion of their financial assets from "held for trading" or "available for sale" categories to the "available for sale" or "held to maturity" or "unquoted debt securities classified as loans" categories effective 1 July 2008 Any reclassification made in periods beginning on or after 15 November 2008 shall take effect from the date when the reclassification is made.
- (11) *Valuations of Government Securities Held by Banks.* In October 2013, the BSP amended the rules on valuations of government securities held by banks to reflect actual market rates, with the guideline applying to both benchmark and non-benchmark securities. Under BSP Circular No. 813, the weighted average of done or executed deals is used as the basis for valuation. In the absence of weighted average done deals for benchmark bonds, the simple average bids are used. In the absence of both weighted done deals and simple average bids for non-benchmark securities, interpolated yields derived from reference rates in accordance with BSP-approved guidelines is used.
- (12) *Segregation of Customer Funds and Securities Received by Banks.* On 14 August 2015, the BSP issued Circular No. 885 requiring the segregation of customer funds and securities received by banks in the performance of their securities brokering functions. Banks are required to institute adequate risk management systems and controls to ensure protection of customer funds and securities, proper

segregation of functions, and prevention of conflict-of-interest situations that may arise in the conduct of securities brokering activities within the bank. Banks must also make and keep current books and records relating to customer funds and securities and submit monthly reportorial requirements.

- (13) *Creation of Personal Management Trust.* On 18 August 2016, the BSP issued Circular No. 920 allowing for the creation of the personal management trust (“**PMT**”), which is a living trust arrangement that seeks to meet the estate planning and asset management needs of individuals. The trustor may or may not nominate a third-party beneficiary. It is supposed to serve as a more flexible tool in the management of an individual’s financial affairs. Upon the effectivity of the circular, all living trust accounts (“**LTAs**”) were discontinued and all those that remained valid were automatically considered as PMT.
- (14) *Clearing of Checks via Electronic Presentment.* On 7 September 2016, the BSP issued Circular No. 924, amending the Manual in view of the clearing of checks via electronic presentment, which is implemented by the Philippine Clearing House Corporation (“**PCHC**”). On 20 January 2017, the BSP began the electronic clearing of checks. Under this new system, only digital images of the checks and their electronic payment information are required to be transmitted to the paying bank. The clearing time was reduced to just one banking day, as against three banking days previously, since no physical delivery of checks will be needed.
- (15) *Effective Reporting System Generation and Timely Submission of Reports.* On 26 June 2017, the BSP amended the Manual through Circular No. 963, series of 2017, which issuance instituted governance processes in accordance with the BSP’s expectation that banks establish an effective reporting system generation and timely submission of reports. Said reports must be comply with those standards prescribed by the BSP, and those banks that fail to do so (i.e., files an erroneous report, delayed report, or did not submit at all) are meted with certain sanctions that can be aggravated by habitual violations. It further provided that banks had until 31 December 2017 to make the necessary preparations to their systems and processes in order to comply with the new provision. Its full implementation started on 1 January 2018.
- (16) *Guidelines on the Adoption of PFRS 9.* On 14 August 2018, the BSP issued Circular No. 1011 which provides guidelines on the adoption of PFRS 9. The Circular provides that where there are differences between the BSP regulation and PFRS 9, as when more than one option are allowed or certain limits are prescribed, then the option or limit prescribed by the BSP should be adopted. The circular further provides that with respect to the preparation of prudential reports, banks should adopt in all respect the PFRS, except in the following cases:

In preparing consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries is required to be consolidated with the financial statements of the parent bank on a line-by-line basis, while insurance and non-financial allied subsidiaries will be accounted for using the equity method. Investments in financial/non-financial allied/non-allied associates and joint ventures will be accounted for using the equity method in accordance with the provisions of PAS 28.

In preparing solo/separate financial statements, investments in financial/nonfinancial allied/non-allied subsidiaries/associates, including insurance subsidiaries/associates, is required to be accounted for using the equity method as described in PAS 28.

Banks shall recognise adequate and timely allowance for credit losses at all times. In this respect, banks shall adopt the principles provided under the enhanced standards on credit risk management in measuring credit losses in the BSP MORB.

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

- (17) *Marking-to-market of financial instruments.* BSP Circular No. 1021 dated 15 November 2018 provides that financial instruments that are required to be classified and measured at fair value, within the

scope of PFRS 9 required to be marked-to-market in accordance with the provisions of PFRS 13 on Fair Value Measurement and the related rules and regulations issued by the Philippine SEC.

- (18) *Regulatory Treatment of Restructured Loans for Purposes of Measuring Expected Credit Losses.* On 21 October 2021, BSP issued Memorandum No. M-2021-056, providing guidelines on the regulatory treatment of restructured loans for purposes of measuring ECL effective until 31 December 2022. The classification of loans whose terms are modified due to the COVID-19 pandemic under Stage 1, 2, or 3, for purposes of determining ECL shall be based on the assessment of the extent of financial difficulty of the borrowers and their ability to fully pay the loan based on the revised terms. Loans that have been restructured to support borrowers that are experiencing financial difficulties due to the COVID-19 pandemic should not automatically be considered as credit-impaired that will warrant the classification of the accounts as non-performing.
- (19) *Basic Deposit Accounts.* BSP Circular No. 992, issued on 1 February 2018, requires banks to establish a basic deposit account which refers to interest or non-interest-bearing account designed to promote financial inclusion. The basic deposit account shall have an opening amount of not more than P100.00 and no minimum maintaining balance but with a maximum balance of not more than P50,000.00. If the depositor exceeds the P50,000.00 maximum balance, the bank shall convert the basic deposit account to a regular deposit account. The basic deposit account shall have no dormancy charges and has no reserve requirement.
- (20) *Reserves against trust and other fiduciary accounts (“TOFA”).* BSP Circular No. 1025 dated 13 December 2018 provides that in addition to the basic security deposit, banks authorized to engage in trust and other fiduciary business shall maintain reserves on TOFA -others, except accounts held under (1) administratorship; (2) trust under indenture; (3) custodianship and safekeeping; (4) depository and reorganization; (5) employee benefit plans under trust; (6) escrow; (7) personal trust (testamentary trust); (8) executorship; (9) guardianship; (10) life insurance trust; (11) pre-need plans (institutional/individual); (12) Personal Equity And Retirement Account (“PERA”); (13) legislated and quasi-judicial trust; and (14) specialized institutional accounts under trust.
- (21) *Guidelines on the Management of IRRBB and Market Risk Management.* BSP Circular No.1044 dated 6 August 2019 approved the adoption of guidelines for managing IRRBB and amendments to the guidelines on market risk management. Under the circular, all banks and quasi-banks must adequately identify their IRRBB exposures, take appropriate steps to measure, monitor and control the risk, and ensure that the IRRBB management system is integrated into the overall risk management framework and strategic business planning process. The circular also requires active board and senior management oversight. The BSP will evaluate the adequacy and effectiveness of the IRRBB management framework, taking into account the size, complexity and nature of a bank or quasi-bank’s business.
- Circular 1067 dated 13 December 2019 approved the minimum disclosure requirements on IRRBB and required the following disclosures in the bank’s annual reports:
- (a) A description of how the bank defines IRRBB for purposes of risk control and measurement;
 - (b) A description of the bank’s overall IRRBB management and mitigation strategies;
 - (c) The periodicity of the calculation of the bank’s IRRBB measures, and a description of the specific measures that the bank uses to gauge its sensitivity to IRRBB;
 - (d) A description of the interest rate shock and stress scenarios that the bank uses to estimate changes in the economic value and/or in earnings;
 - (e) A high-level description of how the bank hedges its IRRBB, as well as the associated accounting treatment; and
 - (f) A high-level description of key modelling and parametric assumptions used in IRRBB measurement.
- (22) *Guidelines on Voluntary Surrender of a Banking License.* BSP Circular No. 1050 dated 18 September 2019 amended the rules on voluntary liquidation in the Manual by formulating guidelines in

the event that a bank decides to surrender its banking license either with a view to proceed to voluntary dissolution and liquidation or with the intention to convert into a non-bank entity. The circular lays down the criteria that the BSP must consider in deciding whether to approve the surrender of a bank's banking license. The circular also outlines the application procedure for the cessation of a bank's operations and the documents that the bank must submit to the BSP in support of its application. Once the bank has received notice of the BSP's approval of its voluntary surrender of its banking license, the bank shall immediately cease its operations.

(23) *Amendments to the Framework for Dealing with DSIBs.* BSP Circular No. 1051 dated 27 September 2019 amended the BSP MORB's provision on DSIBs to change the number of indicators to characterize a D-SIB from ten (10) to nine (9). The circular also provides for a framework for dealing with D-SIBs, including the guidelines on data requirements and reports, schedule of restriction on distribution of dividends during the phased-in implementation period of the Higher Loss Absorbency requirement, and recovery plan.

(24) *Amendments to the Regulations on Investment Management Activities.* The BSP issued Circular No. 1109 Series of 2021, which reduced the minimum size of an account under investment management. It further allows the commingling of funds subject to certain conditions and expanded the securities eligible under as investment outlet for commingled funds. Previously, the minimum size of an investment management account was ₱1.0 million. Under the Circular, BSFIs may determine the minimum amount that should be maintained by a client in an investment management account, which shall be at least ₱100,000.0. Moreover, prior to this Circular, commingling of IMAs was not allowed except for the purpose of investing in government securities or in duly registered commercial papers. Under the Circular, funds from IMAs may be commingled subject to the following conditions:

- a. The investment of each of the IMAs in the commingled fund shall at least be ₱100,000.0;
- b. The commingled funds shall only be invested in (i) securities directly issued by the Philippine National Government, (ii) exchange-traded equities and fixed income securities and commercial papers registered with the SEC, (iii) securities issued by banks incorporated in the Philippines, except those issued through the trust units, or (iv) securities issued by other sovereigns that are exempt from registration under Section 9(b) of the Securities Regulation Code;
- c. The commingling of funds and the manner of termination of the same shall be specifically agreed in writing by the clients. The investment manager should ensure that the agreement to commingle funds with other IMAs is legally binding and enforceable. Furthermore, the risks associated with commingling of funds, such as market liquidity risk, shall be fully disclosed to the clients;
- d. The investment manager shall determine that it possesses the operational capability to manage the accounts participating in commingled funds. In doing so, the investment manager shall undertake an assessment taking the following into consideration: (i) sufficiency of personnel handling commingled IMAs; (ii) capability of existing systems to accurately and readily identify the allocation of each investor in a commingled fund and generate the following information on a per IMA basis, at a minimum: accruals, coupons received, dividends received, marked-to-market gains or losses and required reports; and (iii) ability to conduct periodic reconciliation of relevant records; and
- e. The maximum number of IMAs that can be commingled into one fund shall be determined by the investment manager based on its own operational capability to commingle IMAs.

(25) *Amendments to the Rules on Cross-Border Transfer of Local and Foreign Currencies.* The BSP issued Circular No. 1146 Series of 2022 which allows a person to import or export, or bring into or take out of the Philippines, or electronically transfer legal tender Philippine notes and coins, checks, money order and other bills of exchange drawn in peso against banks operating in the Philippines in an amount not exceeding ₱50,000.00 without prior authorization by the BSP. In excess of such ₱50,000.00 limit, a prior written authorization from the BSP is required. In case of physical cross-border transfer of Philippine currency, there must be a declaration of the whole amount brought into or taken out of the Philippines. For foreign currency, a person who brings into or takes out of the Philippines foreign currency or other

foreign-currency denominated bearer monetary instruments in excess of \$10,000.00 or its equivalent must declare the whole amount brought into or taken out of the Philippines.

- (26) *Maharlika Investment Fund Act of 2023*. On 18 July 2023, Republic Act No. 11954 was enacted which provides that for the first and second fiscal years upon effectivity of the law, 100% of the BSP's total declared dividends will be remitted to the National Government for the capitalization of the Maharlika Investment Corporation (“MIC”), in the amount not exceeding ₱50,000,000,000.000 for the initial subscription of the National Government to the capitalization of the MIC. Thereafter, the dividends of the BSP shall be remitted to the National Government to fund the increase in the capitalization of the BSP.
- (27) *Guidelines on Disclosure to the Public*. On 21 December 2023, the BSP issued Circular No. 1186, Series of 2023 amending Section 175 of the MORB on public disclosures. Under this issuance, domestic banks have the option to publish their quarterly balance sheets and consolidated balance sheets in printed or online versions of newspapers of general circulation or upload them on their website and share for a period of at least one year. In addition, the banks may also display a tabletop standee with QR codes in a conspicuous place at their head offices, all their branches, and other offices, or through digital/electronic means. Each bank’s board of directors is given the duty to ensure that information shared with the public is supported by an effective internal control structure, has undergone review and approval, and is compliant with the process and quality of reporting required under Section 171 of the MORB.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg (together, the “Clearing Systems”) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Bank and believe to be reliable, but none of the Bank, the Trustee, any Agent or any other party to the Agency Agreement takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Bank, the Trustee, or any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.

The applicable Pricing Supplement will specify the Clearing System(s) applicable for each Series.

The Clearing Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system’s rules and procedures.

Book-Entry Ownership

Registered Notes

The Bank has made applications to Euroclear and Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of the Notes to be represented by a Registered Global Note. Each Series of Registered Notes will have an International Securities Identification Number (“ISIN”) and a Common Code. Investors in Notes of such Series may hold their interests in a Registered Global Note through Euroclear or Clearstream, Luxembourg.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. Euroclear and Clearstream, Luxembourg have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among accountholders of Euroclear and Clearstream, Luxembourg. However, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued or changed at any time. None of the Bank, the Trustee, the Paying Agents, the Registrar or any Dealer will be responsible for any performance by Euroclear and Clearstream, Luxembourg or their respective accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

The information provided below does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Notes. In particular, the information does not consider any specific facts or circumstances that may apply to a particular purchaser. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or of any person acquiring, selling or otherwise dealing with the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. The statements do not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules.

Prospective purchasers of Notes are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of Notes, including the effect of any state or local taxes, under the tax laws applicable in the Philippines and each country of which they are residents.

Philippine Taxation

The following is a general description of certain Philippine tax aspects of the Notes. It is based on the present provisions of the National Internal Revenue Code of 1997 (the “**Tax Code**”) as amended, the regulations promulgated thereunder and judicial and ruling authorities in force as of the date of this Offering Circular, all of which are subject to changes occurring after such date, which changes could be made on a retroactive basis. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes. Each prospective Noteholder should consult with his own tax advisors as to the laws of other applicable jurisdictions and the specific tax consequences of acquiring, holding, and disposing of the Notes.

As used herein, the term “*resident alien*” refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a “*non-resident alien*” is an individual who is neither a citizen nor a resident of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a “*non-resident alien doing business in the Philippines*,” otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a “*non-resident alien not doing business in the Philippines*.” A “*resident foreign corporation*” is a foreign corporation engaged in trade or business in the Philippines; and a “*non-resident foreign corporation*” is a foreign corporation not engaged in trade or business in the Philippines.

On 1 January 2018, Republic Act No. 10963, otherwise known as the Tax Reform for Acceleration and Inclusion (“**TRAIN Law**”) took effect. The TRAIN Law, which contained an initial package of the tax reforms, amended various provisions of the Tax Code, including those on ordinary income tax of individuals, capital gains tax on the sale and disposition of shares of stock, estate tax, donor’s tax, and documentary stamp tax.

On 11 April 2021, Republic Act No. 11534, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises Act (“**CREATE**”) took effect. The CREATE Law is the second package of tax reforms, which includes the reduction of the regular corporate income tax rate for both domestic and foreign corporations from 30.0% to 25.0%. The regular corporate income tax rate may be further reduced to 20.0% for domestic corporations with taxable income not exceeding ₱5,000,000.00 and total assets (excluding land on which the corporation’s office, plant, and equipment are situated) not exceeding ₱100,000,000.00. The rate of the minimum corporate income tax (“**MCIT**”) was also lowered to 1.0%, effective 1 July 2020 to 30 June 2023.

On 22 January 2024, Republic Act No. 11976, otherwise known as the Ease of Paying Taxes Act (“**EOPT**”) took effect. The EOPT amended various provisions of the Tax Code relating to the filing and payment of taxes and other provisions intended to protect the taxpayer’s rights, modernize tax administration, and adopt best practices.

Currently pending in the Senate is the Package 4 of the Comprehensive Tax Reform Program (House Bill No. 4339 or more commonly known as Passive Income and Financial Intermediary Taxation Act or “**PIFITA**”), a proposed tax reform measure which aims to: (1) remove of the preferential tax treatment of the expanded foreign currency deposit system; (2) adopt a single gross receipts tax of 5.0% imposed on banks, quasi-banks, and certain financial intermediaries; (3) harmonize business taxes on financial intermediaries; and (4) rationalize documentary stamp tax rates. In relation to debt instruments, HB No. 4339 seeks to introduce a uniform final withholding tax rate on interest income on deposit substitutes and interest income on long-term deposits or investments of 20.0%

(as opposed to a range between 20.0% to 25.0%), unless a treaty rate applies. However, before HB No. 4339 can become a law, it must be considered and approved by the Senate and signed into law by the President.

Documentary Stamp Taxes

A documentary stamp tax is imposed upon every original issue of debt instruments such as bonds and notes, at the rate of ₱1.5 on each ₱200.0, or fractional part thereof, of the issue price of such debt instruments; provided, that for such debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be proportionate to the ratio of the number of days of the term such instrument to 365 days. The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted or transferred when the obligation or right arises from Philippine sources, the property is situated in the Philippines, or where the object of the contract is located or used in the Philippines. The issuance of the Notes, whether to residents or non-residents, will be subject to Philippine documentary stamp tax, which shall be for the account of the Bank.

The issuance of the Notes will be generally subject to Philippine documentary stamp tax at the rate of ₱1.5 on each ₱200.0, or 0.8%, which shall be for the account of the Issuer.

The Court of Tax Appeals and the Commissioner of Internal Revenue have both opined that, with the enactment of Republic Act No. 9294 (An Act Restoring the Tax Exemption of OBUs and FCDUs Amending for the Purpose Section 27 (D) and Section 28 (A)(4) and (A)(7)(b) of the National Internal Revenue Code as Amended), the relevant provisions of Revenue Regulations No. 10-76, as amended, are deemed re-issued or re-enforced, such as the provision that foreign currency transactions of FCDUs with nonresidents, OBUs in the Philippines, local commercial banks including branches of foreign banks that may be authorized by the BSP to transact business with foreign currency deposit system and other depository banks under the expanded foreign currency deposit system are exempt from all taxes, including documentary stamp taxes. Therefore, the issuance of the Notes to nonresidents, OBUs in the Philippines, local commercial banks including branches of foreign banks that may be authorized by the BSP to transact business with foreign currency deposit system is exempt from documentary stamp tax.

However, note that among the changes proposed by HB No. 4339 is the removal of the preferential tax treatment of the expanded foreign currency deposit system. In which case, the issuance of the Notes to nonresidents, OBUs in the Philippines, local commercial banks including branches of foreign banks that may be authorized by the BSP to transact business with foreign currency deposit system, which is currently exempt from documentary stamp tax, may already be subject to documentary stamp tax once HB No. 4339 becomes a law.

As of the date of this Offering Circular, no documentary stamp tax is imposed on a subsequent sale or disposition of the Notes if there is no change in the maturity date or remaining term of the Notes.

Interest on the Notes

Under the Tax Code, any income of non-residents, whether individuals or corporations, and of depository banks under the expanded foreign currency deposit system, from foreign currency transactions with depository banks under the expanded foreign currency deposit system is exempt from income tax. Accordingly, if the Notes are issued or booked by the Bank's FCDU, the principal, interest income and other amounts payable on the Notes received by non-resident aliens, whether or not engaged in trade or business within the Philippines, non-resident foreign corporations and depository banks under the expanded foreign currency deposit system, is not subject to withholding tax in the Philippines. The interest income on the Notes received by resident individual citizens of the Philippines, resident alien individuals, and by domestic corporations and resident foreign corporations from a depository bank under the expanded foreign currency deposit system shall, however, be subject to a final income tax at the rate of 15% of such interest income.

Note, however, that as previously mentioned, among the changes proposed by HB No. 4339 is the removal of the preferential tax treatment of the expanded foreign currency deposit system.

Sale or other Disposition of the Notes

Any gain, profit or income from sale or disposition of personal property will generally be considered as Philippine-sourced income only if sold within the Philippines. If the Noteholder is a non-resident foreign corporation, and presumably the situs of any transfer involving the Notes will be facilitated in and take place outside the Philippines, any gain, profit or income from any sale or disposition of the Notes outside the Philippines will

generally not be considered as Philippine-sourced income insofar as the Philippine-sourced Taxpayers are concerned and thus the receipt by said taxpayers of any gain from sale of the Notes outside the Philippines will not be subject to Philippine tax.

On the other hand, since resident citizens and domestic corporation are subject to Philippine tax on their income whether these are Philippine-sourced income or not, their realisation of any gain, profit or income from sale or disposition of the Notes will generally be subject to Philippine tax. A holder of the Notes will recognise a gain or loss upon the sale or other disposition (including a redemption at maturity or otherwise) of the Notes in an amount equal to the difference between the amount realised from such disposition and such holder's basis in the Notes.

Under Section 32(B)(7)(g) of the Tax Code, gains realised from the sale, exchange or retirement of bonds, debentures, and other certificates of indebtedness with an original maturity date of more than five years as measured from the date of the issuance of such bonds, debentures or other certificates of indebtedness ("**Long-Term Bonds**") are exempt from income tax. If the Notes will be construed by the Philippine tax authority as Long-Term Bonds, gains realised by resident citizens and domestic corporations from the sale or transfer of the Notes will be exempt from Philippine tax.

If the Notes are not Long Term Bonds, or will not be construed by the Philippine tax authority as Long-Term Bonds, any gain realised by resident citizens and domestic corporation from the sale or transfer of the Notes will form part of their taxable income subject to ordinary income tax rates under the Tax Code at graduated rates from 0.0%-35.0% for resident citizens and 25% for domestic corporations, or 20.0% if the net taxable income does not exceed ₱5,000,000.00 and the corporation has total assets not exceeding ₱100,000,000.00, excluding land on which the particular business entity's office, plant, and equipment are situated (or 2% MCIT, as the case may be). Additionally, in the case where the seller of the Notes (i) is a resident citizen, (ii) is not a dealer in securities, and (iii) has held the Notes for a period of more than 12 months prior to the sale, only 50.0% of any capital gain will be recognised and included in said seller's gross taxable income for Philippine tax purposes.

Estate and Gift Taxes

The Notes will be considered as intangible personal property situated in the Philippines and will form part of the gross estate of any individual holder. As such, the transfer of the Notes upon the death of an individual holder to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at a fixed rate of 6.0% of the net estate.

Individual and corporate holders, whether or not citizens or residents of the Philippines, who transfer shares of stock by way of gift or donation are liable to pay Philippine donors' tax at the fixed rate of 6.0% based on the total gifts in excess of ₱250,000.00 exempt gifts made during the calendar year, whether the donor is a stranger or not.

Estate and gift taxes will not be collected in respect of intangible personal property such as the Notes (i) if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (ii) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

Taxation outside the Philippines

The tax treatment of a non-resident holder of any of the Notes by jurisdiction outside the Philippines will vary depending on the tax laws applicable to such holder by reason of domicile or business activities and may vary depending upon such holder's situation. Each holder of any of the Notes should consult its own tax adviser as to the particular tax consequences on such holder acquiring, owning and disposing of the Notes, including the applicability and effect of any state, local and national laws.

SUBSCRIPTION AND SALE

The Dealers have, in an amended and restated Programme Agreement (such Programme Agreement as modified and/or supplemented and/or restated from time to time, the “**Programme Agreement**”) dated 24 April 2024, agreed with the Bank a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*.” The Bank will pay each relevant Dealer a commission as may be agreed between them in respect of Notes subscribed by it. The Bank has agreed, unless otherwise agreed in respect of an issue of Notes, to pay all expenses incidental to the performance of their respective obligations under the Dealer Agreement. The commissions in respect of an issue of Notes on a syndicated basis may be stated in the applicable Pricing Supplement. The Notes may also be sold by the Bank through the Dealers, acting as the Bank’s agents. The Dealers may also offer and sell Notes through certain of their affiliates. In the Programme Agreement, the Bank has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith. The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Bank.

Where the Bank agrees to sell to the Dealer(s), who agree to subscribe and pay for, or to procure subscribers to subscribe and pay for, Notes at an issue price set forth in the applicable Pricing Supplement (less commissions, if any, in connection with such issue of Notes), the Notes may be reoffered and resold by the relevant Dealer(s) at a price different from their Issue Price, including (without limitation) at prevailing market prices, or at prices related thereto, at the time of such reoffer and resale, in each case as may be determined by the relevant Dealer(s).

In order to facilitate the offering of any Tranche of the Notes, the Dealer or Dealers (if any) named as Stabilising Managers for persons acting on behalf of any Stabilising Manager(s) in the applicable Pricing Supplement and participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect, which support the market price of the relevant Notes during and after the offering of the Tranche. Specifically, such persons may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Bank. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level higher than that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. There is no assurance that the Stabilising Manager(s) or persons acting on behalf of a Stabilising Manager will undertake stabilisation action. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Under the laws and regulations of the United Kingdom any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant tranche of Notes and 60 days after the date of the allotment of the relevant tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

The Dealers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Dealers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Bank or its subsidiaries, jointly controlled entities or associated companies from time to time. In the ordinary course of their various business activities, the Dealers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Bank or its subsidiaries, jointly controlled entities or associated companies, including any Tranche of Notes issued under the Programme, may be entered into at the

same time or proximate to offers and sales of Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Notes. Each Tranche of Notes issued under the Programme may be purchased by or be allocated to any Dealer or an affiliate for asset management and/or proprietary purposes but not with a view to distribution.

In connection with each Tranche of Notes issued under the Programme, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the Bank or its subsidiaries or associates at the same time as the offer and sale of each Tranche of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Tranche of Notes to which a particular applicable Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Tranche of Notes).

United States

- (a) In respect of Notes offered or sold in reliance on Category 1 as specified in the applicable Pricing Supplement and the Notes have not been and will not be registered under the Securities Act, and the Notes may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Dealer has represented and agreed, and each Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, any Notes constituting part of its allotment except in accordance with Rule 903 of Regulation S under the Securities Act or the securities laws of any state or other jurisdiction of the United States or pursuant to another exemption from the registration requirements of the Securities Act.

Terms used in this paragraph (a) have the same meanings given to them by Regulation S.

- (b) In respect of Notes offered or sold in reliance on Category 2 as specified in the applicable Pricing Supplement and the Notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States, and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Subject to paragraph (f) below, each Dealer has represented and agreed, and each Dealer appointed under the Programme will be required to represent and agree, that it has offered, sold and delivered any Notes, and will offer, sell and deliver any Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part, as determined and certified as provided below, only in accordance with Rule 903 of Regulation S under the Securities Act. Each Dealer who has purchased Notes of a Tranche hereunder (or in the case of a sale of a Tranche of Notes issued to or through more than one Dealer, each of such Dealers as to the Notes of such Tranche purchased by or through it or, in the case of a syndicated issue, the relevant Lead Manager) shall determine and certify to the Principal Paying Agent the completion of the distribution of the Notes of such Tranche. On the basis of such notification or notifications, the Principal Paying Agent has agreed to notify such Dealer/Lead Manager of the end of the distribution compliance period with respect to such Tranche. Each Dealer has also agreed, and each Dealer appointed under the Programme will be required to represent and agree, that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

“The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the Securities Act), or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Securities as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S”.

Terms used in this paragraph (b) have the meanings given to them by Regulation S.

- (c) Each Dealer has further represented and agreed, and each Dealer appointed under the Programme will be required to represent and agree, that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Note, and, in respect of Notes offered or sold in reliance on Category 2 as specified in the applicable Pricing Supplement, it and they have complied and will comply with the offering restrictions requirement of Regulation S.
- (d) Prior to the issuance of any Bearer Notes under the Programme, the Issuer will confirm with its counsel that all Programme Documents have been reviewed, revised and updated to the extent necessary to ensure that such documents properly allow for the issuance of Bearer Notes in accordance with U.S. federal income tax law.
- (e) The applicable Pricing Supplement will specify whether U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D) (“**TEFRA D**”), as in effect prior to the repeal of Section 163(f)(2)(B) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), or any successor rules that are substantially in the same form, in each case, are applicable (or relevant under IRS Notice 2012-20) for purposes of Section 4701 of the Code. In respect of Bearer Notes where TEFRA D is specified in the applicable Pricing Supplement:
 - (i) except to the extent permitted under TEFRA D, each Dealer (i) has represented and agreed, and each Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and has agreed that during a 40-day restricted period it will not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person, and (ii) has represented that it has not delivered and agreed that it will not deliver within the United States or its possessions definitive Notes in bearer form that are sold during the restricted period;
 - (ii) each Dealer has represented and agreed, and each Dealer appointed under the Programme will be required to represent and agree, that it has and agreed that throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by TEFRA D;
 - (iii) if it is a United States person, each Dealer has represented and agreed, and each Dealer appointed under the Programme will be required to represent and agree, that it is acquiring Notes in bearer form for purposes of resale in connection with their original issuance and if it retains Notes in bearer form for its own account, it will only do so in accordance with TEFRA D (including the requirements of U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D)(6));
 - (iv) it will provide the Issuer with the documentation specified (at the time specified) in U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D)(3);
 - (v) with respect to each affiliate of such Dealer that acquires Notes in bearer form from such Dealer for the purpose of offering or selling such Notes during the restricted period, such Dealer has repeated and confirmed the representations and agreements contained in subparagraphs (a), (b) and (c) on such affiliate’s behalf.

Terms used in this paragraph (d) have the meanings given to them by the Code and Treasury regulations promulgated thereunder, including TEFRA D.

- (f) The applicable Pricing Supplement will specify whether U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(C) (“**TEFRA C**”), as in effect prior to the repeal of Section 163(f)(2)(B) of the Code, or any successor rules that are substantially in the same form, in each case, are applicable (or relevant under IRS Notice 2012-20) for purposes of Section 4701 of the Code. In respect of Bearer Notes where TEFRA C is specified in the applicable Pricing Supplement, such Bearer Notes must be issued and delivered outside the United States and its possessions in connection with their original issuance. Each Dealer has represented and agreed, and each Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, such Bearer Notes within the United States or its possessions in connection with their original issuance. Further, each Dealer has represented and agreed, and each Dealer appointed under the Programme will be required to represent and agree, in connection with the original issuance of such Bearer Notes that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such

purchaser is within the United States or its possessions and will not otherwise involve its U.S. office in the offer or sale of such Bearer Notes. Further, the Issuer will comply with the documentary requirements described in U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(C)(4).

Terms used in this paragraph (e) have the meanings given to them by the Code and Treasury regulations promulgated thereunder.

- (g) Each issue of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issue and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement. The relevant Dealer has agreed that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

European Economic Area

Unless the applicable Pricing Supplement specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further appointed under the Programme will be required to represent and agree that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Offering Circular as completed by the applicable Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
- (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
 - (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the “**Prospectus Regulation**”); and
- (b) the expression an offer includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

If the applicable Pricing Supplement specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, in relation to each Member State of the European Economic Area (each, a “**Member State**”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the applicable Pricing Supplement in relation thereto to the public in that Member State except that it may make an offer of such Notes to the public in that Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an offer of Notes to the public in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of

the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes and the expression Prospectus Regulation means Regulation (EU) 2017/1129, as amended.

United Kingdom

Unless the applicable Pricing Supplement specifies the “Prohibition of Sales to UK Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Offering Circular as completed by the applicable Pricing Supplement in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

- (a) the expression “**UK retail investor**” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (8) of Article 2 of Regulation (EU) 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (as amended, the “**EUWA**”);
 - (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the “**FSMA**”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) 600/2014 as it forms part of UK domestic law by virtue of the EUWA; or
 - (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of UK domestic law by virtue of the EUWA; and
- (b) the expression an offer includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

If the applicable Pricing Supplement specifies “Prohibition of Sales to UK Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the applicable Pricing Supplement in relation thereto to the public in the United Kingdom except that it may make an offer of such Notes to the public in the United Kingdom:

- (A) at any time to any legal entity which is a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA (the “**UK Prospectus Regulation**”);
- (B) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of UK Prospectus Regulation in the United Kingdom subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (C) any time in any other circumstances falling within section 86 of the FSMA,

provided that no such offer of Notes referred to in (A) to (C) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the UK Prospectus Regulation or supplement a prospectus pursuant section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression an offer of Notes to the public in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the “**FIEA**”) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that the Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than: (i) to an institutional investor (as defined in Section 4A of the Securities and Future Act 2001 of Singapore, as modified or amended from time to time (the “**SFA**”) pursuant to Section 274 of the SFA or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018 of Singapore.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has not offered or sold, and will not offer or sell, in Hong Kong Special Administrative Region of the People’s Republic of China (“**Hong Kong**”), by means of any document, any Notes (except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “**Securities and Futures Ordinance**”) other than (i) to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance, or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

- (b) it has not issued, or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, any advertisement, invitation or document relating to the Notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance and any rules made under that Ordinance.

NOTICE TO CAPITAL MARKET INTERMEDIARIES AND PROSPECTIVE INVESTORS PURSUANT TO PARAGRAPH 21 OF THE HONG KONG SFC CODE OF CONDUCT – IMPORTANT NOTICE TO CMIS (INCLUDING PRIVATE BANKS): This notice to CMIs (including private banks) is a summary of certain obligations the SFC Code imposes on CMIs, which require the attention and cooperation of other CMIs (including private banks). Certain CMIs may also be acting as OCs for the relevant offering and are subject to additional requirements under the SFC Code.

Prospective investors who are the directors, employees or major shareholders of the Issuer, a CMI or its group companies would be considered under the SFC Code as having an Association with the Issuer, the CMI or the relevant group company. CMIs should specifically disclose whether their investor clients have any Association when submitting orders for the Notes. In addition, private banks should take all reasonable steps to identify whether their investor clients may have any Associations with the Issuer or any CMI (including its group companies) and inform the Dealers participating in the relevant offering (“**Relevant Dealers**”) accordingly.

CMIs are informed that, unless otherwise specified in the applicable Pricing Supplement, the marketing and investor targeting strategy for each relevant offering includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals, in each case, subject to the selling restrictions set out elsewhere in this Offering Circular and the applicable Pricing Supplement.

CMIs should ensure that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e., two or more corresponding or identical orders placed via two or more CMIs). CMIs should enquire with their investor clients regarding any orders which appear unusual or irregular. CMIs should disclose the identities of all investors when submitting orders for the Notes (except for omnibus orders where underlying investor information should be provided to the OCs when submitting orders). Failure to provide underlying investor information for omnibus orders, where required to do so, may result in that order being rejected. CMIs should not place “X-orders” into the order book.

CMIs should segregate and clearly identify their own proprietary orders (and those of their group companies, including private banks as the case may be) in the order book and book messages.

CMIs (including private banks) should not offer any rebates to prospective investors or pass on any rebates provided by the Issuer. In addition, CMIs (including private banks) should not enter into arrangements which may result in prospective investors paying different prices for the Notes. CMIs are informed that a private bank rebate may be payable as stated in this Offering Circular and the applicable Pricing Supplement.

The SFC Code requires that a CMI disclose complete and accurate information in a timely manner on the status of the order book and other relevant information it receives to targeted investors for them to make an informed decision. In order to do this, those Relevant Dealers in control of the order book should consider disclosing order book updates to all CMIs.

When placing an order for the Notes, private banks should disclose, at the same time, if such order is placed other than on a “principal” basis (whereby it is deploying its own balance sheet for onward selling to investors). Private banks who do not provide such disclosure are hereby deemed to be placing their order on such a “principal” basis. Otherwise, such order may be considered to be an omnibus order pursuant to the SFC Code. private banks should be aware that placing an order on a “principal” basis may require the Relevant Dealers to apply the “proprietary orders” of the SFC Code to such order and will require the Relevant Dealers to apply the “rebates” requirements of the SFC Code (if applicable) to such order.

In relation to omnibus orders, when submitting such orders, CMIs (including private banks) are requested to provide certain underlying investor information, in respect of each order constituting the relevant omnibus order (failure to provide such information may result in that order being rejected). CMIs (including private banks) should

contact the Relevant Dealers to obtain details on what underlying investor information is required. Underlying investor information in relation to omnibus orders should consist of:

- The name of each underlying investor;
- A unique identification number for each investor;
- Whether an underlying investor has any “Associations” (as used in the SFC Code);
- Whether any underlying investor order is a “Proprietary Order” (as used in the SFC Code);
- Whether any underlying investor order is a duplicate order.

Underlying investor information in relation to omnibus order should be sent to the Managers named in the relevant Pricing Supplement.

To the extent information being disclosed by CMI and investors is personal and/or confidential in nature, CMIs (including private banks) agree and warrant: (A) to take appropriate steps to safeguard the transmission of such information to the OCs; and (B) that they have obtained the necessary consents from the underlying investors to disclose such information to the OCs. By submitting an order and providing such information to the OCs, each CMI (including private banks) further warrants that they and the underlying investors have understood and consented to the collection, disclosure, use and transfer of such information by the OCs and/or any other third parties as may be required by the SFC Code, including to the Issuer, relevant regulators and/or any other third parties as may be required by the SFC Code, for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant offering. CMIs that receive such underlying investor information are reminded that such information should be used only for submitting orders in the relevant offering. The Relevant Dealers may be asked to demonstrate compliance with their obligations under the SFC Code and may request other CMIs (including private banks) to provide evidence showing compliance with the obligations above (in particular, that the necessary consents have been obtained). In such event, other CMIs (including private banks) are required to provide the Relevant Dealers with such evidence within the timeline requested.

Philippines

THE NOTES BEING OFFERED OR SOLD HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE OF THE PHILIPPINES (THE “SRC”). ANY FUTURE OFFER OR SALE OF THE NOTES WITHIN THE PHILIPPINES IS SUBJECT TO THE REGISTRATION REQUIREMENTS UNDER THE SRC UNLESS SUCH OFFER OR SALE IS MADE UNDER CIRCUMSTANCES IN WHICH THE NOTES QUALIFY AS EXEMPT SECURITIES OR THE OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION UNDER THE SRC.

Any offer or sale of the Notes within the Philippines is subject to registration under the SRC and its implementing rules and regulations, as amended, unless such offer or sale is made under circumstances in which the Notes qualify as exempt securities or pursuant to an exempt transaction or transactions. The Notes, being securities issued by a bank registered as such under the laws of the Republic of the Philippines, constitute exempt securities within the meaning of Subsection 9.1(e) of the SRC, and as such are not required to be registered under the provisions thereof before they can be sold or offered for sale or distribution in the Philippines. Any sale or offer of the Notes, however, can only be made in accordance with the applicable regulations of the Bangko Sentral ng Pilipinas and the Philippine Securities and Exchange Commission.

Any offer or sale of the Notes within the Philippines is subject to registration under the Securities Regulation Code and its implementing rules and regulations, as amended, (“SRC”), unless such offer or sale is made under circumstances in which the Notes qualify as exempt securities or pursuant to an exempt transaction or transactions. The Notes, being securities issued by a bank registered as such under the laws of the Republic of the Philippines, constitute exempt securities within the meaning of Subsection 9.1(e) of the SRC, and as such are not required to be registered under the provisions thereof before they can be sold or offered for sale or distribution in the Philippines. Any sale or offer of the Notes, however, can only be made in accordance with the applicable regulations of the Bangko Sentral ng Pilipinas and the Philippine Securities and Exchange Commission.

People's Republic of China

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell any of the Notes in the People's Republic of China (for such purposes, not including Hong Kong, Macau SAR or Taiwan) or to residents of the People's Republic of China unless such offer or sale is made in compliance with all applicable laws and regulations of the People's Republic of China.

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and any applicable Pricing Supplement and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the Trustee and any of the other Dealers shall have any responsibility therefore.

None of the Issuer, the Trustee, or any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Dealers or any affiliate of any Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such dealer or such affiliate on behalf of the Issuer in such jurisdiction.

With regard to each Tranche of Notes issued under the Programme, the relevant Dealer will be required to comply with any additional restrictions agreed between the Issuer and the relevant Dealer and set out in the applicable Pricing Supplement.

GENERAL INFORMATION

1. **Listing of Notes:** Approval in-principle has been granted by the SGX-ST for permission to deal in and for quotation of any Notes which are agreed at the time of issue thereof to be so listed on the SGX-ST. The approval in-principle from, and the admission of any Notes to the Official List of the SGX-ST and quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Bank, the Programme or the Notes. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained herein. There is no assurance that the application to the Official List of the SGX-ST for the listing of the Notes of any Series will be approved.

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

2. **Authorisations:** The establishment of the Programme was authorised by resolutions of the Board of Directors of the Bank dated 27 February 2018. The Bank has agreed to obtain from time to time, as may be necessary, the required consents, approvals and authorisations for the update of the Programme and the issue of Notes under the Programme. The update of the Programme and the issue of Notes have been duly authorised by a resolution of the Board of Directors of the Bank dated 26 March 2024.
3. **No Material Adverse Change:** Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Bank since 31 December 2023 and there has been no material adverse change in the financial position or prospects of the Bank since 31 December 2023.
4. **Litigation:** Neither the Bank nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Bank or the Group.
5. **Bearer Notes, Receipts, Coupons and Talons:** Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend on its face: “ANY UNITED STATES PERSON (AS DEFINED IN THE INTERNATIONAL REVENUE CODE OF THE UNITED STATES) WHO HOLDS THIS OBLIGATION MAY BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(J) AND 1287(A) OF THE INTERNAL REVENUE CODE.”
6. **Clearing of the Notes:** The Notes to be issued under the Programme may be accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate ISIN and Common Code in relation to the Notes of each Tranche will be specified in the applicable Pricing Supplement. If the Notes are to be cleared through any additional or alternative Clearing System, the appropriate information will be specified in the applicable Pricing Supplement.
7. **Available Documents:** For so long as Notes may be issued pursuant to this Offering Circular, the following documents will be available, during normal business hours upon prior written notice on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the Bank’s registered office at Security Bank Centre, 6776 Ayala Avenue, Makati City, Philippines and from the specified office of the Trustee and the Principal Paying Agent at One Canada Square, London E14 5AL, United Kingdom (upon prior written notice and satisfactory proof of holdings):
 - (i) the Trust Deed (which includes the form of the Global Notes, the Notes in definitive form, the Coupons, the Receipts and the Talons);
 - (ii) the Agency Agreement;
 - (iv) the Articles of Incorporation of the Bank;

- (v) the Bank's most recent audited consolidated financial statements;
 - (vi) each applicable Pricing Supplement (save that an applicable Pricing Supplement related to an unlisted Series of Notes will only be available for inspection by a holder of any such Notes and such holder must produce evidence satisfactory to the Bank, or the Trustee as to its holding of Notes and identity); and
 - (vii) a copy of this Offering Circular together with any supplement to this Offering Circular and any other documents incorporated herein or therein referenced.
8. **Independent Auditors:** SGV & Co., independent auditors, have audited and rendered an unqualified audit report on the Bank's consolidated financial statements as of and for the years ended 31 December 2023, 2022 and 2021.
9. **Rating of the Notes:** Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will be disclosed in the applicable Pricing Supplement and will not necessarily be the same as the rating(s) assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by any assigning rating agency.

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INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Security Bank Corporation

Report on the Consolidated and Parent Company Financial Statements

Opinion

We have audited the consolidated financial statements of Security Bank Corporation and its subsidiaries (the Group) and the parent company financial statements of Security Bank Corporation (the Parent Company), which comprise the consolidated and parent company statements of financial position as at December 31, 2023 and 2022, and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2023, and notes to the consolidated and parent company financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at December 31, 2023 and 2022, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2023 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and parent company financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.



We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and parent company financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and parent company financial statements.

Applicable to the Audit of the Consolidated and Parent Company Financial Statements

Allowance for Credit Losses on Loans and Receivables

The Group's and the Parent Company's application of the expected credit loss (ECL) model in calculating the allowance for credit losses on loans and receivables is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's and the Parent Company's credit risk exposures; determining the method to estimate ECL; identifying exposures with significant deterioration in credit quality; determining assumptions to be used in the ECL model such as the counterparty credit risk rating, the expected life of the financial asset, expected recoveries from defaulted accounts both for secured and unsecured accounts and incorporating forward-looking information in calculating ECL.

Allowance for credit losses on loans and receivables as of December 31, 2023 amounted to ₱15.5 billion for the Group and the Parent Company, respectively. Provision for credit losses on loans and receivables of the Group and the Parent Company in 2023 amounted to ₱4.3 billion.

The disclosures related to the allowance for credit losses on loans and receivables are included in Note 13 to the financial statements.

Audit Response

We obtained an understanding of the board approved methodologies and models used for the Group's and the Parent Company's different credit exposures and assessed whether these considered the requirements of PFRS 9, *Financial Instruments* to reflect an unbiased and probability-weighted outcome, and to consider time value of money and the best available forward-looking information.

We (a) assessed the Group's and the Parent Company's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts, credit risk management policies and practices in place, (c) tested the Group's and the Parent Company's application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (d) assessed whether expected life is different from the contractual life by testing the maturity dates reflected in the Group's and the Parent Company's records and considering management's assumptions regarding future collections, advances, extensions, renewals and modifications; (e) tested loss given default by inspecting historical recoveries and related costs, management's strategies in disposing collaterals, write-offs and collateral valuations,



and the effects of any financial support and credit enhancements provided by any party; (f) tested exposure at default considering outstanding commitments and repayment scheme; (g) checked the reasonableness of forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Group's and the Parent Company's lending portfolios and broader industry knowledge and (h) tested the effective interest rate used in discounting the expected loss.

Further, we compared the data used in the ECL models by reconciling data from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets of debt financial assets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis.

We recalculated impairment provisions on a sample basis. We reviewed the disclosures made in the financial statements.

We involved our internal specialists in the performance of the above procedures.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A, and Annual Report for the year ended December 31, 2023, but does not include the consolidated and parent company financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A, and Annual Report for the year ended December 31, 2023 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated and parent company financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated and parent company financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated and parent company financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



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

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

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

Those charged with governance are responsible for overseeing the Group's and the Parent Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s and the Parent Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated and parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and parent company financial statements, including the disclosures, and whether the consolidated and parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Reports on the Supplementary Information Required Under Section 174 of the Manual of Regulations for Banks (MORB) and Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Section 174 of the MORB in Note 40 and Revenue Regulations 15-2010 in Note 39 to the financial statements is presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of Security Bank Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is
Juan Carlo B. Maminta.

SYCIP GORRES VELAYO & CO.



Juan Carlo B. Maminta

Partner

CPA Certificate No. 115260

Tax Identification No. 210-320-399

BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024

BIR Accreditation No. 08-001998-132-2023, September 12, 2023, valid until September 11, 2026

PTR No. 10079968, January 6, 2024, Makati City

February 28, 2024



SECURITY BANK CORPORATION AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION

	Consolidated		Parent Company	
	December 31			
	2023	2022	2023	2022
	(Amounts in Thousands)			
ASSETS				
Cash and Other Cash Items	₱13,947,069	₱13,180,172	₱13,946,944	₱13,180,047
Due from Bangko Sentral ng Pilipinas (Note 18)	45,821,155	63,011,416	45,821,155	63,011,416
Due from Other Banks (Notes 7 and 31)	12,022,007	20,097,291	11,962,662	20,033,377
Interbank Loans Receivable and Securities Purchased Under Resale				
Agreements with the Bangko Sentral ng Pilipinas (Note 36)	4,080,999	27,515,367	4,080,999	27,515,367
Financial Assets at Fair Value through Profit or Loss (Note 10)	10,886,351	7,566,572	10,886,326	7,566,547
Financial Assets at Fair Value through Other				
Comprehensive Income (Note 11)	139,861,049	112,891,493	139,816,639	112,851,702
Investment Securities at Amortized Cost (Note 12)	76,156,084	69,229,960	76,156,084	69,229,960
Loans and Receivables (Notes 13 and 31)	538,329,399	502,617,434	539,564,128	502,285,425
Investments in Subsidiaries and Joint Ventures (Note 14)	2,625,071	2,440,544	5,033,614	4,549,341
Property, Equipment, and Right-of-Use Assets (Note 15)	6,429,496	5,278,875	4,318,022	4,001,865
Investment Properties (Note 16)	4,790,602	3,204,671	4,789,827	3,203,896
Deferred Tax Assets (Note 27)	5,703,100	4,851,104	5,664,128	4,823,323
Goodwill (Note 4)	841,602	841,602	841,602	841,602
Intangible Assets (Note 17)	4,969,055	3,735,225	4,960,263	3,725,076
Other Assets (Note 17)	5,046,416	5,829,412	4,814,507	5,627,298
TOTAL ASSETS	₱871,509,455	₱842,291,138	₱872,656,900	₱842,446,242
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 18 and 31)				
Demand	₱245,268,222	₱232,536,229	₱246,851,638	₱232,667,786
Savings	118,280,754	117,513,439	118,400,566	119,200,233
Time	232,566,397	231,020,114	233,114,194	231,243,894
Long-term Negotiable Certificates of Deposit	10,416,014	24,766,786	10,416,014	24,766,786
	606,531,387	605,836,568	608,782,412	607,878,699
Financial Liabilities at Fair Value through				
Profit or Loss (Note 19)	2,968,706	1,752,818	2,968,706	1,752,818
Bills Payable and Securities Sold Under				
Repurchase Agreements (Note 20)	51,339,105	40,920,403	51,273,271	40,802,069
Acceptances Payable	2,782,734	1,085,264	2,782,734	1,085,264
Margin Deposits and Cash Letters of Credit	57,568	63,946	57,568	63,946
Manager's and Certified Checks Outstanding	5,208,887	4,103,071	5,208,887	4,103,071
Income Tax Payable (Note 27)	802,086	198,340	775,827	189,872
Notes and Bonds Payable (Note 21)	48,963,521	47,111,693	48,963,521	47,111,693
Accrued Interest, Taxes and Other Expenses (Note 22)	4,844,732	4,153,526	4,723,141	4,113,551
Other Liabilities (Note 23)	11,880,389	11,217,428	10,988,376	9,495,061
TOTAL LIABILITIES	735,379,115	716,443,057	736,524,443	716,596,044
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Capital stock (Note 25)	7,635,389	7,635,389	7,635,389	7,635,389
Additional paid-in capital (Note 25)	38,524,323	38,524,323	38,551,028	38,551,028
Surplus (Note 25)	95,555,339	89,004,617	95,538,904	88,988,182
Net unrealized gain (loss) on financial assets at fair value through other comprehensive income (Note 11)	(5,534,401)	(9,238,853)	(5,542,554)	(9,247,006)
Net unrealized gain on subsidiaries' financial assets at fair value through other comprehensive income (Notes 11 and 14)	20,632	16,619	20,632	16,619
Cumulative foreign currency translation	(70,942)	(94,014)	(70,942)	(94,014)
TOTAL EQUITY	136,130,340	125,848,081	136,132,457	125,850,198
TOTAL LIABILITIES AND EQUITY	₱871,509,455	₱842,291,138	₱872,656,900	₱842,446,242

See accompanying Notes to Financial Statements.



SECURITY BANK CORPORATION AND SUBSIDIARIES

STATEMENTS OF INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2023	2022	2021	2023	2022	2021
(Amounts in Thousands, Except Earnings per Share)						
INTEREST INCOME ON						
Loans and receivables (Notes 13 and 31)	₱38,140,064	₱29,686,399	₱28,061,190	₱38,233,106	₱29,730,457	₱28,102,761
Financial assets at fair value through other comprehensive income and investment securities at amortized cost (Note 8)	8,555,245	5,848,229	3,246,691	8,555,245	5,848,229	3,246,691
Financial assets at fair value through profit or loss (Note 8)	1,303,820	759,588	662,867	1,303,820	759,588	662,802
Interbank loans receivable and securities purchased under resale agreements with the Bangko Sentral ng Pilipinas	993,763	373,989	320,457	993,763	373,989	320,457
Deposits with banks and others (Note 7)	102,195	86,766	612,274	99,181	84,221	609,957
	49,095,087	36,754,971	32,903,479	49,185,115	36,796,484	32,942,668
INTEREST EXPENSE ON						
Deposit liabilities (Notes 18 and 31)	8,195,106	5,043,112	2,940,798	8,260,343	5,062,401	2,947,809
Subordinated note, bills payable, securities sold under repurchase agreements, notes payable, and other borrowings (Note 20)	5,473,221	1,987,727	2,073,650	5,462,681	1,980,841	2,066,825
Derivative instruments (Note 19)	612,119	406,421	348,849	612,119	406,421	348,849
Lease liabilities (Note 15)	80,990	71,508	83,974	80,990	71,831	83,974
	14,361,436	7,508,768	5,447,271	14,416,133	7,521,494	5,447,457
NET INTEREST INCOME	34,733,651	29,246,203	27,456,208	34,768,982	29,274,990	27,495,211
Service charges, fees and commissions (Note 29)	6,067,992	5,284,975	4,530,855	5,510,062	4,718,963	4,028,404
Profit from assets sold/exchanged (Notes 15, 16 and 17)	1,211,848	1,496,888	1,390,922	1,211,843	1,496,510	1,390,922
Rent (Notes 16, 31 and 32)	708,404	631,118	570,156	39,520	74,703	42,743
Trading and securities gain (loss) - net (Note 9)	288,555	(25,871)	1,091,728	288,234	(25,933)	1,090,082
Share in net income of subsidiaries and joint ventures (Note 14)	179,565	147,364	81,346	480,472	266,214	177,963
Foreign exchange gain (loss) - net (Note 6)	(2,092,750)	966,654	170,261	(2,092,766)	965,578	169,521
Gain on disposal/redemption of investment securities at amortized cost (Note 12)	–	4,004	66,028	–	4,004	66,028
Miscellaneous (Note 30)	1,861,458	1,883,870	1,453,069	1,795,526	1,806,088	1,402,718
TOTAL OPERATING INCOME	42,958,723	39,635,205	36,810,573	42,001,873	38,581,117	35,863,592
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 28 and 31)	8,912,812	7,538,940	6,922,432	8,803,147	7,440,488	6,826,843
Provision for credit losses (Note 13)	4,666,194	2,634,324	5,280,537	4,663,189	2,635,597	5,285,966
Taxes and licenses	3,195,408	3,059,983	3,301,844	3,154,014	3,024,346	3,278,277
Depreciation and amortization (Note 15)	2,150,173	2,114,519	2,173,089	1,694,720	1,588,759	1,665,270
Amortization of software costs (Note 17)	675,041	551,180	362,322	674,567	550,599	361,734
Occupancy costs (Notes 16, 31 and 30)	388,520	370,126	375,433	383,003	364,600	373,842
Provision for (recovery of) impairment losses (Note 16)	134,680	207,060	(15,153)	134,680	207,060	(14,653)
Miscellaneous (Notes 27 and 30)	10,776,982	9,273,934	8,148,489	10,499,405	8,952,550	7,861,672
TOTAL OPERATING EXPENSES	30,899,810	25,750,066	26,548,993	30,006,725	24,763,999	25,638,951
INCOME BEFORE INCOME TAX	12,058,913	13,885,139	10,261,580	11,995,148	13,817,118	10,224,641
PROVISION FOR INCOME TAX (Note 27)	2,953,475	3,329,540	3,344,610	2,889,710	3,256,110	3,286,138
NET INCOME	₱9,105,438	₱10,555,599	₱6,916,970	₱9,105,438	₱10,561,008	₱6,938,503
ATTRIBUTABLE TO:						
Equity holders of the Parent Company (Notes 25 and 35)	₱9,105,438	₱10,555,599	₱6,916,970			
NET INCOME	₱9,105,438	₱10,555,599	₱6,916,970			
Basic/Diluted Earnings Per Share (Note 35)	₱12.08	₱14.00	₱9.17			

See accompanying Notes to Financial Statements.



SECURITY BANK CORPORATION AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2023	2022	2021	2023	2022	2021
	(Amounts in Thousands)					
NET INCOME FOR THE YEAR	₱9,105,438	₱10,555,599	₱6,916,970	₱9,105,438	₱10,561,008	₱6,938,503
OTHER COMPREHENSIVE INCOME (LOSS)						
<i>Other Comprehensive Income (Loss) to be Reclassified to Profit or Loss in Subsequent Periods:</i>						
Cumulative translation adjustments	23,072	(186,410)	761,825	23,072	(186,410)	761,825
Change in net unrealized gain (loss) on debt instruments at fair value through other comprehensive income (Note 11)	3,619,508	(7,238,472)	(4,091,585)	3,619,508	(7,238,472)	(4,091,585)
	3,642,580	(7,424,882)	(3,329,760)	3,642,580	(7,424,882)	(3,329,760)
<i>Other Comprehensive Income (Loss) not to be Reclassified to Profit or Loss in Subsequent Periods:</i>						
Remeasurement gains (losses) on defined benefit plans (Notes 14, 25 and 28)	(289,840)	(138,577)	413,246	(289,840)	(138,577)	413,246
Revaluation gains (losses) on equity instruments at fair value through other comprehensive income (Note 11)	88,957	51,297	27,906	88,957	51,297	26,001
	(200,883)	(87,280)	441,152	(200,883)	(87,280)	439,247
OTHER COMPREHENSIVE GAIN (LOSS) FOR THE YEAR	3,441,697	(7,512,162)	(2,888,608)	3,441,697	(7,512,162)	(2,890,513)
TOTAL COMPREHENSIVE INCOME	₱12,547,135	₱3,043,437	₱4,028,362	₱12,547,135	₱3,048,846	₱4,047,990
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	₱12,547,135	₱3,043,437	₱4,028,362	₱12,547,135	₱3,043,437	₱4,028,362
	₱12,547,135	₱3,043,437	₱4,028,362	₱12,547,135	₱3,043,437	₱4,028,362

See accompanying Notes to Financial Statements.



SECURITY BANK CORPORATION AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY

Consolidated							
Years Ended December 31, 2023, 2022 and 2021							
Equity Attributable to Equity Holders of the Parent Company							
	Capital Stock (Note 25)	Additional Paid-in Capital (Note 25)	Surplus (Note 25)	Net Unrealized Gain on Financial Assets at Fair Value through Other Comprehensive Income (Loss) (Note 11)	Net Unrealized Gain on Subsidiaries' Financial Assets at Fair Value through Other Comprehensive Income (Note 11)	Cumulative Foreign Currency Translation	Total Equity
Balance at January 1, 2023	₱7,635,389	₱38,524,323	₱89,004,617	(₱9,238,853)	₱16,619	(₱94,014)	₱125,848,081
Total comprehensive income for the year	-	-	8,815,598	3,704,452	4,013	23,072	12,547,135
Declaration of cash dividends (Note 25)	-	-	(2,264,876)	-	-	-	(2,264,876)
Balance at December 31, 2023	₱7,635,389	₱38,524,323	₱95,555,339	(₱5,534,401)	₱20,632	(₱70,942)	₱136,130,340
Balance at January 1, 2022	₱7,635,389	₱38,524,323	₱80,852,471	(₱2,043,212)	₱8,153	₱92,396	₱125,069,520
Total comprehensive income for the year	-	-	10,417,022	(7,195,641)	8,466	(186,410)	3,043,437
Declaration of cash dividends (Note 25)	-	-	(2,264,876)	-	-	-	(2,264,876)
Balance at December 31, 2022	₱7,635,389	₱38,524,323	₱89,004,617	(₱9,238,853)	₱16,619	(₱94,014)	₱125,848,081
Balance at January 1, 2021	₱7,635,389	₱38,524,323	₱75,787,131	₱2,022,546	₱6,074	(₱669,429)	₱123,306,034
Total comprehensive income for the year	-	-	7,330,216	(4,065,758)	2,079	761,825	4,028,362
Declaration of cash dividends (Note 25)	-	-	(2,264,876)	-	-	-	(2,264,876)
Balance at December 31, 2021	₱7,635,389	₱38,524,323	₱80,852,471	(₱2,043,212)	₱8,153	₱92,396	₱125,069,520



Parent Company
Years Ended December 31, 2023, 2022 and 2021

	Capital Stock (Note 25)	Additional Paid-in Capital (Note 25)	Surplus (Note 25)	Net Unrealized Gain on Financial Assets at Fair Value through Other Comprehensive Income (Loss) (Note 11)	Net Unrealized Gain on Subsidiaries' Financial Assets at Fair Value through Other Comprehensive Income (Note 11)	Cumulative Foreign Currency Translation	Total Equity
Balance at January 1, 2023	₱7,635,389	₱38,551,028	₱88,988,182	(₱9,247,006)	₱16,619	(₱94,014)	₱125,850,198
Total comprehensive income for the year	-	-	8,815,598	3,704,452	4,013	23,072	12,547,135
Declaration of cash dividends	-	-	(2,264,876)	-	-	-	(2,264,876)
Balance at December 31, 2023	₱7,635,389	₱38,551,028	₱95,538,904	(₱5,542,554)	₱20,632	(₱70,942)	₱136,132,457
Balance at January 1, 2022,	₱7,635,389	₱38,551,028	₱80,830,627	(₱2,051,365)	₱8,153	₱92,396	₱125,066,228
Total comprehensive income for the year	-	-	10,422,431	(7,195,641)	8,466	(186,410)	3,048,846
Declaration of cash dividends	-	-	(2,264,876)	-	-	-	(2,264,876)
Balance at December 31, 2022	₱7,635,389	₱38,551,028	₱88,988,182	(₱9,247,006)	₱16,619	(₱94,014)	₱125,850,198
Balance at January 1, 2021	₱7,635,389	₱38,551,028	₱75,743,754	₱2,016,298	₱6,074	(₱669,429)	₱123,283,114
Total comprehensive income for the year	-	-	7,351,749	(4,067,663)	2,079	761,825	4,047,990
Declaration of cash dividends	-	-	(2,264,876)	-	-	-	(2,264,876)
Balance at December 31, 2021	₱7,635,389	₱38,551,028	₱80,830,627	(₱2,051,365)	₱8,153	₱92,396	₱125,066,228

See accompanying Notes to Financial Statements.



SECURITY BANK CORPORATION AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

	Consolidated			Parent Company		
	Years Ended December 31					
	2023	2022	2021	2023	2022	2021
	(Amounts in Thousands)					
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	₱12,058,913	₱13,885,139	₱10,261,580	₱11,995,148	₱13,817,118	₱10,224,641
Adjustments for:						
Provision for credit losses (Note 13)	4,666,194	2,634,324	5,280,537	4,663,189	2,635,597	5,285,966
Depreciation and amortization (Note 15)	2,150,173	2,114,519	2,173,089	1,694,720	1,588,759	1,665,270
Profit from assets sold/exchanged (Notes 15, 16 and 17)	(1,211,848)	(1,496,888)	(1,390,922)	(1,211,843)	(1,496,510)	(1,390,922)
Amortization of premium on financial assets at fair value through other comprehensive income and investment securities at amortized cost (Notes 11 and 12)	557,747	639,083	884,568	557,747	639,083	884,568
Amortization of software costs (Note 17)	675,041	551,180	362,322	674,567	550,599	361,734
Provision for (recovery of) impairment losses (Notes 15,16 and 17)	134,680	207,060	(15,153)	134,680	207,060	(14,653)
Share in net income of subsidiaries and joint ventures (Note 14)	(179,565)	(147,364)	(81,346)	(480,472)	(266,214)	(177,963)
Amortization of transaction costs on LTNCD, notes and bonds payable (Notes 18 and 21)	281,433	220,522	138,597	281,433	220,522	138,597
Gain on disposal/redemption of investment securities at amortized cost (Note 12)	-	(4,004)	(66,028)	-	(4,004)	(66,028)
Loss (gain) on disposal of financial assets at FVTOCI (Note 9)	132,350	-	(1,233,901)	132,350	-	(1,233,901)
Changes in operating assets and liabilities:						
Decrease (increase) in the amounts of:						
Loans and receivables (Note 13)	(41,542,654)	(58,508,199)	(16,105,533)	(43,106,425)	(58,215,856)	(15,874,741)
Financial assets at FVTPL (Note 10)	(3,319,779)	(644,116)	4,088,638	(3,319,779)	(644,115)	4,050,685
Interbank loans receivable and SPURA	(1,998,614)	(3,997,851)	1,045,041	(1,998,614)	(3,997,851)	1,045,041
Due from other banks	(279)	159	3,358	(241)	212	993
Other assets	(635,519)	(3,379,268)	(226,047)	(610,482)	(2,472,284)	(184,222)
Increase (decrease) in the amounts of:						
Deposit liabilities (Note 18)	15,045,591	82,209,064	83,140,303	15,254,485	82,367,590	83,475,580
Financial liabilities at FVTPL (Note 19)	1,215,888	467,432	(75,901)	1,215,888	467,432	(83,889)
Accrued interest, taxes and other expenses (Note 22)	691,206	1,257,015	(849,314)	609,590	1,281,626	(880,631)
Acceptances payable	1,697,470	83,759	563,557	1,697,470	83,759	563,557
Manager's and certified checks outstanding	1,105,816	(118,301)	358,467	1,105,816	(118,301)	358,467
Margin deposits and cash letters of credit	(6,378)	23,764	(21,588)	(6,378)	23,764	(21,588)
Other liabilities (Note 23)	1,394,572	1,772,112	(2,554,290)	2,217,871	446,615	(2,721,075)
Net cash generated from (used in) operations	(7,087,562)	37,769,141	85,680,034	(8,499,280)	37,114,601	85,405,486
Income taxes paid	(3,474,324)	(2,438,731)	(1,288,379)	(3,414,471)	(2,357,771)	(1,258,589)
Net cash provided by (used in) operating activities	(10,561,886)	35,330,410	84,391,655	(11,913,751)	34,756,830	84,146,897

(Forward)



	Consolidated			Parent Company		
	Years Ended December 31					
	2023	2022	2021	2023	2022	2021
	(Amounts in Thousands)					
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of:						
Financial assets at FVTOCI (Note 11)	(P57,299,480)	(P42,625,610)	(P128,202,460)	(P57,299,480)	(P42,625,610)	(P128,202,460)
Investment securities at amortized cost (Note 12)	(12,600,658)	(46,566,445)	(4,056,173)	(12,600,658)	(46,566,445)	(4,056,173)
Property and equipment (Note 15)	(2,471,040)	(1,285,087)	(1,902,489)	(1,132,039)	(556,392)	(1,346,186)
Software costs (Note 17)	(1,926,760)	(1,098,153)	(861,651)	(1,926,659)	(1,098,126)	(874,871)
Investment in joint ventures (Note 14)	–	(750,000)	(750,000)	–	(750,000)	(750,000)
Proceeds from:						
Disposals or maturities of financial assets at FVTOCI (Note 11)	32,869,002	3,909,601	114,116,186	32,869,002	3,909,601	114,116,186
Disposals of investment properties and chattel mortgages	961,502	1,318,057	2,515,051	961,502	1,318,058	2,515,051
Disposals, redemptions or maturities of investment securities at amortized cost	4,552,693	2,057,500	6,075,674	4,552,693	2,057,500	6,075,674
Disposals of property and equipment	343,414	133,226	241,151	299,260	66,599	164,145
Dividends received from subsidiaries (Note 14)	–	–	–	–	–	63,375
Net cash used in investing activities	(35,571,327)	(84,906,911)	(12,824,711)	(34,276,379)	(84,244,815)	(12,295,259)
CASH FLOWS FROM FINANCING ACTIVITIES						
Settlements of:						
Bills payable and securities sold under repurchase agreements (Note 36)	(724,538,355)	(457,098,389)	(25,188,717)	(724,485,855)	(457,098,389)	(25,005,384)
Notes and bonds payable (Note 36)	(17,056,500)	(13,500,000)	(18,000,000)	(17,056,500)	(13,500,000)	(18,000,000)
LTNCD	(14,381,000)	–	–	(14,381,000)	–	–
Proceeds from:						
Bills payable and securities sold under repurchase agreements (Note 36)	736,658,375	494,565,466	7,034,386	736,658,375	494,543,799	7,004,386
Issuance of notes and bonds payable (Notes 21 and 36)	18,352,354	30,359,962	–	18,352,354	30,359,962	–
Cash dividends paid (Note 25)	(2,273,063)	(2,266,963)	(2,262,765)	(2,273,063)	(2,265,882)	(2,262,765)
Payments of lease liabilities (Note 15)	(748,610)	(688,571)	(731,547)	(744,244)	(688,571)	(731,547)
Net cash provided by (used in) financing activities	(3,986,799)	51,371,505	(39,148,643)	(3,929,933)	51,350,919	(38,995,310)
Effect of exchange rate differences	186,996	(3,013,042)	272,998	191,616	(3,018,938)	283,439
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(49,933,016)	(1,218,038)	32,691,299	(49,928,447)	(1,156,004)	33,139,767
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	13,180,172	11,083,299	13,310,838	13,180,047	11,083,174	13,310,713
Due from Bangko Sentral ng Pilipinas	63,011,416	67,391,502	47,391,378	63,011,416	67,391,502	47,391,378
Due from other banks	20,097,291	13,126,213	10,034,045	20,033,377	13,000,265	9,459,629
Interbank loans receivable and securities purchased under resale agreements with the Bangko Sentral ng Pilipinas	27,515,367	29,424,643	17,598,097	27,515,367	29,424,643	17,598,097
	123,804,246	121,025,657	88,334,358	123,740,207	120,899,584	87,759,817

(Forward)



	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
(Amounts in Thousands)						
CASH AND CASH EQUIVALENTS						
AT END OF YEAR						
Cash and other cash items	₱13,947,069	₱13,180,172	₱11,083,299	₱13,946,944	₱13,180,047	₱11,083,174
Due from Bangko Sentral ng Pilipinas	45,821,155	63,011,416	67,391,502	45,821,155	63,011,416	67,391,502
Due from other banks	12,022,007	20,097,291	13,126,213	11,962,662	20,033,377	13,000,265
Interbank loans receivable and securities purchased under resale agreements with the Bangko Sentral ng Pilipinas	2,080,999	23,518,740	29,424,643	2,080,999	23,518,740	29,424,643
	₱73,871,230	₱119,807,619	₱121,025,657	₱73,811,760	₱119,743,580	₱120,899,584
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest received	₱48,562,000	₱36,867,320	₱33,830,932	₱48,648,260	₱36,397,593	₱29,404,454
Interest paid	14,026,707	6,261,589	5,354,030	14,085,829	6,271,507	5,353,559
Dividends received	3,395	1,612	3,344	1,612	1,612	3,344

See accompanying Notes to Financial Statements.



SECURITY BANK CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Security Bank Corporation (the Parent Company) is a domestic corporation registered with the Securities and Exchange Commission (SEC) in 1951 and was listed in the Philippine Stock Exchange (PSE) in 1995. The Parent Company's head office is located at Security Bank Centre, 6776 Ayala Avenue, Makati City.

The Parent Company was incorporated on May 8, 1951 and started its operations as a commercial bank on June 18, 1951. On May 30, 2000, the Board of Directors (BOD) of the Parent Company approved its Amended Articles of Incorporation to extend the corporate term of the Parent Company, which would have expired on May 8, 2001, for another 50 years. On February 19, 2001, the SEC approved such amendment.

Republic Act No. 1132, otherwise known as the "Revised Corporate Code of the Philippines" or "RCC", took effect on February 23, 2019. The corporate term of a corporation with certificate of incorporation issued prior to the effectivity of the RCC and which continue to exist, shall be deemed perpetual upon the effectivity of the RCC, without any action on the part of the corporation. As of February 23, 2019, the Bank is deemed to have selected a perpetual term.

In 1994, the Parent Company was approved by the Bangko Sentral ng Pilipinas (BSP) to operate as a universal bank, allowing it to expand its financial services and revenue sources.

The Parent Company provides expanded commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services. In addition, the Parent Company is licensed to engage in financial derivatives to service the requirements of its customers and as a means of reducing and managing the Parent Company's foreign exchange and interest rate exposures.

The Parent Company and its subsidiaries and joint ventures (collectively referred to as the "Group"), which are all incorporated in the Philippines, are engaged in the following businesses:

Subsidiaries and Joint Ventures	Principal place of business	Line of Business	Effective Percentage of Ownership	
			December 31, 2023	December 31, 2022
SB Capital Investment Corporation (SBCIC)	18 th floor, Security Bank Centre, 6776 Ayala Avenue, Makati City	Investment house	100.00	100.00
SB Equities, Inc. (SBEI)	18 th floor, Security Bank Centre, 6776 Ayala Avenue, Makati City	Stock brokerage	100.00	100.00
SB International Services, Inc. (SISI) ***	17 th floor, Security Bank Centre, 6776 Ayala Avenue, Makati City	Marketing services	100.00	100.00
SB Rental Corporation (SBRC)	5 th floor, Security Bank Centre, 6776 Ayala Avenue, Makati City	Rental / leasing	100.00	100.00
SB Cards Corporation (SBCC)****	Diners Club Center, 114 Valero St. Salcedo Village, Makati City	Credit card operations	100.00	100.00
Security Finance and Leasing Inc. (formerly Landlink Property Investments (SPV-AMC), Inc. (LPI))*****	Security Bank Centre, 6776 Ayala Avenue, Makati City	Financing	100.00	100.00
SB Forex, Incorporated**	Security Bank Centre, 6776 Ayala Avenue, Makati City	Foreign exchange services	100.00	100.00
SBM Leasing, Inc. (SBML)*	5 th floor, Security Bank Centre, 6776 Ayala Avenue, Makati City	Financing	60.00	60.00
SB Finance, Inc. (SBFI) (formerly SB Finance Company, Inc.)*	Keyland Amaiz Building, 849 Antonio Arnaiz Avenue, Legaspi Village, Makati City 1229	Financing	49.96	49.96

* Joint Ventures

** Corporate term ended February 28, 2022, awaiting clearance from Bureau of Internal Revenue

*** Corporate term ended December 31, 2021, awaiting clearance from Bureau of Internal Revenue

**** With BOD approval to shorten corporate life on December 31, 2024

***** With BOD approval in 2022 to shorten corporate life on December 31, 2023. Approval to shorten life was revoked by the BOD last December 12, 2023



The Parent Company is the ultimate parent company of the Group.

2. Summary of Material Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements include the financial statements of the Parent Company and its subsidiaries.

The accompanying financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at Fair Value through Profit or Loss (FVTPL), financial assets at Fair Value through Other Comprehensive Income (FVTOCI) and derivative assets and liabilities designated as hedges that have been measured at fair value. The carrying values of recognized loans and receivables and investment securities at amortized cost that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. The financial statements are presented in Philippine Peso and all values are rounded to the nearest thousand peso (₱000) except when otherwise indicated.

The financial statements of the Parent Company include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is the Philippine peso and United States dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso, which is the Parent Company's presentation currency. The financial statements individually prepared for these units are combined after eliminating inter-unit accounts.

The consolidated financial statements provide comparative information in respect of the previous period.

Each entity in the Group determines its own functional currency and the items included in the financial statements of each entity are measured using that functional currency. The functional currency of each of the Parent Company's subsidiaries is the Philippine Peso.

Statement of Compliance

The accompanying financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation

The consolidated financial statements of the Group are prepared for the same reporting period as the subsidiaries, using consistent accounting policies.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.



When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of 'Other comprehensive income (OCI)' are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies used in line with those used by the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interests;
- derecognizes the cumulative translation differences recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in profit or loss; and
- reclassifies the Parent Company's share of components' gains (losses) previously recognized in OCI to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Non-controlling Interest

Non-controlling interest represents the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company.

Non-controlling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from equity attributable to the Parent Company. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance. Acquisitions of non-controlling interests that do not result in a loss of control are accounted for as equity transactions, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognized as an equity transaction and attributed to the owners of the Parent Company.



Changes in Accounting Policies

Except for these new and amended standards which were adopted as of January 1, 2023, the accounting policies adopted are consistent with those of previous financial year.

The adoption of the following amendments did not have a significant impact on the consolidated financial statements of the Group:

- Amendments to PAS 1 and Philippine Financial Reporting Standard (PFRS) Practice Statement 2, *Disclosure of Accounting Policies*
- Amendments to PAS 8, *Definition of Accounting Estimates*
- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- Amendments to PAS 12, *International Tax Reform – Pillar Two Model Rules*

Fair Value Measurement

For measurement and disclosure purposes, the Group determines the fair value of an asset or liability at initial measurement or at each statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If the asset or liability measured at fair value has a bid and ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value, regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.



- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External appraisers are involved for valuation of significant non-financial assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy (see Note 6).

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Regular way purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market, except for derivatives, are recognized on the settlement date. Settlement date is the date on which the transaction is settled by delivery of the assets that are the subject of the agreement. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Group, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Group. Deposits, amounts due to banks and customers, loans and receivables and spot transactions are recognized when cash is received by the Group or advanced to the borrowers.

Derivatives are recognized on trade date - the date that the Group becomes a party to the contractual provisions of the instrument. Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

Initial recognition of financial instruments

All financial assets and financial liabilities are recognized initially at fair value plus any directly attributable cost of acquisition or issue, except in the case of financial assets and financial liabilities at FVTPL.

'Day 1' difference

Where the transaction price is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group immediately recognizes the difference between the transaction price and the fair value of the instrument (a 'Day 1' difference) in the statement of income unless it qualifies for recognition as some other type of asset or liability. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.



Classification and Measurement of Financial Assets

For purposes of classifying financial assets, an instrument is an ‘equity instrument’ if it is a non-derivative and meets the definition of ‘equity’ from the point of view of the issuer (under PAS 32, *Financial Instruments: Presentation*), except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial instruments are ‘debt instruments’.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment

The business model assessment is based on reasonably expected scenarios without taking ‘worst case’ or ‘stress case’ scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Solely Payments of Principal and Interest (SPPI) test

As a second step of its classification process the Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Financial assets at amortized cost

Debt financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Group's business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.



Debt financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method less any impairment in value, with the interest calculated recognized as 'Interest income' in the statement of income. The Group classified 'Cash and other cash items (COCI)', 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and Securities purchased under resale agreements (SPURA) with the BSP', 'Investment securities at amortized cost', 'Loans and receivables', and cash collateral deposits and security deposits (included under 'Other assets') as financial assets at amortized cost.

The Group may irrevocably elect at initial recognition to classify a debt financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the debt financial asset been measured at amortized cost.

Financial assets at FVTPL

Debt financial assets that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are measured at fair value through profit or loss.

Equity investments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at FVTOCI at initial recognition.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

The Group's financial assets at FVTPL include government securities, private bonds and equity securities held for trading purposes, debt and hybrid instruments that do not meet the amortized cost criteria, and equity investments not designated as at FVTOCI.

As of December 31, 2023 and 2022, the Group has not designated any debt instrument that meets the amortized cost criteria as at FVTPL.

Financial assets at FVTPL are carried at fair value and gains and losses on these instruments are recognized as 'Trading and securities gain (loss) - net' in the statement of income. Interest earned on these investments is reported in the statement of income under 'Interest income' while dividend income is reported in the statement of income under 'Miscellaneous income' when the right of payment has been established. Quoted market prices, when available, are used to determine the fair value of these financial instruments. If a financial asset at FVTPL has a bid and ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value. If quoted market prices are not available, their fair values are estimated based on market observable inputs. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques.

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the Bankers Association of the Philippines (BAP) closing rate at the statement of financial position date. The foreign exchange component forms part of its fair value gain or loss. For financial assets classified as at FVTPL, the foreign exchange component is recognized in the statement of income. For foreign currency-denominated debt instruments classified as at amortized cost, the foreign exchange gains and losses are determined based on the amortized cost of the asset and are recognized in the statement of income.



Equity instruments at FVTOCI

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading.

Equity investments as at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in 'Net unrealized gain on financial assets at FVTOCI' in the statement of financial position. Where the asset is disposed of, the cumulative gain or loss previously recognized in 'Net unrealized gain on financial assets at FVTOCI' is not reclassified to profit or loss, but is reclassified to 'Surplus'. Equity instruments at FVTOCI are not subject to an impairment assessment.

As of December 31, 2023 and 2022, the Group has designated certain equity instruments that are not held for trading as at FVTOCI on initial application of PFRS 9 (see Note 11).

Dividends earned on holding these equity instruments are recognized in the statement of income when the Group's right to receive the dividends is established in accordance with PFRS 9, unless the dividends clearly represent recovery of a part of the cost of the investment. Dividends earned are recognized under 'Miscellaneous income' in the statement of income.

Debt instruments at FVTOCI

The Group applies this category under PFRS 9 of debt instruments measured at FVTOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

Debt instruments at FVTOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

Derivative instruments

The Parent Company uses derivative instruments such as cross-currency swaps, interest rate swaps, foreign currency forward contracts, options on foreign currencies and bonds and interest rate futures. These derivatives are entered into as a service to customers and as a means for reducing or managing the Parent Company's respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative instruments are initially recorded at fair value and carried as financial assets at FVTPL when their fair value is positive and as financial liabilities at FVTPL when their fair value is negative.

Any gains or losses arising from changes in fair value of derivative instruments (except for foreign currency forwards) are recognized as 'Trading and securities gain (loss) - net'. For foreign currency forwards, changes in fair value are recognized in 'Foreign exchange gain - net' in the statement of income.



Interest income is recognized in the statement of income if the “receive leg” is higher than the “pay leg” of interest-earning derivatives. Interest expense is recognized in the statement of income if the “pay leg” is higher than the “receive leg” of interest-bearing derivatives.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of PFRS 9 (e.g., financial liabilities and non-financial host contracts) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

The Group assesses the existence of an embedded derivative on the date it first becomes a party to the contract, and performs re-assessment only where there is a change to the contract that significantly modifies the contractual cash flows.

As of December 31, 2023 and 2022, the Parent Company’s hybrid financial instruments are classified as at FVTPL (see Note 10).

Reclassification of financial assets

The Group can reclassify financial assets if the objective of its business model for managing those financial assets changes. The Group is required to reclassify the following financial assets:

- from amortized cost to FVTPL if the objective of the business model changes so that the amortized cost criteria are no longer met; and
- from FVTPL to amortized cost if the objective of the business model changes so that the amortized cost criteria start to be met and the instrument’s contractual cash flows meet the amortized cost criteria; and
- from FVTOCI to amortized cost if the objective of the business model changes so that the fair value criteria are no longer met but the amortized cost criteria are still met and the instrument’s contractual cash flows meet the amortized cost criteria.

Reclassification of financial assets designated as at FVTPL or equity financial assets at FVTOCI at initial recognition is not permitted.

A change in the objective of the Group's business model must be effected before the reclassification date. The reclassification date is the beginning of the next reporting period following the change in the business model.

Impairment of Financial Assets

The Group and the Parent Company record the allowance for expected credit losses for all loans and receivables and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, all referred to as ‘financial instruments’. Equity instruments are not subject to impairment under PFRS 9.

Expected Credit Loss (ECL) represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that result from all possible default events over the expected life of a financial instrument.



Staging assessment

A three-stage approach for impairment of financial assets is used, based on whether there has been a significant deterioration in the credit risk of a financial asset. These three stages then determine the amount of impairment to be recognized.

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all financial instruments which have not experienced a SICR since initial recognition or is considered of low credit risk as of the reporting date. The criteria for determining whether an account should be assessed under Stage 1 are as follows: (i) current including past due up within the cure period of up to 30 days; or (ii) unclassified. For the wholesale loans, Stage 1 criteria (i) are considered; while for the retail loans, Stage 1 criteria (i), and (ii) are used. The Group recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all financial instruments which have experienced a SICR as of reporting date compared to initial recognition. A SICR is generally deemed present in accounts with: (i) 31 days up to 90 days past due; (ii) especially mentioned; (iii) substandard; or (iv) small accounts with Borrower Risk Rating of 10. For wholesale loans, Stage 2 criteria (i), (ii), (iii) and (iv) are considered; while for the retail loans, only Stage 2 criteria (i) and (iii) are used. The Group recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Stage 3 is comprised of all financial assets that have objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The Group's criteria for Stage 3 accounts are generally aligned with the definition of "default" which is explained in the next paragraph. The Group recognizes a lifetime ECL for Stage 3 financial instruments.

Definition of "default" and "restored"

The Group classifies loans, investments, receivables, or any financial asset as in default when it is credit impaired, becomes past due on its contractual payments for more than 90 days, considered non-performing, under litigation or is classified as doubtful or loss. As part of a qualitative assessment of whether a customer is in default, the Group considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e., restored) if there is sufficient evidence to support that full collection is probable and payments are received for at least six months.

Credit risk at initial recognition

The Group uses internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment can be quantitative or qualitative and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

For accounts originated before the transition date, an approximation of the initial probability of default (PD) at origination was utilized. Average PD per portfolio was used as approximated initial PD at origination. Average of the Point-in-Time PDs was used since most of the accounts were booked in the same year.

Modification

In certain circumstances, the Group modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include,



but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges.

Significant increase in credit risk

The assessment of whether there has been a significant increase in credit risk is based on an increase in the probability of a default occurring since initial recognition. The SICR criteria vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses.

Or, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower except as provided by law. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Group shall revert to recognizing a 12-month ECL.

ECL parameters and methodologies

ECL is a function of the PD, loss given default (LGD) and exposure at default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD is an estimate of the likelihood of default over a 12-month horizon for Stage 1 or lifetime horizon for Stages 2 and 3. The PD for each individual instrument is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Group segments its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It makes use of defaulted accounts that have either been identified as cured, restructured, or liquidated. The Group segmented its LGD based on homogenous risk characteristics and calculated the corresponding averages based on security.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

Forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as gross domestic product (GDP) growth, exchange rate, interest rate, inflation rate and other economic indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.



The key forward-looking economic variables used in each of the economic scenarios for the ECL calculations are GDP changes in inventory, current prices, Business outlook index on the macroeconomy – Real Estate, Unemployment Rate, Industry NPL of Universal Banks and Parent Company’s Wholesale Banking Segment (WBS) Loan Portfolio NPL Rate.

Debt instruments measured at FVTOCI

The ECLs for debt instruments measured at FVTOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets are measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the assets.

Consumer loans and credit card receivables

The Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group’s expectations of the customer behavior, its likelihood of default and the Group’s future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Group’s expectations, the period over which the Group calculates ECLs for these products is based on the remaining term.

Restructured loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered as past due but remains adversely classified until the account has established sufficient track record of payment. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur.

Financial Liabilities

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

Financial liabilities held for trading include:

- derivative liabilities that are not accounted for as hedging instruments;
- obligations to deliver financial assets borrowed by a short seller (i.e., an entity that sells financial assets it has borrowed and does not yet own);
- financial liabilities that are incurred with an intention to repurchase them in the near term (e.g., a quoted debt instrument that the issuer may buy back in the near term depending on changes in its fair value); and
- financial liabilities that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking.

Management may designate a financial liability as at FVTPL upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; or



- The liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial liabilities at FVTPL are recorded in the statements of financial position at fair value. Changes in fair value of financial instruments are recorded in 'Trading and securities gain (loss) - net' in the statement of income. Interests incurred are recorded in 'Interest expense' in the statement of income.

Bills payable and other borrowed funds

Bills payable and other borrowed funds are issued financial instruments or their components, which are not financial liabilities at FVTPL. They are classified as such when the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, bills payable and similar financial liabilities not qualified as and not recognized as financial liabilities at FVTPL, are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset, but has transferred control over the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

The Group considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, the Group considers the following factors, among others:

- Change in currency
- Introduction of an equity feature
- Change in counterparty



- If the modification results in the asset no longer considered “solely payment for principal and interest”

The Group also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the Group considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial asset.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for ECL measurement purposes, unless the new financial asset is deemed to be originated as credit impaired.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Financial Guarantees

In the ordinary course of business, the Parent Company provides financial guarantees. Financial guarantees are initially recognized in the financial statements at fair value, and the initial fair value is amortized over the life of the financial guarantee in accordance with PFRS 15. The financial guarantee is subsequently carried at the higher of the amount of loss allowance determined in accordance with the expected credit loss model and the amount initially recognized, less when appropriate, the cumulative amount of income recognized in accordance with PFRS 15.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the statements of financial position, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the statement of financial position.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents consist of ‘COCI’, ‘Due from BSP’, ‘Due from other banks’, and ‘Interbank loans receivable and SPURA with the BSP’ that are convertible to known amounts of cash, with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value. ‘Due from BSP’ includes the



statutory reserves required by the BSP which the Parent Company considers as cash equivalents wherein drawings can be made to meet cash requirements.

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statements of financial position as 'Securities sold under repurchase agreements (SSURA)', reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statements of financial position. The corresponding cash paid, including accrued interest, is recognized in the statements of financial position as SPURA, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Foreign Currency Translation

Transactions and balances

For financial reporting purposes, the foreign currency-denominated assets and liabilities in the RBU are translated into their equivalents in Philippine pesos based on the Bankers Association of the Philippines (BAP) closing rate, prevailing at the statement of financial position date and foreign currency-denominated income and expenses, at the prevailing exchange rate at the date of transaction. Foreign exchange differences arising from revaluation and translation of foreign-currency denominated assets and liabilities are credited to or charged against operations in the year in which the rates change.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

FCDU

As at the reporting date, the assets and liabilities of the FCDU of the Parent Company are translated into the Parent Company's presentation currency (the Philippine Peso) at BAP closing rate prevailing at the statements of financial position date, and its income and expenses are translated at BAP weighted average rate (BAPWAR) for the year. Exchange differences arising on translation to the presentation currency are taken to the statement of comprehensive income under 'Cumulative translation adjustment'. Upon disposal of the FCDU or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

Investments in Subsidiaries and Joint Ventures

Investment in subsidiaries

Subsidiaries pertain to all entities over which the Group has control.

Interest in joint ventures

A joint venture is a type of joint arrangement where the multiple parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Group's investment in joint ventures represent its 60.0% interest in SBML and 49.96% interest in SBFI.



The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

The Group and the Parent Company's investment in its subsidiaries and joint ventures are accounted for using the equity method. Under the equity method, the investment in a subsidiary and/or joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group and the Parent Company's share of net assets of the subsidiary and/or joint venture since the acquisition date. Goodwill relating to the subsidiary and/or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of income reflects the Group and the Parent Company's share of the results of operations of the subsidiary and/or joint venture. Any change in OCI of the investee is presented as part of the Group and the Parent Company's OCI. In addition, when there has been a change recognized directly in the equity of the subsidiary and/or joint venture, the Group and the Parent Company recognizes its share of any changes, when applicable, in the statements of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Group's share of profit or loss of a subsidiary and joint venture is shown on the face of the statement of income under 'Share in net income of subsidiaries and joint ventures' and represents profit or loss after tax and non-controlling interests in the subsidiaries and joint ventures.

The financial statements of the subsidiaries and joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group and the Parent Company determine whether it is necessary to recognize an impairment loss on its investment in subsidiaries and joint venture. At each statement of financial position date, the Group and the Parent Company determines whether there is objective evidence that the investment in subsidiaries and joint venture is impaired. If there is such evidence, the Group and the Parent Company calculate the amount of impairment as the difference between the recoverable amount of the subsidiaries and joint venture and their carrying value, then recognizes the loss in the statement of income.

Upon loss of joint control over the subsidiary or joint venture, the Group and the Parent Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in the statement of income.

Transfer of business from subsidiary to the Parent

The Parent Company accounts for the transfer as if it has effectively received a distribution that it accounts for at the fair value of the business received. Any excess in the fair value of the net assets received over the consideration is recognized in the statement of income. This reflects the assets acquired and liabilities assumed at their fair value, including goodwill, which will be measured as at the date of the transfer. These transfers have no effect on the consolidated financial statements.

Property and Equipment

Land is stated at cost less any impairment in value. Depreciable properties including building and improvements, furniture, fixtures and equipment, transportation equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization, and any impairment in value.



The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance are charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts, and any resulting gain or loss is reflected as income or loss in the statement of income.

Depreciation is computed using the straight-line method based on the estimated useful life (EUL) of the depreciable assets. The range of EUL of property and equipment follows:

	Years
Building and improvements	20
Furniture, fixtures and equipment	3-5
Transportation equipment	5
Leasehold improvements	5-15

Leasehold improvements are amortized over the applicable EUL of the improvements or the terms of the related leases, whichever is shorter.

The EUL and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Non-financial Assets).

Right-of-use Assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term, as follows:

	Years
Buildings and improvements	2 to 15
Transportation equipment	2 to 3



Investment Properties

Investment properties are measured initially at cost including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Any gain or loss on exchange is recognized in the statement of income. Foreclosed properties are classified under 'Investment properties' upon:

- entry of judgment in case of judicial foreclosure;
- execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
- notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

Real properties acquired

Depreciable real properties acquired are carried at cost, which is the fair value at acquisition date, less accumulated depreciation and any impairment in value. Land is carried at cost less any impairment in value. Transaction costs, which include non-refundable capital gains tax and documentary stamp tax, incurred in connection with foreclosure are capitalized as part of the cost of the real properties acquired.

The Group applies the cost model in accounting for investment properties. Depreciation is computed on a straight-line basis over the EUL of 10 years. The EUL and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of real properties acquired.

The carrying values of the real properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Non-financial Assets).

Investments in real estate

Investments in real estate consist of investments in land and building. Investments in land are carried at cost less impairment in value. Building is carried at cost less accumulated depreciation and impairment in value. All costs that are directly attributable to the acquisition and development of property are capitalized, including borrowing costs incurred to finance the property development. Depreciation is computed on a straight-line basis over 10-15 years.

Investment properties are derecognized when they have either been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on retirement or disposal of investment properties are recognized in the statement of income in the year of retirement or disposal as 'Profit from assets sold/exchanged'.

Other Properties Acquired

Other properties acquired include chattel mortgage properties acquired in settlement of loan receivables. The Group applies the cost model in accounting for other properties acquired. Under the cost model, these assets are carried at cost, which is the fair value at acquisition date, less accumulated depreciation and any impairment in value.

Depreciation is computed on a straight-line basis over the EUL of 3 years. The EUL and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.



The carrying values of the other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Non-financial Assets).

An item of other properties acquired is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income as 'Profit from assets sold/exchanged' in the year the asset is derecognized.

Intangible Assets

Intangible assets consist of software costs, exchange trading right and branch licenses. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Software costs

Costs related to software purchased by the Group for use in operations are amortized on a straight-line basis over 3 to 10 years. The amortization period and the amortization method for software cost are reviewed periodically to be consistent with the changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset. The amortization expense on software costs is recognized in the statement of income.

Exchange trading right

The exchange trading right of SBEI is an intangible asset regarded as having an indefinite useful life as there is no foreseeable limit to the period over which this asset is expected to generate cash inflows. It is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation was made to the value of the Philippine Stock Exchange shares) less impairment in value. SBEI does not intend to sell the exchange trading right in the near future.

Branch licenses

Branch licenses have been acquired and granted by the BSP, and capitalized on the basis of the cost incurred to acquire and bring to use in operation. Branch licenses are determined to have indefinite useful lives and are tested for impairment annually.

The carrying values of intangible assets with definite useful lives are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Non-financial Assets).

Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in 'Miscellaneous expense' in the statement of income.



When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and is within the scope of PFRS 9 is measured at fair value with changes in fair value either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of PFRS 9, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of fair value of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the Group assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of assets acquired over the aggregate consideration transferred, then the gain is recognized in statement of income.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's Cash Generating Unit (CGU) or a group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with PFRS 8.

Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstance is measured based on the relative values of the disposed operation and the portion of the CGU retained.

When an entity reorganizes its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill shall be reallocated to the units affected. This reallocation shall be performed using a relative value approach similar to that used when an entity disposes of an operation within a cash-generating unit, unless the entity can demonstrate that some other method better reflects the goodwill associated with the reorganized units.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the statement of income.



Impairment of Non-financial Assets

Non-financial assets include property, equipment and right-of-use assets, investment properties, investment in subsidiaries and a joint venture, software costs, goodwill, exchange trading right, branch licenses and other properties acquired.

Property, equipment and right-of-use assets, investments in subsidiaries and joint ventures, investment properties, and other properties acquired

The Group assesses at each statements of financial position date whether there is any indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less cost to sell and its value in use (VIU). Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Any impairment loss is charged to operations in the year in which it arises.

An assessment is made at each statement of financial position date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Intangible assets - branch licenses, exchange trading right and software costs

Intangible assets with indefinite useful lives are tested for impairment annually at each statement of financial position date either individually or at the cash generating unit level, as appropriate or when circumstances indicate that the intangible asset may be impaired. Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Goodwill

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.



Income Taxes

Current income tax

Current income tax assets and liabilities for the current periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statements of financial position date.

Deferred tax

Deferred tax is provided on all temporary differences at the statements of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income; and
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and carry-forward of unused MCIT and unused NOLCO can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.



Revenue Recognition

Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. The five-step model is as follows:

- a. Identify the contract(s) with a customer
- b. Identify the performance obligations in the contract
- c. Determine the transaction price
- d. Allocate the transaction price to the performance obligation in the contract
- e. Recognize revenue when (or as) the entity satisfies a performance obligation

The standard requires the Group to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The following specific recognition criteria must also be met before revenue is recognized:

Revenues within the scope of PFRS 15:

Service charges and penalties

Service charges and penalties are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectibility.

Fees and commissions

a. Fee income earned from services that are provided over time

Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees are recognized as earned over the term of the credit lines granted to each borrower. However, loan commitment fees for loans that are likely to be drawn are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan.

Fees received in connection with the issuance of credit cards are deferred and amortized on a straight-line basis over the period the cardholder is entitled to use the card.

b. Bancassurance fees

Non-refundable access fees are recognized on a straight-line basis over the term of the period of the provision of the access.

Refundable access fees and milestone fees are recognized in reference to the stage of achievement of the milestones.

c. Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as underwriting fees, corporate finance fees, and brokerage fees for the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as for the other participants.



Discounts earned and awards revenue on credit cards

Discounts received are taken up as income upon receipt from member establishments of charges arising from credit availments by the Group's cardholders and other credit card companies' cardholders when the Group is acting as an acquirer. These discounts are computed based on certain agreed rates and are deducted from the amounts remitted to the member establishments.

Award credits under customer loyalty programmes are accounted for as a separately identifiable component of the transaction in which they are granted. The fair value of the consideration received in respect of the initial sale is allocated based on the estimated stand-alone selling prices. The amount allocated to the loyalty programmes is deferred under 'Other Liabilities' in the statement of financial position and recognized as revenue when the award credits are redeemed. Income generated from customer loyalty programmes is recognized in 'Service charges, fees and commissions' in the statement of income.

Other income

Income from the sale of services is recognized upon completion of service. Income from sale of properties is recognized upon completion of earnings process and the collectibility of the sales price is reasonably assured under 'Profit from assets sold/exchanged' in the statement of income.

Revenues outside the scope of PFRS 15:

Interest income

Interest on interest-bearing financial assets at FVTPL and Held-for-Trading (HFT) investments are recognized based on the contractual rate. Interest on financial instruments measured at amortized cost and FVTOCI are recognized based on the effective interest method of accounting.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period.

The EIR is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the EIR, the Group estimates cash flows from the financial instrument (e.g., prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the EIR, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized thereafter using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Trading and securities gain (loss) - net

Results arising from trading activities include all gains and losses from changes in fair value of financial assets and financial liabilities at FVTPL, gains and losses from disposal of investment securities at amortized cost and any ineffectiveness recognized on accounting hedges. Costs of investment securities sold are determined using the weighted average cost method.

Dividend income

Dividend income is recognized when the Group's right to receive the payment is established.

Rental income

Rental income arising on leased premises is accounted for on a straight-line basis over the lease terms on ongoing leases.



Expense Recognition

Expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized when incurred.

Operating expenses

Operating expenses constitute costs which arise in the normal business operation and are recognized when incurred.

Taxes and licenses

This includes all other taxes, local and national, including gross receipts taxes (GRT), documentary stamp taxes, real estate taxes, licenses and permit fees and are recognized when incurred.

Pension Cost

The Parent Company and certain subsidiaries have a non-contributory defined benefit plan that defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The Group's retirement cost is determined using the projected unit credit method. The retirement cost is generally funded through payments to a trustee-administered fund, determined by periodic actuarial calculations.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as interest income or expense in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise and are closed to surplus at the end of the year. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both



the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest (included in 'Interest expense on lease liabilities') and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 'Interest expense' in the statement of income.

Contingent liabilities are not recognized but are disclosed in the financial statements except if the possibility of an outflow of assets embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Debt Issuance Costs

Issuance, underwriting and other related costs incurred in connection with the issuance of debt instruments are deferred and amortized over the terms of the instruments using the effective interest



method. Unamortized debt issuance costs are included in the carrying amount of the debt instrument in the statements of financial position.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing the net income for the year attributable to equity holders of the Parent Company after deducting dividends declared to preferred shareholders by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any.

Diluted EPS is calculated by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of any dilutive potential common shares.

Equity

‘Capital stock’ is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to ‘Additional paid-in capital’. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to ‘Additional paid-in capital’. If the additional paid-in capital is not sufficient, the excess is charged against ‘Surplus’.

When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

‘Surplus’ represents accumulated earnings of the Group less dividends declared.

Surplus reserves pertain to the 10.0% of the net profits realized by the Parent Company from its trust business is appropriated to surplus reserve in compliance with existing BSP regulations. The yearly appropriation is required until the surplus reserve for trust business equals 20.0% of the Parent Company’s regulatory capital.

Dividends on Common Shares and Preferred Shares

Cash dividends on common shares and preferred shares are recognized as a liability and deducted from equity when approved by the BOD of the Parent Company, while stock dividends are deducted from equity when approved by the BOD and shareholders of the Parent Company.

Segment Reporting

The Group’s operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. If the Group changes the structure of its internal organization in a manner that causes the composition of its reportable segments to change, the corresponding information for earlier periods, including interim periods, shall be restated unless the information is not available and the cost to develop it would be excessive. Financial information on business segments is presented in Note 34.

Fiduciary Activities

Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Parent Company acts in a fiduciary capacity such as nominee, trustee or agent.

Events after the Reporting Period

Any post-year-end event that provides additional information about the Group’s position at the statement of financial position date (adjusting event) is reflected in the financial statements. Any



post-year-end events that are not adjusting events are disclosed when material to the financial statements.

Standards Issued but Not Yet Effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. The listing consists of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have a significant impact on the consolidated financial statements.

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

The amendments clarify:

- That only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current.
- That classification is unaffected by the likelihood that an entity will exercise its deferral right.
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively.

- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*

The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use retained.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. Earlier adoption is permitted, and that fact must be disclosed.

- Amendments to PAS 7 and PFRS 7, *Disclosures: Supplier Finance Arrangements*

The amendments specify disclosure requirements to enhance the current requirements, which are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024. Earlier adoption is permitted and that fact must be disclosed.

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of



entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

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

PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

- Amendments to PAS 21, *Lack of Exchangeability*

The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking.

The amendments are effective for annual reporting periods beginning on or after January 1, 2025. Earlier adoption is permitted and that fact must be disclosed. When applying the amendments, an entity cannot restate comparative information.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRSs requires the Group to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosures of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

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.



Judgments

a. *Leases*

Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization of the leased asset).

Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary's stand-alone credit rating, or to reflect the terms and conditions of the lease).

b. *Business model test*

The Group manages its financial assets based on business models that maintain adequate level of financial assets to match expected cash outflows and maintain adequate level of high quality liquid assets while maintaining a strategic portfolio of financial assets for trading activities.

The Group's business model can be to hold financial assets to collect contractual cash flows even when sales of certain financial assets occur. PFRS 9, however, emphasizes that if more than an infrequent number of sales are made out of a portfolio of financial assets carried at amortized cost and those sales are more than insignificant in value (either individually or in aggregate), the entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows.

In making this judgment, the Group considers the circumstances surrounding the disposal as well as the requirements of BSP Circular No. 1011, *Guidelines on the adoption of PFRS 9*. For changes in business models, the Group considers whether the internal and external changes that triggered the change in business model are significant to the Group and are demonstrable to third parties.

In June 2022, the Parent Company decided to re-establish the HTC Government Securities business. In making the assessment, the Bank considered the impact of the COVID-19 pandemic and the Ukraine-Russia war to its ability to deploy its funds as envisioned in 2020 affecting its overall strategy and risk appetite. The objective of the business model is to hold a core portfolio of government securities, which is funded primarily from the Parent Company's capital, core



deposits, and other long-term liabilities (see Note 12). The Parent Company also imposed limits based on the long-term funding sources for the reestablished HTC government securities business model to ensure that there will be no sale that is more than infrequent and more than insignificant from the HTC government securities portfolio.

c. Cash flow characteristics test

In determining the classification of financial assets under PFRS 9, the Group assesses whether the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest 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.

d. Contingencies

The Group is currently involved in various legal proceedings, claims and assessments. The estimate of the probable costs for the resolution of these claims and assessments has been developed in consultation with outside counsel handling the Group's defense in these matters and is based on an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on the financial statements. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 33).

e. Functional currency

PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Group considers the following:

- the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

f. Consolidation and joint venture arrangements

The Group has determined that it controls and consolidates the subsidiaries in which it owns majority of the shares.

The Group has a Joint Venture Agreement (JVA) with Marubeni Corporation (Marubeni) where the Parent Company owns 60.0% of SBML. Under the JVA, the parties agreed to use SBML as a joint venture entity and requires the unanimous consent of both the Parent Company and Marubeni for any significant decisions made in the ordinary course of business of SBML.

The Group also has a JVA with The Bank of Ayudhya Public Company Ltd. (Krungsri) where the Parent Company owns 49.96% of SBFI. Under the JVA, the parties agreed to use SBFI as a joint venture entity and requires the unanimous consent of both the Parent Company and Krungsri for any significant decisions made in the ordinary course of business of SBFI.

The Group has (after considering the structure and form of the arrangement, the terms agreed by the parties in the contractual arrangements and the Group's rights and obligations arising from the



arrangements) classified its interest in SBML and SBFI under PFRS 11. Based on the foregoing, the Group accounts for its investment in SBML and SBFI using the equity method.

Estimates

a. Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined using valuation techniques such as discounted cash flow analysis and standard option pricing models for some derivative instruments. Where valuation techniques are used to determine fair values, they are reviewed by qualified personnel independent of the area that created them. All financial models are reviewed before they are used and to the extent practicable, financial models use only observable data, however, areas such as credit risk (both own and counterparty) volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Note 6 for the fair value measurements of financial instruments.

b. Impairment of financial assets

The measurement of impairment losses under PFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- Internal credit grading model, which assigns PDs to the individual grades
- Criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime CL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as GDP changes in inventory, current prices, Business outlook index on the macroeconomy – Real Estate, Unemployment Rate, Industry NPL of Universal Banks and Parent Company's WBS Loan Portfolio NPL Rate
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models
- Segmentation of the portfolio, where the appropriate model or ECL approach is used

The ECL models and all ECL-related policies are assessed and approved by the Risk Oversight Committee and the Board of Directors.

Model calibration or the process of improving the accuracy of ECL model to reflect the as-built status and actual operating conditions shall be performed at least annually. These will require the following approvals:

- ECL Steering Committee consisting of the Business Segment Heads, Chief Financial Officer and Chief Risk Officer, for changes in the model estimates
- Risk Oversight Committee for changes in model assumptions or inputs with material increase or decrease on portfolio-level ECL of at least 10% or ₱200.0 million.



In 2023 and 2022, changes in the model estimates and/or assumptions as a result of calibration were accordingly assessed and approved by the ECL Steering Committee and/or Risk Oversight Committee.

In 2023, probability weights used in ECL calculations were revised from 60 – Base, 30 – Bad and 10 – Good to 50 – Base, 40 – Bad and 10 – Good. This is due to the Bank’s increased confidence in the base assumptions given removal of uncertainties like COVID 19 pandemic and better predictability of macroeconomic variables. Assumption was approved by the ECL Steering Committee and noted by ROC.

The Group identified specific accounts that would need to be assessed separately for ECL purposes.

For 2022, the accounts were determined by subjecting the Parent Company’s loan portfolio within the Wholesale Banking Segment to a sensitivity analysis using the interest rate increase experienced in the prior year. The sensitivity of each account’s Net Cash After Operations (NCAO)/ Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) to the interest rate increase in 2022 was assessed and accounts falling below the threshold and parameters set are subjected to an additional overlay.

Additional ECL was calculated for Remedial accounts that has a higher probability of being downgraded to a Doubtful classification based on the sensitivity analysis. For these accounts identified, the Parent Company used the historical migration rate of Remedial accounts from internal class II to internal class III to determine the PD. For the LGD, the average LGD of Stage 2 and Stage 3 accounts is applied.

The ECL models and all ECL-related policies are assessed and approved by the Risk Oversight Committee and the Board of Directors.

The gross carrying amounts of financial assets and the related allowance for credit losses are disclosed in Notes 7, 11, 12, 13, and 17.

c. Recognition of deferred tax assets

The Group reviews the carrying amounts of deferred tax assets at each statements of financial position date and reduces it to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized. Significant judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies. The recognized net deferred tax assets and unrecognized deferred tax assets of the Group and the Parent Company are disclosed in Note 27.

d. Impairment of non-financial assets

Investments in subsidiaries and joint ventures and other non-financial assets

The Parent Company and SBCIC assess impairment on its investments in subsidiaries and joint ventures whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Among others, the factors that the Parent Company and SBCIC consider important which could trigger an impairment review on its investments include the following:

- deteriorating or poor financial condition;
- recurring net losses; and



- significant changes with an adverse effect on the subsidiary or associate have taken place during the period, or will take place in the near future, the technological, market, economic, or legal environment in which the subsidiary operates.

The Group assesses impairment on other non-financial assets (i.e., ‘Property and equipment’, ‘Investment properties’, ‘Software costs’, and ‘Other properties acquired’) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired nonfinancial assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Group recognizes an impairment loss whenever the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is computed based on the higher of the asset’s fair value less cost to sell or VIU. Recoverable amounts are estimated for individual nonfinancial assets or, if it is not possible, for the CGU to which the nonfinancial asset belongs. In 2022 and 2021, the Group considered the impact of the COVID-19 pandemic in determining the VIU.

The Group is required to make estimates and assumptions that can materially affect the carrying amount of the asset being assessed.

As of December 31, 2023 and 2022, the carrying values of the Parent Company’s investments in subsidiaries and joint ventures are disclosed in Note 14.

The carrying values of the Group’s and the Parent Company’s non-financial assets (other than ‘Goodwill’) follow:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Property, equipment and right-of-use assets (Note 15)	₱6,429,496	₱5,278,875	₱4,318,022	₱4,001,865
Investment properties (Note 16)	4,790,602	3,204,671	4,789,827	3,203,896
Branch licenses (Note 17)	1,445,000	1,445,000	1,445,000	1,445,000
Software costs (Note 17)	3,516,055	2,281,225	3,515,263	2,280,076
Other properties acquired (Note 17)	872,153	899,386	872,153	899,386
Exchange trading right (Note 17)	8,000	9,000	–	–

The provision for (recovery of) impairment losses on non-financial assets of the Group and the Parent Company are disclosed in Note 16.

Intangible assets with indefinite useful life

Intangible assets with indefinite useful lives such as exchange trading right and branch licenses are tested for impairment annually at statement of financial position date either individually or at the cash generating unit level, as appropriate. Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs) to which the intangible assets relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income.



The recoverable amount of the CGU has been determined based on a VIU calculation using cash flow projections from financial budgets approved by senior management covering a three-year period. Key assumptions in VIU calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows.

Goodwill

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. The carrying value of goodwill is disclosed in Note 4.

e. Estimated useful lives of property, equipment and right-of-use assets, investment properties, software costs and other properties acquired

The Group reviews on an annual basis the estimated useful lives of property, equipment and right-of-use assets, depreciable investment properties, software costs and other properties acquired based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property and equipment, depreciable investment properties, software costs and other properties acquired would decrease their respective balances and increase the recorded depreciation and amortization expense.

The carrying values of depreciable property and equipment, investment properties, software costs and other properties acquired follow:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Property, equipment and right-of-use assets (Note 15)*	₱5,986,459	₱4,865,211	₱3,874,984	₱3,588,201
Investment properties (Note 16)*	2,715,404	1,600,406	2,715,404	1,600,408
Software costs (Note 17)	3,516,055	2,281,225	3,515,263	2,280,076
Other properties acquired (Note 17)	872,152	899,386	872,152	899,386

*Excludes land

f. Pension benefits

The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The present value of the defined benefit obligation of the Group and the Parent Company are disclosed in Note 28.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.



The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates.

Further details about the assumptions used are provided in Note 28.

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period. As of December 31, 2023 and 2022, accrual for other employee benefit obligations and expenses included under 'Accrued other expenses payable' (included under 'Accrued interest, taxes and other expenses' in the statements of financial position) amounted to ₱1.8 billion and ₱1.8 billion, respectively, in 2023 and 2022 for the Group and the Parent Company (see Note 22).

4. Goodwill

Impairment Testing of Goodwill

In 2012, goodwill acquired through business combination has been allocated to Security Bank Savings (SBS) as the CGU. In 2015, the entire goodwill was reallocated to the Branch Banking Group (BBG) as a result of the integration of SBS to the Parent Company. As of December 31, 2023 and 2022, the carrying amount of goodwill amounted to ₱841.6 million and there was no impairment loss recognized in 2023 and 2022.

The recoverable amount of the CGU has been determined based on a VIU calculation using cash flow projections from financial budgets approved by senior management covering a three-year period. Key assumptions in VIU calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows. Future cash flows and growth rates were based on experiences and strategies developed and prospects. The discount rate used for the computation of the net present value is the cost of equity and was determined by reference to a comparable entity. In 2023 and 2022, the pre-tax discount rate applied to cash flow projections is 13.01%, while the growth rate used to extrapolate cash flows beyond the three-year period is 9.33% and 8.67%, respectively.

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

5. Financial Risk Management Objectives and Policies

Introduction

Integral to the Parent Company's value creation process is risk management. It therefore operates an integrated risk management system to address the risks it faces in its banking activities, including credit, market, liquidity, operational and sustainability risks. Exposures across these risk areas are regularly identified, measured, controlled, monitored and reported to Senior Management, Risk Oversight Committee (ROC) and the BOD.

Risk Management Structure

Board of Directors

The BOD directs the Parent Company's over-all risk management strategy. The risk management processes of the subsidiaries are the separate responsibilities of their respective BOD. The BOD performs an oversight function on the Parent Company's implementation of its risk policies through various committees that it has created as follows



Executive Committee

The Executive Committee may act on specific matters within the competence of the Board of Directors and as delegated to it by the Board of Directors from time to time.

Risk Oversight Committee

The ROC reviews, approves, and ensures effective implementation of the risk management framework. It approves risk-related policies, oversees limits to discretionary authority that the BOD delegates to management, and evaluates the magnitude, distribution and direction of risks in the Parent Company.

Corporate Governance Committee

The Corporate Governance Committee oversees the compliance function and assists the BOD in fulfilling its corporate governance responsibilities across a broad range of areas including sustainability. It is responsible for ensuring the BOD's effectiveness and, due observance of corporate governance principles and guidelines.

Audit Committee

The Audit Committee through the Internal Audit Division provides the independent assessment of the overall effectiveness of, and compliance with the Parent Company's governance, internal controls, risk management functions.

Senior Credit Committee

The Senior Credit Committee is the highest credit decision-making body in the Bank and works closely with the ROC in managing the overall credit risk of the Bank. The committee reviews and approves proposals and facilities related to credit, except for Directors, Officers, Stockholders and Related Interests (DOSRI) and material related party transactions (RPT) accounts.

Restructuring Committee

The Restructuring Committee approves remedial and/or recovery strategies of the Bank for identified problem loan accounts.

Related Party Transaction Committee

The Related Party Transaction Committee ensures that transactions with related parties are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders.

Nominations and Remunerations Committee

The Nominations and Remunerations Committee has oversight over Board nominees and other appointments requiring Board approval, as well as their remuneration commensurate with corporate and individual performance.

Trust Committee

The Trust Committee ensures that funds and properties held in trust or in any fiduciary capacity shall be administered with the skill, care, prudence and diligence necessary under the circumstances then prevailing that a prudent person, acting in like capacity and familiar matters, would exercise in the conduct of an enterprise of like character and with similar aims.

Transformation and Technology Committee

The Transformation and Technology Committee shall oversee the development and implementation of strategy, transformation, innovation and information technology initiatives of the Bank and its subsidiaries and affiliates, in support of the Group's vision, mission and strategic objectives



The Parent Company's organizational structure includes the Risk Management Group (RMG), which is responsible for driving the following risk management processes of the Group:

- Independent assessment, measurement, monitoring and reporting of the Group's risk-taking activities; and
- Formulation, review and recommendation of risk-related policies and control structures.

Nevertheless, the Group's risk management framework adopts the basic tenet that risks are owned by the respective business and process owners. Everyone in the organization is therefore expected to proactively manage the risks inherent to their respective area by complying with the Group's risk management framework, policies and standards.

The Parent Company and its subsidiaries manage their respective financial risks separately. The subsidiaries have their own risk management procedures but are structured similar to that of the Parent Company. To a certain extent, the respective risk management programs and objectives are the same across the Group.

Risk Measurement and Reporting

The Parent Company's risks are measured using various methods compliant with Basel III standards. The Parent Company also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Expected credit loss models are developed and maintained by the Risk Management Group. These models are used as a tool for the Parent Company's risk management process and management reporting systems. The applicable results of the calculations are used as the basis for the assessment of expected credit losses.

Monitoring and controlling risks are primarily performed based on limits established by the Parent Company. These limits reflect the business strategy and market environment of the Parent Company as well as the level of risk that the Parent Company is willing to take. In addition, the Parent Company monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

For all levels throughout the Parent Company, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. These reports include aggregate credit exposure, credit metric forecasts, limit exceptions, Value-at-Risk (VaR), liquidity ratios and risk profile changes.

Credit Risk Management prepares detailed reporting of risks per credit classification, payment status, industry, loan tenor, and other measures of portfolio quality. Senior management assesses the appropriateness of allowance for credit losses on a yearly basis or as the need arises. The ROC and the heads of the concerned business units receive a comprehensive portfolio quality review monthly which is designed to provide all the necessary information to assess and conclude on the credit risks of the Parent Company.

In the case of market risk, a monthly report is presented to the ROC on the utilization of market limits and liquidity, plus any other risk developments.

Information compiled from businesses is examined and processed in order to analyze, control and identify risks early. This information is assessed and deliberated by the heads of each business unit, the ROC and the BOD.



Risk Mitigation

The Parent Company uses various risk mitigation practices to manage different types of risks, such as credit risk, market risk, operational risk, and liquidity risk. Generally, these include establishing and reviewing risk limits and policies by considering the risk appetite, strategy and objectives of the Bank, as well as the regulatory requirements and industry best practices; implementing and enforcing these limits by using effective monitoring and reporting systems, and by escalating and resolving any limit breaches or policy violations; and conducting regular and ad hoc stress testing.

Excessive Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Parent Company's performance to developments affecting a particular industry or geographic location.

The Parent Company manages concentration risks by setting exposure limits to borrowing groups, industries, countries, and where appropriate, on products and facilities. These limits are reviewed as the need arises but at least annually.

In order to avoid excessive concentrations of risk, the Parent Company's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of risks are controlled and managed accordingly.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to perform its obligations during the life of the transaction. This includes risk of non-payment by borrowers or issuers, failed settlement of transactions and default on contracts.

The Parent Company drives credit risk management fundamentally via its Credit Policy Manual (CPM), the provisions of which are regularly reviewed and updated to reflect changing regulations and risk conditions. The CPM defines the principles and parameters governing credit activities, ensuring that each account's creditworthiness is thoroughly understood and regularly reviewed. Lending units assume overall responsibility for the management of credit exposures while middle and back office functions are clearly defined to provide independent checks and balance to credit risk-taking activities. A system of approving and signing limits ensures adequate senior management involvement for bigger and more complex transactions. Large exposures of the Group are kept under rigorous review as these are subjected to stress testing and scenario analysis to assess the impact of changes in market conditions or key risk factors (examples are economic cycles, interest rate, liquidity conditions or other market movements) on its profile and earnings.

The risk management structure of policies, accountabilities and responsibilities, controls and senior management involvement is similarly in place for non-performing assets.

Derivative financial instruments

Credit risk in respect of derivative financial instruments is limited to those with positive fair values, which are included under 'Financial assets at FVTPL'. As a result, the maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts in the statements of financial position.

Credit-related commitments

The Parent Company makes available to its customers, guarantees which may require the Parent Company to make payments on their behalf and enter into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit)



commit the Parent Company to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Parent Company to similar risks to loans and these are mitigated by the same control processes and policies. This also includes the unutilized credit limit of the Group's credit card customers.

Maximum exposure to credit risk of on-balance sheet credit risk exposures with collaterals held or other credit enhancements

The tables below show the maximum exposure to on-balance sheet credit risk exposures of the Group and the Parent Company after taking into account any collaterals held or other credit enhancements (amounts in millions):

	Consolidated				
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral	Associated ECL*
December 31, 2023					
Credit risk exposure relating to on-balance sheet assets					
SPURA with BSP	P-	P-	P-	P-	P-
Receivable from customers - net (exclusive of SBEL):					
Corporate lending	375,984	92,844	300,199	75,785	9,575
Consumer lending	41,349	40,676	20,981	20,368	1,660
Small business lending	550	440	180	370	35
Residential mortgages	82,518	86,621	31,071	51,447	858
Credit card receivables – individual	30,070	-	30,070	-	3,074
Receivable from customers - net (SBEL):					
Corporate	254	6,108	10	244	-
Individual	84	1,110	3	81	-
Other receivables	7,520	191	7,366	154	315
	P538,329	P227,990	P389,880	P148,449	P15,517

	Consolidated				
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral	Associated ECL*
December 31, 2022					
Credit risk exposure relating to on-balance sheet assets					
SPURA with BSP	P23,519	P23,519	P-	P23,519	P-
Receivable from customers - net (exclusive of SBEL):					
Corporate lending	375,187	85,208	305,678	69,509	11,955
Consumer lending	28,442	35,704	10,884	17,558	1,299
Small business lending	670	548	251	419	48
Residential mortgages	69,852	80,231	22,004	47,848	1,000
Credit card receivables - individual	21,291	-	21,291	-	1,798
Receivable from customers - net (SBEL):					
Corporate	752	14,792	73	679	-
Individual	278	2,203	16	262	1
Other receivables	6,145	177	6,000	145	377
	P526,136	P242,382	P366,197	P159,939	P16,478

*Amount deducted from gross amount to reflect carrying amount



	Parent Company				
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral	Associated ECL*
December 31, 2023					
Credit risk exposure relating to on-balance sheet assets					
SPURA with BSP	₱-	₱-	₱-	₱-	₱-
Receivable from customers - net (exclusive of SBEI):					
Corporate lending	377,893	92,844	302,108	75,785	9,575
Consumer lending	41,347	40,674	20,980	20,367	1,660
Small business lending	550	440	180	370	35
Residential mortgages	82,518	86,621	31,071	51,447	858
Credit card receivables - individual	30,070	-	30,070	-	3,074
Other receivables	7,186	128	7,059	127	288
	₱539,564	₱220,707	₱391,468	₱148,096	₱15,490

	Parent Company				
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral	Associated ECL*
December 31, 2022					
Credit risk exposure relating to on-balance sheet assets					
SPURA with BSP	₱23,519	₱23,519	₱-	₱23,519	₱-
Receivable from customers - net (exclusive of SBEI):					
Corporate lending	376,388	85,208	306,879	69,509	11,955
Consumer lending	28,440	35,703	10,883	17,557	1,298
Small business lending	670	548	251	419	48
Residential mortgages	69,852	80,231	22,004	47,848	1,000
Credit card receivables - individual	21,291	-	21,291	-	1,798
Other receivables	5,644	114	5,530	114	346
	₱525,804	₱225,323	₱366,838	₱158,966	₱16,445

*Amount deducted from gross amount to reflect carrying amount

The maximum exposure to credit risks for the other financial assets is limited to the carrying value as of December 31, 2023 and 2022.

Credit card receivables and receivables of SBEI are presented separately for the purpose of identifying receivables that are subjected to different credit risk rating systems.

Other receivables include accrued interest receivable, accounts receivable, sales contracts receivable and dividend receivable.

Risk concentrations of the maximum exposure to credit risk

The Group considers loans and receivables as highly concentrated when Herfindahl-Hirschman Index (HHI) reaches 2,500 or greater. The maximum acceptable HHI set by the Group for its loan concentration is 1,500 to 2,500, which means moderately concentrated. HHI is a measure of concentration, calculated by squaring the share of each loan segment to total loan portfolio and then summing the resulting numbers. In addition, the Group limits its total exposure to most industry segments at 15.0% each of the total credit risk exposure and complies with regulatory caps set by the BSP such as 25% real estate limit.



The distribution of financial assets and off-balance sheet items by industry sector of the Group and the Parent Company, before taking into account collateral held or other credit enhancements (maximum exposure) follows (amounts in millions):

	Consolidated				Total
	Loans and Receivables	Financial Investments*	Loans and Advances to Banks**	Others***	
December 31, 2023					
Financial and insurance activities	₱22,726	₱30,638	₱63,391	₱6,707	₱123,462
Real estate activities	148,139	19,013	–	9,907	177,059
Public administration and defense; compulsory social security	5,374	164,236	–	120	169,730
Activities of households as employers; undifferentiated goods and services and producing activities of households for own use****	58,527	–	–	90,127	148,654
Wholesale and retail trade; repair of motor vehicles and motorcycles	89,289	481	–	11,308	101,078
Electricity, gas, stream and air conditioning supply	78,596	2,143	–	12,402	93,141
Manufacturing	44,113	2,559	–	3,777	50,449
Construction	19,361	–	–	5,058	24,419
Transportation and storage	21,356	3,150	–	9,711	34,217
Information and communication	17,272	1,197	–	625	19,094
Water supply, sewerage, waste management and remediation activities	9,416	–	–	1,553	10,969
Professional scientific and technical services	4,035	–	–	2,037	6,072
Agriculture, forestry and fishing	9,424	–	–	656	10,080
Others	10,701	3,486	–	4,154	18,341
	₱538,329	₱226,903	₱63,391	₱158,142	₱986,765
December 31, 2022					
Financial and insurance activities	₱18,578	₱32,374	₱113,027	₱2,244	₱166,223
Real estate activities	123,865	18,031	–	8,838	150,734
Public administration and defense; compulsory social security	–	123,844	–	–	123,844
Activities of households as employers; undifferentiated goods and services and producing activities of households for own use****	41,804	–	–	53,050	94,854
Wholesale and retail trade; repair of motor vehicles and motorcycles	81,646	500	–	10,413	92,559
Electricity, gas, stream and air conditioning supply	77,579	2,115	–	8,594	88,288
Manufacturing	57,545	4,731	–	3,866	66,142
Construction	15,145	–	–	22,439	37,584
Transportation and storage	20,845	3,036	–	4,772	28,653
Information and communication	23,886	1,184	–	721	25,791
Water supply, sewerage, waste management and remediation activities	9,920	–	–	3,003	12,923
Professional scientific and technical services	9,957	–	–	1,561	11,518
Agriculture, forestry and fishing	9,683	–	–	993	10,676
Others	12,164	3,873	–	5,207	21,244
	₱502,617	₱189,688	₱113,027	₱125,701	₱931,033

* Consists of Financial assets at FVTPL and FVTOCI, and Investment securities at amortized cost

** Consists of Due from BSP, Due from other banks, Interbank loans receivables and SPURA and Cash collateral deposits (included in 'Other assets')

*** Consists of Contingent liabilities relating to inward and outward bills for collections, outstanding guarantees, letters of credit, unutilized credit limit of credit card holders, committed loan lines, security deposits and financial guarantees with commitment

**** Excludes loans and receivables on real estate or dwelling units which are considered production activities and classified under "Real estate"



	Parent Company				Total
	Loans and Receivables	Financial Investments*	Loans and Advances to Banks**	Others***	
December 31, 2023					
Financial and insurance activities	₱24,230	₱30,593	₱63,331	₱6,707	₱124,861
Real estate activities	148,070	19,013	-	9,907	176,990
Public administration and defense; compulsory social security	5,374	164,236	-	120	169,730
Activities of households as employers; undifferentiated goods and services and producing activities of households for own use****	58,524	-	-	90,127	148,651
Wholesale and retail trade; repair of motor vehicles and motorcycles	89,276	481	-	11,308	101,065
Electricity, gas, steam and air conditioning supply	78,596	2,143	-	12,402	93,141
Manufacturing	44,092	2,559	-	3,777	50,428
Transportation and storage	21,336	3,150	-	9,711	34,197
Construction	19,355	-	-	5,058	24,413
Information and communication	17,269	1,197	-	625	19,091
Water supply, sewerage, waste management and remediation activities	9,416	-	-	1,553	10,969
Agriculture, forestry and fishing	9,423	-	-	656	10,079
Professional scientific and technical services	4,035	-	-	2,037	6,072
Others	10,568	3,487	-	4,154	18,209
	₱539,564	₱226,859	₱63,331	₱158,142	₱987,896
December 31, 2022					
Financial and insurance activities	₱18,715	₱32,374	₱112,963	₱2,244	₱166,296
Real estate activities	123,845	18,031	-	8,838	150,714
Public administration and defense; compulsory social security	-	123,844	-	-	123,844
Activities of households as employers; undifferentiated goods and services and producing activities of households for own use****	41,804	-	-	53,050	94,854
Wholesale and retail trade; repair of motor vehicles and motorcycles	81,643	500	-	10,413	92,556
Electricity, gas, steam and air conditioning supply	77,577	2,115	-	8,594	88,286
Manufacturing	57,545	4,731	-	3,866	66,142
Construction	15,145	-	-	22,439	37,584
Transportation and storage	20,845	3,036	-	4,772	28,653
Information and communication	23,886	1,184	-	721	25,791
Water supply, sewerage, waste management and remediation activities	9,920	-	-	3,003	12,923
Professional scientific and technical services	9,957	-	-	1,561	11,518
Agriculture, forestry and fishing	9,683	-	-	993	10,676
Others	11,720	3,833	-	5,209	20,762
Financial and insurance activities	₱502,285	₱189,648	₱112,963	₱125,703	₱930,599

* Consists of Financial assets at FVTPL and FVTOCI, and Investment securities at amortized cost

** Consists of Due from BSP, Due from other banks, Interbank loans receivables and SPURA and Cash collateral deposits (included in 'Other assets')

*** Consists of Contingent liabilities relating to inward and outward bills for collections, outstanding guarantees, letters of credit, unutilized credit limit of credit card holders, committed loan lines, security deposits and financial guarantees with commitment

**** Excludes loans and receivables on real estate or dwelling units which are considered production activities and classified under "Real estate"

For details of the composition of the loans and receivables portfolio, refer to Note 13.

Offsetting of financial assets and financial liabilities

The Parent Company has various derivative financial instruments with various counterparties transacted under the International Swaps and Derivatives Association (ISDA) which are subject to enforceable master netting agreements. Under the agreements, the Parent Company has the right to settle its derivative financial instruments either: (1) upon election of the parties; or (2) in the case of default and insolvency or bankruptcy. The Parent Company, however, has no intention to net settle or to gross settle the accounts simultaneously. Also, the enforceability of netting upon default is contingent on a future event, and so the offsetting criteria under PAS 32 are not met. Consequently,



the gross amount of the derivative asset and the gross amount of the derivative liability are presented separately in the Parent Company's statements of financial position.

Cash collaterals have also been received from and pledged to the counterparties for the net amount of exposures from the derivative financial instruments. These cash collaterals do not meet the offsetting criteria under PAS 32 since it can only be set off against the net amount of the derivative asset and derivative liability in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

The Parent Company has entered into sale and repurchase agreements with various counterparties that are accounted for as collateralized borrowing. The Parent Company has also entered into a reverse sale and repurchase agreements with various counterparties that are accounted for as a collateralized lending. These transactions are subject to a global master repurchase agreement with a right of set-off only against the collateral securities upon default and insolvency or bankruptcy and therefore do not meet the offsetting criteria under PAS 32. Consequently, the related SSURA is presented separately from the collateral securities in the Parent Company's statements of financial position.

The table below presents the recognized financial instruments of the Group and the Parent Company that are offset, or subject to enforceable master netting agreements or other similar arrangements but not offset, as at December 31, 2023 and 2022, taking into account the effects of over-collateralization.

	Gross amounts of recognized financial instruments [a]	Gross amounts set-off in accordance with the PAS 32 offsetting criteria [b]	Net amount presented in statements of financial position [c]=[a]-[b]	Effect of remaining rights of set-off that do not meet PAS 32 offsetting criteria		Net exposure [e]=[c]-[d]
				Financial instruments [d]	Financial collateral	
2023						
Financial Assets						
Derivative assets (Notes 6 and 10)	₱222,356	₱-	₱222,356	₱246,387	₱-	₱675,969
	₱222,356	₱-	₱222,356	₱246,387	₱-	₱675,969
Financial Liabilities						
Derivative liabilities (Notes 6 and 19)	₱2,968,706	₱-	₱2,968,706	₱246,387	₱-	₱2,722,319
SSURA (Note 20)	46,525,809	-	46,525,809	-	54,197,254	-
	₱49,494,515	₱-	₱49,494,515	₱246,387	₱54,197,254	₱2,722,319
2022						
Financial Assets						
Derivative assets (Notes 6 and 10)	₱2,664,382	₱-	₱2,664,382	₱392,611	₱-	₱2,271,771
SPURA (Note 36)	23,518,740	-	23,518,740	-	23,519,798	-
	₱26,183,122	₱-	₱26,183,122	₱392,611	₱23,519,798	₱2,271,771
Financial Liabilities						
Derivative liabilities (Notes 6 and 19)	₱1,752,818	₱-	₱1,752,818	₱392,611	₱-	₱1,360,207
SSURA (Note 20)	23,360,860	-	23,360,860	-	26,709,407	-
	₱25,113,678	₱-	₱25,113,678	₱392,611	₱26,709,407	₱1,360,207

Collateral and other credit enhancements

The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty. The Group follows guidelines on the acceptability of types of collateral and valuation parameters.



The main types of collateral obtained are as follows:

- For corporate accounts - cash, guarantees, securities and physical collaterals (e.g., real estate, chattels, inventory, etc.); as a general rule, commercial, industrial and residential lots are preferred.
- For retail lending - mortgages on residential properties and financed vehicles.

Management monitors the market value of real property collateral on an annual basis and as needed for marketable securities to preserve collateral cover. The existing market value of collateral is considered during the review of the credit facilities and adequacy of the allowance for credit losses.

It is the Parent Company's policy to dispose assets acquired in an orderly fashion. The proceeds from the sale of the foreclosed assets (classified as 'Investment properties' in the statements of financial position) are used to reduce or repay the outstanding claim. In general, the Parent Company does not use repossessed properties for business.

Credit quality per class of financial assets

In compliance with BSP Circular No. 855, the Parent Company has developed and continually reviews and calibrates its internal risk rating system for credit exposures aimed at uniformly assessing its credit portfolio in terms of risk profile. Where appropriate, it obtains security, enters into master netting agreements, and limits the duration of exposures to maintain and even further enhance the quality of the Parent Company's credit exposures.

The credit quality of financial assets is monitored and managed using internal ratings and where available, external ratings.

The credit quality of trading and financial investment securities is generally monitored through internal ratings except for foreign entities which use external ratings of eligible external credit rating institutions. Credit exposures to foreign corporations and foreign financial institutions are limited to entities that are rated investment grade. The minimum acceptable risk rating is BBB- stable (for S&P) and Baa3 (for Moody's).

Presented below is the credit risk rating table of S&P & Moody's:

Agency		Investment Grade								
S&P	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
Moody's	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3

Agency		Non-Investment Grade						
S&P		BB+	BB	BB-	B+	B	B-	Below B-
Moody's		Ba1	Ba2	Ba3	B1	B2	B3	Below B3

In the Bank's mapping of risk ratings of its asset classes, S&P and Moody's investment grade ratings and BB+/Ba1 are considered high grade, BB/Ba2 down to B-/B3 ratings are considered medium grade, and below B-/B3 ratings are considered low grade.

For loan exposures, the credit quality is generally monitored using its internal credit risk ratings system. It is the Parent Company's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates management to focus on major potential risk and the comparison of credit exposures across all lines of business, demographics and products. The rating system is supported by a variety of financial analytics, combined with an assessment of qualitative factors such as management and market information to provide the main inputs for the measurement of credit or counterparty risk. Other variables that may impact the borrower's creditworthiness but are not yet factored into the baseline rating are considered in the model overlay to arrive at the final PD. All PD



ratings are tailored with various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

The Group uses PD Ratings to classify the credit quality of its receivables portfolio. This is currently undergoing upgrade to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment. The description of the loan grades used by the Group for receivable from customers, except credit card receivables and receivables of SBEI, are as follows:

Wholesale Banking Segment Scorecards

The Parent Company has two (2) Wholesale Banking Segment scorecards, differentiated according to the revenue size of the borrower: Big Accounts scorecard for borrowers with at least ₱2.0 billion in revenue size, and Small Accounts scorecard for borrowers with less than ₱2.0 billion revenue size. Both scorecards are mapped to an 11-grade scale masterscale with each grade having a corresponding PD.

High Grade (PD Rating of 1 to 7)

Accounts in this category have a low probability of defaulting on their obligations over the next 12 months. A comfortable degree of stability and diversity can be found in these borrowers.

Medium Grade (PD Rating of 8 to 9)

The PD of accounts in this category is slightly higher than high grade borrowers. Accounts whose financial ratios exhibit an amount of buffer though somewhat limited. These accounts can withstand minor economic weaknesses but may suffer if conditions deteriorate in a significant way and therefore, default risk is present under such adverse conditions. Repayment ability is more or less assured if economic and industry conditions remain stable.

Low Grade (PD Rating of 10 to 11)

Accounts for which default risk are very much present and those that have defaulted already are included in this category.

For SBEI's receivable portfolio, the Group classifies accounts that are neither past due nor impaired as follows:

High Grade – receivables from counterparties with no history of default and with apparent ability to settle the obligation. In case of receivables from customers, the outstanding amount must be more than 200.0% secured by collateral.

Medium Grade – receivable from counterparties with no history of default, with apparent ability to settle the obligation and the outstanding amount must be 100.0% – 200.0% secured by collateral.

Low Grade – receivable from counterparties with history of default and partially secured or unsecured accounts.



Unrated – Receivables from employees and refundable deposits.

For Auto Loan receivables, the Parent Company classifies accounts that are neither past due nor impaired as follows:

High Grade – Accounts with behavioral score >752

Medium Grade – Accounts with behavioral score >679-752; or with behavioral score >565-679 and uses 0 Delinquency Segment scorecard.

Low Grade – Accounts with behavioral score >565-679 and uses 0+ Delinquency Segment scorecard; or with behavioral score ≤564.

Unrated – Accounts which no behavioral score such as new bookings.

For Credit Card receivables, the Parent Company classifies accounts that are neither past due nor impaired as follows:

High Grade – Accounts with behavioral score >715.

Medium Grade – Accounts with behavioral score >580-715.

Low Grade – Accounts with score ≤580.

Unrated – Accounts which are inactive in the last 12 months; too early or not enough information to rate.

For Business Banking Loan receivables, scorecards are used to determine the PD of the account. The Parent Company classifies accounts that are neither past due nor impaired as follows:

High Grade (PD Rating of <1%)

Accounts in this category have a low probability of defaulting on their obligations over the next 12 months. A comfortable degree of stability and diversity can be found in these borrowers.

Medium Grade (PD Rating of 1% to 10%)

The PD of accounts in this category is slightly higher than high grade borrowers. These accounts can withstand minor economic weaknesses but may suffer if conditions deteriorate in a significant way and therefore, default risk is present under such adverse conditions. Repayment ability is more or less assured if economic and industry conditions remain stable.

Low Grade (PD Rating of 10+% and above)

Accounts for which an assumed default risk is present.

Unrated – Accounts which are unrated and 0-30 Days Past Due

For the other products in the consumer loans portfolio, the Group is currently building a separate credit rating system to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment. Accounts which are neither past due nor impaired are presented as unrated.



The tables below show the credit quality by class of financial assets (gross of allowance for credit losses and net of unearned discounts and deferred credits) of the Group and the Parent Company.

As of December 31, 2023 and 2022, all investment securities are classified as Stage 1.

	Consolidated				Total
	Neither Past Due nor Individually Impaired				
	High Grade	Medium Grade	Low Grade	Unrated	
December 31, 2023					
Financial assets at FVTPL:					
HFT investments:					
Government securities	₱9,681,878	₱-	₱-	₱-	₱9,681,878
Private bonds	138,013	-	-	144,079	282,092
Total HFT investments	9,819,891	-	-	144,079	9,963,970
Derivative assets:					
Currency forwards	469,401	-	-	160,453	629,854
Interest rate swaps	233,549	-	-	6,333	239,882
Interest rate futures	40,776	-	-	-	40,776
Cross-currency swaps	-	-	-	11,828	11,828
Bond forwards and options	8	-	-	8	16
Total derivative assets	743,734	-	-	178,622	922,356
Total financial assets at FVTPL	₱10,563,625	₱-	₱-	₱322,701	₱10,886,326
Financial assets at FVTOCI:					
Treasury notes and bills	₱82,365,379	₱-	₱-	₱-	₱82,365,379
Treasury bonds	55,451,234	-	-	-	55,451,234
Private bonds	1,523,151	-	-	-	1,523,151
	₱139,339,764	₱-	₱-	₱-	₱139,339,764
Financial assets at amortized cost (excluding loans and receivables)					
Due from BSP	₱45,821,155	₱-	₱-	₱-	₱45,821,155
Due from other banks	12,023,449	-	-	-	12,023,449
Interbank loans receivable and SPURA	4,081,000	-	-	-	4,081,000
Investment securities at amortized cost					
Private bonds	57,874,831	-	-	-	57,874,831
Treasury bonds	14,959,970	-	-	-	14,959,970
Treasury notes and bills	3,372,462	-	-	-	3,372,462
	76,207,263	-	-	-	76,207,263
	138,132,867	-	-	-	138,132,867
	₱288,036,256	₱-	₱-	₱322,701	₱288,358,957
December 31, 2022					
Financial assets at FVTPL:					
HFT investments:					
Government securities	₱4,804,041	₱-	₱-	₱-	₱4,804,041
Private bonds	70,653	-	-	27,471	98,124
Total HFT investments	4,874,694	-	-	27,471	4,902,165
Derivative assets:					
Currency forwards	1,173,788	-	-	472,515	1,646,303
Interest rate swaps	710,772	-	-	-	710,772
Cross-currency swaps	-	-	-	304,835	304,835
Bond forwards and options	2,472	-	-	-	2,472
Total derivative assets	1,887,032	-	-	777,350	2,664,382
Total financial assets at FVTPL	₱6,761,726	₱-	₱-	₱804,821	₱7,566,547
Financial assets at FVTOCI:					
Treasury notes and bills	₱52,666,184	₱-	₱-	₱-	₱52,666,184
Treasury bonds	55,759,876	-	-	-	55,759,876
Private bonds	4,050,963	-	-	-	4,050,963
	₱112,477,023	₱-	₱-	₱-	₱112,477,023
Financial assets at amortized cost (excluding loans and receivables)					
Due from BSP	₱63,011,416	₱-	₱-	₱-	₱63,011,416
Due from other banks	20,098,513	-	-	-	20,098,513
Interbank loans receivable and SPURA	27,516,755	-	-	-	27,516,755
Investment securities at amortized cost					
Private bonds	57,241,929	-	-	-	57,241,929
Treasury bonds	9,308,398	-	-	-	9,308,398
Treasury notes and bills	2,697,158	-	-	-	2,697,158
	69,247,485	-	-	-	69,247,485
	179,874,169	-	-	-	179,874,169
	₱299,112,918	₱-	₱-	₱804,821	₱299,917,739



	Parent Company					Total
	Neither Past Due nor Individually Impaired					
	High Grade	Medium Grade	Low Grade	Unrated		
December 31, 2023						
Financial assets at FVTPL:						
HFT investments:						
Government securities	P9,681,878	P-	P-	P-		P9,681,878
Private bonds	138,013	-	-	144,079		282,092
Total HFT investments	9,819,891	-	-	144,079		9,963,970
Derivative assets:						
Currency forwards	469,401	-	-	160,453		629,854
Interest rate swaps	233,549	-	-	6,333		239,882
Interest rate futures	40,776	-	-	-		40,776
Cross-currency swaps	-	-	-	11,828		11,828
Bond forwards and options	8	-	-	8		16
Total derivative assets	743,734	-	-	178,622		922,356
Total financial assets at FVTPL	P10,563,625	P-	P-	P322,701		P10,886,326
Financial assets at FVTOCI						
Treasury notes and bills	P82,365,379	P-	P-	P-		P82,365,379
Treasury bonds	55,451,234	-	-	-		55,451,234
Private bonds	1,523,151	-	-	-		1,523,151
Total	P139,339,764	P-	P-	P-		P139,339,764
Financial assets at amortized cost (excluding loans and receivables)						
Due from BSP	P45,821,155	P-	P-	P-		P45,821,155
Due from other banks	11,963,925	-	-	-		11,963,925
Interbank loans receivable and SPURA	4,081,000	-	-	-		4,081,000
Investment securities at amortized cost	-	-	-	-		-
Private bonds	57,874,831	-	-	-		57,874,831
Treasury bonds	14,959,970	-	-	-		14,959,970
Treasury notes and bills	3,372,462	-	-	-		3,372,462
Total	76,207,263	-	-	-		76,207,263
Total	138,073,343	-	-	-		138,073,343
Total	P287,976,732	P-	P-	P322,701		P288,299,433
December 31, 2022						
Financial assets at FVTPL:						
HFT investments:						
Government securities	P4,804,041	P-	P-	P-		P4,804,041
Private bonds	70,653	-	-	27,471		98,124
Total HFT investments	4,874,694	-	-	27,471		4,902,165
Derivative assets:						
Currency forwards	1,173,788	-	-	472,515		1,646,303
Cross-currency swaps	-	-	-	304,835		304,835
Interest rate swaps	710,772	-	-	-		710,772
Interest rate futures	-	-	-	-		-
Bond option	2,472	-	-	-		2,472
Total derivative assets	1,887,032	-	-	777,350		2,664,382
Total financial assets at FVTPL	P6,761,726	P-	P-	P804,821		P7,566,547
Financial assets at FVTOCI						
Treasury notes and bills	P52,666,184	P-	P-	P-		P52,666,184
Treasury bonds	55,759,876	-	-	-		55,759,876
Private bonds	4,050,963	-	-	-		4,050,963
Total	P112,477,023	P-	P-	P-		P112,477,023
Financial assets at amortized cost (excluding loans and receivables)						
Due from BSP	P63,011,416	P-	P-	P-		P63,011,416
Due from other banks	20,034,425	-	-	-		20,034,425
Interbank loans receivable and SPURA	27,516,755	-	-	-		27,516,755
Investment securities at amortized cost	-	-	-	-		-
Private bonds	57,241,929	-	-	-		57,241,929
Treasury bonds	9,308,398	-	-	-		9,308,398
Treasury notes and bills	2,697,158	-	-	-		2,697,158
Total	69,247,485	-	-	-		69,247,485
Total	179,810,081	-	-	-		179,810,081
Total	P299,048,830	P-	P-	P804,821		P299,853,651



The tables below show the credit quality by class of loans and receivables (gross of allowance for credit losses and net of unearned discounts and deferred credits) of the Group and the Parent Company.

	Consolidated			
	December 31, 2023			
	Stage 1	Stage 2	Stage 3	Total
Receivable from customers:				
Corporate lending				
Neither past due nor impaired				
High grade	₱222,578,045	₱2,459,775	₱-	₱225,037,820
Medium grade	100,680,258	2,826,341	-	103,506,599
Low grade	569,000	42,297,602	-	42,866,602
Past due but not impaired	-	86,891	-	86,891
Past due and impaired	-	-	14,060,673	14,060,673
	323,827,303	47,670,609	14,060,673	385,558,585
Consumer lending (excluding credit card receivables)				
Neither past due nor impaired				
High grade	10,325,281	686	-	10,325,967
Medium grade	27,608,178	338,665	-	27,946,843
Low grade	1,687,451	406,844	-	2,094,295
Unrated	285,399	-	-	285,399
Past due but not impaired	-	922,287	-	922,287
Past due and impaired	-	-	1,434,341	1,434,341
	39,906,309	1,668,482	1,434,341	43,009,132
Small business lending				
Neither past due nor impaired				
High grade	9,000	-	-	9,000
Medium grade	463,556	1,761	-	465,317
Low grade	-	55,475	-	55,475
Past due but not impaired	-	4,000	-	4,000
Past due and impaired	-	-	51,781	51,781
	472,556	61,236	51,781	585,573
Residential mortgages				
Neither past due nor impaired				
High grade	6,975,390	12,730	-	6,988,120
Medium grade	72,337,994	114,068	-	72,452,062
Low grade	8,004	1,430,520	-	1,438,524
Unrated	-	-	-	-
Past due but not impaired	-	861,833	-	861,833
Past due and impaired	-	-	1,635,354	1,635,354
	79,321,388	2,419,151	1,635,354	83,375,893
Credit card receivables – individual				
Neither past due nor impaired				
High grade	6,662,821	4,745	-	6,667,566
Medium grade	20,743,167	176,732	-	20,919,899
Low grade	-	603,144	-	603,144
Unrated	1,932,278	480,736	-	2,413,014
Past due but not impaired	-	1,027,921	-	1,027,921
Past due and impaired	-	-	1,511,663	1,511,663
	29,338,266	2,293,278	1,511,663	33,143,207
Receivable from customers (SBEI)				
Neither past due nor impaired				
High grade	74,664	-	-	74,664
Medium grade	201,533	-	-	201,533
Low grade	51,497	-	-	51,497
Past due but not impaired	-	10,547	-	10,547
	327,694	10,547	-	338,241
Total receivable from customers	473,193,516	54,123,303	18,693,812	546,010,631

(Forward)



	Consolidated			
	December 31, 2023			
	Stage 1	Stage 2	Stage 3	Total
Other receivables				
Neither past due nor impaired				
High grade	P4,555,644	P39,198	P-	P4,594,842
Medium grade	1,314,419	24,624	-	1,339,043
Low grade	231,518	316,633	-	548,151
Unrated	657,654	-	-	657,654
Past due but not impaired	-	180,622	-	180,622
Past due and impaired	-	-	515,591	515,591
	6,759,235	561,077	515,591	7,835,903
Other assets*				
Neither past due nor impaired				
High grade	2,180,021	-	-	2,180,021
	P482,132,772	P54,684,380	P19,209,403	P556,026,555

*Consists of cash collateral and security deposits

	Consolidated			
	December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total
Receivable from customers:				
Corporate lending				
Neither past due nor impaired				
High grade	P194,660,762	P-	P-	P194,660,762
Medium grade	88,751,868	30,310,696	-	119,062,564
Low grade	35,363,938	25,672,195	-	61,036,133
Past due but not impaired	-	677,000	-	677,000
Past due and impaired	-	-	11,705,398	11,705,398
	318,776,568	56,659,891	11,705,398	387,141,857
Consumer lending (excluding credit card receivables)				
Neither past due nor impaired				
High grade	4,989,221	-	-	4,989,221
Medium grade	12,989,200	13,839	-	13,003,039
Low grade	2,835,313	310,260	-	3,145,573
Unrated	5,659,469	442,328	-	6,101,797
Past due but not impaired	-	957,551	-	957,551
Past due and impaired	-	-	1,543,684	1,543,684
	26,473,203	1,723,978	1,543,684	29,740,865
Small business lending				
Neither past due nor impaired				
High grade	9,000	-	-	9,000
Medium grade	271,273	3,517	-	274,790
Low grade	338,489	32,902	-	371,391
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	62,888	62,888
	618,762	36,419	62,888	718,069
Residential mortgages				
Neither past due nor impaired				
High grade	2,082,629	-	-	2,082,629
Medium grade	294,036	-	-	294,036
Low grade	488,536	540,890	-	1,029,426
Unrated	64,934,643	116,860	-	65,051,503
Past due but not impaired	-	636,766	-	636,766
Past due and impaired	-	-	1,757,024	1,757,024
	67,799,844	1,294,516	1,757,024	70,851,384

(Forward)



	Consolidated			
	December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total
Credit card receivables – individual				
Neither past due nor impaired				
High grade	₱3,456,969	₱1,550	₱–	₱3,458,519
Medium grade	16,146,212	127,781	–	16,273,993
Low grade	–	570,242	–	570,242
Unrated	876,087	320,027	–	1,196,114
Past due but not impaired	–	700,739	–	700,739
Past due and impaired	–	–	889,354	889,354
	20,479,268	1,720,339	889,354	23,088,961
Receivable from customers (SBEI)				
Neither past due nor impaired				
High grade	121,719	–	–	121,719
Medium grade	582,893	–	–	582,893
Low grade	292,743	–	–	292,743
Unrated	–	–	–	–
Past due but not impaired	–	32,972	–	32,972
	997,355	32,972	–	1,030,327
Total receivable from customers	435,145,000	61,468,115	15,958,348	512,571,463
Other receivables				
Neither past due nor impaired				
High grade	3,382,693	206,021	–	3,588,714
Medium grade	697,320	59,640	–	756,960
Low grade	606,676	240,343	–	847,019
Unrated	620,931	21,488	–	642,419
Past due but not impaired	–	82,514	–	82,514
Past due and impaired	–	–	606,598	606,598
	5,307,620	610,006	606,598	6,524,224
Other assets*				
Neither past due nor impaired				
High grade	2,402,982	–	–	2,402,982
	₱442,855,602	₱62,078,121	₱16,564,946	₱521,498,669

*Consists of cash collateral and security deposits

	Parent Company			
	December 31, 2023			
	Stage 1	Stage 2	Stage 3	Total
Receivable from customers:				
Corporate lending				
Neither past due nor impaired				
High grade	₱224,487,157	₱2,459,775	₱–	₱226,946,932
Medium grade	100,680,258	2,826,341	–	103,506,599
Low grade	569,000	42,297,602	–	42,866,602
Past due but not impaired	–	86,891	–	86,891
Past due and impaired	–	–	14,060,673	14,060,673
	325,736,415	47,670,609	14,060,673	387,467,697
Consumer lending (excluding credit card receivables)				
Neither past due nor impaired				
High grade	10,325,281	686	–	10,325,967
Medium grade	27,608,178	338,665	–	27,946,843
Low grade	1,687,451	406,843	–	2,094,294
Unrated	283,201	–	–	283,201
Past due but not impaired	–	922,287	–	922,287
Past due and impaired	–	–	1,434,341	1,434,341
	39,904,111	1,668,481	1,434,341	43,006,933

(Forward)



	Parent Company			
	December 31, 2023			
	Stage 1	Stage 2	Stage 3	Total
Small business lending				
Neither past due nor impaired				
High grade	₱9,000	₱-	₱-	₱9,000
Medium grade	463,556	1,761	-	465,317
Low grade	-	55,475	-	55,475
Unrated	-	-	-	-
Past due but not impaired	-	4,000	-	4,000
Past due and impaired	-	-	51,781	51,781
	472,556	61,236	51,781	585,573
Residential mortgages				
Neither past due nor impaired				
High grade	6,975,390	12,730	-	6,988,120
Medium grade	72,337,994	114,068	-	72,452,062
Low grade	8,004	1,430,520	-	1,438,524
Unrated	-	-	-	-
Past due but not impaired	-	861,833	-	861,833
Past due and impaired	-	-	1,635,354	1,635,354
	79,321,388	2,419,151	1,635,354	83,375,893
Credit card receivables - individual				
Neither past due nor impaired				
High grade	6,662,821	4,745	-	6,667,566
Medium grade	20,743,167	176,732	-	20,919,899
Low Grade	-	603,144	-	603,144
Unrated	1,932,278	480,736	-	2,413,014
Past due but not impaired	-	1,027,921	-	1,027,921
Past due and impaired	-	-	1,511,663	1,511,663
	29,338,266	2,293,278	1,511,663	33,143,207
Total receivable from customers	474,772,736	54,112,755	18,693,812	547,579,303
Other receivables				
Neither past due nor impaired				
High grade	4,567,794	39,198	-	4,606,992
Medium grade	1,314,419	24,624	-	1,339,043
Low Grade	54,214	316,633	-	370,847
Unrated	461,606	-	-	461,606
Past due but not impaired	-	180,622	-	180,622
Past due and impaired	-	-	515,591	515,591
	6,398,033	561,077	515,591	7,474,701
Other assets*				
Neither past due nor impaired				
High grade	2,177,127	-	-	2,177,127
	₱483,347,896	₱54,673,832	₱19,209,403	₱557,231,131

*Consists of cash collateral and security deposits



	Parent Company			Total
	December 31, 2022			
	Stage 1	Stage 2	Stage 3	
Receivable from customers:				
Corporate lending				
Neither past due nor impaired				
High grade	₱194,660,762	₱-	₱-	₱194,660,762
Medium grade	88,751,868	30,310,696	-	119,062,564
Low grade	36,565,132	25,672,195	-	62,237,327
Past due but not impaired	-	677,000	-	677,000
Past due and impaired	-	-	11,705,398	11,705,398
	319,977,762	56,659,891	11,705,398	388,343,051
Consumer lending (excluding credit card receivables)				
Neither past due nor impaired				
High grade	4,989,221	-	-	4,989,221
Medium grade	12,989,200	13,839	-	13,003,039
Low grade	2,835,313	310,260	-	3,145,573
Unrated	5,657,105	442,328	-	6,099,433
Past due but not impaired	-	957,551	-	957,551
Past due and impaired	-	-	1,543,684	1,543,684
	26,470,839	1,723,978	1,543,684	29,738,501
Small business lending				
Neither past due nor impaired				
High grade	9,000	-	-	9,000
Medium grade	271,273	3,517	-	274,790
Low grade	338,489	32,902	-	371,391
Unrated	-	-	-	-
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	62,888	62,888
	618,762	36,419	62,888	718,069
Residential mortgages				
Neither past due nor impaired				
High grade	2,082,629	-	-	2,082,629
Medium grade	294,036	-	-	294,036
Low grade	488,536	540,890	-	1,029,426
Unrated	64,934,643	116,860	-	65,051,503
Past due but not impaired	-	636,766	-	636,766
Past due and impaired	-	-	1,757,024	1,757,024
	67,799,844	1,294,516	1,757,024	70,851,384
Credit card receivables - individual				
Neither past due nor impaired				
High grade	3,456,969	1,550	-	3,458,519
Medium grade	16,146,212	127,781	-	16,273,993
Low Grade	-	570,242	-	570,242
Unrated	876,087	320,027	-	1,196,114
Past due but not impaired	-	700,739	-	700,739
Past due and impaired	-	-	889,354	889,354
	20,479,268	1,720,339	889,354	23,088,961
Total receivable from customers	435,346,475	61,435,143	15,958,348	512,739,966
Other receivables				
Neither past due nor impaired				
High grade	3,377,605	206,021	-	3,583,626
Medium grade	697,320	59,640	-	756,960
Low Grade	190,326	240,343	-	430,669
Unrated	582,705	21,488	-	604,193
Past due but not impaired	-	78,277	-	78,277
Past due and impaired	-	-	536,647	536,647
	4,847,956	605,769	536,647	5,990,372
Other assets*				
Neither past due nor impaired				
High grade	2,402,982	-	-	2,402,982
	2,402,982	-	-	2,402,982
	₱442,597,413	₱62,040,912	₱16,494,995	₱521,133,320

*Consists of cash collateral and security deposits



The following table provides the analysis of the Group and the Parent Company's restructured receivables by class (included in the preceding table for the credit quality by class of financial assets) as of December 31, 2023 and 2022:

Consolidated and Parent Company				
December 31, 2023				
	Stage 1	Stage 2	Stage 3	Total
Corporate lending				
Neither past due nor impaired				
Medium grade	₱240,816	₱286,900	₱-	₱527,716
Low Grade	-	4,131,390	-	4,131,390
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	4,766,600	4,766,600
	240,816	4,418,290	4,766,600	9,425,706
Consumer lending				
Neither past due nor impaired				
High grade	57,368	-	-	57,368
Medium grade	167,269	13,000	-	180,269
Low Grade	93,046	25,315	-	118,361
Unrated	115,976	-	-	115,976
Past due but not impaired	-	15,942	-	15,942
Past due and impaired	-	-	133,480	133,480
	433,659	54,257	133,480	621,396
Small business lending				
Past due and impaired	-	-	27,905	27,905
Residential mortgages				
Neither past due nor impaired				
High grade	151,519	12,340	-	163,859
Medium grade	912,160	98,846	-	1,011,006
Past due and impaired	-	-	83,098	83,098
	1,063,679	111,186	83,098	1,257,963
	₱1,738,154	₱4,583,733	₱5,011,083	₱11,332,970

Consolidated and Parent Company				
December 31, 2022				
	Stage 1	Stage 2	Stage 3	Total
Corporate lending				
Neither past due nor impaired				
Medium grade	₱11,472	₱102,145	₱-	₱113,617
Low Grade	-	6,614,561	-	6,614,561
Past due and impaired	-	-	3,977,722	3,977,722
	11,472	6,716,706	3,977,722	10,705,900
Consumer lending				
Neither past due nor impaired				
High grade	15,426	-	-	15,426
Medium grade	276,510	4,905	-	281,415
Low Grade	94,211	33,006	-	127,217
Unrated	109,641	37,735	-	147,376
Past due but not impaired	-	79,245	-	79,245
Past due and impaired	-	-	293,161	293,161
	495,788	154,891	293,161	943,840

(Forward)



	Consolidated and Parent Company			Total
	December 31, 2022			
	Stage 1	Stage 2	Stage 3	
Small business lending				
Past due and impaired	₱–	₱–	₱28,833	₱28,833
	–	–	28,833	28,833
Residential mortgages				
Neither past due nor impaired				
Unrated	934,607	106,388	–	1,040,995
Past due but not impaired	–	31,624	–	31,624
Past due and impaired	–	–	260,108	260,108
	934,607	138,012	260,108	1,332,727
	₱1,441,867	₱7,009,609	₱4,559,824	₱13,011,300

Impairment assessment

The Group calculates ECLs either on a collective or an individual basis.

Asset classes where the Group calculates ECL on an individual basis include:

- Wholesale Banking Segment loans

Asset classes where the Group calculates ECL on a collective basis include:

- Wholesale Banking Segment loans
- Business Banking Segment loans
- Retail Banking Segment loans
- The treasury, trading and interbank relationships (such as investment securities not held for trading, due from other banks, interbank loans and cash collateral deposits)

The Group groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans. It includes but not limited to product type, property type, geographic location, internal grade, exposure value, utilization and collateral type, as applicable.

The Group performs assessment of significant increase in credit risk (see Note 2).

As of December 31, 2023 and 2022, the Group and the Parent Company recognize impairment losses based on the results of its individual and collective assessment of its credit exposures. Impairment has taken place when there is a presence of known difficulties in the servicing of cash flows by counterparties, a significant credit rating downgrade, infringement of the original terms of the contract has happened, or when there is inability to pay principal or interest overdue beyond a certain threshold. These and other factors, either singly or together with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

Liquidity Risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. Liquidity risk is monitored and managed mainly using liquidity gap and Maximum Cumulative Outflows (MCO) limits, stress testing, and compliance to Basel III liquidity ratios. A Contingency Funding Plan is likewise in place to ensure readiness for identified liquidity crisis situation.



The Parent Company's Asset and Liability Committee (ALCO) is directly responsible for market and liquidity risk exposures. ALCO regularly monitors the Parent Company's positions and sets the appropriate transfer pricing rate to effectively manage movements of funds across business activities.

In 2022, to manage funding liquidity risk in relation to the reestablishment of the HTC business model, the Bank applied a notional limit to its HTC government securities as a percentage of its core deposits and capital. The Bank continuously monitors the volume of its HTC government securities against the notional limit.

Analysis of financial instruments by remaining contractual maturities

The table below shows the maturity profile of the Group's and the Parent Company's financial instruments, based on the Group's and the Parent Company's internal methodology that manages liquidity based on remaining contractual undiscounted cash flows.

Financial assets

Maturity profile of financial assets held for liquidity purposes is shown below. Analysis of equity and debt securities at FVTPL into maturity groupings is based on the expected date on which these assets will be realized. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

Financial liabilities

The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date, except for deposits which are based on expected withdrawals. When a counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay.

	Consolidated						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
December 31, 2023							
Financial Assets							
Financial assets at FVTPL:							
HFT investments:							
Government securities	₱9,681,878	₱-	₱-	₱-	₱-	₱-	₱9,681,878
Private bonds	282,092	-	-	-	-	-	282,092
Equity Securities	25	-	-	-	-	-	25
Total HFT investments	9,963,995	-	-	-	-	-	9,963,995
Derivatives	-	147,084	98,261	370,279	296,847	9,885	922,356
Total financial assets at FVTPL	9,963,995	147,084	98,261	370,279	296,847	9,885	10,886,351
Financial assets at amortized cost:							
COCI and due from BSP	59,768,224	-	-	-	-	-	59,768,224
Due from other banks	12,023,449	-	-	-	-	-	12,023,449
Interbank loans receivable and SPURA with BSP	-	107,756	26,217	2,067,617	582,800	1,688,325	4,472,715
Investment securities at amortized cost	-	305,432	445,050	8,717,908	8,709,147	72,439,372	90,616,909
Receivable from customers and other receivables	-	118,947,227	41,906,052	76,577,676	43,893,795	431,454,336	712,779,086
Total financial assets at amortized cost	71,791,673	119,360,415	42,377,319	87,363,201	53,185,742	505,582,033	879,660,383
Financial assets at FVTOCI	-	2,862,166	4,144,715	3,726,535	3,669,988	166,858,396	181,261,800
Total financial assets	₱81,755,668	₱122,369,665	₱46,620,295	₱91,460,015	₱57,152,577	₱672,450,314	₱1,071,808,534
Financial Liabilities							
Deposit liabilities:							
Demand	₱245,268,222	₱-	₱-	₱-	₱-	₱-	₱245,268,222
Savings	118,280,754	-	-	-	-	-	118,280,754
Time	-	65,361,001	68,912,990	22,684,390	31,117,337	48,349,242	236,424,960
LTNCD	-	36,273	36,273	145,091	217,635	10,851,287	11,286,559
Total deposit liabilities	363,548,976	65,397,274	68,949,263	22,829,481	31,334,972	59,200,529	611,260,495
Bills payable and SSURA	-	12,382,574	6,221,920	27,825,454	3,293,446	2,421,236	52,144,630
Notes and bonds payable	-	16,191,517	146,192	15,091,942	490,250	18,478,121	50,398,022
Acceptances payable	-	1,943,502	48,712	781,562	8,958	-	2,782,734
Margin deposits and cash letters of credit	-	57,568	-	-	-	-	57,568
Manager's and certified checks outstanding	-	5,208,887	-	-	-	-	5,208,887
Accrued interest, expense and other liabilities	-	14,761,557	20,065	144,424	124,130	1,674,945	16,725,121
Total financial liabilities	₱363,548,976	₱115,942,879	₱75,386,152	₱66,672,863	₱35,251,756	₱81,774,831	₱738,577,457



	Consolidated						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
December 31, 2022							
Financial Assets							
Financial assets at FVTPL:							
HFT investments:							
Government securities	P4,804,041	P-	P-	P-	P-	P-	P4,804,041
Private bonds	98,124	-	-	-	-	-	98,124
Equity Securities	24	-	-	-	-	-	24
Total HFT investments	4,902,189	-	-	-	-	-	4,902,189
Derivatives	-	622,591	536,135	302,666	455,244	747,746	2,664,382
Total financial assets at FVTPL	4,902,189	622,591	536,135	302,666	455,244	747,746	7,566,571
Financial assets at amortized cost:							
COCI and due from BSP	76,191,588	-	-	-	-	-	76,191,588
Due from other banks	20,097,291	-	-	-	-	-	20,097,291
Interbank loans receivable and SPURA with BSP	-	23,518,740	-	2,031,027	-	2,514,213	28,063,980
Investment securities at amortized cost	-	360,000	-	1,762,360	3,521,273	64,853,870	70,497,503
Receivable from customers and other receivables	-	118,298,074	81,570,585	67,270,389	47,781,414	317,987,898	632,908,360
Total financial assets at amortized cost	96,288,879	142,176,814	81,570,585	71,063,776	51,302,687	385,355,981	827,758,722
Financial assets at FVTOCI	-	2,709,866	917,683	1,814,233	2,613,871	125,821,920	133,877,573
Total financial assets	P101,191,068	P145,509,271	P83,024,403	P73,180,675	P54,371,802	P511,925,647	P969,202,866
Financial Liabilities							
Deposit liabilities:							
Demand	P232,542,791	P-	P-	P-	P-	P-	P232,542,791
Savings	117,524,207	-	-	-	-	-	117,524,207
Time	-	92,172,990	48,627,911	36,299,273	48,480,708	13,716,138	239,297,020
LTNCD	-	-	172,805	8,936,430	6,065,200	11,095,937	26,270,372
Total deposit liabilities	350,066,998	92,172,990	48,800,716	45,235,703	54,545,908	24,812,075	615,634,390
Bills payable and SSURA	-	21,313,167	10,853,530	4,214,461	-	5,204,811	41,585,969
Notes and bonds payable	-	-	-	-	16,726,500	30,600,000	47,326,500
Acceptances payable	-	861,769	103,038	110,904	-	9,553	1,085,264
Margin deposits and cash letters of credit	-	63,946	-	-	-	-	63,946
Manager's and certified checks outstanding	-	4,103,071	-	-	-	-	4,103,071
Accrued interest, expense and other liabilities	-	13,681,634	629,800	198,502	297,780	1,814,964	16,622,680
Total financial liabilities	P350,066,998	P132,196,577	P60,387,084	P49,759,570	P71,570,188	P62,441,403	P726,421,820

	Parent Company						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
December 31, 2023							
Financial Assets							
Financial assets at FVTPL:							
HFT investments:							
Government securities	P9,681,878	P-	P-	P-	P-	P-	P9,681,878
Private bonds	282,092	-	-	-	-	-	282,092
Equity Securities	-	-	-	-	-	-	-
Total HFT investments	9,963,970	-	-	-	-	-	9,963,970
Derivatives	-	147,084	98,261	370,279	296,847	9,885	922,356
Total financial assets at FVTPL	9,963,970	147,084	98,261	370,279	296,847	9,885	10,886,326
Financial assets at amortized cost:							
COCI and due from BSP	59,768,099	-	-	-	-	-	59,768,099
Due from other banks	11,963,925	-	-	-	-	-	11,963,925
Interbank loans receivable and SPURA with BSP	-	107,757	26,217	2,067,616	582,800	1,688,325	4,472,715
Investment securities at amortized cost	-	305,432	445,051	8,717,908	8,709,147	72,439,372	90,616,910
Receivable from customers and other receivables	-	120,155,193	41,906,052	76,577,677	43,893,795	431,453,839	713,986,556
Total financial assets at amortized cost	71,732,024	120,568,382	42,377,320	87,363,201	53,185,742	505,581,536	880,808,205
Financial assets at FVTOCI	-	2,862,166	4,144,714	3,726,535	3,669,988	166,813,987	181,217,390
Total financial assets	P81,695,994	P123,577,632	P46,620,295	P91,460,015	P57,152,577	P672,405,408	P1,072,911,921

(Forward)



	Parent Company						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
Financial Liabilities							
Deposit liabilities:							
Demand	P246,851,638	P-	P-	P-	P-	P-	P246,851,638
Savings	118,400,566	-	-	-	-	-	118,400,566
Time	-	65,501,851	69,104,753	22,745,992	31,194,388	48,433,711	236,980,695
LTNCD	-	36,273	36,273	145,091	217,636	10,851,286	11,286,559
Total deposit liabilities	365,252,204	65,538,124	69,141,026	22,891,083	31,412,024	59,284,997	613,519,458
Bills payable and SSURA	-	12,361,581	6,221,920	27,825,454	3,293,446	2,376,395	52,078,796
Notes payable	-	16,191,517	146,192	15,091,942	490,250	18,478,121	50,398,022
Acceptances payable	-	1,943,502	48,712	781,562	8,958	-	2,782,734
Margin deposits and cash letters of credit	-	57,568	-	-	-	-	57,568
Manager's and certified checks outstanding	-	5,208,887	-	-	-	-	5,208,887
Accrued interest, expense and other liabilities	-	13,935,498	20,064	144,424	124,130	1,487,401	15,711,517
Total financial liabilities	P365,252,204	P115,236,676	P75,577,914	P66,734,465	P35,328,808	P81,626,915	P739,756,982

	Parent Company						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
December 31, 2022							
Financial Assets							
Financial assets at FVTPL:							
HFT investments:							
Government securities	P4,804,041	P-	P-	P-	P-	P-	P4,804,041
Private bonds	98,124	-	-	-	-	-	98,124
Total HFT investments	4,902,165	-	-	-	-	-	4,902,165
Others	-	622,591	536,135	302,666	455,244	747,746	2,664,382
Total financial assets at FVTPL	4,902,165	622,591	536,135	302,666	455,244	747,746	7,566,547
Financial assets at amortized cost:							
COCI and due from BSP	76,191,463	-	-	-	-	-	76,191,463
Due from other banks	20,033,377	-	-	-	-	-	20,033,377
Interbank loans receivable and SPURA with BSP	-	23,518,740	-	2,031,027	-	2,514,213	28,063,980
Investment securities at amortized cost	-	360,000	-	1,762,360	3,521,273	64,853,870	70,497,503
Receivable from customers and other receivables	-	118,339,512	66,583,862	52,340,971	32,671,263	348,822,686	618,758,294
Total financial assets at amortized cost	96,224,840	142,218,252	66,583,862	56,134,358	36,192,536	416,190,769	813,544,617
Financial assets at FVTOCI	-	2,709,866	917,683	1,814,233	2,613,871	125,782,129	133,837,782
Total financial assets	P101,127,005	P145,550,709	P68,037,680	P58,251,257	P39,261,651	P542,720,644	P954,948,946
Financial Liabilities							
Deposit liabilities:							
Demand	P232,667,786	P-	P-	P-	P-	P-	232,667,786
Savings	119,200,233	-	-	-	-	-	119,200,233
Time	-	92,259,186	48,673,385	41,123,635	48,526,045	11,333,756	241,916,007
LTNCD	-	-	172,805	8,936,430	6,065,200	11,095,937	26,270,372
Total deposit liabilities	351,868,019	92,259,186	48,846,190	50,060,065	54,591,245	22,429,693	620,054,398
Bills payable and SSURA	-	21,313,167	10,803,530	4,176,127	-	5,204,811	41,497,635
Notes payable	-	-	-	-	16,726,500	30,600,000	47,326,500
Acceptances payable	-	861,769	103,038	110,904	-	9,553	1,085,264
Margin deposits and cash letters of credit	-	63,946	-	-	-	-	63,946
Manager's and certified checks outstanding	-	4,103,071	-	-	-	-	4,103,071
Accrued interest, expense and other liabilities	-	13,687,517	630,050	198,502	297,780	1,314,964	16,128,813
Total financial liabilities	P351,868,019	P132,288,656	P60,382,808	P54,545,598	P71,615,525	P59,559,021	P730,259,627



The table below shows the contractual expiry by maturity of the Group's and the Parent Company's contingent liabilities and commitments (gross of allowance for credit losses).

	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	Total
December 31, 2023							
Unutilized credit limit of credit card holders	₱89,916,523	₱-	₱-	₱-	₱-	₱-	₱89,916,523
Committed loan line	13,155,504	-	937,500	3,191,021	1,500,000	-	18,784,025
Unused commercial letters of credit	1,657,802	5,269,914	6,275,753	11,201,829	11,643,658	10,456,686	46,505,642
Outstanding guarantees	833,749	-	-	-	-	-	833,749
Inward bills for collection	1,451,832	134,744	28,965	-	-	-	1,615,541
Outward bills for collection	107,422	111,062	13,880	-	-	-	232,364
Financial guarantees with commitment	-	-	-	143,636	4,019	106,619	254,274
	₱107,122,832	₱5,515,720	₱7,256,098	₱14,536,486	₱13,147,677	₱10,563,305	₱158,142,118
December 31, 2022							
Unutilized credit limit of credit card holders	₱53,158,655	₱-	₱-	₱-	₱-	₱-	₱53,158,655
Committed loan line	1,882,108	-	11,835,013	2,311,500	16,441,711	-	32,470,332
Unused commercial letters of credit	1,226,879	3,100,558	6,851,960	10,334,487	10,608,538	5,398,641	37,521,063
Outstanding guarantees	899,839	-	-	-	-	-	899,839
Inward bills for collection	829,173	78,916	37,639	5,124	-	-	950,852
Outward bills for collection	237,609	4,246	180,984	-	131	-	422,970
Financial guarantees with commitment	-	1,239	14,946	9,033	2,750	-	27,968
	₱58,234,263	₱3,184,959	₱18,920,542	₱12,660,144	₱27,053,130	₱5,398,641	₱125,451,679

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios and manages those portfolios separately.

The Group manages its market risk exposures through various established structures, processes and measurement tools.

- Treasury Group, the unit in charge of managing customer flows, liquidity and interest rate risk in the banking book (IRRBB), and that which handles most of the proprietary trading of the Group, is assigned with risk limits by the ROC.
- The Risk Management Group performs daily monitoring of compliance with policies, procedures and risk limits and accordingly makes recommendations, where appropriate.
- The ALCO is the senior decision making body for the management of all market risks related to asset and liability management, and the trading and ac and crual books.
- VaR is the statistical model used by the Group to measure the market risk of its trading portfolio, with the confidence level set at 99%.

The market risk measurement models are subjected to periodic back testing to ensure validity of market assumptions used.

Other risk management tools utilized by the Parent Company are as follows:

- Loss limits
- Position and duration limits, where appropriate
- Mark-to-market valuation
- VaR limits
- Stress testing

Additional risk monitoring tools were likewise adopted to manage under fluid market environment. The tools include sensitivity analyses to pinpoint vulnerabilities in terms of profit or loss and capital erosion.



Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Bank defines Interest Rate Risk in the Banking Book as the risk of deterioration in the net interest income or capital of bank arising from the timing and rate mismatch of its assets and liabilities combined with unfavorable movements in interest rates.

The Parent Company follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Management of IRRBB entails identifications of risks in the banking book, modelling of balance sheet account behavior, measurement of interest rate gap, estimation of Earnings-at-Risk, interest rate stress-testing, calculation of change in Economic Value of Equity (EVE), reporting to ALCO, Risk Oversight Committee and the Board of Directors, model validation and maintenance, and regular audit.

Interest rate risk exposures are reported via the monthly repricing gap schedule. The repricing gap report highlights mismatches in the repricing tenors of assets and liabilities. Repricing gaps are calculated by distributing the statements of financial position accounts into time buckets based on the next repricing dates of individual items. For non-maturing deposits, distinction is made between the stable (i.e. core) and non-stable portions, where the former is spread in time buckets aligned with Basel's IRRBB document while the latter is bucketed in short-term tenors. For time deposits and loans, model assumptions were developed based on historical experience of the Bank to capture early redemption risk and prepayment risk. These are adjusted using scaling factors under different interest rate shocks and stress scenarios when measuring the impact of IRRBB in economic value. After slotting the balance sheet items into time buckets, the resulting difference between the amount of the assets and the amount of the liabilities that will reprice within a particular time bucket constitutes a repricing gap.

The Group employs gap analysis to measure the sensitivity of its assets and liabilities to fluctuations in market interest rates for any given period. A positive gap occurs when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities during a period of rising interest rates since it is in a better position to invest in higher yielding assets more quickly than it would need to refinance its interest-bearing liabilities. Conversely, during a period of falling interest rates, a positively gapped position could result in restrained growth or declining net interest income.

The Delta EVE is a cash flow calculation that takes the present value of all asset cash flows and subtracts the present value of all liability cash flows. This measure is defined as a bank's value sensitivity to changes in market rates. Delta EVE will complement earnings-at-risk (EaR) and value-at-risk (VaR) as the Group's measure of interest rate risk. As of December 31, 2023, the Parent Company's Delta EVE is at 8.86%, arising from parallel down interest rate shock scenario.

In 2022, to manage repricing gaps in relation to the re-establishment of the HTC government securities business model, the Parent Company has applied a notional limit to its HTC government securities as a percentage of its total interest earning assets.



The following tables set forth the asset-liability gap position of the Group and of the Parent Company as of December 31, 2023 and 2022 (amounts in millions):

	Consolidated					Total
	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
December 31, 2023						
Rate-sensitive Financial Assets						
Financial assets at FVTPL:						
HFT investments:						
Government securities	₱9,682	₱-	₱-	₱-	₱-	₱9,682
Private bonds	282	-	-	-	-	282
Total HFT investments	9,964	-	-	-	-	9,964
Derivative assets	147	98	370	297	10	922
Total financial assets at FVTPL	10,111	98	370	297	10	10,886
Financial assets at amortized cost:						
Due from BSP and other banks and Interbank loans receivable and SPURA with the BSP						
	57,925	-	2,000	500	1,500	61,925
Investment securities at amortized cost - gross of allowance						
	-	140	7,548	7,114	61,405	76,207
Receivable from customers and other receivables - gross of allowance						
	114,832	39,096	67,019	31,118	301,782	553,847
Total financial assets at amortized cost	172,757	39,236	76,567	38,732	364,687	691,979
Financial assets at FVTOCI	2,286	3,579	1,470	291	131,714	139,340
Total rate-sensitive assets	185,154	42,913	78,407	39,320	496,411	842,205
Rate-sensitive Financial Liabilities						
Deposit liabilities	428,011	68,749	21,906	30,213	57,652	606,531
Bills payable and SSURA	12,151	6,043	27,521	3,266	2,358	51,339
Notes and bonds payable	15,995	-	14,572	-	18,397	48,964
Total rate-sensitive liabilities	456,157	74,792	63,999	33,479	78,407	706,834
Asset-Liability Gap	(₱271,003)	(₱31,879)	₱14,408	₱5,841	₱418,004	₱135,371
December 31, 2022						
Rate-sensitive Financial Assets						
Financial assets at FVTPL:						
HFT investments:						
Government securities	₱4,804	₱-	₱-	₱-	₱-	₱4,804
Private bonds	98	-	-	-	-	98
Total HFT investments	4,902	-	-	-	-	4,902
Derivative assets	622	536	303	455	748	2,664
Total financial assets at FVTPL	5,524	536	303	455	748	7,566
Financial assets at amortized cost:						
Due from BSP and other banks and Interbank loans receivable and SPURA with the BSP						
	106,626	-	2,000	-	1,998	110,624
Investment securities at amortized cost - gross of allowance						
	328	1,030	737	3,519	63,616	69,230
Receivable from customers and other receivables - gross of allowance						
	108,095	27,193	37,947	74,622	271,239	519,096
Total financial assets at amortized cost	215,049	28,223	40,684	78,141	336,853	698,950
Financial assets at FVTOCI	2,302	518	222	231	109,204	112,477
Total rate-sensitive assets	222,875	29,277	41,209	78,827	446,805	818,993
Rate-sensitive Financial Liabilities						
Deposit liabilities	439,036	46,946	43,642	52,574	23,640	605,838
Bills payable and SSURA	18,701	10,854	6,181	33	5,151	40,920
Notes and bonds payable	-	-	-	16,705	30,407	47,112
Total rate-sensitive liabilities	457,737	57,800	49,823	69,312	59,198	693,870
Asset-Liability Gap	(₱234,862)	(₱28,523)	(₱8,614)	₱9,515	₱387,607	₱125,123



	Parent Company					Total
	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
December 31, 2023						
Rate-sensitive Financial Assets						
Financial assets at FVTPL:						
HFT investments:						
Government securities	₱9,682	₱-	₱-	₱-	₱-	₱9,682
Private bonds	282	-	-	-	-	282
Total HFT investments	9,964	-	-	-	-	9,964
Derivative assets	147	98	370	297	10	922
Total financial assets at FVTPL	10,111	98	370	297	10	10,886
Financial assets at amortized cost:						
Due from BSP and other banks and Interbank loans receivable and SPURA with the BSP	57,866	-	2,000	500	1,500	61,866
Investment securities at amortized cost - gross of allowance	-	140	7,548	7,114	61,405	76,207
Receivable from customers and other receivables - gross	116,040	39,096	67,019	31,118	301,781	555,054
Total financial assets at amortized cost	173,906	39,236	76,567	38,732	364,686	693,127
Financial assets at FVTOCI	2,286	3,579	1,470	291	131,714	139,340
Total rate-sensitive assets	186,303	42,913	78,407	39,320	496,410	843,353
Rate-sensitive Financial Liabilities						
Deposit liabilities	430,262	68,749	21,906	30,213	57,652	608,782
Bills payable and SSURA	12,130	6,043	27,521	3,266	2,313	51,273
Notes and bonds payable	15,995	-	14,572	-	18,397	48,964
Total rate-sensitive liabilities	458,387	74,792	63,999	33,479	78,362	709,019
Asset-Liability Gap	(₱272,084)	(₱31,879)	₱14,408	₱5,841	₱418,048	₱134,334
December 31, 2022						
Rate-sensitive Financial Assets						
Financial assets at FVTPL:						
HFT investments:						
Government securities	₱4,804	₱-	₱-	₱-	₱-	₱4,804
Private bonds	98	-	-	-	-	98
Total HFT investments	4,902	-	-	-	-	4,902
Derivative assets	622	536	303	455	748	2,664
Total financial assets at FVTPL	5,524	536	303	455	748	7,566
Financial assets at amortized cost:						
Due from BSP and other banks and Interbank loans receivable and SPURA with the BSP	106,562	-	2,000	-	1,998	110,560
Investment securities at amortized cost - gross of allowance	328	1,030	737	3,519	63,616	69,230
Receivable from customers and other receivables - gross	107,729	27,193	37,947	74,622	271,239	518,730
Total financial assets at amortized cost	214,619	28,223	40,684	78,141	336,853	698,520
Financial assets at FVTOCI	2,303	518	222	231	109,203	112,477
Total rate-sensitive assets	222,446	29,277	41,209	78,827	446,804	818,563
Rate-sensitive Financial Liabilities						
Deposit liabilities	467,944	35,410	18,188	15,938	70,398	607,878
Bills payable and SSURA	18,666	10,804	6,181	-	5,151	40,802
Notes and bonds payable	-	-	-	16,705	30,407	47,112
Total rate-sensitive liabilities	486,610	46,214	24,369	32,643	105,956	695,792
Asset-Liability Gap	(₱264,164)	(₱16,937)	₱16,840	₱46,184	₱340,848	₱122,771



The following table provides for the average effective interest rates by period of repricing (or by period of maturity if there is no repricing) of the Group and of the Parent Company as of December 31, 2023 and 2022:

	Consolidated			Parent Company		
	Less than 3 months	3 months to 1 year	Greater than 1 year	Less than 3 months	3 months to 1 year	Greater than 1 year
December 31, 2023						
Peso						
Financial Assets						
Due from BSP	—	—	—	—	—	—
Due from banks	7.47%	8.01%	8.37%	7.47%	8.01%	8.37%
Interbank loans	1.31%	—	—	1.31%	—	—
Investment securities*	4.43%	6.11%	—	4.43%	6.11%	—
Loans and receivables	5.45%	7.53%	7.88%	5.45%	7.53%	7.88%
Financial Liabilities						
Deposit liabilities other than LTNCD	3.94%	4.18%	4.21%	3.94%	4.18%	4.21%
LTNCD	—	—	4.03%	—	—	4.03%
Bills payable and SSURA	—	—	8.00%	—	—	8.00%
Notes payable	—	—	4.29%	—	—	4.29%
USD						
Financial Assets						
Due from banks	1.00%	—	—	1.00%	—	—
Investment securities*	3.41%	4.36%	—	3.41%	4.36%	—
Loans and receivables	4.82%	5.94%	6.29%	4.82%	5.94%	6.29%
Financial Liabilities						
Deposit liabilities	1.33%	1.05%	3.26%	1.33%	1.05%	3.26%
Bills payable	4.87%	2.49%	—	4.87%	2.49%	—
Notes payable	—	—	—	—	—	—
December 31, 2022						
Peso						
Financial Assets						
Due from BSP	1.68%	—	—	1.68%	0.00%	—
Due from banks	—	3.75%	—	—	5.97%	—
Interbank loans	0.15%	—	—	0.15%	—	—
Investment securities*	5.04%	3.96%	4.18%	5.04%	3.96%	4.18%
Loans and receivables	4.43%	6.10%	7.21%	4.43%	6.10%	7.21%
Financial Liabilities						
Deposit liabilities other than LTNCD	5.00%	3.70%	3.99%	5.00%	3.70%	3.99%
LTNCD	—	—	4.10%	—	—	4.10%
Bills payable and SSURA	—	—	8.00%	—	—	8.00%
Notes payable	—	—	4.29%	—	—	4.29%
USD						
Financial Assets						
Due from banks	0.35%	—	—	0.35%	—	—
Investment securities*	2.62%	3.85%	2.93%	2.62%	3.85%	2.93%
Loans and receivables	3.61%	4.43%	5.74%	3.61%	4.43%	5.74%
Financial Liabilities						
Deposit liabilities	3.36%	3.15%	2.92%	3.36%	3.15%	2.92%
Bills payable	4.19%	2.35%	4.85%	4.19%	2.35%	4.85%
Notes payable	—	—	4.68%	—	—	4.68%

* Consists of Financial assets at FVTPL, Financial assets at FVTOCI and Investment securities at amortized cost

Market Risk in the Trading Book

The Parent Company measures VaR in order to estimate if the market value of an asset or of a portfolio of assets is likely to change over a certain time period as market factors change.



VaR computation is a two-step process which involves calculation of the changes in the relevant risk factors then computing for the corresponding impact on the exposure's value. A risk factor is defined as a variable that causes a change in the value of a financial instruments or a portfolio of financial instruments.

VaR Methodology

The Parent Company uses a Historical Model approach to calculate VaR for all products.

Unlike parametric methods, the historical approach does not put specific assumptions on the distribution (ex. normality assumption) of the historical returns. Instead, the Historical Model estimates VaR using historical changes in market factors to construct an empirical distribution of potential profits and losses, and then reading off the loss that is exceeded at a specified confidence level and period. The Parent Company employs Historical model using a Taylor expansion composed of "Greek" sensitivities (Delta and Gamma) characterizing market behavior.

VaR Parameters

The Group uses one-year historical observations consisting of 365 data points with a 99% confidence level and a 1-day holding period. This implies there is 99% confidence that the portfolio will not lose more than the calculated VaR over the next day.

The VaR figures are backtested against actual and hypothetical profit and loss to validate the robustness of the VaR model. Likewise, to complement the VaR measure, the Parent Company performs stress tests wherein the trading portfolios are valued under extreme market scenarios not covered by the confidence interval of the VaR model.

Since VaR is an integral part of the Parent Company's market risk management, VaR limits are set annually for all financial trading activities based on its risk appetite level. Exposures are then monitored daily against the established VaR limits.

The following table provides the VaR summary of the Parent Company as of December 31, 2023 and 2022 (amounts in millions):

Component VaR <i>(Jan 3 to Sep 6, 2023)</i>	FX and FX Swaps	Fixed Income	Interest Rate Swap Agreements*	Other Derivatives
2023-Highest	35,360.45	186,785.30	1,155.53	17,673.78
2023-Lowest	18.44	33,261.20	0.04	43.67
2023-Average Daily	7,270.63	107,091.28	335.89	1,293.65

**Includes interest rate swap transactions of same currency, e.g., PHP fix/float, and cross currency swaps, e.g., USD/PHP fix/fix*

Stand-alone VaR <i>(Sep 7 to Dec 31, 2023)</i>	FX and FX Swaps	Fixed Income	Interest Rate Swap Agreements*	Other Derivatives
As of Dec. 31, 2023	9,843.33	47,191.52	54,269.82	1,555.45
2023-Highest	45,482.34	68,837.74	56,719.42	5,802.12
2023-Lowest	5,765.02	44,012.10	235.65	807.88
2023-Average Daily	14,972.56	57,592.19	4,657.22	1,890.04

**Includes interest rate swap transactions of same currency, e.g., PHP fix/float, and cross currency swaps, e.g., USD/PHP fix/fix*



Component VaR 31-Dec-22	FX and FX Swaps	Fixed Income	Interest Rate Swap Agreements*	Other Derivatives
As of Dec. 31, 2022	7.083	7.305	5.523	6.505
Max as of Dec. 31 2022	26.876	96.215	12.595	9.587
Min as of Dec. 31, 2022	0.72	5.008	1.943	0.784
Ave as of Dec. 31, 2022	6.996	27.942	6.189	5.53

*Includes interest rate swap transactions of same currency, e.g., PHP fix/float, and cross currency swaps, e.g., USD/PHP fix/fix

In September 2023, the Parent Company shifted from the use of component VaR which reflects decomposition of the risk of the portfolio to stand-alone VaR to properly capture the risk per risk factor.

The amounts displayed for disclosure above shows the stand-alone VaR for each product.

The Parent Company's trading in fixed income securities together with the interest rate swaps are exposed to movements in interest rates. Foreign exchange swaps and other derivatives such as options and gold forwards are exposed to multiple risk factors including foreign exchange rates, interest rates, and sometimes even the volatility of these factors, e.g., for options, the volatility of the FX rates are also being traded.

The high and low of the total portfolio may not equal to the sum of the individual components as the high and low of individual portfolios may have occurred on different trading days.

Equity price risk

Equity price risk is the risk that the fair values of equities will decrease as a result of changes in the levels of equity indices and the value of individual stocks. As of December 31, 2023 and 2022, this risk originates from the open stock positions of SB Equities. The Bank has no significant equity price risk as of December 31, 2023 and 2022.

The Group, except for SBEL, has no equity securities classified under Financial assets at FVTOCI as of December 31, 2023 and 2022 which are affected by changes in the PSEi as these securities are mainly golf and club shares.

Market Risk in the Non-Trading Book

The accrual book pertains to the assets and liabilities that make up the Parent Company's balance sheet. Such accrual positions are sensitive to changes in interest rates. The Parent Company monitors the exposure of non-trading assets and liabilities to fluctuations in interest rates by measuring the impact of interest rate movements on its interest income.

The following tables set forth, for the period indicated, the sensitivity of the Parent Company's net interest income and equity to reasonably possible changes in interest rates with all other variables held constant:

Currency	2023				2022			
	PHP		USD		PHP		USD	
Changes in interest rates (in basis points)	+100	-100	+100	-100	+100	-100	+100	-100
Change in annualized net interest income*	(₱348)	₱348	(₱1,036)	₱1,036	(₱835)	₱835	(₱10)	₱10

*Amounts in millions

EaR is the bank's key measure of IRRBB. EaR is the sensitivity of the statement of income given assumed changes in interest rates on the net interest income for one year, based on the floating rate, non-trading financial assets and financial liabilities held at each statement of financial position date.



This approach focuses on the impact in profit or loss of holding on to the gaps over a 1-year time frame. The Bank calculates Earnings-at-Risk on a monthly basis.

The take-off point for the EaR calculation is the bank's repricing gap model which takes into account behavior. To control the interest rate repricing risk in the banking books, the Parent Company sets a limit on the EaR measure.

The Parent Company recognizes that this metric assumes a "business-as-usual" scenario and, therefore, do not show potential losses under a "stress" scenario. To address this limitation, the Parent Company performs regular stress testing to test its ability to cope with adverse changes in interest rates under different stress scenarios. This process involves applying interest rate shocks of different magnitudes to the current repricing gap positions in the balance sheet. Stress-testing involves yield curve shifts based on economic forecasts and regulatory guidelines. The bank uses hedging products such as interest rate swaps to hedge its banking book.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency-denominated deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

The following tables summarize the Group's and the Parent Company's exposure to currency risk as of December 31, 2023 and 2022. Included in the tables are the Group's and the Parent Company's assets and liabilities at carrying amounts, categorized by currency (amounts in Philippine Peso thousands equivalent and excludes FCDU USD-denominated instruments).

	2023			2022		
	USD	Others*	Total	USD	Others*	Total
Financial Assets						
Cash and cash equivalents	P720	P204,460	P205,180	P183	P251,484	P251,667
Due from other banks	3,495,948	2,858,751	6,354,699	6,592,053	4,773,930	11,365,983
Financial assets at FVTPL	-	-	-	30,951	-	30,951
Loans and receivables	5,524,662	674,593	6,199,255	10,667,215	71,403	10,738,618
Other assets	1	1,922	1,923	-	-	-
Total financial assets	9,021,331	3,739,726	12,761,057	17,290,402	5,096,817	22,387,219
Financial Liabilities						
Deposit liabilities	-	33,131,529	33,131,529	-	4,158,853	4,158,853
Derivative liabilities	-	-	-	-	-	-
Bills payable and SSURA	(41)	901	860	955,611	157	955,768
Acceptances payable	2,773,929	8,805	2,782,734	1,577,162	71,403	1,648,565
Margin deposits and cash letters of credit	4,551	-	4,551	32,463	-	32,463
Accrued interest, taxes and other expenses	-	104,413	104,413	21,990	851	22,841
Other liabilities	398,956	58,139	457,095	43,316	4,923	48,239
Total financial liabilities	3,177,395	33,303,787	36,481,182	2,630,542	4,236,187	6,866,729
Currency Swaps and Forwards	93,957,497	30,693,963	124,651,460	(472,157)	261,642	(210,515)
Net Exposure	P99,801,433	P1,129,902	P100,931,335	P14,187,703	P1,122,272	P15,309,975

* Consists of Euro, British pound, Australian dollar, Canadian dollar, Hong Kong dollar, Singapore dollar, New Zealand dollar, Swiss franc, Japanese yen, Danish kroner, Thai baht, Chinese yuan, and South Korean won

Information relating to the Parent Company's currency derivatives are disclosed in Note 6. The Parent Company has outstanding cross-currency swaps with notional amount of USD1.8million and USD304.8 million as of December 31, 2023 and 2022, respectively, and foreign currency forward transactions with notional amount of USD3.1 billion (bought) and USD0.9 billion (sold) as of December 31, 2023, and USD1.3 billion (bought) and USD0.9 billion (sold) as of December 31, 2022. The impact of the range of reasonably possible changes in the US Dollar-Philippine Peso exchange rate (except those in the FCDU books) on the Parent Company's non-consolidated pre-tax income in 2023 and 2022 has been included in the VaR summary per product line.



Operational Risk

Operational risk is the probability of loss arising from fraud, unauthorized activities, errors, omissions, system failures, cyber incidents or from external events. This is the broadest risk type encompassing product development and delivery, operational processing, systems development, computing systems, complexity of products and services, and the internal control environment.

Operational Risk Management is considered a critical element in the Bank's commitment to sound management and corporate governance. Under the Bank's operational risk management framework, business units are provided extensive guidance on the comprehensive identification and effective assessment of their operational risks and the corresponding controls to promote a forward-looking culture of risk management. This is complemented by continuous focus on issue management to address identified weaknesses, as well as by enhanced incident response capability to ensure preparedness in the event of significant risk occurrences.

Group policies and frameworks have been developed and implemented covering key areas such as technology risks, business continuity, fraud, and information security, as well as new risk areas like social media, environmental, social, and governance (ESG), and reputational risk. Guidelines and tools have also been enhanced for key operational risk activities such as Issue Management, Incident and Loss Reporting and Key Risk Indicators to improve reporting and oversight of the Bank's operational risk environment. The Risk and Control Self-Assessment process has also been updated to ensure effective identification, assessment, mitigation and monitoring of operational risks by the risk owners in the first line of defense.

There remains increased focus on operational resilience, with ongoing reviews of business continuity plans and crisis management playbooks, and planned upgrades to critical systems as part of IT disaster recovery efforts.

Increased digitalization in response to customer needs has been accompanied by enhanced alignment of the Bank's risk assessment and technology project management processes. Security controls were strengthened to mitigate cybersecurity and external fraud risks, particularly within the online banking services. Security awareness programs for both customers and staff have likewise been enhanced. Finally, third-party experts are contracted to assess and guide further improvements to both cybersecurity maturity and incident response capability. This is all to ensure that information security, fraud, resiliency, and other operational risks are adequately addressed.

Sustainability Risk

Environmental & Social Risk Management (ESRM) is the identification, measurement, assessment, monitoring and reporting of environmental and social risks associated with the Bank's lending and investment activities, and its operations. The Bank has incorporated environmental and social factors into the lending process and customer dialogue to align with its policies. The Bank understands the consequences of failing to appropriately manage ESG issues can directly impact its reputation, its operations, and the communities where the Bank and its clients operate.



6. Fair Value Measurement and Derivative Transactions

The following table provides the fair value hierarchy lending of the Group's and the Parent Company's assets and liabilities measured at fair value and those for which fair values should be disclosed:

	Consolidated				
	Carrying Value	Fair Value			
Total		Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
December 31, 2023					
Assets Measured at Fair Value					
Financial assets at FVTPL:					
HFT investments:					
Government securities	₱9,681,878	₱9,681,878	₱2,913,828	₱6,768,050	₱-
Private bonds	282,092	282,092	174,580	107,512	-
Equity securities	25	25	-	25	-
Total HFT investments	9,963,995	9,963,995	3,088,408	6,875,587	-
Derivative assets:					
Currency forwards	629,854	629,854	-	629,854	-
Interest rate swaps	239,882	239,882	-	239,882	-
Interest rate future	40,776	40,776	-	40,776	-
Cross-currency swaps	11,828	11,828	-	11,828	-
Bond forwards and options	16	16	-	16	-
Total derivative assets	922,356	922,356	-	922,356	-
Total financial assets at FVTPL	10,886,351	10,886,351	3,088,408	7,797,943	-
Financial assets at FVTOCI:					
Treasury notes and bills	82,365,379	82,365,379	45,017,540	37,347,839	-
Treasury bonds	55,451,234	55,451,234	46,369,066	9,082,168	-
Private bonds	1,523,151	1,523,151	-	1,523,151	-
Equity securities	521,285	521,285	-	521,285	-
	139,861,049	139,861,049	91,386,606	48,474,443	-
	₱150,747,400	₱150,747,400	₱94,475,014	₱56,272,386	₱-
Assets for which Fair Values are Disclosed					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost:					
Private bonds	₱57,825,124	₱56,774,956	₱22,295,281	₱34,479,675	₱-
Treasury bonds	14,958,498	14,988,687	-	14,988,687	-
Treasury notes and bills	3,372,462	3,447,353	815,028	2,632,325	-
Total investment securities at amortized cost	76,156,084	75,210,996	23,110,309	52,100,687	-
Receivable from customers:					
Corporate lending	376,237,689	370,771,905	-	-	370,771,905
Consumer lending	71,502,587	70,622,747	-	-	70,622,747
Small business lending	550,177	549,433	-	-	549,433
Residential mortgages	82,517,787	81,752,717	-	-	81,752,717
Total receivable from customers	530,808,240	523,696,802	-	-	523,696,802
Other receivables	7,521,159	7,521,159	-	-	7,521,159
Other assets	708,515	663,894	-	-	663,894
Total financial assets at amortized cost	615,193,998	607,092,851	23,110,309	52,100,687	531,881,855
Non-financial Assets					
Investment properties	4,790,602	6,504,188	-	-	6,504,188
	₱619,984,600	₱613,597,039	₱23,110,309	₱52,100,687	₱538,386,043
Liabilities Measured at Fair Value					
Financial liabilities at FVTPL:					
Derivative liabilities:					
Currency forwards	₱2,940,101	₱2,940,101	₱-	₱2,940,101	₱-
Interest rate futures	28,592	28,592	-	28,592	-
Bonds forward	13	13	-	13	-
Total financial liabilities at FVTPL	2,968,706	2,968,706	-	2,968,706	-
Liabilities for which Fair Values are Disclosed					
Deposit liabilities excluding LTNCD	596,115,373	597,217,974	-	-	597,217,974
Notes Payable	48,963,521	49,121,866	-	-	49,121,866
LTNCD	10,416,014	10,358,450	-	-	10,358,450
Bills payable and SSURA	51,339,105	51,663,319	-	-	51,663,319
	₱706,834,013	₱708,361,609	₱-	₱-	₱708,361,609



	Consolidated				
	Carrying Value	Fair Value			
		Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2022					
Assets Measured at Fair Value					
Financial assets at FVTPL:					
HFT investments:					
Government securities	₱4,804,041	₱4,804,041	₱179,691	₱4,624,350	₱-
Private bonds	98,124	98,124	62,254	35,870	-
Equity securities	25	25	-	25	-
Total HFT investments	4,902,190	4,902,190	241,945	4,660,245	-
Derivative assets:					
Currency forwards	1,646,303	1,646,303	-	1,646,303	-
Interest rate swaps	710,772	710,772	-	710,772	-
Cross-currency swaps	304,835	304,835	-	304,835	-
Bond forwards and options	2,472	2,472	-	2,472	-
Total derivative assets	2,664,382	2,664,382	-	2,664,382	-
Total financial assets at FVTPL	7,566,572	7,566,572	241,945	7,324,627	-
Financial assets at FVTOCI:					
Treasury notes and bills	52,666,184	52,666,184	18,403,670	34,262,514	-
Treasury bonds	55,759,876	55,759,876	17,000,162	38,759,714	-
Private bonds	4,050,963	4,050,963	-	4,050,963	-
Equity securities	414,470	414,470	-	414,470	-
	112,891,493	112,891,493	35,403,832	77,487,661	-
	₱120,458,065	₱120,458,065	₱35,645,777	₱84,812,288	₱-
Assets for which Fair Values are Disclosed					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost:					
Private bonds	₱57,224,404	₱54,764,889	₱21,812,952	₱32,951,937	₱-
Treasury bonds	9,308,398	9,045,312	-	9,045,312	-
Treasury notes and bills	2,697,158	2,705,775	1,088,219	1,617,556	-
Total investment securities at amortized cost	69,229,960	66,515,976	22,901,171	43,614,805	-
Receivable from customers:					
Corporate lending	375,938,991	369,910,601	-	-	369,910,601
Consumer lending	50,010,942	48,152,662	-	-	48,152,662
Small business lending	669,819	663,934	-	-	663,934
Residential mortgages	69,851,609	69,222,082	-	-	69,222,082
Total receivable from customers	496,471,361	487,949,279	-	-	487,949,279
Other receivables	6,146,073	6,146,073	-	-	6,146,073
Other assets	527,231	478,574	-	-	478,574
Total financial assets at amortized cost	572,374,625	561,089,902	22,901,171	43,614,805	494,573,926
Non-financial Assets					
Investment properties	3,204,671	3,995,533	-	-	3,995,533
	₱575,579,296	₱565,085,435	₱22,901,171	₱43,614,805	₱498,569,459
Liabilities Measured at Fair Value					
Financial liabilities at FVTPL:					
Derivative liabilities:					
Currency forwards	₱1,126,730	₱1,126,730	₱-	₱1,126,730	₱-
Interest rate swaps	622,754	622,754	-	622,754	-
Bonds forward	3,334	3,334	-	3,334	-
Total financial liabilities at FVTPL	1,752,818	1,752,818	-	1,752,818	-
Liabilities for which Fair Values are Disclosed					
Deposit liabilities excluding LTNCD	581,069,782	580,435,471	-	-	580,435,471
Notes Payable	47,111,693	47,162,308	-	-	47,162,308
LTNCD	24,766,786	24,666,830	-	-	24,666,830
Bills payable and SSURA	40,920,403	40,914,705	-	-	40,914,705
	₱693,868,664	₱693,179,314	₱-	₱-	₱693,179,314



	Parent Company				
	Carrying Value	Total	Fair Value		
			Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2023					
Assets Measured at Fair Value					
Financial assets at FVTPL:					
HFT investments:					
Government securities	₱9,681,878	₱9,681,878	₱2,913,828	₱6,768,050	₱-
Private bonds	282,092	282,092	174,580	107,512	-
Total HFT investments	9,963,970	9,963,970	3,088,408	6,875,562	-
Derivative assets:					
Currency forwards	629,854	629,854	-	629,854	-
Interest rate swaps	239,882	239,882	-	239,882	-
Interest rate future	40,776	40,776	-	40,776	-
Cross-currency swaps	11,828	11,828	-	11,828	-
Bond forwards and options	16	16	-	16	-
Total derivative assets	922,356	922,356	-	922,356	-
Total financial assets at FVTPL	10,886,326	10,886,326	3,088,408	7,797,918	-
Financial assets at FVTOCI:					
Treasury notes and bills	82,365,379	82,365,379	45,017,540	37,347,839	-
Treasury bonds	55,451,234	55,451,234	46,369,066	9,082,168	-
Private bonds	1,523,151	1,523,151	-	1,523,151	-
Equity securities	476,875	476,875	-	476,875	-
	139,816,639	139,816,639	91,386,606	48,430,033	-
	₱150,702,965	₱150,702,965	₱94,475,014	₱56,227,951	₱-
Assets for which Fair Values are Disclosed					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost:					
Private bonds	₱57,825,124	₱56,774,956	₱22,295,281	₱34,479,675	₱-
Treasury bonds	14,958,498	14,988,687	-	14,988,687	-
Treasury notes and bills	3,372,462	3,447,353	815,028	2,632,325	-
Total investment securities at amortized cost	76,156,084	75,210,996	23,110,309	52,100,687	-
Receivable from customers:					
Corporate lending	377,892,991	372,427,207	-	-	372,427,207
Consumer lending	71,416,364	70,536,524	-	-	70,536,524
Small business lending	550,177	549,433	-	-	549,433
Residential mortgages	82,517,787	81,752,717	-	-	81,752,717
Total receivable from customers	532,377,319	525,265,881	-	-	525,265,881
Other receivables	7,186,809	7,186,809	-	-	7,186,809
Other assets	710,517	666,271	-	-	666,271
Total financial assets at amortized cost	616,430,729	608,329,957	23,110,309	52,100,687	533,118,961
Non-financial Assets					
Investment properties	4,789,827	6,503,413	-	-	6,503,413
	₱621,220,556	₱614,833,370	₱23,110,309	₱52,100,687	₱539,622,374
Liabilities Measured at Fair Value					
Financial liabilities at FVTPL:					
Derivative liabilities:					
Currency forwards	2,940,101	2,940,101	-	2,940,101	-
Interest rate swaps	₱28,592	₱28,592	₱-	₱28,592	₱-
Bonds forward	13	13	-	13	-
Total financial liabilities at FVTPL	₱2,968,706	₱2,968,706	₱-	₱2,968,706	₱-
Liabilities for which Fair Values are Disclosed					
Financial liabilities at amortized cost:					
Deposit liabilities excluding LTNCD	₱598,366,398	₱599,468,999	₱-	₱-	₱599,468,999
Notes Payable	48,963,521	49,121,866	-	-	49,121,866
LTNCD	10,416,014	10,358,450	-	-	10,358,450
Bills payable and SSURA	51,273,271	51,597,485	-	-	51,597,485
	₱709,019,204	₱710,546,800	₱-	₱-	₱710,546,800



	Parent Company				
	Fair Value				
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2022					
Assets Measured at Fair Value					
Financial assets at FVTPL:					
HFT investments:					
Government securities	₱4,804,041	₱4,804,041	₱179,691	₱4,624,350	₱-
Private bonds	98,124	98,124	62,254	35,870	-
Total HFT investments	4,902,165	4,902,165	241,945	4,660,220	-
Derivative assets:					
Currency forwards	1,646,303	1,646,303	-	1,646,303	-
Interest rate swaps	710,772	710,772	-	710,772	-
Cross-currency swaps	304,835	304,835	-	304,835	-
Bond forwards and options	2,472	2,472	-	2,472	-
Total derivative assets	2,664,382	2,664,382	-	2,664,382	-
Total financial assets at FVTPL	7,566,547	7,566,547	241,945	7,324,602	-
Financial assets at FVTOCI:					
Treasury notes and bills	52,666,184	52,666,184	18,403,670	34,262,514	-
Treasury bonds	55,759,876	55,759,876	17,000,162	38,759,714	-
Private bonds	4,050,963	4,050,963	-	4,050,963	-
Equity securities	374,679	374,679	-	374,679	-
	112,851,702	112,851,702	35,403,832	77,447,870	-
	₱120,418,249	₱120,418,249	₱35,645,777	₱84,772,472	₱-
Assets for which Fair Values are Disclosed					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost:					
Private bonds	₱57,224,404	₱54,764,889	₱21,812,952	₱32,951,937	₱-
Treasury bonds	9,308,398	9,045,312	-	9,045,312	-
Treasury notes and bills	2,697,158	2,705,775	1,088,219	1,617,556	-
Total investment securities at amortized cost	69,229,960	66,515,976	22,901,171	43,614,805	-
Receivable from customers:					
Corporate lending	376,388,458	370,360,068	-	-	370,360,068
Consumer lending	49,731,154	47,872,874	-	-	47,872,874
Small business lending	669,819	663,934	-	-	663,934
Residential mortgages	69,851,609	69,222,082	-	-	69,222,082
Total receivable from customers	496,641,040	488,118,958	-	-	488,118,958
Other receivables	5,644,385	5,644,385	-	-	5,644,385
Other assets	529,234	480,989	-	-	480,989
Total financial assets at amortized cost	572,044,619	560,760,308	22,901,171	43,614,805	494,244,332
Non-financial Assets					
Investment properties	3,203,896	3,994,758	-	-	3,994,758
	₱575,248,515	₱564,755,066	₱22,901,171	₱43,614,805	₱498,239,090
Liabilities Measured at Fair Value					
Financial liabilities at FVTPL:					
Derivative liabilities:					
Currency forwards	₱1,126,730	₱1,126,730	₱-	₱1,126,730	₱-
Interest rate swaps	622,754	622,754	-	622,754	-
Bonds forward	3,334	3,334	-	3,334	-
Total financial liabilities at FVTPL	₱1,752,818	₱1,752,818	₱-	₱1,752,818	₱-
Liabilities for which Fair Values are Disclosed					
Financial liabilities at amortized cost:					
Deposit liabilities excluding LTNCD	₱583,111,913	₱583,811,300	₱-	₱-	₱583,811,300
Notes Payable	47,111,693	47,162,308	-	-	47,162,308
LTNCD	24,766,786	24,666,830	-	-	24,666,830
Bills payable and SSURA	40,802,069	40,796,371	-	-	40,796,371
	₱695,792,461	₱696,436,809	₱-	₱-	₱696,436,809

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any adjustments for transaction costs, the instruments are included within Level 1 of the hierarchy.



For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models, the instruments are included in Level 2. Instruments included in Level 3 include those for which there is currently no active market.

During the years ended December 31, 2023 and 2022, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The methods and assumptions used by the Group in estimating the fair value of its financial instruments are:

COCI, due from BSP and other banks and interbank loans receivable and SPURA with the BSP
The carrying amounts approximate fair values considering that these accounts consist mostly of overnight deposits and floating rate placements.

Debt securities

Fair values are generally based upon quoted market prices, if available. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities

Fair values of quoted equity securities are based on quoted market prices. Fair values of unquoted equity securities are derived based on the adjusted net asset value method.

Receivable from customers and sales contracts receivable (included under 'Other receivables')

Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of loans and receivables.

Other receivables - Accounts receivable and accrued interest receivable

Carrying amounts approximate fair values given their short-term nature.

Investment properties

Fair value of investment properties are determined by independent or in-house appraisers using the market data approach. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued. Significant unobservable inputs in determining fair values include the following:

Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of the lot size differences on land value.



Time element An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investor's perceptions of the market over time, in which case, the current data is superior to historic data.

Discount Generally, asking prices in advertisements posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.

Other financial assets

The carrying amounts approximate fair values due to their short-term nature.

Derivative instruments

Derivative products are valued using valuation techniques using market observable inputs including foreign exchange rates and interest rate curves prevailing at the statements of financial position date. For interest rate swaps, cross-currency swaps and foreign exchange contracts, discounted cash flow model is applied. This valuation model discounts each cash flow of the derivatives at a rate that is dependent on the tenor of the cash flow.

Deposit liabilities (demand and savings deposits excluding long-term deposits)

The carrying amounts approximate fair values considering that these are due and demandable.

Long-term negotiable certificates of deposit (LTNCD) and subordinated note

Fair values of LTNCD and subordinated note are estimated using adjusted quoted market prices of comparable investments. The adjustments on market quoted prices are unobservable inputs.

Other financial liabilities

For accrued interest and other expenses and other financial liabilities, the carrying amounts approximate fair values due to their short-term nature.

The significant unobservable input used in the fair value measurement of the Group's financial assets and financial liabilities is credit-adjusted rates for similar types of financial instruments. Significant increases (decreases) in the credit-adjusted rates would result in a significantly lower (higher) fair value measurement.

Derivative Financial Instruments

The following tables set out the information about the Group's and the Parent Company's derivative financial instruments and the related fair values:

	2023			2022		
	Notional Amounts	Derivative Asset (Note 10)	Derivative Liability (Note 19)	Notional Amounts	Derivative Asset (Note 10)	Derivative Liability (Note 19)
Forward exchange bought	USD3,142,807	₱223,452	₱2,843,050	USD1,319,707	₱812,671	817,713
Forward exchange sold	USD935,432	406,402	97,051	USD940,797	833,632	309,017
Interest rate swaps	₱21,740,784	239,882	–	₱45,384,654	710,772	622,754
Bonds Forward	USD6,235	16	13	USD80,200	2,472	3,334
Warrants	USD250,258	–	–	USD250,258	–	–
Cross-currency swaps	USD3,240	11,828	–	USD 9,853	304,835	–
Interest rate futures	USD190,300	40,776	28,592	–	–	–
		₱922,356	₱2,968,706		₱2,664,382	₱1,752,818



The movements in the Group's and the Parent Company's derivative financial instruments follow:

	2023	2022
Derivative Assets (Note 10)		
Balance at beginning of year	₱2,664,382	₱1,240,315
Fair value changes during the year	(854,114)	1,159,083
Additions (settled) transactions	(887,912)	264,984
Balance at end of year	₱922,356	₱2,664,382
Derivative Liabilities (Note 19)		
Balance at beginning of year	₱1,752,818	₱1,285,386
Fair value changes during the year	1,726,501	(99,982)
Additions (settled) transactions	(510,613)	567,414
Balance at end of year	₱2,968,706	₱1,752,818

Fair value changes of derivatives other than forward contracts amounting to ₱0.2 billion gain and ₱0.4 billion gain in 2023 and 2022, respectively, are recognized as 'Trading and securities gain (loss) -net' in the statements of income (see Note 9), while fair value changes on forward contracts amounting to ₱2.8 billion loss in 2023 and ₱0.8 billion loss in 2022 are recognized as 'Foreign exchange gain - net' in the statements of income.

As of December 31, 2023 and 2022, the Parent Company has positions in the following types of derivatives:

Forwards

Forward contracts are contractual agreements to buy or sell a specified instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Parent Company with other financial institutions in which the Parent Company either receives or pays a floating rate in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Parent Company pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Interest rate futures

Futures contract is a contractual agreement made on a futures exchange to buy or sell particular assets at a predetermined price in the future. Futures contracts standardize the quality and quantity of the underlying asset.



Derivative financial instruments held or issued for trading purposes

The Parent Company's derivative trading activities relate to deals with customers which are normally laid off with counterparties. The Parent Company may also take positions with the expectation of generating profit from favorable movements in prices and rates on indices. Also included under this heading are any derivatives which do not meet hedge accounting requirements.

7. Due from Other Banks

This account consists of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Foreign banks	₱9,533,595	₱18,218,076	₱9,533,274	₱18,218,076
Local banks	2,489,854	1,880,437	2,430,651	1,816,349
	12,023,449	20,098,513	11,963,925	20,034,425
Allowance for credit losses				
Balance at beginning of year	1,222	1,323	1,048	1,165
Provision for (recovery of) credit losses (Note 13)	279	(159)	241	(212)
Foreign exchange adjustment	(59)	58	(26)	95
	1,442	1,222	1,263	1,048
	₱12,022,007	₱20,097,291	₱11,962,662	₱20,033,377

In 2023 and 2022, due from other banks were carried at Stage 1 and there were no transfers into and out of Stage 1.

For the year ended December 31, 2023, peso-denominated due from other banks bear nominal annual interest rates ranging from 0.03% to 0.45%, while foreign currency-denominated due from other banks bear nominal annual interest rates ranging from 0.03% to 2.90%. For the year ended December 31, 2022, peso-denominated due from other banks bear nominal annual interest rates ranging from 0.05% to 0.45%, while foreign currency-denominated due from other banks bear nominal annual interest rates ranging from 0.03% to 0.13%.

Total interest income on 'Due from other banks' earned by the Group amounted to ₱85.8 million, ₱16.5 million and ₱5.8 million for the years ended December 31, 2023, 2022 and 2021, respectively, while total interest income on 'Due from other banks' earned by the Parent Company amounted to ₱ 85.8 million, ₱16.5 million and ₱3.5 million for the years ended December 31, 2023, 2022 and 2021, respectively, included in 'Interest income on deposits with banks and others' in the statements of income.



8. Interest Income on Financial Investments

This account consists of interest income on:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Investment securities at amortized cost (Note 12)	₱3,503,872	₱2,047,909	₱1,217,012	₱3,503,872	₱2,047,909	₱1,217,012
Financial assets at FVTOCI (Note 11)	5,051,373	3,800,320	2,029,679	5,051,373	3,800,320	2,029,679
	8,555,245	5,848,229	3,246,691	8,555,245	5,848,229	3,246,691
Financial assets at FVTPL (Note 10):						
Derivatives	788,000	453,043	435,180	788,000	453,043	435,180
Held-for-trading	515,820	306,545	227,687	515,820	306,545	227,622
	1,303,820	759,588	662,867	1,303,820	759,588	662,802
	₱9,859,065	₱6,607,817	₱3,909,558	₱9,859,065	₱6,607,817	₱3,909,493

Ranges of annual fixed interest on financial investments follow:

	2023	2022	2021
Peso-denominated			
HFT investments	2.38% to 12.38%	2.38% to 13.00%	2.38%-9.38%
Investment securities at amortized cost	3.44% to 8.63%	3.25% to 8.63%	3.44%-6.88%
Debt financial assets at FVTOCI	2.38% to 9.25%	2.38% to 6.88%	2.38%-6.88%
Foreign currency-denominated			
HFT investments	1.38% to 10.63%	1.38% to 9.50%	2.13%-9.50%
Investment securities at amortized cost	1.00% to 7.39%	1.00% to 7.39%	2.13%-4.13%
Debt financial assets at FVTOCI	0.13% to 10.63%	0.13% to 10.63%	0.13%-10.63%

9. Trading and Securities Gain (Loss)

Net gains (losses) from trading/disposal of investment securities and derivatives follow:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Financial assets at FVTOCI (Note 11)	(₱132,350)	₱-	₱1,233,901	(₱132,350)	₱-	₱1,233,901
Financial assets at FVTPL:						
Held-for-trading investments (Note 10)	(23,836)	(44,728)	(271,579)	(24,157)	(44,790)	(273,225)
Derivatives (Note 6)	444,741	18,857	129,406	444,741	18,857	129,406
	420,905	(25,871)	(142,173)	420,584	(25,933)	(143,819)
	₱288,555	(₱25,871)	₱1,091,728	₱288,234	(₱25,933)	₱1,090,082



10. Financial Assets at Fair Value Through Profit or Loss

This account consists of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Held-for-trading:				
Government securities	₱9,681,878	₱4,804,041	₱9,681,878	₱4,804,041
Private bonds	282,092	98,124	282,092	98,124
Equity securities	25	25	–	–
	9,963,995	4,902,190	9,963,970	4,902,165
Derivative assets (Note 6):				
Currency forwards	629,854	1,646,303	629,854	1,646,303
Interest rate swaps	239,882	710,772	239,882	710,772
Interest rate futures	40,776	–	40,776	–
Cross-currency swaps	11,828	304,835	11,828	304,835
Bonds forwards and options	16	2,472	16	2,472
	922,356	2,664,382	922,356	2,664,382
	₱10,886,351	₱7,566,572	₱10,886,326	₱7,566,547

As of December 31, 2023 and 2022, 'Financial assets at FVTPL' include net unrealized loss of ₱39.7 million and unrealized gain of ₱125.5 million, respectively, for the Group and the Parent Company.

Fair value gains or losses on financial assets at FVTPL (other than currency forwards) are included in 'Trading and securities gain (loss) - net' (see Note 9) in the statements of income. Fair value gains or losses on currency forwards are included in 'Foreign exchange gain - net' in the statements of income (see Note 6).

As of December 31, 2023 and 2022, certain government securities were pledged with foreign banks as collateral for SSURA (see Note 20).

11. Financial Assets at Fair Value through Other Comprehensive Income

This account consists of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Debt instruments				
Treasury notes and bills	₱82,365,379	₱52,666,184	₱82,365,379	₱52,666,184
Treasury bonds	55,451,234	55,759,876	55,451,234	55,759,876
Private bonds	1,523,151	4,050,963	1,523,151	4,050,963
	139,339,764	112,477,023	139,339,764	112,477,023
Equity instruments				
Golf and club shares	476,875	374,679	476,875	374,679
PSE shares	44,410	39,791	–	–
	521,285	414,470	476,875	374,679
	₱139,861,049	₱112,891,493	₱139,816,639	₱112,851,702



An analysis of changes in the fair value of debt instruments and the corresponding ECL allowances follow:

	2023	2022
Fair value at beginning of year	₱112,477,023	₱80,340,094
New assets originated or purchased	57,299,480	42,625,610
Disposals or maturities	(33,001,352)	(3,909,601)
Change in fair value	3,619,508	(7,238,472)
Foreign exchange adjustments	(1,054,895)	659,392
	₱139,339,764	₱112,477,023
ECL allowance at beginning of year	₱372	₱3,927
Provision for (recovery of) credit losses (Note 13)	6,942	(3,877)
Foreign exchange and other adjustments	(168)	322
	₱7,146	₱372

In 2023 and 2022, debt instruments at FVTOCI were carried at Stage 1 and there were no transfers into and out of Stage 1.

As of December 31, 2023 and 2022, Peso-denominated debt financial assets at FVTOCI amounted to ₱114.6 billion and ₱90.8 billion, respectively.

As of December 31, 2023 and 2022, USD-denominated debt financial assets at FVTOCI amounted to ₱24.7 billion and ₱21.7 billion, respectively.

As of December 31, 2023, certain treasury bond securities were pledged with foreign banks as collateral for SSURA (see Note 20).

As of December 31, 2023 and 2022, government securities included under 'Financial Assets at Fair Value through Other Comprehensive Income' with a total face value amounted to ₱1.2 billion and ₱1.0 billion, respectively, were deposited with the BSP in compliance with the requirements of the General Banking Law relative to the Parent Company's trust functions (see Note 26).

PSE shares were obtained by SBEI in 2001 as a result of the demutualization of its membership shares in the stock exchange. These investments were for long-term strategic purpose. SBEI designated these equity securities as financial assets at FVTOCI as management believes that this provides a more meaningful presentation for medium or long-term strategic investments, rather than reflecting changes in fair value immediately in the statements of income. The Group also adopted the same classification for its investments in golf and club shares.



The movements in ‘Net unrealized gain (losses) on financial assets at FVTOCI’ follow:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Balance at beginning of year	(₱9,222,234)	(₱2,035,059)	(₱9,230,387)	(₱2,043,212)
Unrealized gain (losses) for the year	3,569,173	(7,183,298)	3,569,174	(7,183,298)
Amount realized in profit or loss	139,292	(3,877)	139,292	(3,877)
Balance at end of year	(₱5,513,769)	(₱9,222,234)	(₱5,521,921)	(₱9,230,387)

12. Investment Securities at Amortized Cost

This account consists of investments by the Parent Company in:

	2023	2022
Private bonds	₱57,874,831	₱57,241,929
Treasury bonds	14,959,970	9,308,398
Treasury notes and bills	3,372,462	2,697,158
	76,207,263	69,247,485
Allowance for credit losses	51,179	17,525
	₱76,156,084	₱69,229,960

On May 11, 2022, the Parent Company participated on an issuer-initiated mandatory early redemption of PHP-denominated corporate bond with face value of ₱514.5 million. Total amount of redemptions during the year amounted to ₱2.1 billion resulting to a gain amounting to ₱4.1 million.

On November 30, 2021 and December 9, 2021, the Parent Company participated on an issuer-initiated mandatory early redemption of USD-denominated corporate bond with face value of USD20.0 million and PHP-denominated corporate bond with face value of ₱5.0 billion, respectively. Total amount of redemptions during the year amounted to ₱6.1 billion resulting to a gain amounting to ₱66.0 million.

On June 28, 2022, the Finance Committee and the BOD of the Parent Company approved a change in business model involving the reestablishment of the HTC business model for government securities. Various factors challenged the Parent Company’s ability to execute its strategy of shifting towards more fee-based and client-driven income given a reduction in loan demand and an increase in the deterioration of the credit quality of existing loans as a direct result of the global pandemic. The Ukraine-Russia war also triggered significant market volatility which curtailed the Parent Company’s ability to deploy its investible funds to government securities under the old business model. The HTC business model for government securities was established to help the Parent Company achieve its desired balance sheet structure by means of medium to long-term gap management while lowering overall portfolio credit risk (see Note 3).

As of December 31, 2023 and 2022, certain private bonds were pledged with foreign banks as collateral for SSURA (see Note 20).



An analysis of changes in the gross carrying amount and the corresponding ECLs is, as follows:

	2023	2022
Gross carrying amount at beginning of year	₱69,247,485	₱21,904,006
New assets originated or purchased	12,600,658	46,566,445
Assets matured or redeemed	(4,552,693)	(2,057,500)
Amortized premium/discount	126,239	67,167
Foreign exchange adjustments	(1,214,426)	2,767,367
	₱76,207,263	₱69,247,485
Allowance for credit losses		
ECL allowance at beginning of year	₱17,525	₱67,399
Provision for (recovery of) credit losses (Note 13)	33,716	(49,407)
Foreign exchange and other adjustment	(62)	(467)
	₱51,179	₱17,525

In 2023 and 2022, investment securities at amortized cost were carried at Stage 1 and there were no transfers into and out of Stage 1.

13. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Receivable from customers:				
Corporate lending	₱386,695,606	₱388,777,469	₱388,350,908	₱389,226,927
Consumer lending	77,207,357	53,639,312	77,120,727	53,358,357
Residential mortgages	83,664,495	71,311,776	83,664,495	71,311,776
Small business lending	585,804	718,225	585,804	718,225
	548,153,262	514,446,782	549,721,934	514,615,285
Less unearned discounts and deferred credits	2,142,631	1,875,319	2,142,631	1,875,319
	546,010,631	512,571,463	547,579,303	512,739,966
Accrued interest receivable (Note 31)	6,548,895	5,458,069	6,555,357	5,460,756
Accounts receivable (Note 31)	1,157,735	952,001	790,071	415,462
Sales contracts receivable	129,273	114,154	129,273	114,154
	553,846,534	519,095,687	555,054,004	518,730,338
Less allowance for credit losses	15,517,135	16,478,253	15,489,876	16,444,913
	₱538,329,399	₱502,617,434	₱539,564,128	₱502,285,425

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to corporate lending follow:

	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2023	₱320,359,102	₱56,712,961	₱11,705,406	₱388,777,469
New assets originated or purchased	487,459,165	-	-	487,459,165
Assets derecognized or repaid (excluding write offs)	(454,125,881)	(32,597,963)	(2,567,254)	(489,291,098)
Transfers to Stage 1	15,086,249	(15,086,249)	-	-
Transfers to Stage 2**	(41,730,198)	41,730,198	-	-
Transfers to Stage 3**	(2,117,866)	(3,076,891)	5,194,757	-
Amounts written off	-	-	(249,930)	(249,930)
	₱324,930,571	₱47,682,056	₱14,082,979	₱386,695,606

(Forward)



	Consolidated			Total
	Stage 1	Stage 2	Stage 3	
ECL allowance as at January 1, 2023	₱743,230	₱2,125,516	₱9,085,856	₱11,954,602
Provision for (recovery of) credit losses				
Newly originated assets which remained in Stage 1 at yearend	111,931	-	-	111,931
Newly originated assets which moved to Stage 2 and Stage 3 at yearend	-	130,906	961,521	1,092,427
Transfers to Stage 1	11,448	(11,448)	-	-
Transfers to Stage 2	(107,450)	107,450	-	-
Transfers to Stage 3	(112)	(1,250,508)	1,250,620	-
Other movements*	(567,308)	(663,251)	(969,227)	(2,199,786)
	(551,491)	(1,686,851)	1,242,914	(995,428)
Amounts written off	-	-	(249,930)	(249,930)
Foreclosures and other adjustments	-	-	(1,134,535)	(1,134,535)
	₱191,739	₱438,665	₱8,944,305	₱9,574,709

*includes changes in assumptions and payments

**includes transfers of newly originated assets

	Consolidated			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying amount as at January 1, 2022	₱270,213,272	₱69,525,274	₱12,555,893	₱352,294,439
New assets originated or purchased	598,116,516	-	-	598,116,516
Assets derecognized or repaid (excluding write offs)	(504,386,512)	(52,788,439)	(4,356,201)	(561,531,152)
Transfers to Stage 1	4,409,375	(4,409,375)	-	-
Transfers to Stage 2**	(46,599,721)	46,599,721	-	-
Transfers to Stage 3**	(1,393,828)	(2,214,220)	3,608,048	-
Amounts written off	-	-	(102,334)	(102,334)
	₱320,359,102	₱56,712,961	₱11,705,406	₱388,777,469

ECL allowance as at January 1, 2022	₱968,490	₱1,010,598	₱9,564,430	₱11,543,518
Provisions for (recovery of) credit losses				
Newly originated assets which remained in Stage 1 at yearend	124,074	-	-	124,074
Newly originated assets which moved to Stage 2 and Stage 3 at yearend	-	1,092,561	1,014,392	2,106,953
Transfers to Stage 1	8,430	(8,430)	-	-
Transfers to Stage 2	(82,463)	82,463	-	-
Transfers to Stage 3	(11,201)	(1,582,841)	1,594,042	-
Other movements*	(264,100)	1,531,165	(2,046,535)	(779,470)
	(225,260)	1,114,918	561,899	1,451,557
Amounts written off	-	-	(41,807)	(41,807)
Foreclosures and other adjustments	-	-	(998,666)	(998,666)
	₱743,230	₱2,125,516	₱9,085,856	₱11,954,602

*includes changes in assumptions and payments

**includes transfers of newly originated assets

	Parent Company			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying amount as at January 1, 2023	₱320,809,526	₱56,711,995	₱11,705,406	₱389,226,927
New assets originated or purchased	440,288,034	-	-	440,288,034
Assets derecognized or repaid (excluding write offs)	(405,748,907)	(32,597,963)	(2,567,253)	(440,914,123)
Transfers to Stage 1	15,085,283	(15,085,283)	-	-
Transfers to Stage 2	(41,730,026)	41,730,026	-	-
Transfers to Stage 3	(2,117,865)	(3,076,891)	5,194,756	-
Amounts written off	-	-	(249,930)	(249,930)
	₱326,586,045	₱47,681,884	₱14,082,979	₱388,350,908

(Forward)



	Parent Company			Total
	Stage 1	Stage 2	Stage 3	
ECL allowance as at January 1, 2023	₱743,230	₱2,125,507	₱9,085,856	₱11,954,593
Provisions for (recovery of) credit losses				
Newly originated assets which remained in Stage 1 at yearend	111,931	–	–	111,931
Newly originated assets which moved to Stage 2 and Stage 3 at yearend	–	130,906	961,521	1,092,427
Transfers to Stage 1	11,448	(11,448)	–	–
Transfers to Stage 2	(107,449)	107,449	–	–
Transfers to Stage 3	(112)	(1,250,508)	1,250,620	–
Other movements*	(567,309)	(663,242)	(969,227)	(2,199,778)
	(551,491)	(1,686,843)	1,242,914	(995,420)
Amounts written off	–	–	(249,930)	(249,930)
Foreclosures and other adjustments	–	–	(1,134,535)	(1,134,535)
	₱191,739	₱438,664	₱8,944,305	₱9,574,708

*includes changes in assumptions and payments

**includes transfers of newly originated assets

	Parent Company			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying amount as at January 1, 2022	₱270,766,345	₱69,525,274	₱12,555,893	₱352,847,512
New assets originated or purchased	566,057,197	–	–	566,057,197
Assets derecognized or repaid (excluding write offs)	(472,429,697)	(52,789,550)	(4,356,201)	(529,575,448)
Transfers to Stage 1	4,408,264	(4,408,264)	–	–
Transfers to Stage 2**	(46,598,755)	46,598,755	–	–
Transfers to Stage 3**	(1,393,828)	(2,214,220)	3,608,048	–
Amounts written off	–	–	(102,334)	(102,334)
	₱320,809,526	₱56,711,995	₱11,705,406	₱389,226,927

ECL allowance as at January 1, 2022	₱968,490	₱1,010,591	₱9,564,430	₱11,543,511
Provisions for (recovery of) credit losses				
Newly originated assets which remained in Stage 1 at yearend	124,074	–	–	124,074
Newly originated assets which moved to Stage 2 and Stage 3 at yearend	–	1,092,559	1,014,393	2,106,952
Transfers to Stage 1	8,430	(8,430)	–	–
Transfers to Stage 2	(82,463)	82,463	–	–
Transfers to Stage 3	(11,201)	(1,582,841)	1,594,042	–
Other movements*	(264,100)	1,531,165	(2,046,536)	(779,471)
	(225,260)	1,114,916	561,899	1,451,555
Amounts written off	–	–	(41,807)	(41,807)
Foreclosures and other adjustments	–	–	(998,666)	(998,666)
	₱743,230	₱2,125,507	₱9,085,856	₱11,954,593

*includes changes in assumptions and payments

**includes transfers of newly originated assets

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to consumer lending follow:

	Consolidated			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying amount as at January 1, 2023	₱47,618,025	₱3,516,359	₱2,504,928	₱53,639,312
New assets originated or purchased	122,077,594	–	–	122,077,594
Assets derecognized or repaid (excluding write offs)	(89,089,075)	(921,531)	(4,843,552)	(94,854,158)
Transfers to Stage 1	729,285	(627,824)	(101,461)	–
Transfers to Stage 2**	(2,961,938)	3,054,680	(92,742)	–
Transfers to Stage 3**	(8,260,395)	(934,860)	9,195,255	–
Amounts written off	–	–	(3,655,391)	(3,655,391)
	₱70,113,496	₱4,086,824	₱3,007,037	₱77,207,357

(Forward)



	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at January 1, 2023	₱1,152,963	₱482,148	₱1,462,369	₱3,097,480
Provisions for (recovery of) credit losses				
Newly originated assets which remained in Stage 1 at yearend	1,570,518	-	-	1,570,518
Newly originated assets which moved to Stage 2 and Stage 3 at yearend	-	69,212	3,475,160	3,544,372
Transfers to Stage 1	132,919	(109,913)	(23,006)	-
Transfers to Stage 2	(117,545)	172,842	(55,297)	-
Transfers to Stage 3	(185,728)	(157,704)	343,432	-
Other movements*	(97,942)	35,704	330,464	268,226
	1,302,222	10,141	4,070,753	5,383,116
Amounts written off	-	-	(3,655,391)	(3,655,391)
Foreclosures and other adjustments	-	-	(91,024)	(91,024)
	₱2,455,185	₱492,289	₱1,786,707	₱4,734,181

*includes changes in assumptions and payments

**includes transfers of newly originated assets

	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2022	₱42,501,203	₱3,851,214	₱3,986,294	₱50,338,711
New assets originated or purchased	82,467,054	-	-	82,467,054
Assets derecognized or repaid (excluding write offs)	(73,613,736)	(1,102,788)	(1,271,326)	(75,987,850)
Transfers to Stage 1	1,018,478	(804,882)	(213,596)	-
Transfers to Stage 2**	(2,659,100)	2,717,674	(58,574)	-
Transfers to Stage 3**	(2,095,874)	(1,144,859)	3,240,733	-
Amounts written off	-	-	(3,178,603)	(3,178,603)
	₱47,618,025	₱3,516,359	₱2,504,928	₱53,639,312

ECL allowance as at January 1, 2022	₱1,960,090	₱929,656	₱2,026,943	₱4,916,689
Provisions for (recovery of) credit losses				
Newly originated assets which remained in Stage 1 at yearend	348,535	-	-	348,535
Newly originated assets which moved to Stage 2 and Stage 3 at yearend	-	53,928	87,308	141,236
Transfers to Stage 1	345,126	(329,419)	(15,707)	-
Transfers to Stage 2	(203,322)	206,488	(3,166)	-
Transfers to Stage 3	(109,379)	(675,222)	784,601	-
Other movements*	(1,188,087)	296,717	2,036,470	1,145,100
	(807,127)	(447,508)	2,889,506	1,634,871
Amounts written off	-	-	(3,178,603)	(3,178,603)
Foreclosures and other adjustments	-	-	(275,477)	(275,477)
	₱1,152,963	₱482,148	₱1,462,369	₱3,097,480

*includes changes in assumptions and payments

**includes transfers of newly originated assets

	Parent Company			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2023	₱47,369,078	₱3,484,354	₱2,504,925	₱53,358,357
New assets originated or purchased	116,661,283	-	-	116,661,283
Assets derecognized or repaid (excluding write offs)	(83,478,439)	(921,534)	(4,843,549)	(89,243,522)
Transfers to Stage 1	707,654	(606,193)	(101,461)	-
Transfers to Stage 2**	(2,961,938)	3,054,680	(92,742)	-
Transfers to Stage 3**	(8,260,395)	(934,860)	9,195,255	-
Amounts written off	-	-	(3,655,391)	(3,655,391)
	₱70,037,243	₱4,076,447	₱3,007,037	₱77,120,727

ECL allowance as at January 1, 2023	₱1,151,905	₱482,105	₱1,462,298	₱3,096,308
Provisions for (recovery of) credit losses				
Newly originated assets which remained in Stage 1 at yearend	1,570,518	-	-	1,570,518
Newly originated assets which moved to Stage 2 and Stage 3 at yearend	-	69,212	3,475,160	3,544,372
Transfers to Stage 1	132,919	(109,913)	(23,006)	-
Transfers to Stage 2	(117,545)	172,842	(55,297)	-
Transfers to Stage 3	(185,728)	(157,704)	343,432	-
Other movements*	(97,468)	35,714	330,463	268,709
	1,302,696	10,151	4,070,752	5,383,599
Amounts written off	-	-	(3,655,391)	(3,655,391)
Foreclosures and other adjustments	-	-	(90,740)	(90,740)
	₱2,454,601	₱492,256	₱1,786,919	₱4,733,776

*includes changes in assumptions and payments

**includes transfers of newly originated assets



	Parent Company			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying amount as at January 1, 2022	₱42,303,290	₱3,851,214	₱3,986,211	₱50,140,715
New assets originated or purchased	74,901,696	–	–	74,901,696
Assets derecognized or repaid (excluding write offs)	(66,094,558)	(1,139,648)	(1,271,245)	(68,505,451)
Transfers to Stage 1	1,013,624	(800,027)	(213,597)	–
Transfers to Stage 2**	(2,659,100)	2,717,674	(58,574)	–
Transfers to Stage 3**	(2,095,874)	(1,144,859)	3,240,733	–
Amounts written off	–	–	(3,178,603)	(3,178,603)
	₱47,369,078	₱3,484,354	₱2,504,925	₱53,358,357
ECL allowance as at January 1, 2022	₱1,957,990	₱929,573	₱2,026,868	₱4,914,431
Provisions for (recovery of) credit losses				
Newly originated assets which remained in Stage 1 at yearend	348,534	–	–	348,534
Newly originated assets which moved to Stage 2 and Stage 3 at yearend	–	53,927	87,308	141,235
Transfers to Stage 1	345,126	(329,418)	(15,708)	–
Transfers to Stage 2	(203,322)	206,488	(3,166)	–
Transfers to Stage 3	(109,379)	(675,222)	784,601	–
Other movements*	(1,187,044)	296,757	2,036,473	1,146,186
	(806,085)	(447,468)	2,889,508	1,635,955
Amounts written off	–	–	(3,178,603)	(3,178,603)
Foreclosures and other adjustments	–	–	(275,475)	(275,475)
	₱1,151,905	₱482,105	₱1,462,298	₱3,096,308

*includes changes in assumptions and payments

**includes transfers of newly originated assets

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to residential mortgages lending follow:

	Consolidated			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying amount as at January 1, 2023	₱68,242,680	₱1,299,252	₱1,769,844	₱71,311,776
New assets originated or purchased	22,715,476	–	–	22,715,476
Assets derecognized or repaid (excluding write offs)	(9,474,842)	(350,893)	(537,022)	(10,362,757)
Transfers to Stage 1	575,430	(266,900)	(308,530)	–
Transfers to Stage 2**	(1,881,211)	1,888,650	(7,439)	–
Transfers to Stage 3**	(589,914)	(147,684)	737,598	–
	₱79,587,619	₱2,422,425	₱1,654,451	₱83,664,495
ECL allowance as at January 1, 2023	₱539,476	₱54,705	₱405,596	₱999,777
Provisions for (recovery of) credit losses				
Newly originated assets which remained in Stage 1 at yearend	49,732	–	–	49,732
Newly originated assets which moved to Stage 2 and Stage 3 at yearend	–	5,427	15,430	20,857
Transfers to Stage 1	9,648	(4,591)	(5,057)	–
Transfers to Stage 2	(15,981)	16,449	(468)	–
Transfers to Stage 3	(67,348)	(26,686)	94,034	–
Other movements*	(82,234)	(13,982)	(38,630)	(134,846)
	(106,183)	(23,383)	65,309	(64,257)
Foreclosures and other adjustments	–	–	(77,414)	(77,414)
	₱433,293	₱31,322	₱393,491	₱858,106

*includes changes in assumptions and payments

**includes transfers of newly originated assets



	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2022	₱54,175,501	₱1,217,201	₱3,234,258	₱58,626,960
New assets originated or purchased	24,040,628	–	–	24,040,628
Assets derecognized or repaid (excluding write offs)	(9,815,403)	(259,843)	(1,280,566)	(11,355,812)
Transfers to Stage 1	1,265,013	(587,059)	(677,954)	–
Transfers to Stage 2**	(1,040,232)	1,097,117	(56,885)	–
Transfers to Stage 3**	(382,827)	(168,164)	550,991	–
	₱68,242,680	₱1,299,252	₱1,769,844	₱71,311,776
ECL allowance as at January 1, 2022	₱492,974	₱53,086	₱653,440	₱1,199,500
Provisions for (recovery of) credit losses				
Newly originated assets which remained in Stage 1 at yearend	51,102	–	–	51,102
Newly originated assets which moved to Stage 2 and Stage 3 at yearend	–	2,997	6,074	9,071
Transfers to Stage 1	40,267	(19,540)	(20,727)	–
Transfers to Stage 2	(33,246)	36,660	(3,414)	–
Transfers to Stage 3	(49,743)	(32,325)	82,068	–
Other movements*	38,122	13,827	(101,277)	(49,328)
	46,502	1,619	(37,276)	10,845
Foreclosures and other adjustments	–	–	(210,568)	(210,568)
	₱539,476	₱ 54,705	₱405,596	₱999,777

*includes changes in assumptions and payments

**includes transfers of newly originated assets

	Parent Company			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2023	₱68,242,680	₱1,299,252	₱1,769,844	₱71,311,776
New assets originated or purchased	22,715,476	–	–	22,715,476
Assets derecognized or repaid (excluding write offs)	(9,474,841)	(350,894)	(537,022)	(10,362,757)
Transfers to Stage 1	575,430	(266,900)	(308,530)	–
Transfers to Stage 2**	(1,881,211)	1,888,650	(7,439)	–
Transfers to Stage 3**	(589,915)	(147,683)	737,598	–
	₱79,587,619	₱2,422,425	₱1,654,451	₱83,664,495
ECL allowance as at January 1, 2023	₱539,475	₱54,705	₱405,597	₱999,777
Provisions for (recovery of) credit losses				
Newly originated assets which remained in Stage 1 at yearend	49,732	–	–	49,732
Newly originated assets which moved to Stage 2 and Stage 3 at yearend	–	5,427	15,430	20,857
Transfers to Stage 1	9,648	(4,591)	(5,057)	–
Transfers to Stage 2	(15,981)	16,449	(468)	–
Transfers to Stage 3	(67,348)	(26,686)	94,034	–
Other movements*	(82,234)	(13,982)	(38,630)	(134,846)
	(106,183)	(23,383)	65,309	(64,257)
Foreclosures and other adjustments	–	–	(77,414)	(77,414)
	₱433,292	₱31,322	₱393,492	₱858,106

*includes changes in assumptions and payments

**includes transfers of newly originated assets



	Parent Company			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying amount as at January 1, 2022	₱54,175,501	₱1,217,201	₱3,234,258	₱58,626,960
New assets originated or purchased	24,040,628	–	–	24,040,628
Assets derecognized or repaid (excluding write offs)	(9,815,403)	(259,843)	(1,280,566)	(11,355,812)
Transfers to Stage 1	1,265,013	(587,059)	(677,954)	–
Transfers to Stage 2**	(1,040,232)	1,097,117	(56,885)	–
Transfers to Stage 3**	(382,827)	(168,164)	550,991	–
	₱68,242,680	₱1,299,252	₱1,769,844	₱71,311,776
ECL allowance as at January 1, 2022	₱492,974	₱53,086	₱653,440	₱1,199,500
Provisions for (recovery of) credit losses				
Newly originated assets which remained in Stage 1 at yearend	51,102	–	–	51,102
Newly originated assets which moved to Stage 2 and Stage 3 at yearend	–	2,997	6,074	9,071
Transfers to Stage 1	40,267	(19,540)	(20,727)	–
Transfers to Stage 2	(33,246)	36,660	(3,414)	–
Transfers to Stage 3	(49,743)	(32,325)	82,068	–
Other movements*	38,122	13,827	(101,277)	(49,328)
	46,502	1,619	(37,276)	10,845
Foreclosures and other adjustments	–	–	(210,568)	(210,568)
	₱539,476	₱54,705	₱405,596	₱999,777

*includes changes in assumptions and payments

**includes transfers of newly originated assets

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to small business lending follow:

	Consolidated			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying amount as at January 1, 2023	₱618,853	₱36,420	₱62,952	₱718,225
New assets originated or purchased	1,390,494	–	–	1,390,494
Assets derecognized or repaid (excluding write offs)	(1,473,705)	(33,363)	(15,847)	(1,522,915)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2**	(58,190)	58,190	–	–
Transfers to Stage 3**	(4,676)	–	4,676	–
	₱472,776	₱61,247	₱51,781	₱585,804
ECL allowance as at January 1, 2023	₱143	₱30	₱48,077	₱48,250
Provisions for (recovery of) credit losses				
Newly originated assets which remained in Stage 1 at yearend	64	–	–	64
Newly originated assets which moved to Stage 2 and Stage 3 at yearend	–	16	22	38
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(11)	11	–	–
Transfers to Stage 3	(13)	–	13	–
Other movements*	(115)	(25)	(12,814)	(12,954)
	(75)	2	(12,779)	(12,852)
	₱68	₱32	₱35,298	₱35,398

*includes changes in assumptions and payments

**includes transfers of newly originated assets



	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2022	₱1,012,088	₱156,062	₱49,593	₱1,217,743
New assets originated or purchased	278,012	-	-	278,012
Assets derecognized or repaid (excluding write offs)	(649,981)	(140,908)	13,359	(777,530)
Transfers to Stage 1	6,350	(6,350)	-	-
Transfers to Stage 2**	(27,616)	27,616	-	-
Transfers to Stage 3**	-	-	-	-
	₱618,853	₱36,420	₱62,952	₱718,225
ECL allowance as at January 1, 2022	₱1,607	₱1,723	₱36,348	₱39,678
Provisions for (recovery of) credit losses				
Newly originated assets which remained in Stage 1 at yearend	79	-	-	79
Newly originated assets which moved to Stage 2 and Stage 3 at yearend	-	11	26,012	26,023
Transfers to Stage 1	3	(3)	-	-
Other movements*	(1,546)	(1,701)	(14,283)	(17,530)
	(1,464)	(1,693)	11,729	8,572
	₱143	₱30	₱48,077	₱48,250

*includes changes in assumptions and payments

**includes transfers of newly originated assets

	Parent Company			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2023	₱618,853	₱36,420	₱62,952	₱718,225
New assets originated or purchased	1,390,494	-	-	1,390,494
Assets derecognized or repaid (excluding write offs)	(1,473,705)	(33,363)	(15,847)	(1,522,915)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(58,190)	58,190	-	-
Transfers to Stage 3	(4,676)	-	4,676	-
	₱472,776	₱61,247	₱51,781	₱585,804
ECL allowance as at January 1, 2023	₱143	₱30	₱48,077	₱48,250
Provisions for (recovery of) credit losses				
Newly originated assets which remained in Stage 1 at yearend	64	-	-	64
Newly originated assets which moved to Stage 2 and Stage 3 at yearend	-	16	22	38
Transfers to Stage 2	(11)	11	-	-
Transfers to Stage 3	(13)	-	13	-
Other movements*	(115)	(25)	(12,814)	(12,954)
	(75)	2	(12,779)	(12,852)
	₱68	₱32	₱35,298	₱35,398

*includes changes in assumptions and payments

**includes transfers of newly originated assets



	Parent Company			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying amount as at January 1, 2022	₱1,012,088	₱156,062	₱49,593	₱1,217,743
New assets originated or purchased	278,012	–	–	278,012
Assets derecognized or repaid (excluding write offs)	(649,981)	(140,908)	13,359	(777,530)
Transfers to Stage 1	6,350	(6,350)	–	–
Transfers to Stage 2**	(27,616)	27,616	–	–
	₱618,853	₱36,420	₱62,952	₱718,225
ECL allowance as at January 1, 2022	₱1,607	₱1,723	₱36,348	₱39,678
Provisions for (recovery of) credit losses				
Newly originated assets which remained in Stage 1 at yearend	79	–	–	79
Newly originated assets which moved to Stage 2 and Stage 3 at yearend	–	11	26,012	26,023
Transfers to Stage 1	3	(3)	–	–
Other movements*	(1,546)	(1,701)	(14,283)	(17,530)
	(1,464)	(1,693)	11,729	8,572
	₱143	₱30	₱48,077	₱48,250

*includes changes in assumptions and payments

**includes transfers of newly originated assets

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to other receivables (includes accrued interest receivable, sales contracts receivable and accounts receivable) follow:

	Consolidated			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying amount as at January 1, 2023	₱5,322,763	₱576,721	₱624,740	₱6,524,224
New assets originated or purchased	52,471,122	–	–	52,471,122
Assets derecognized or repaid (excluding write offs)	(50,741,605)	(113,667)	(252,933)	(51,108,205)
Transfers to Stage 1	215,304	(207,777)	(7,527)	–
Transfers to Stage 2**	(383,870)	385,148	(1,278)	–
Transfers to Stage 3**	(124,157)	(154,658)	278,815	–
Amounts written off	–	–	(51,238)	(51,238)
	₱6,759,557	₱485,767	₱590,579	₱7,835,903
ECL allowance as at January 1, 2023	₱31,444	₱26,330	₱320,370	₱378,144
Provisions for (recovery of) credit losses				
Newly originated assets which remained in Stage 1 at yearend	11,800	–	–	11,800
Newly originated assets which moved to Stage 2 and Stage 3 at yearend	–	2,593	30,645	33,238
Transfers to Stage 1	1,269	(863)	(406)	–
Transfers to Stage 2	(2,762)	3,063	(301)	–
Transfers to Stage 3	(12,361)	(24,802)	37,163	–
Other movements*	(3,758)	2,330	(25,331)	(26,759)
	(5,812)	(17,679)	41,770	18,279
Amounts written off	–	–	(51,238)	(51,238)
Foreclosures and other adjustments	–	–	(30,444)	(30,444)
	₱25,632	₱8,651	₱280,458	₱314,741

*includes changes in assumptions and payments

**includes transfers of newly originated assets



	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2022	₱4,252,570	₱390,839	₱724,472	₱5,367,881
New assets originated or purchased	53,189,045	–	–	53,189,045
Assets derecognized or repaid (excluding write offs)	(51,486,829)	(175,596)	(262,938)	(51,925,363)
Transfers to Stage 1	57,320	(43,870)	(13,450)	–
Transfers to Stage 2**	(504,945)	507,557	(2,612)	–
Transfers to Stage 3**	(184,398)	(102,209)	286,607	–
Amounts written off	–	–	(107,339)	(107,339)
	₱5,322,763	₱576,721	₱624,740	₱6,524,224
ECL allowance as at January 1, 2022	₱107,230	₱21,526	₱362,815	₱491,571
Provisions for (recovery of) credit losses				
Newly originated assets which remained in Stage 1 at yearend	5,164	–	–	5,164
Newly originated assets which moved to Stage 2 and Stage 3 at yearend	–	14,912	53,604	68,516
Transfers to Stage 1	1,586	(969)	(617)	–
Transfers to Stage 2	(17,988)	18,095	(107)	–
Transfers to Stage 3	(14,174)	(24,057)	38,231	–
Other movements*	(50,374)	(3,177)	(16,205)	(69,756)
	(75,786)	4,804	74,906	3,924
Amounts written off	–	–	(107,339)	(107,339)
Foreclosures and other adjustments	–	–	(10,012)	(10,012)
	₱31,444	₱26,330	₱320,370	₱378,144

*includes changes in assumptions and payments

**includes transfers of newly originated assets

	Parent Company			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2023	₱4,847,956	₱605,768	₱536,648	₱5,990,372
New assets originated or purchased	3,318,470	–	–	3,318,470
Assets derecognized or repaid (excluding write offs)	(1,475,349)	(142,714)	(164,840)	(1,782,903)
Transfers to Stage 1	215,305	(207,777)	(7,528)	–
Transfers to Stage 2**	(383,870)	385,148	(1,278)	–
Transfers to Stage 3**	(124,157)	(154,658)	278,815	–
Amounts written off	–	–	(51,238)	(51,238)
	₱6,398,355	₱485,767	₱590,579	₱7,474,701
ECL allowance as at January 1, 2023	₱30,931	₱26,321	₱288,733	₱345,985
Provisions for (recovery of) credit losses				
Newly originated assets which remained in Stage 1 at yearend	8,662	–	–	8,662
Newly originated assets which moved to Stage 2 and Stage 3 at yearend	–	2,593	30,322	32,915
Transfers to Stage 1	1,269	(863)	(406)	–
Transfers to Stage 2	(2,762)	2,877	(115)	–
Transfers to Stage 3	(9,219)	(24,802)	34,021	–
Other movements*	(3,755)	2,333	(25,334)	(26,756)
	(5,805)	(17,862)	38,488	14,821
Amounts written off	–	–	(51,238)	(51,238)
Foreclosures and other adjustments	–	–	(21,680)	(21,680)
	₱25,126	₱8,459	₱254,303	₱287,888

*includes changes in assumptions and payments

**includes transfers of newly originated assets



	Parent Company			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying amount as at January 1, 2022	₱3,895,968	₱405,596	₱646,877	₱4,948,441
New assets originated or purchased	3,383,859	–	–	3,383,859
Assets derecognized or repaid (excluding write offs)	(1,829,936)	(157,764)	(246,889)	(2,234,589)
Transfers to Stage 1	57,320	(43,870)	(13,450)	–
Transfers to Stage 2**	(501,404)	504,015	(2,611)	–
Transfers to Stage 3**	(157,851)	(102,209)	260,060	–
Amounts written off	–	–	(107,339)	(107,339)
	₱4,847,956	₱605,768	₱536,648	₱5,990,372
ECL allowance as at January 1, 2022	₱106,129	₱18,800	₱342,116	₱467,045
Provisions for (recovery of) credit losses				
Newly originated assets which remained in Stage 1 at yearend	4,742	–	–	4,742
Newly originated assets which moved to Stage 2 and Stage 3 at yearend	–	14,903	50,793	65,696
Transfers to Stage 1	1,586	(969)	(617)	–
Transfers to Stage 2	(17,988)	18,095	(107)	–
Transfers to Stage 3	(14,174)	(24,057)	38,231	–
Other movements*	(49,364)	(451)	(16,455)	(66,270)
	(75,198)	7,521	71,845	4,168
Amounts written off	–	–	(107,339)	(107,339)
Foreclosures and other adjustments	–	–	(17,889)	(17,889)
	₱30,931	₱26,321	₱288,733	₱345,985

*includes changes in assumptions and payments

**includes transfers of newly originated assets

The increase in ECLs of the portfolio was driven by an increase in the gross size of the portfolio and movements between stages as a result of changes in credit risk.

Receivable from customers consist of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Loans (Note 31)	₱496,185,246	₱463,918,623	₱497,753,918	₱464,087,126
Customers' liabilities under letters of credit and trust receipts	13,213,402	21,304,204	13,213,402	21,304,204
Credit card receivables	34,110,664	23,613,848	34,110,664	23,613,848
Bills purchased (Note 23)	1,861,216	3,960,151	1,861,216	3,960,151
Customers' liabilities under acceptances	2,782,734	1,649,956	2,782,734	1,649,956
	548,153,262	514,446,782	549,721,934	514,615,285
Less unearned discounts and deferred credits	2,142,631	1,875,319	2,142,631	1,875,319
	₱546,010,631	₱512,571,463	₱547,579,303	₱512,739,966

Restructured receivables of the Group and the Parent Company amounted to ₱11.3 billion as of December 31, 2023 and ₱13.1 billion as of December 31, 2022. Interest income on these restructured receivables amounted to ₱810.7 million in 2023, ₱626.7 million in 2022, and ₱463.5 million in 2021 for the Group and Parent Company.



Provision for (recovery of) credit losses on financial assets in the statements of income are as follows:

	Consolidated		
	For the year ended December 31		
	2023	2022	2021
Due from other banks (Note 7)	₱279	(₱159)	(₱3,358)
Interbank loans receivable and SPURA with BSP	(1,386)	1,224	(2,541)
Financial assets at FVTOCI (Note 11)	6,942	(3,877)	(16,787)
Investment securities at amortized cost (Note 12)	33,716	(49,407)	(105,113)
Loans and receivables	4,328,858	3,109,769	5,116,716
Financial guarantees, loan and other commitments (Note 33)	297,785	(423,226)	291,620
	₱4,666,194	₱2,634,324	₱5,280,537

	Parent Company		
	For the year ended December 31		
	2023	2022	2021
Due from other banks (Note 7)	₱241	(₱212)	(₱993)
Interbank loans receivable and SPURA with BSP	(1,386)	1,224	(2,541)
Financial assets at FVTOCI (Note 11)	6,942	(3,877)	(16,787)
Investment securities at amortized cost (Note 12)	33,716	(49,407)	(105,113)
Loans and receivables	4,325,891	3,111,095	5,119,780
Financial guarantees, loan and other commitments (Note 33)	297,785	(423,226)	291,620
	₱4,663,189	₱2,635,597	₱5,285,966

As of December 31, 2023 and 2022, the fair value of the collateral held relating to the total loan portfolio amounted to ₱228.0 billion and ₱242.4 billion, respectively, for the Group and ₱220.7 billion and ₱225.3 billion, respectively, for the Parent Company. The collateral consists of cash, securities, letters of guarantee and real and personal properties.

The Group and the Parent Company took possession of various properties previously held as collateral. The carrying values of such properties amounted to ₱5.7 billion and ₱4.0 billion for the Group and the Parent Company as of December 31, 2023 and 2022, respectively.

Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Loans	₱31,482,404	₱25,498,130	₱24,542,891	₱31,575,446	₱25,542,188	₱24,584,462
Credit card receivables	5,447,808	3,308,797	2,973,226	5,447,808	3,308,797	2,973,226
Customers' liabilities under letters of credit and trust receipts	1,199,236	850,118	520,324	1,199,236	850,118	520,324
Sales contracts receivable	10,616	7,058	7,436	10,616	7,058	7,436
Bills purchased	-	22,296	17,313	-	22,296	17,313
	₱38,140,064	₱29,686,399	₱28,061,190	₱38,233,106	₱29,730,457	₱28,102,761

Of the total receivables from customers of the Group and of the Parent Company, 32.7% and 37.3% as of December 31, 2023 and 2022, respectively, are subject to periodic interest repricing. Remaining receivables from customers, for the Group and the Parent Company, earn annual fixed interest rates, as follows:

	2023	2022	2021
Peso-denominated	1.25%- 38.57%	2.00%-38.57%	2.00%-37.52%
Foreign currency-denominated	0.05% - 8.94%	0.05% - 9.14%	1.00%-9.14%



Sales contracts receivable earns interest rates ranging from 7.75% to 12.00% and 10.00% to 13.00% as of December 31, 2023 and 2022, respectively, for the Group and the Parent Company.

14. Investments in Subsidiaries and Joint Ventures

This account consists of investments in:

	% of Ownership		Consolidated		Parent Company	
	2023	2022	2023	2022	2023	2022
Subsidiaries:						
Cost:						
SBCIC	100.00	100.00	₱-	₱-	₱500,000	₱500,000
SBCC	100.00	100.00	-	-	325,000	325,000
SFLI	100.00	100.00	-	-	125,000	125,000
SB Forex	100.00	100.00	-	-	50,000	50,000
			-	-	1,000,000	1,000,000
Accumulated equity in net income						
Balance at beginning of year			-	-	1,017,410	898,560
Share in net income			-	-	300,907	118,850
Balance at end of year			-	-	1,318,317	1,017,410
Accumulated equity in OCI						
Balance at beginning of year					91,387	84,414
Remeasurement gains (loss) on defined benefit plans			-	-	(5,174)	(1,493)
Net unrealized gain on financial assets at fair value through other comprehensive income*			-	-	4,013	8,466
Balance at end of year			-	-	90,226	91,387
			-	-	2,408,543	2,108,797
Joint Ventures:						
Cost:						
SBML	60.00	60.00	150,058	150,058	150,058	150,058
SBFI	49.96	49.96	2,095,655	2,095,655	2,095,655	2,095,655
			2,245,713	2,245,713	2,245,713	2,245,713
Accumulated equity in net income						
Balance at beginning of year			194,831	44,535	194,831	44,535
Share in net income			179,565	147,364	179,565	147,364
Remeasurement gains on defined benefit plans			4,962	2,932	4,962	2,932
Balance at end of year			379,358	194,831	379,358	194,831
			2,625,071	2,440,544	2,625,071	2,440,544
			₱2,625,071	₱2,440,544	₱5,033,614	₱4,549,341

*Arising from accumulated mark to market gain on equity securities.

The details of the dividends by the subsidiaries to the Parent Company are provided below:

Subsidiary	Date of declaration	Per share	Total amounts in thousands
SBCC	July 28, 2021	₱19.5 per share	₱63,375
SFLI	September 16, 2019	0.2 per share	19,204
SBCC	June 29, 2018	50.0 per share	162,500
SBCC	June 29, 2017	60.0 per share	195,000

Reclassification of SBFI to Joint Venture

On October 20, 2020, after obtaining regulatory approvals in the Philippines and in Thailand, the Parent Company completed the sale of the 7,075,000 SBFI shares to Krungsri for a total consideration of ₱1.53 billion. The shares sold represent 50% of the outstanding shares of SBFI. The Group and the Parent Company recorded a gain from sale amounting to ₱933.1 million. Accordingly, SBFI ceased to be a subsidiary of the Parent Company. The financial statements of SBFI were deconsolidated from the consolidated financial statements of the Group.



On February 23, 2021, the Parent Company's BOD approved an additional capital infusion amounting to ₱1.5 billion to SBFI. Krungsri likewise approved an equivalent capital infusion to SBFI of ₱1.5 billion for a total of ₱3.0 billion. SBFI issued 25,850,000 common shares which was subscribed on a 50:50 basis by the Parent Company and Krungsri.

On May 21, 2021, SBFI obtained the first tranche of capital infusion from the Parent Company and Krungsri amounting to ₱1.5 billion. SBFI issued 850,000 common shares with par value of P100 per share for ₱500.0 million from its remaining unissued common shares.

The remaining ₱1.0 billion from the first tranche represents subscription payments required by the SEC for SBFI's application to increase its authorized capital stock for an additional 25,000,000 common shares. This was approved by the SEC on December 29, 2021 and accordingly, SBFI issued the corresponding 10,000,000 common shares corresponding to the ₱1.0 billion subscription payment.

On January 18, 2022, SBFI obtained the second tranche of capital infusion from the Parent Company and Krungsri amounting to ₱1.5 billion. Accordingly, SBFI issued the remaining 15,000,000 common shares.

Financial Information of Joint Ventures

The summarized financial information of the joint ventures are set out below (in millions):

SBML:

	2023	2022
Cash and cash equivalents	₱99	₱88
Loans receivable held for sale	284	136
Loans and receivables	1,126	1,324
Other assets	108	91
Deposits on lease contracts	(356)	(425)
Bills payable	(337)	(363)
Accounts payable and other liabilities	(317)	(274)
Equity	607	577
Proportion of the Group's ownership	60%	60%
Carrying amount of the investment	₱364	₱346
	2023	2022
Income		
Leasing and interest income	₱103	₱99
Interest expense	(23)	(19)
Net interest income	80	80
Other income	62	70
Operating expenses	(104)	(110)
Income (loss) before income tax	38	40
Provision for income tax	(10)	(5)
Net income (loss)	28	35
Group's share for the year	₱17	₱20



SBFI:

	2023	2022
Cash and cash equivalents	₱589	₱243
Loans and receivables	8,680	7,600
Other Assets	1,531	1,136
Bills payable	(5,705)	(4,808)
Accrued expenses and other liabilities	(569)	21
Equity	4,526	4,192
Proportion of the Group's ownership	49.96%	49.96%
Carrying amount of the investment	₱2,261	₱2,094

	2023	2022
Income		
Interest income	₱3,116	₱2,281
Interest expense	(267)	(181)
Net interest income	2,849	2,100
Other income	652	594
Operating expenses	(3,043)	(2,414)
Income before income tax	458	280
Provision for income tax	(133)	(26)
Net income	325	254
Group's share for the year	₱162	₱127

SBML and SBFI have no contingent liabilities or capital commitments as of December 31, 2023 and 2022.

15. Property, Equipment and Right-of-Use Assets

The composition of and movements in the Group's and the Parent Company's property, equipment and right-of-use assets follow:

	Consolidated							Total	
	Land	Building and Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Building and Improvements	Transportation Equipment		Right-of-use Assets Total Right-of-use assets
December 31, 2023									
Cost									
Balance at beginning of year	₱427,784	₱2,654,457	₱5,112,711	₱2,277,857	₱225,485	₱3,227,818	₱15,513	₱3,243,331	₱13,941,625
Additions	35,222	55,641	1,484,176	724,786	171,215	625,648	15,797	641,445	3,112,485
Disposals	-	(27,193)	(178,239)	(457,652)	(1,376)	(390,192)	(10,191)	(400,383)	(1,064,843)
Amortization of leasehold improvements	-	-	-	-	(102,266)	-	-	-	(102,266)
Reclassifications and other adjustments (Note 17)	-	541	(985)	10,603	(275)	10,756	(476)	10,280	20,164
Balance at end of year	463,006	2,683,446	6,417,663	2,555,594	292,783	3,474,030	20,643	3,494,673	15,907,165
Accumulated depreciation									
Balance at beginning of year	-	1,965,513	3,654,830	1,362,143	-	1,662,827	2,949	1,665,776	8,648,262
Depreciation	-	100,623	605,662	327,658	-	704,909	7,911	712,820	1,746,763
Disposals	-	(25,697)	(155,368)	(395,481)	-	(364,711)	(2,644)	(367,355)	(943,901)
Reclassifications and other adjustments (Note 17)	-	-	-	5,942	-	(1,055)	-	(1,055)	4,887
Balance at end of year	-	2,040,439	4,105,124	1,300,262	-	2,001,970	8,216	2,010,186	9,456,011
Allowance for impairment loss (Note 16)									
Balance at the end of year	19,969	1,689	-	-	-	-	-	-	21,658
Net book value at end of year	₱443,037	₱641,318	₱2,312,539	₱1,255,332	₱292,783	₱1,472,060	₱12,427	₱1,484,487	₱6,429,496



	Consolidated								Total
	Land	Building and Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Right-of-use Assets			
						Building and Improvements	Transportation Equipment	Total Right-of-use assets	
December 31, 2022									
Cost									
Balance at beginning of year	P441,288	P2,641,346	P4,553,748	P2,307,763	P262,562	P3,574,736	P10,969	P3,585,705	P13,792,412
Additions	-	55,752	746,416	405,574	77,345	922,570	15,854	938,424	2,223,511
Disposals	(13,504)	(6,411)	(122,808)	(522,926)	-	(1,347,313)	(11,310)	(1,358,623)	(2,024,272)
Amortization of leasehold improvements	-	-	-	-	(117,600)	-	-	-	(117,600)
Reclassifications and other adjustments (Note 17)	-	(36,230)	(64,645)	87,446	3,178	77,825	-	77,825	67,574
Balance at end of year	427,784	2,654,457	5,112,711	2,277,857	225,485	3,227,818	15,513	3,243,331	13,941,625
Accumulated depreciation									
Balance at beginning of year	-	1,891,091	3,198,208	1,392,101	-	2,101,976	9,374	2,111,350	8,592,750
Depreciation	-	102,979	566,709	418,207	-	726,319	4,884	731,203	1,819,098
Disposals	-	(5,377)	(119,703)	(474,321)	-	(1,158,351)	(11,309)	(1,169,660)	(1,769,061)
Reclassifications and other adjustments (Note 17)	-	(23,180)	9,616	26,156	-	(7,117)	-	(7,117)	5,475
Balance at end of year	-	1,965,513	3,654,830	1,362,143	-	1,662,827	2,949	1,665,776	8,648,262
Allowance for impairment loss (Note 16)									
Balance at the end of year	14,120	368	-	-	-	-	-	-	14,488
Net book value at end of year	P413,664	P688,576	P1,457,881	P915,714	P225,485	P1,564,991	P12,564	P1,577,555	P5,278,875

	Parent Company								Total
	Land	Building and Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Right-of-use Assets			
						Building and Improvements	Transportation Equipment	Total Right-of-use assets	
December 31, 2023									
Cost									
Balance at beginning of year	P427,784	P2,654,457	P4,049,611	P298,875	P220,468	P3,227,818	P15,513	P3,243,331	P10,894,526
Additions	35,222	55,641	763,056	106,905	171,215	625,648	15,797	641,445	1,773,484
Disposals	-	(27,193)	(89,160)	(84,503)	(1,376)	(390,192)	(10,191)	(400,383)	(602,615)
Amortization of leasehold improvements	-	-	-	-	(102,084)	-	-	-	(102,084)
Reclassifications and other adjustments (Note 17)	-	541	(985)	10,603	(275)	10,756	(476)	10,280	20,164
Balance at end of year	463,006	2,683,446	4,722,522	331,880	287,948	3,474,030	20,643	3,494,673	11,983,475
Accumulated depreciation									
Balance at beginning of year	-	1,960,740	3,101,237	150,420	-	1,662,827	2,949	1,665,776	6,878,173
Depreciation	-	100,623	420,543	57,507	-	704,909	7,911	712,820	1,291,493
Disposals	-	(25,698)	(74,512)	(63,192)	-	(364,711)	(2,644)	(367,355)	(530,757)
Reclassifications and other adjustments (Note 17)	-	-	-	5,942	-	(1,055)	-	(1,055)	4,887
Balance at end of year	-	2,035,665	3,447,268	150,677	-	2,001,970	8,216	2,010,186	7,643,796
Allowance for impairment loss (Note 16)									
Balance at the end of year	19,969	1,689	-	-	-	-	-	-	21,657
Net book value at end of year	P443,037	P646,092	P1,275,254	P181,203	P287,948	P1,472,060	P12,427	P1,484,487	P4,318,022

	Parent Company								Total
	Land	Building and Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Right-of-use Assets			
						Building and Improvements	Transportation Equipment	Total Right-of-use assets	
December 31, 2022									
Cost									
Balance at beginning of year	P441,288	P2,605,116	P3,784,854	P284,527	P260,783	P3,574,735	P10,969	P3,585,704	P10,962,272
Additions	-	55,752	388,821	65,842	77,345	922,570	15,854	938,424	1,526,184
Disposals	(13,504)	(6,411)	(106,423)	(58,779)	-	(1,347,312)	(11,310)	(1,358,622)	(1,543,739)
Amortization of leasehold improvements	-	-	-	-	(117,600)	-	-	-	(117,600)
Reclassifications and other adjustments (Note 17)	-	-	(17,641)	7,285	(60)	77,825	-	77,825	67,409
Balance at end of year	427,784	2,654,457	4,049,611	298,875	220,468	3,227,818	15,513	3,243,331	10,894,526
Accumulated depreciation									
Balance at beginning of year	-	1,863,138	2,798,542	137,022	-	2,094,859	9,374	2,104,233	6,902,935
Depreciation	-	102,979	406,366	52,790	-	726,319	4,884	731,203	1,293,338
Disposals	-	(5,377)	(103,671)	(44,702)	-	(1,158,351)	(11,309)	(1,169,660)	(1,323,410)
Reclassifications and other adjustments (Note 17)	-	-	-	5,310	-	-	-	-	5,310
Balance at end of year	-	1,960,740	3,101,237	150,420	-	1,662,827	2,949	1,665,776	6,878,173
Allowance for impairment loss (Note 16)									
Balance at the end of year	14,120	368	-	-	-	-	-	-	14,488
Net book value at end of year	P413,664	P693,349	P948,374	P148,455	P220,468	P1,564,991	P12,564	P1,577,555	P4,001,865

As of December 31, 2023 and 2022, the cost of fully depreciated property and equipment still in use amounted to ₱4.2 billion and ₱4.9 billion, respectively, for the Group and the Parent Company.

Gain or loss on disposal of equipment is included under 'Profit from assets sold/exchanged' in the statements of income. In 2023, 2022 and 2021, the Profit from assets sold/ exchanged amounted to



₱274.3 million, ₱66.6 million and ₱0.5 million, respectively, for the Group and ₱274.3 million, ₱67.0 million and ₱0.5 million for the Parent Company.

The details of depreciation and amortization recognized in the statements of income follow.

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Property, equipment and right-of-use assets	₱1,746,763	₱1,819,098	₱1,851,812	₱1,291,493	₱1,293,338	₱1,344,462
Leasehold improvements	102,266	117,600	135,131	102,083	117,600	134,662
Investment properties (Note 16)	228,276	103,010	67,235	228,276	103,010	67,235
Other properties acquired (Note 17)	72,868	74,811	118,911	72,868	74,811	118,911
	₱2,150,173	₱2,114,519	₱2,173,089	₱1,694,720	₱1,588,759	₱1,665,270

Set out below are the carrying amounts of lease liability (see Note 23) and the movements during the year:

	Consolidated		Parent	
	2023	2022	2023	2022
Balance at beginning of year	₱1,538,021	₱1,454,658	₱1,533,655	₱1,454,658
Additions	544,522	789,427	544,522	789,427
Disposals/pre-terminations	(23,053)	(191,215)	(23,053)	(191,216)
Accretion of interest	80,990	71,508	80,990	71,831
Payments	(748,610)	(586,357)	(744,244)	(591,045)
Balance at end of year	₱1,391,870	₱1,538,021	₱1,391,870	₱1,533,655

16. Investment Properties

The composition of and movements in the Group and the Parent Company's investment properties follow:

	Consolidated		
	Land	Building and Improvements	Total
December 31, 2023			
Cost			
Balance at beginning of year	₱1,704,013	₱1,993,517	₱3,697,530
Additions (Note 36)	866,629	1,510,337	2,376,966
Disposals	(391,917)	(142,091)	(534,008)
Balance at end of year	2,178,725	3,361,763	5,540,488
Accumulated Depreciation			
Balance at beginning of year	–	295,838	295,838
Depreciation (Note 15)	–	228,276	228,276
Disposals	–	(31,871)	(31,871)
Balance at end of year	–	492,243	492,243
Allowance for Impairment Loss			
Balance at beginning of year	99,748	97,273	197,021
Provision for impairment losses	25,305	59,944	85,249
Disposals	(21,526)	(3,101)	(24,627)
Balance at end of year	103,527	154,116	257,643
Net Book Value at End of Year	₱2,075,198	₱2,715,404	₱4,790,602



	Consolidated		
	Land	Building and Improvements	Total
December 31, 2022			
Cost			
Balance at beginning of year	₱745,484	₱668,317	₱1,413,801
Additions (Note 36)	1,049,167	1,382,098	2,431,265
Disposals	(90,638)	(56,898)	(147,536)
Balance at end of year	1,704,013	1,993,517	3,697,530
Accumulated Depreciation			
Balance at beginning of year	-	213,483	213,483
Depreciation (Note 15)	-	103,010	103,010
Disposals	-	(20,655)	(20,655)
Balance at end of year	-	295,838	295,838
Allowance for Impairment Loss			
Balance at beginning of year	3,831	13,677	17,508
Provision for impairment losses	96,414	77,368	173,782
Disposals	(497)	6,228	5,731
Balance at end of year	99,748	97,273	197,021
Net Book Value at End of Year	₱1,604,265	₱1,600,406	₱3,204,671

	Parent Company		
	Land	Building and Improvements	Total
December 31, 2023			
Cost			
Balance at beginning of year	₱1,703,239	₱1,993,516	₱3,696,755
Additions (Note 36)	866,629	1,510,337	2,376,966
Disposals	(391,917)	(142,091)	(534,008)
Balance at end of year	2,177,951	3,361,762	5,539,713
Accumulated Depreciation			
Balance at beginning of year	-	295,839	295,839
Depreciation (Note 15)	-	228,276	228,276
Disposals	-	(31,871)	(31,871)
Balance at end of year	-	492,244	492,244
Allowance for Impairment Loss			
Balance at beginning of year	99,751	97,269	197,020
Provision for impairment losses	25,305	59,944	85,249
Disposals	(21,525)	(3,102)	(24,627)
Balance at end of year	103,531	154,111	257,642
Net Book Value at End of Year	₱2,074,420	₱2,715,407	₱4,789,827

December 31, 2022			
Cost			
Balance at beginning of year	₱684,735	₱727,523	₱1,412,258
Additions (Note 36)	1,109,141	1,322,123	2,431,264
Disposals	(90,637)	(56,130)	(146,767)
Balance at end of year	1,703,239	1,993,516	3,696,755
Accumulated Depreciation			
Balance at beginning of year	-	207,753	207,753
Depreciation (Note 15)	-	103,010	103,010
Disposals	-	(14,924)	(14,924)
Balance at end of year	-	295,839	295,839
Allowance for Impairment Loss			
Balance at beginning of year	3,337	19,901	23,238
Provision for impairment losses	96,414	77,368	173,782
Balance at end of year	99,751	97,269	197,020
Net Book Value at End of Year	₱1,603,488	₱1,600,408	₱3,203,896



Investment properties are real estate properties acquired in settlement of loans and receivables. The difference between the fair value of the asset upon foreclosure and the carrying value of the loan is recognized under 'Profit from assets sold/exchanged'. In 2023, 2022 and 2021, the Profit from assets sold/ exchanged, amounted to ₱0.9 billion, ₱1.2 billion and ₱0.1 billion for the Group and the Parent Company.

The fair values of investment properties are disclosed in Note 6.

As of December 31, 2023 and 2022, the carrying value of investment properties still subject to redemption amounted to ₱1.3 billion and ₱2.0 billion, respectively, for the Group and the Parent Company.

The Group and the Parent Company have no investment properties, which are leased out under operating leases as of December 31, 2023, 2022 and 2021.

In 2023, 2022, and 2021, direct operating expenses, consisting of depreciation and amortization and repairs and maintenance (included under 'Occupancy costs' in the statements of income) pertaining to investment properties amounted to ₱72.9 million, ₱74.8 million, and ₱118.9 million, respectively, for the Group and ₱72.9 million, ₱74.8 million, and ₱118.9 million, respectively, for the Parent Company.

Provision for (recovery of) impairment losses on non-financial assets in the statements of income are as follows:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Property, equipment and right-of-use assets (Note 15)	₱21,422	₱433	₱7,884	₱21,422	₱433	(₱13,605)
Investment properties	85,249	173,782	(25,584)	85,249	173,782	(3,595)
Other properties acquired (Note 17)	28,009	32,845	2,547	28,009	32,845	2,547
	₱134,680	₱207,060	(₱15,153)	₱134,680	₱207,060	(₱14,653)

17. Intangible and Other Assets

Intangible assets consist of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Branch licenses	₱1,445,000	₱1,445,000	₱1,445,000	₱1,445,000
Software costs	3,516,055	2,281,225	3,515,263	2,280,076
Exchange trading right	8,000	9,000	-	-
	₱4,969,055	₱3,735,225	₱4,960,263	₱3,725,076



Branch licenses of the Group amounting to ₱1.5 billion represents the following:

- a. 1 branch license acquired in in 2017 amounting to ₱20.0 million;
- b. 4 branch licenses acquired in in 2016 amounting to ₱80.0 million;
- c. 23 branch licenses acquired in 2015 amounting to ₱345.0 million;
- d. 11 branch licenses acquired in 2014 amounting to ₱220.0 million;
- e. 26 branch licenses acquired in 2013 amounting to ₱520.0 million; and
- f. 13 branch licenses acquired in 2012 amounting to ₱260.0 million

Movements in software costs follow:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Cost				
Balance at beginning of year	₱4,643,991	₱3,578,676	₱4,497,568	₱3,432,280
Additions	1,926,760	1,098,153	1,926,659	1,098,126
Disposal	(291)	(21,879)	(291)	(21,879)
Reclassification (Note 15)	(16,614)	(10,959)	(16,614)	(10,959)
Balance at end of year	₱6,553,846	₱4,643,991	₱6,407,322	₱4,497,568
Accumulated Amortization				
Balance at beginning of year	₱2,362,766	₱1,811,598	₱2,217,492	₱1,666,893
Amortization	675,041	551,180	674,567	550,599
Disposal	(16)	(12)	-	-
Balance at end of year	3,037,791	2,362,766	2,892,059	2,217,492
Net Book Value at End of Year	₱3,516,055	₱2,281,225	₱3,515,263	₱2,280,076

As of December 31, 2023 and 2022, the latest transacted price of SBEI's exchange trading right amounted to ₱8.0 million and ₱9.0 million, respectively.

Other assets consist of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Cash collateral deposits	₱1,466,610	₱2,402,982	₱1,466,610	₱2,402,982
Other properties acquired – net	872,153	899,386	872,153	899,386
Prepaid expenses	702,353	363,435	627,309	329,263
Rental and security deposits (Note 32)	558,992	527,231	560,994	529,234
Due from brokers	311,044	407,824	311,044	407,824
Documentary stamps	277,476	348,758	277,476	348,758
Income tax credits	136,296	120,272	17,111	17,111
Due from trust	79,939	58,907	79,939	58,907
Returned checks and other cash items	50,560	35,434	50,560	35,434
Deferred input VAT	26,411	56,662	-	-
Pension asset (Note 28)	2,786	200,867	-	191,736
Miscellaneous	561,796	407,654	551,311	406,663
	₱5,046,416	₱5,829,412	₱4,814,507	₱5,627,298

Cash collateral deposits represent the Parent Company's restricted deposits for its treasury transactions such as interest rate swaps and SSURA. The carrying amount of these deposits approximates their fair value.

In 2023 and 2022, the gross carrying amount of cash collateral securities were carried at Stage 1 and there were no transfers into and out of Stage 1.



Other properties acquired represent chattel mortgages foreclosed from loan borrowers. Gain or loss upon foreclosure is included under ‘Profit from assets sold/exchanged’ in the statements of income. In 2023, 2022 and 2021 the Profit from assets sold/ exchanges, amounted to ₱59.8 million, ₱0.3 billion and ₱1.3 billion, respectively, for the Group and the Parent Company.

As of December 31, 2023 and 2022, ‘Other assets – miscellaneous’ includes prepaid employee benefits under car plan program amounting to ₱224.8 million and ₱181.9 million for the Group, respectively, and ₱223.7 million and ₱181.0 million for the Parent Company, respectively, and items in process for clearing amounting to ₱177.6 million and ₱133.8 million as of December 31, 2023 and 2022, respectively.

Movements in the other properties acquired by the Group and the Parent Company follow:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Cost				
Balance at beginning of year	₱993,047	₱243,545	₱993,047	₱243,518
Additions (Note 36)	505,628	1,608,374	505,628	1,608,374
Disposals	(455,277)	(858,872)	(455,277)	(858,845)
Reclassification (Note 15)	(5,112)	–	(5,112)	–
Balance at end of year	1,038,286	993,047	1,038,286	993,047
Accumulated Depreciation				
Balance at beginning of year	60,815	34,351	60,815	34,324
Depreciation (Note 15)	72,868	74,811	72,868	74,811
Disposals	(23,963)	(48,347)	(23,963)	(48,320)
Reclassification (Note 15)	(263)	–	(263)	–
Balance at end of year	109,457	60,815	109,457	60,815
Accumulated Impairment Loss				
Balance at beginning of year	32,846	2,547	32,846	2,547
Provision for impairment losses (Note 16)	28,009	32,845	28,009	32,845
Disposals	(4,148)	(2,497)	(4,148)	(2,497)
Reclassification	(31)	(49)	(31)	(49)
Balance at end of year	56,676	32,846	56,676	32,846
Net Book Value at End of Year	₱872,153	₱899,386	₱872,153	₱899,386

18. Deposit Liabilities

On June 23, 2023, the BSP through BSP Circular 1175, approved the 250 basis point reduction from 12.0% to 9.5% in the reserve requirement ratios of selected reservable liabilities of the Bank effective June 30, 2023. As of December 31, 2023, the Group was in compliance with such regulation.

As of December 31, 2023 and 2022, the Group and the Parent Company has set aside ‘Due from BSP’ as reserves amounting to ₱40.3 billion and ₱54.0 billion, respectively. Total interest income on ‘Due from BSP’ earned by the Group and Parent Company amounted to nil, ₱46.8 million and ₱606.5 million for the years ended December 31, 2023, 2022 and 2021, respectively.

Long-term Negotiable Certificates of Deposit matured on May 8, 2023

On November 8, 2017, the Parent Company issued 3.875% fixed coupon rate (EIR of 4.01%) unsecured LTNCD at par value of ₱8.6 billion. The Parent Company incurred debt issue costs amounting to ₱58.9 million. On May 8, 2023, the Parent Company paid ₱8.6 billion unsecured LTNCD.

The issuance of the foregoing LTNCD under the terms approved by the BOD was approved by the BSP on October 5, 2017.



Long-term Negotiable Certificates of Deposit matured on November 2, 2023

On May 2, 2018, the Parent Company issued 4.50% fixed coupon rate (EIR of 4.69%) unsecured LTNCD at par value of ₱5.78 billion. The Parent Company incurred debt issue costs amounting to ₱53.6 million. On November 3, 2023, the Parent Company paid ₱53.6 million unsecured LTNCD.

The issuance of the foregoing LTNCD under the terms approved by the BOD was approved by the BSP on October 5, 2017.

Long-term Negotiable Certificates of Deposit maturing on March 23, 2025

On September 23, 2019, the Parent Company issued 4.00% fixed coupon rate (EIR of 4.18%) unsecured LTNCD at par value of ₱6.06 billion. The Parent Company incurred debt issue costs amounting to ₱54.9 million.

The issuance of the foregoing LTNCD under the terms approved by the BOD was approved by the BSP on May 30, 2019.

Long-term Negotiable Certificates of Deposit maturing on June 17, 2025

On December 17, 2019, the Parent Company issued 4.00% fixed coupon rate (EIR of 4.16%) unsecured LTNCD at par value of ₱2.31 billion. The Parent Company incurred debt issue costs amounting to ₱18.7 million.

The issuance of the foregoing LTNCD under the terms approved by the BOD was approved by the BSP on May 30, 2019.

Long-term Negotiable Certificates of Deposit maturing on August 5, 2025

On February 5, 2020, the Parent Company issued 4.00% fixed coupon rate (EIR of 4.16%) unsecured LTNCD at par value of ₱2.07 billion. The Parent Company incurred debt issue costs amounting to ₱16.6 million.

The issuance of the foregoing LTNCD under the terms approved by the BOD was approved by the BSP on May 30, 2019.

The movement of unamortized debt issue costs on LTNCDs follows:

	2023	2022
Beginning balance	₱54,214	₱92,427
Amortization	(30,228)	(38,213)
Balance at end of year	₱23,986	₱54,214

Interest expense on deposit liabilities consists of:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Demand	₱371,371	₱242,646	₱204,516	₱390,094	₱243,015	₱204,819
Savings	129,558	70,062	107,435	129,725	70,167	107,715
Time	6,909,626	3,683,052	1,581,248	6,955,973	3,701,867	1,587,676
LTNCD	784,551	1,047,352	1,047,599	784,551	1,047,352	1,047,599
	₱8,195,106	₱5,043,112	₱2,940,798	₱8,260,343	₱5,062,401	₱2,947,809



Ranges of annual fixed interest on deposit liabilities excluding LTNCD follow:

	2023	2022	2021
Peso-denominated	0.01%-6.75%	0.01%-6.65%	0.01%-3.28%
Foreign currency-denominated	0.01%-5.50%	0.01%-5.10%	0.01%-1.97%

19. Financial Liabilities at Fair Value through Profit or Loss

This account consists of:

	2023	2022
Derivative liabilities (Note 6):		
Currency forwards	₱2,940,101	₱1,126,730
Interest rate futures	28,592	–
Bonds forward	13	3,334
Interest rate swaps	–	622,754
	₱2,968,706	₱1,752,818

Interest expense on derivative instruments consists of:

	2023	2022	2021
Interest rate swaps	₱567,504	₱300,435	₱217,100
Cross-currency swaps	44,615	105,986	131,749
	₱612,119	₱406,421	₱348,849

20. Bills Payable and Securities Sold Under Repurchase Agreements

This account consists of borrowings from:

	Consolidated		Parent Company	
	2023	2022	2023	2022
SSURA	₱46,525,809	₱23,360,860	₱46,525,809	₱23,360,860
Local government banks with relending facilities	117,965	4,633,186	117,965	4,633,186
Foreign banks	–	5,017,950	–	5,017,950
Local banks	4,695,331	7,908,407	4,629,497	7,790,073
	₱51,339,105	₱40,920,403	₱51,273,271	₱40,802,069

The following are the carrying values of the investment securities pledged and transferred under SSURA transactions of the Group:

	December 31, 2023		December 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets at FVTPL (Note 10)				
Government securities	₱3,813,159	₱3,813,159	₱3,857,764	₱3,857,764
Financial assets at FVTOCI (Note 11)				
Treasury bonds	19,832,200	19,832,200	4,142,731	4,142,731
Investment securities at amortized cost (Note 12)				
Private bonds	31,093,477	30,551,895	19,888,110	18,708,912
	₱54,738,836	₱54,197,254	₱27,888,605	₱26,709,407



For the years ended December 31, 2023, 2022 and 2021, interest expense on bills payable and SSURA, notes payable, subordinated notes and other borrowings in the statements of income consist of the following:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Notes and bonds payable (Note 21)	₱2,696,656	₱1,456,891	₱1,726,394	₱2,696,656	₱1,456,891	₱1,726,394
Bills payable and SSURA	2,771,815	528,168	324,661	2,765,987	523,888	317,836
Others	4,750	2,668	22,595	38	62	22,595
	₱5,473,221	₱1,987,727	₱2,073,650	₱5,462,681	₱1,980,841	₱2,066,825

Annual fixed interest rate ranges on the Group's and the Parent Company's interbank borrowings and rediscounting availments follow:

	2023	2022	2021
Interbank borrowings:			
Peso-denominated	1.50%-8.00%	1.50%-8.00%	1.50%-8.00%
Foreign currency-denominated	4.17%-6.04%	0.05%-4.83%	0.02%-1.33%

21. Notes and Bonds Payable

This account consists of the following:

	2023	2022
Fixed rate bonds due January 2025	₱18,396,413	₱-
Fixed rate bonds due January 2024	15,995,449	15,910,768
Fixed rate bonds due May 2024	14,571,659	14,496,317
Senior unsecured notes due September 2023	-	16,704,608
	₱48,963,521	₱47,111,693

Senior Unsecured Notes due September 2023

In September 2018, the Parent Company issued \$300.0 million senior unsecured notes ("Senior Notes") due on September 25, 2023. The Senior Notes, which are listed in the Singapore Stock Exchange, were priced at a discount, with a coupon rate of 4.50% fixed rate (EIR of 4.68%) payable on a semi-annual basis commencing on March 25, 2019. The Parent Company incurred debt issue costs amounting to ₱57.6 million.

On September 25, 2023, the Parent Company paid ₱17.1 billion senior unsecured notes.

Fixed Rate Bonds due July 2022

On July 24, 2020, the Parent Company issued ₱13.5 billion fixed rate bonds due on July 24, 2022. The bond, which are listed in Philippine Dealing and Exchange Corporation, were priced at par with a coupon rate of 3.125% fixed rate payable on a quarterly basis commencing on October 24, 2020. The Parent Company incurred debt issue costs amounting to ₱111.2 million.

On July 25, 2022, the Parent Company paid ₱13.5 billion fixed rate bonds.



Fixed Rate Bonds due June 2021

On June 28, 2019, the Parent Company issued ₱18.0 billion fixed rate bonds due on June 28, 2021. The bond, which are listed in Philippine Dealing and Exchange Corporation, were priced at par with a coupon rate of 5.875% fixed rate payable on a quarterly basis commencing on September 28, 2019. The Parent Company incurred debt issue costs amounting to ₱160.8 million. This fixed rate bond already matured and is no longer outstanding as of December 31, 2021.

Fixed Rate Bonds due January 2024

On July 20, 2022, the Parent Company issued ₱16.0 billion fixed rate bonds due on January 20, 2024. The bond, which are listed in Philippine Dealing and Exchange Corporation, were priced at par with a coupon rate of 3.7407% fixed rate (EIR of 4.29%) payable on a quarterly basis commencing on October 20, 2022. The Parent Company incurred debt issue costs amounting to ₱126.0 million.

On January 22, 2024, the Parent Company paid ₱16.0 billion fixed rate bonds.

Fixed Rate Bonds due May 2024

On November 10, 2022, the Parent Company issued ₱14.6 billion fixed rate bonds due on May 10, 2024. The bond, which are listed in Philippine Dealing and Exchange Corporation, were priced at par with a coupon rate of 5.3000% fixed rate (EIR of 5.85%) payable on a quarterly basis commencing on February 10, 2023. The Parent Company incurred debt issue costs amounting to ₱114.1 million.

Fixed Rate Bonds due January 2025

On July 13, 2023, the Parent Company issued ₱18.5 billion fixed rate bonds due on January 13, 2025. The bond, which are listed in Philippine Dealing and Exchange Corporation, were priced at par with a coupon rate of 6.4250% fixed rate (EIR of 6.9901%) payable on a quarterly basis commencing on October 13, 2023. The Parent Company incurred debt issue costs amounting to ₱147.6 million.

The movements in unamortized discount follow:

	2023	2022
Balance at beginning of year	₱214,807	₱78,387
Additions	147,646	240,038
Amortization	(251,205)	(182,309)
Translation adjustment	25,231	78,691
Balance at end of year	₱136,479	₱214,807

22. Accrued Interest, Taxes and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Accrued interest payable (Note 31)	₱1,891,893	₱1,838,597	₱1,893,601	₱1,844,730
Accrued other expenses payable	1,843,864	1,790,180	1,750,777	1,766,817
Accrued other taxes and licenses payable	818,453	519,582	789,134	502,004
Pension liability - net (Notes 28 and 31)	290,522	5,167	289,629	-
	₱4,844,732	₱4,153,526	₱4,723,141	₱4,113,551

Accrued other expenses payable includes accrual for various operating expenses such as payroll, repairs and maintenance, utilities, rental, and contractual services. This also includes estimated provision for probable losses arising from various legal cases of the Group (see Note 33).



23. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Accounts payable (Note 31)	₱4,047,392	₱2,675,545	₱3,920,437	₱2,611,583
Other deferred credits	1,527,736	1,444,777	1,527,736	1,444,777
Lease liability (Notes 2 and 15)	1,391,870	1,538,021	1,391,870	1,533,655
Bills purchased - contra	833,344	884,311	833,344	884,311
Provision for ECL on loan commitments and financial guarantees (Note 33)	606,059	277,722	606,059	277,722
Payable to brokers	603,515	1,560,367	–	–
Cash collateral on borrowings	415,679	955,641	415,679	955,641
Insurance premiums payable	412,145	197,208	412,145	197,208
Withholding taxes payable	405,112	316,096	398,847	311,757
Due to the Treasurer of the Philippines	245,840	181,309	245,840	181,309
Security Deposit on Lease Contracts	176,084	138,403	–	–
Rewards for cardholders	173,146	80,407	173,146	80,407
Unearned initial milestone fee	110,218	319,770	110,218	319,770
Provision related to legal cases	106,400	130,593	106,400	130,593
Subscription payable	30,000	30,000	123,750	123,750
Deposits for keys of safety deposit boxes	7,523	7,297	7,523	7,297
Dividends payable	24	8,211	–	8,187
Miscellaneous	788,302	471,750	715,382	427,094
	₱11,880,389	₱11,217,428	₱10,988,376	₱9,495,061

Miscellaneous liabilities include Social Security System pension for the Group's depositors amounting to ₱48.3 million and ₱41.7 million as of December 31, 2023 and 2022, respectively, and items in process for clearing amounting to ₱541.9 million and ₱365.4 million as of December 31, 2023 and 2022, respectively.

24. Maturity Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled (amounts in millions):

	Consolidated			Parent Company		
	Within One Year	Over One Year	Total	Within One Year	Over One Year	Total
December 31, 2023						
Financial Assets						
Cash and other cash items	₱13,947	₱–	₱13,947	₱13,947	₱–	₱13,947
Due from BSP	45,821	–	45,821	45,821	–	45,821
Due from other banks	12,023	–	12,023	11,964	–	11,964
Interbank loans receivable and SPURA	2,581	1,500	4,081	2,581	1,500	4,081
Financial assets at FVTPL:						
HFT investments	9,964	–	9,964	9,964	–	9,964
Derivative assets	912	10	922	912	10	922
Total financial assets at FVTPL	10,876	10	10,886	10,876	10	10,886
Financial assets at FVTOCI	7,626	132,235	139,861	7,626	132,191	139,817
Investment securities at amortized cost	14,802	61,405	76,207	14,802	61,405	76,207
Loans and receivables - at gross	253,417	302,572	555,989	254,625	302,572	557,197
Other assets	2,464	714	3,178	2,450	710	3,160
Total financial assets	363,557	498,436	861,993	364,692	498,388	863,080

(Forward)



	Consolidated			Parent Company		
	Within One Year	Over One Year	Total	Within One Year	Over One Year	Total
Non-financial Assets						
Investments in subsidiaries and joint ventures	₱-	₱2,625	₱2,625	₱-	₱5,034	₱5,034
Property and equipment (Net)	-	6,429	6,429	-	4,318	4,318
Investment properties	-	4,791	4,791	-	4,790	4,790
Deferred tax assets	-	5,703	5,703	-	5,664	5,664
Goodwill	-	842	842	-	842	842
Intangible assets	-	4,969	4,969	-	4,960	4,960
Other assets	997	872	1,869	782	872	1,654
Total non-financial assets	997	26,231	27,228	782	26,480	27,262
	₱364,554	₱524,667	889,221	₱365,474	₱524,868	₱890,342
Less: Allowance for credit losses			15,569			15,542
Unearned discounts and deferred credits			2,143			2,143
Total Assets			₱871,509			₱872,657
Financial Liabilities						
Deposit liabilities	₱548,879	₱57,652	₱606,531	₱551,130	₱57,652	₱608,782
Financial liabilities at FVTPL	2,969	-	2,969	2,969	-	2,969
Bills payable and SSURA	48,981	2,358	51,339	48,960	2,313	51,273
Acceptances payable	2,783	-	2,783	2,783	-	2,783
Margin deposits and cash letters of credit	58	-	58	58	-	58
Manager's and certified checks outstanding	5,209	-	5,209	5,209	-	5,209
Notes payable	30,567	18,397	48,964	30,567	18,397	48,964
Accrued interest, taxes and other expenses	4,026	-	4,026	3,934	-	3,934
Other liabilities	8,862	1,665	10,527	8,202	1,487	9,689
Total financial liabilities	652,334	80,072	732,406	653,812	79,849	733,661
Non-financial Liabilities						
Income tax payable	802	-	802	776	-	776
Accrued interest, taxes and other expenses	818	-	818	789	-	789
Other liabilities	1,344	9	1,353	1,298	-	1,298
Total non-financial liabilities	2,964	9	2,973	2,863	-	2,863
Total Liabilities	₱655,298	₱80,081	₱735,379	₱656,675	₱79,849	₱736,524
December 31, 2022						
Financial Assets						
Cash and other cash items	₱13,180	₱-	₱13,180	₱13,180	₱-	₱13,180
Due from BSP	63,011	-	63,011	63,011	-	63,011
Due from other banks	20,098	-	20,098	20,034	-	20,034
Interbank loans receivable and SPURA	25,517	1,998	27,515	25,517	1,998	27,515
Financial assets at FVTPL:						
HFT investments	4,902	-	4,902	4,902	-	4,902
Derivative assets	1,917	748	2,665	1,917	748	2,665
Total financial assets at FVTPL	6,819	748	7,567	6,819	748	7,567
Financial assets at FVTOCI	3,274	109,617	112,891	3,275	109,577	112,852
Investment securities at amortized cost	5,614	63,616	69,230	5,614	63,616	69,230
Loans and receivables - at gross	276,721	244,250	520,971	276,704	243,902	520,606
Other assets	3,507	527	4,034	3,496	529	4,025
Total financial assets	417,741	420,756	838,497	417,650	420,370	838,020

(Forward)



	Consolidated			Parent Company		
	Within One Year	Over One Year	Total	Within One Year	Over One Year	Total
Non-financial Assets						
Investments in subsidiaries and joint ventures	P-	P2,441	P2,441	P-	P4,549	P4,549
Property and equipment (Net)	-	5,279	5,279	-	4,002	4,002
Investment properties	-	3,205	3,205	-	3,204	3,204
Deferred tax assets	-	4,851	4,851	-	4,823	4,823
Goodwill	-	842	842	-	842	842
Intangible assets	-	3,735	3,735	-	3,725	3,725
Other assets	897	899	1,796	703	899	1,602
Total non-financial assets	897	21,252	22,149	703	22,044	22,747
	P418,638	P442,008	860,646	P418,353	P442,414	P860,767
Less: Allowance for credit losses			16,480			16,446
Unearned discounts and deferred credits			1,875			1,875
Total Assets			P842,291			P842,446
Financial Liabilities						
Deposit liabilities	P573,440	P32,397	P605,837	P576,975	P30,904	P607,879
Financial liabilities at FVTPL	1,753	-	1,753	1,753	-	1,753
Bills payable and SSURA	35,769	5,151	40,920	35,651	5,151	40,802
Acceptances payable	1,075	10	1,085	1,075	10	1,085
Margin deposits and cash letters of credit	64	-	64	64	-	64
Manager's and certified checks outstanding	4,103	-	4,103	4,103	-	4,103
Notes payable	16,705	30,407	47,112	16,705	30,407	47,112
Accrued interest, taxes and other expenses	3,634	-	3,634	3,612	-	3,612
Other liabilities	9,357	1,646	11,003	7,699	1,598	9,297
Total financial liabilities	645,900	69,611	715,511	647,637	68,070	715,707
Non-financial Liabilities						
Income tax payable	198	-	198	190	-	190
Accrued interest, taxes and other expenses	520	-	520	502	-	502
Other liabilities	211	3	214	197	-	197
Total non-financial liabilities	929	3	932	889	-	889
Total Liabilities	P646,829	P69,614	P716,443	P648,526	P68,070	P716,596

25. Equity

As of December 31, 2023 and 2022, the Parent Company's capital stock consists of:

	Shares*	Amount
Common stock - P10 par value		
Authorized	1,000,000,000	P10,000,000
Issued and outstanding		
Balance at the beginning and end of the period	753,538,887	7,535,389
Preferred stock - P0.10 par value		
Authorized	1,000,000,000	100,000
Issued and outstanding		
Balance at the beginning and end of the period	1,000,000,000	100,000
	1,753,538,887	P7,635,389

*Absolute number of shares



On November 26, 2013, the Parent Company's stockholders approved and authorized the following:

1. Creation of 1.0 billion non-cumulative, non-participating, non-convertible voting Preferred Stock with par value of ₱0.1 each and issuance of approximately 602.8 million of such Preferred Stock; and
2. Increase in authorized capital stock from ₱10.0 billion to ₱10.1 billion broken down into ₱10.0 billion Common Stock and ₱100.0 million Preferred Stock.

The Preferred Stock was offered to eligible common stockholders, with each eligible stockholder entitled to subscribe to one voting preferred share for every one common stock held as of the record date, June 16, 2014.

On July 10, 2014, the Parent Company issued the first tranche of non-cumulative, non-participating, non-convertible Preferred Stock of 602,831,109 with 0.1 par value. The dividend rate is 3.90% repricing every 10 years.

On April 1, 2016, the Parent Company issued the second tranche of non-cumulative, non-participating, non-convertible Preferred Stock of 397,168,891 with 0.1 par value. The dividend rate is 4.805% repricing every 10 years.

The Preferred Stock is redeemable at the sole option of the Parent Company at its issue price. Redemption shall at all times be subject to regulation of the BSP and shall require (i) prior approval of the BSP; (ii) replacement with at least an equivalent amount of newly paid-in shares; (iii) a lapse of at least five (5) years from the date of issuance; and (iv) solvency of the Parent Company. Redemption shall not be allowed when the Parent Company is insolvent or if such redemption will cause insolvency, impairment of capital or inability of the Parent Company to meet its debts as they mature.

A sinking fund for the redemption of Preferred Shares amounting ₱100.0 million is created upon their issuance, to be effected by the transfer of free surplus to a restricted surplus account and shall not be available for dividend distribution.

Details of the Parent Company's cash dividend distribution follow:

Shares	Date of declaration	Dividend		Record date	Payment date
		Per share	Total amounts in thousands		
Common	October 24, 2023	₱1.50	₱1,130,308	November 10, 2023	November 24, 2023
Common	March 28, 2023	1.50	1,130,308	April 14, 2023	April 28, 2023
Preferred	February 28, 2023	0.0039	2,351	June 26, 2023	July 10, 2023
Preferred	February 28, 2023	0.0048	1,908	March 20, 2023	April 3, 2023
Common	October 25, 2022	1.50	1,130,308	November 10, 2022	November 24, 2022
Common	March 29, 2022	1.50	1,130,308	April 12, 2022	April 28, 2022
Preferred	February 22, 2022	0.0039	2,351	June 27, 2022	July 11, 2022
Preferred	February 22, 2022	0.0048	1,908	March 18, 2022	April 1, 2022
Common	October 26, 2021	1.50	1,130,308	November 10, 2021	November 24, 2021
Common	March 20, 2021	1.00	753,539	April 16, 2021	April 29, 2021
Common	March 20, 2021	0.5000	376,770	April 16, 2021	April 29, 2021
Preferred	February 23, 2021	0.0039	2,351	June 28, 2021	July 12, 2021
Preferred	February 23, 2021	0.0048	1,908	March 18, 2021	April 5, 2021

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 16 issued in September 2023 differs to a certain extent from the computation following BSP guidelines including capital adequacy requirements and other considerations such as general



loan loss reserves. However, on September 17, 2015, the BSP through MB Resolution No. 1516, allowed banks to declare and pay dividends without prior BSP verification provided that pre-qualification criteria including capital adequacy requirements are met.

The track record of the Parent Company's registration of securities in compliance with the Securities Regulation Code Rule 68 Annex 68-D 1(I) follows:

a. Authorized Shares

<u>Date of SEC Approval</u>	<u>Type of Shares</u>	<u>Authorized Number of Shares*</u>
April 8, 2014	Preferred	1,000,000,000
November 11, 2013	Common	1,000,000,000
July 29, 1998	Common	600,000,000
February 19, 1997	Common	450,000,000
June 8, 1995	Common	200,000,000

* Absolute number of shares

b. Stock Dividends

<u>Date of BSP Approval</u>	<u>Percentage</u>
July 11, 2013	20.00%
March 29, 2011	20.00%
May 26, 1998	13.75%
April 29, 1997	20.00%
March 26, 1996	20.00%

c. Stock Rights Offering

<u>Date of SEC Approval</u>	<u>Number of shares Registered*</u>	<u>Offer Price</u>
October 8, 2009	89,285,714	₱28.00 per share
February 19, 1997	65,037,768	25.00 per share

*Absolute number of shares

d. Number of Shareholders

<u>Year End</u>	<u>Number of shareholders</u>
December 31, 2023	2,139
December 31, 2022	2,151
December 31, 2021	2,154

In the consolidated financial statements, a portion of the Group's surplus corresponding to the accumulated net earnings of the subsidiaries amounting to ₱557.6 million and ₱383.6 million as of December 31, 2023 and 2022, respectively, is not available for dividend declaration. This accumulated equity in net earnings becomes available for dividend declaration upon receipt of dividends from the investees, subject also to SEC and BSP rules on dividend declaration.



Surplus reserves of the Group and the Parent Company consist of:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Reserve for regulatory requirements	₱3,546,865	₱3,967,265	₱3,546,865	₱3,967,265
Reserve for self-insurance	1,015,500	1,015,500	1,015,500	1,015,500
Reserve for trust business	412,811	383,706	412,811	383,706
Reserve for redemption of preferred stock	100,000	100,000	100,000	100,000
	₱5,075,176	₱5,466,471	₱5,075,176	₱ 5,466,471

In compliance with existing BSP regulations, 10.0% of the net profits realized by the Parent Company from its trust business is appropriated to surplus reserve. The yearly appropriation is required until the surplus reserve for trust business equals 20.0% of the Parent Company's regulatory capital.

To comply with Securities Regulation Code Rule 49.1 (B), *Reserve Fund*, requiring broker dealers to annually appropriate a certain minimum percentage of its audited profit after tax as reserve fund, a portion of the Group's surplus corresponding to the net earnings of SBEI amounting to ₱39.6 million and ₱39.5 million as of December 31, 2023 and 2022, respectively, has been appropriated in the consolidated financial statements and is not available for dividend declaration.

The following table shows the components of comprehensive income closed to Surplus:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Net income attributable to the equity holders of the Parent Company	₱9,105,438	₱10,555,599	₱6,916,970	₱9,105,438	₱10,561,008	₱6,938,503
Remeasurement gains (losses) on defined benefit plans (Notes 14 and 28)	(289,840)	(138,577)	413,246	(289,840)	(138,577)	413,246
	₱8,815,598	₱10,417,022	₱7,330,216	₱8,815,598	₱10,422,431	₱7,351,749

Capital Management

The Group considers the equity attributable to the equity holders of the Parent Company as the capital base of the Group. The primary objectives of the Group's capital management are to ensure that it complies with capital requirements and that it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities and assessment of prospective business requirements or directions. In order to maintain or adjust the capital structure, the Group may adjust the amount and mode of dividend payment to shareholders, issue capital securities or undertake a share buy-back. No changes were made in the objectives, policies and processes from the previous year.



The Parent Company adopted a dividend policy that is intended to support the Bank to weather the uncertainties and volatilities in the market; comply with the higher requirements of Basel III and the BSP; maintain strong credit ratings; minimize the need for capital calls in the medium-term; and provide a capital base for business expansion that will create value over the long-term for all stakeholders. In declaring dividend pay-outs, may use a combination of regular and special dividends such that the dividend pay-out for Common Shares generally may range from 15% to 30% of prior year's NIAT.

BSP Reporting

Regulatory Qualifying Capital

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

The Group complied with BSP Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi banks, in accordance with the Basel III standards:

Common Equity Tier 1 (CET1) ratio	6.00%
Tier 1 Capital ratio	7.50%
Total Capital Adequacy Ratio (CAR)	10.00%
Capital Conservation Buffer *	2.50%

**composed of CET1 capital on top of the minimum CET1 requirement*

BSP Circular No. 856 covers the implementing guidelines on the framework for dealing with domestic systemically important banks (DSIBs) in accordance with the Basel III standards. Banks identified as DSIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and capital conservation buffer. Compliance with this requirement was phased in starting January 1, 2017, with full compliance on January 1, 2019.

Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations. Under Basel III, the regulatory qualifying capital of the Parent Company consists of CET1 capital, which comprises paid-up common stock, additional paid-in capital, retained earnings including current year profit, retained earnings reserves, OCI and non-controlling interest less required regulatory deductions. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes unsecured subordinated debts and general loan loss provision. RWA consist of total assets excluding cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP. Operational RWA are computed using the Basic Indicator Approach.



The CAR of the Group and of the Parent Company as reported to the BSP as of December 31, 2023 and 2022 follow:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Tier 1 Capital	₱130,488,792	₱120,397,856	₱130,488,792	₱120,397,856
Less Required deductions	21,235,215	15,286,081	25,493,544	18,509,954
	109,253,577	105,111,775	104,995,248	101,887,902
Excess from Tier 2 deducted to Tier 1 Capital*	–	–	–	–
Net Tier 1 Capital	109,253,577	105,111,775	104,995,248	101,887,902
Tier 2 Capital	6,327,332	3,191,713	6,296,513	3,191,535
Less: Required deductions	–	–	–	–
	6,327,332	3,191,713	6,296,513	3,191,535
Excess of Tier 2 deducted to Tier 1 Capital*	–	–	–	–
Net Tier 2 Capital	6,327,332	3,191,713	6,296,513	3,191,535
Total Qualifying Capital	₱115,580,909	₱108,303,488	₱111,291,761	₱105,079,437
Credit Risk-Weighted Assets	₱632,168,889	₱582,441,067	₱629,056,303	₱579,379,526
Market Risk-Weighted Assets	16,489,117	7,257,879	16,489,117	7,257,875
Operational Risk-Weighted Assets	65,420,128	62,891,089	63,559,171	60,413,586
Total Risk Weighted Assets	₱714,078,134	₱652,590,035	₱709,104,591	₱647,050,987
CET 1 Ratio	15.30%	16.11%	14.81%	15.75%
Tier 1 CAR	15.30%	16.11%	14.81%	15.75%
Total CAR	16.19%	16.60%	15.69%	16.24%

*Deductions to Tier 2 Capital are capped at its total gross amount and any excess shall be deducted from Tier 1 Capital.

The Group and its individually regulated operations have complied with all regulatory capital requirements throughout the year.

The Bank Viability Assessment Process supplements the BSP's risk-based capital adequacy framework. In compliance with this, the Group has adopted and developed its Internal Capital and Liquidity Assessment frameworks to ensure that appropriate level and quality of capital and liquidity are maintained by the Group. Under these frameworks, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget as well as regulatory edicts.

Basel III Leverage Ratio (BLR)

BSP Circular Nos. 881 and 990 cover the implementing guidelines on the BLR framework designed to act as a supplementary measure to the risk based capital requirements and shall not be less than 5.00%.

The details of the BLR as reported to the BSP, as of December 31, 2023 and 2022 follow:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Tier 1 Capital	₱109,253,577	₱105,111,775	₱104,995,247	₱101,887,902
Exposure Measure	1,033,488,172	904,525,595	1,030,374,836	901,429,237
BLR	10.57%	11.62%	10.19%	11.30%



Under the framework, BLR is defined as the capital measure divided by the exposure measure. Capital measure is Tier 1 capital. Exposure measure is the sum of on balance sheet exposures, derivative exposures, security financing exposures and off-balance sheet items.

Liquidity Coverage Ratio (LCR)

BSP Circular No. 905 provides the implementing guidelines on LCR and disclosure standards that are consistent with the Basel III framework. The LCR is aimed to promote short-term resilience against liquidity risk by requiring banks to maintain an adequate stock of unencumbered high-quality liquid assets (HQLAs) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs under stressed conditions. Bank shall maintain an LCR not be lower than 100.00%. As of December 31, 2023 and 2022, the LCR in single currency as reported to the BSP, was at 157.98% and 144.23%, respectively, for the Group, and 157.22% and 142.78%, respectively, for the Parent Company.

Net Stable Funding Ratio (NSFR)

On June 6, 2018, the BSP issued BSP Circular No.1007 covering the implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards NSFR. The NSFR is aimed to promote long term resilience against liquidity risk by requiring banks to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. It complements the LCR, which promotes short term resilience of a bank's liquidity profile. Banks shall maintain an NSFR of at least 100% at all times. As of December 31, 2023 and 2022, the NSFR as reported to the BSP, was at 131.05 %and 121.80%, respectively, for the Group, and 130.94% and 121.85%, respectively, for the Parent Company.

26. Trust Operations

Securities and other properties held by the Parent Company in a fiduciary or agency capacity for clients and beneficiaries are not included in the accompanying statements of financial position since these are not assets of the Parent Company.

As of December 31, 2023 and December 31, 2022, government securities included under 'Financial Assets at Fair Value through Other Comprehensive Income' with a total face value of ₱1.2 billion and ₱1.0 billion, respectively, were deposited with the BSP in compliance with the requirements of the General Banking Law relative to the Parent Company's trust functions (see Note 11).

27. Income Taxes

Provision for (benefit from) income tax consists of:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Current:						
Final	₱1,474,423	₱1,060,856	₱747,213	₱1,461,382	₱1,056,722	₱745,932
Corporate – RCIT	2,597,632	1,488,709	565,229	2,539,044	1,425,117	530,622
Corporate – MCIT	6,015	1,709	239	–	–	–
	4,078,070	2,551,274	1,312,681	4,000,426	2,481,839	1,276,554
Deferred	(1,124,595)	778,266	2,031,929	(1,110,716)	774,271	2,009,584
	₱2,953,475	₱3,329,540	₱3,344,610	₱2,889,710	₱3,256,110	₱3,286,138



The Group's provision for income tax - current represents final tax, RCIT of the Parent Company's RBU and SBCIC; and MCIT of SBRC, SBEI, SBCC, SBFI and other subsidiaries.

Under Philippine tax laws, the Parent Company and its financial intermediary subsidiaries are subject to percentage and other taxes (presented as 'Taxes and licenses' in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of documentary stamp tax and gross receipts tax.

President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE). Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It took effect on April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact to the Group and to the Parent Company:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding ₱5.0 million and with total assets not exceeding ₱100.0 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.
- Effective July 1, 2020, interest expense allowed as a deductible expense is reduced to 20.0% from 33% of interest income subject to final tax.
- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023, then will revert to two percent (2%) effective July 1, 2023. Accordingly, the rate of minimum corporate income tax (MCIT) for CY 2023 is one and a half percent (1.5%).
- Imposition of improperly accumulated earnings tax (IAET) is repealed.
- Applying the provisions of the CREATE Act, the Group and the Parent Company is subject to lower regular corporate income tax rate of 25% effective July 1, 2020.
- Based on the provisions of Revenue Regulations (RR) No. 5-2021 dated April 8, 2021 issued by the BIR, the prorated corporate income tax rate of the Group and the Parent Company for the year 2020 is 27.5%. This will result in a lower provision for current income tax for the year ended December 31, 2020 by ₱171.5 million. The reduced amounts were reflected in the Group's and Parent Company's 2020 annual income tax return. However, for financial reporting purposes, the changes are recognized in the 2021 financial statements.

In 2021, this also resulted to a write-down of the deferred tax assets and liabilities of the Group and Parent Company recognized as of December 31, 2020 by ₱1.2 billion. This is recognized as provision for income tax - deferred expense in the 2021 financial statements.



Republic Act (RA) No. 9294, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, offshore banking units (OBUs), and local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency-denominated loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.0% income tax.

Components of net deferred tax assets follow:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Deferred tax assets on:				
Allowance for credit and impairment losses	₱3,959,793	₱4,072,533	₱3,952,265	₱4,063,776
Unrealized loss on derivative liabilities	712,714	280,718	712,714	280,718
Lease liability	348,532	385,665	347,967	383,414
Unrealized loss on investment in debt securities	207,249	462,004	207,249	462,004
Accrued expenses	182,301	313,372	179,183	310,525
Unamortized past service cost	177,888	210,177	174,792	206,424
Undrawn commitments	150,568	68,614	150,568	68,614
Accumulated depreciation on investment properties	150,425	73,960	150,425	73,960
Others*	384,141	55,996	354,416	35,305
	6,273,611	5,923,039	6,229,579	5,884,740
Deferred tax liabilities on:				
Right-of-use asset	371,562	396,077	371,122	394,389
Unrealized gain on derivative assets	134,375	491,420	134,375	491,420
Unrealized gain on financial assets at FVTOCI	60,134	44,182	59,386	44,041
Accrued rent income	3,743	4,189	568	568
Retirement asset	697	53,002	–	47,934
Others	–	83,065	–	83,065
	570,511	1,071,935	565,451	1,061,417
Net deferred tax assets	₱5,703,100	₱4,851,104	₱5,664,128	₱4,823,323

*Includes unrealized loss on foreclosures amounting ₱238.7 million.

Movement in net deferred tax assets of the Group in 2023 and 2022 charged against statement of comprehensive income amounted to (₱270.5) million and ₱383.9 million, respectively.

Movement in net deferred tax assets of the Parent Company in 2023 and 2022 charged against statement of comprehensive income amounted to (₱269.9) million and ₱383.9 million, respectively.



As of December 31, 2023 and 2022, deferred tax assets of the Group and Parent-FCDU have not been recognized in respect of the deductible temporary differences follow:

	Consolidated		Parent Company	
	2023	2022	2023	2022
NOLCO	₱846,349	₱434,595	₱791,701	₱98,808
MCIT	6,121	1,872	-	-
Allowance for credit and impairment losses	70	886	-	-
	₱852,540	₱437,353	₱791,701	₱98,808

Details of the MCIT credits follow:

Inception Year	Consolidated			
	Amount	Expired	Balance	Expiry Year
2020	₱969	₱969	₱-	2023
2021	381	-	381	2024
2022	1,811	-	1,811	2025
2023	6,835	-	6,835	2026
	₱9,996	₱969	₱9,027	

On September 30, 2020, the Bureau of Internal Revenue (BIR) issued Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of Bayanihan to Recover as One Act which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

As of December 31, 2023, the Group have available NOLCO which can be claimed as deduction from the regular taxable income for the next three (3) consecutive taxable years immediately following the year of such loss. Details as follows:

Inception Year	Consolidated			
	Amount	Used	Balance	Expiry Year
2022	₱164,708	₱36,469	₱128,239	2025
2023	715,732	-	715,732	2026
	₱880,440	₱36,469	₱843,971	

Inception Year	Parent Company			
	Amount	Used	Balance	Expiry Year
2022	₱98,808	₱-	₱98,808	2025
2023	692,892	-	692,892	2026
	₱791,700	₱-	₱791,700	



As of December 31, 2023, the Subsidiaries have incurred NOLCO in taxable years 2020 and 2021 which can be claimed as deduction from the regular taxable income for the next five (5) consecutive taxable years pursuant to Bayanihan 2, as follows:

Inception Year	Consolidated			
	Amount	Used/Expired	Balance	Expiry Year
2020	₱39,438	₱36,360	₱3,078	2025
2021	53,149	52,133	1,016	2026
	₱92,587	₱88,493	₱4,094	

A reconciliation between the applicable statutory income tax rate to the effective income tax rate follows:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Statutory income tax rate	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
Tax effect of:						
FCDU net loss (income)	4.48%	-0.36%	-2.85%	4.50%	-0.37%	-2.86%
Non-deductible expenses	-0.18%	2.77%	2.23%	0.18%	2.78%	1.91%
Interest income from tax-paid and exempt investments	-0.69%	-2.03%	-1.79%	-0.49%	-2.04%	-1.79%
Change in deferred tax assets	-2.35%	0.12%	1.91%	-2.16%	0.04%	1.74%
Non-taxable income	-1.78%	-1.52%	-1.98%	-2.93%	-1.84%	-1.90%
CREATE Impact	–	–	10.07%	–	–	10.04%
Effective income tax rate	24.48%	23.98%	32.59%	24.10%	23.57%	32.14%

28. Pension Obligations

The Group provides non-contributory defined benefit pension plans for all employees. Provisions for pension obligations are established for benefits payable in the form of retirement pensions. Benefits are dependent on years of service and the respective employee's final compensation. The most recent actuarial valuation was carried out as of December 31, 2023. The present value of the defined benefit obligation, and the related current service cost and past service cost were measured using the projected unit credit actuarial method.

The amounts of defined benefit plans are presented in the statements of financial position as follows:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Other assets (Note 17)	(₱2,786)	(₱200,867)	₱–	(₱191,736)
Accrued interest, taxes and other expenses (Note 22)	290,522	5,167	289,629	–
Net pension liability (asset)	₱287,736	(₱195,700)	₱289,629	(₱191,736)



Changes in net defined benefit liability of the Group and the Parent Company in 2023 and 2022 are as follows:

	Consolidated		
	Present Value of DBO	Fair Value of Plan Assets	Net Retirement Liability (Asset)
December 31, 2023			
Balance at beginning of year	₱4,241,572	(₱4,437,272)	(₱195,700)
Net Benefit Cost in Statements of Income			
Current service cost	301,563	–	301,563
Net interest	295,688	(309,338)	(13,650)
	597,251	(309,338)	287,913
Benefits paid	(493,905)	493,905	–
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	–	216,543	216,543
Actuarial changes arising from experience adjustments	(136,537)	–	(136,537)
Actuarial changes arising from changes in financial assumptions	214,796	–	214,796
	78,259	216,543	294,802
Contributions paid	–	(99,279)	(99,279)
Balance at end of year	₱4,423,177	(₱4,135,441)	₱287,736

	Consolidated		
	Present Value of DBO	Fair Value of Plan Assets	Net Retirement Liability (Asset)
December 31, 2022			
Balance at beginning of year	₱4,173,215	(₱4,578,561)	(₱405,346)
Net Benefit Cost in Statements of Income			
Current service cost	295,716	3,445	299,161
Net interest	198,780	(219,539)	(20,759)
	494,496	(216,094)	278,402
Benefits paid	(245,655)	245,655	–
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	–	296,938	296,938
Actuarial changes arising from experience adjustments	94,542	–	94,542
Actuarial changes arising from changes in financial assumptions	(252,903)	–	(252,903)
	(158,361)	296,938	138,577
Transferred (liability)/asset	(22,123)	22,123	–
Contributions paid	–	(207,333)	(207,333)
Balance at end of year	₱4,241,572	(₱4,437,272)	(₱195,700)

	Parent Company		
	Present Value of DBO	Fair Value of Plan Assets	Net Retirement Liability (Asset)
December 31, 2023			
Balance at beginning of year	₱4,200,415	(₱4,392,151)	(₱191,736)
Net benefit cost in statements of income			
Current service cost	297,304	–	297,304
Net interest	292,771	(306,133)	(13,362)
	590,073	(306,133)	283,942
Benefits paid	(490,304)	490,304	–
Remeasurement in other comprehensive income			
Return on plan assets (excluding amount included in net interest)	–	215,643	215,643

(Forward)



	Parent Company		
	Present Value of DBO	Fair Value of Plan Assets	Net Retirement Liability (Asset)
Actuarial changes arising from experience adjustments	(P138,205)	P-	(P138,205)
Actuarial changes arising from changes in financial assumptions	212,190	-	212,190
	73,985	215,643	289,628
Transferred (liability)/asset	-	-	-
Contributions paid	-	(92,205)	(92,205)
Balance at end of year	P4,374,171	(P4,084,542)	P289,629
December 31, 2022			
Balance at beginning of year	P4,120,996	(P4,534,242)	(P413,246)
Net benefit cost in statements of income			
Current service cost	303,831	-	303,831
Net interest	196,747	(217,645)	(20,898)
	500,578	(217,645)	282,933
Benefits paid	(240,675)	240,675	-
Remeasurement in other comprehensive income			
Return on plan assets (excluding amount included in net interest)	-	296,938	296,938
Actuarial changes arising from experience adjustments	94,542	-	94,542
Actuarial changes arising from changes in financial assumptions	(252,903)	-	(252,903)
	(158,361)	296,938	138,577
Transferred (liability)/asset	(22,123)	22,123	-
Contributions paid	-	(200,000)	(200,000)
Balance at end of year	P4,200,415	(P4,392,151)	(P191,736)

The fair value of plan assets by each class as at the end of the reporting period follow:

	Consolidated				Parent Company			
	2023		2022		2023		2022	
	Amount	%	Amount	%	Amount	%	Amount	%
Debt instruments:								
Government Securities	P1,666,793		P1,667,400		P1,648,788		P1,647,074	
High Grade	349,948		375,105		338,397		364,073	
	2,016,741	45.9	2,042,505	45.0	1,987,185	45.7	2,011,147	44.9
Equity instruments:								
Financial intermediaries	1,307,858		1,466,562		1,306,662		1,463,928	
Real estate	238,112		317,615		238,112		317,615	
Transport, storage and communication	124,526		128,039		124,526		128,039	
Power, electricity and water distribution	216,946		82,015		216,946		82,015	
Manufacturing	54,598		55,899		54,598		55,899	
Wholesale/Retail Trade	-		19,110		-		19,110	
Others	83,157		102,878		83,157		102,878	
	2,025,197	48.8	2,172,118	47.9	2,024,001	49.3	2,169,484	48.3
Deposits in banks	25,702	0.2	7,498	2.5	15,035	0.1	5,060	2.4
Investments in Unit Investment								
Trust Funds	9,369	1.5	68,750	0.7	-	1.2	55,000	0.5
Loans and other receivables:								
Government Securities	28,197		28,772		28,091		28,664	
High Grade	2,373		2,492		2,291		2,408	
Not rated	45,200		125,074		45,146		130,248	
	75,770	3.6	156,338	3.9	75,528	3.7	161,320	3.9
Total fund asset	4,152,779	100	4,447,209	100.0	4,101,749	100	4,402,011	100.0
Total fund liability	(17,338)		(9,937)		(17,206)		(9,860)	
Net fund asset	P4,135,441		P4,437,272		P4,084,543		P4,392,151	



All equity and debt instruments held have quoted prices in an active market. The remaining plan assets do not have quoted market prices in active market. The plan assets consist of diverse investments and is not exposed to any concentration risk.

The principal actuarial assumptions used in determining retirement liability of the Parent Company and some of its subsidiaries as of January 1, 2023 and 2022 are shown below:

	2023			2022		
	Average Duration of Benefit Payments	Salary Rate Increase	Discount Rate	Average Duration of Benefit Payments	Salary Rate Increase	Discount Rate
Parent Company	15	6%	6.97%	10	5%	4.80%
SBCIC	17	6%	7.12%	16	5%	4.98%
SBEI	17	6%	7.07%	13	5%	4.84%
SBRC	19	6%	7.16%	17	5%	5.00%

Discount rates used in computing for the present value of the obligation of the Parent Company and significant subsidiaries as of December 31, 2023 and 2022 follow:

	Parent Company	SBCIC	SBEI	SBRC
2023	6.06%	6.08%	6.07%	6.10%
2022	6.97%	7.12%	7.07%	7.16%

The sensitivity analysis as of December 31, 2023 shown below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	Consolidated		Parent Company	
	Increase (decrease)	Amount	Increase (decrease)	Amount
Discount rates	1.00% (1.00%)	(₱234,715) 278,231	1.00% (1.00%)	(₱231,944) 274,854
Turnover rate	10.00% (10.00%)	54,049 (54,049)	10.00% (10.00%)	53,801 (53,801)
Future salary increases	1.00% (1.00%)	272,330 (240,646)	1.00% (1.00%)	269,027 (237,798)

Shown below is the maturity analysis of the undiscounted benefit payments:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Less than 1 year	₱1,215,759	₱1,502,328	₱1,199,624	₱1,490,107
More than 1 year to 5 years	1,919,474	1,736,427	1,903,995	1,723,404
More than 5 years to 10 years	2,821,444	2,590,186	2,784,047	2,573,877
More than 10 years to 15 years	2,982,073	2,537,849	2,955,882	2,486,666
More than 15 years to 20 years	7,781,302	6,282,376	7,549,548	6,060,791
Total	₱16,720,052	₱14,649,166	₱16,393,096	₱14,334,845

There are no reimbursement rights recognized as a separate asset as of December 31, 2023 and 2022. The Group and Parent Company expect to contribute to the defined benefit retirement plans the required funding for normal cost in 2023 amounting to ₱686 million and ₱682.1 million, respectively.



29. Service Charges, Fees and Commissions

This account consists of service charges, fees and commissions on:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Credit cards	₱2,237,897	₱1,665,741	₱1,274,743	₱2,237,897	₱1,665,741	₱1,274,743
Bancassurance	916,901	852,355	817,104	916,901	852,355	817,104
Deposits	811,844	801,867	719,763	811,844	801,867	719,763
Loans	781,805	827,301	887,903	781,805	827,301	887,903
Remittance	483,211	363,577	192,063	483,211	363,577	192,063
Advisory	340,477	372,564	236,702	–	–	–
Stock brokerage	229,724	210,994	265,749	12,271	17,546	–
Miscellaneous	266,133	190,576	136,828	266,133	190,576	136,828
	₱6,067,992	₱5,284,975	₱4,530,855	₱5,510,062	₱4,718,963	₱4,028,404

In 2014, the Parent Company entered into a distribution agreement with FWD for the marketing of FWD's life insurance products through the Parent Company's marketing and distribution network. The distribution agreement was approved by the BSP on December 22, 2014 under Monetary Board Resolution No. 2073, through its letter to the Parent Company dated January 7, 2015, and by the Insurance Commission on January 12, 2015. The term of the distribution agreement shall not be less than 11 years but no longer than 19 years.

Bancassurance revenues include recognized portion of access fees, recognized portion of milestone fees, commissions and bonuses from the Bancassurance agreement. The Parent Company may also receive milestone fees and performance bonuses over the term of the agreement.

Miscellaneous include service charges on bills payment amounting to ₱33.5 million, ₱30.7 million, ₱32.4 million for the period ended December 31, 2023, 2022 and 2021, respectively and commission on insurance amounting to ₱92.1 million, ₱91.9 million, ₱103.4 million for the period ended December 31, 2023, 2022 and 2021.

30. Miscellaneous Income and Expense

Miscellaneous income consists of:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Recovery on charged-off assets	₱1,261,748	₱1,323,974	₱948,405	₱1,258,469	₱1,322,398	₱948,405
Income from trust operations	291,047	285,884	280,204	291,047	285,884	280,204
Dividend income	3,395	3,573	3,344	1,612	1,612	3,344
Miscellaneous	305,268	270,439	221,116	244,398	196,194	170,765
	₱1,861,458	₱1,883,870	₱1,453,069	₱1,795,526	₱1,806,088	₱1,402,718



Miscellaneous expenses consist of:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Management and other professional fees	₱3,236,959	₱2,712,662	₱2,652,772	₱3,061,054	₱2,545,042	₱2,513,442
Repairs and maintenance	1,691,047	1,021,186	744,093	1,687,035	1,016,523	740,311
Insurance	1,405,505	1,332,073	1,197,850	1,399,792	1,326,078	1,191,211
Security, clerical, messengerial and janitorial services	962,878	817,677	778,416	959,321	813,848	775,283
Advertising and publicity	907,045	519,830	339,440	905,570	518,402	337,699
Entertainment, amusement and recreation (Note 27)	633,629	859,299	447,948	628,561	854,072	444,358
Postage, telephone and cables and telegrams	373,885	360,028	281,679	357,106	341,737	261,447
Litigation/assets acquired expenses	388,085	328,168	466,906	388,085	328,168	466,906
Banking fees	285,419	242,429	253,490	285,419	242,429	253,490
Donations and charitable contributions	246,079	174,616	246,994	246,079	174,616	246,994
Information technology	185,094	111,832	43,457	185,094	111,832	43,457
Stationery and supplies used	144,217	194,252	209,839	143,925	193,767	209,533
Brokerage fees	30,435	22,124	20,357	30,435	22,124	20,357
Miscellaneous	286,705	577,758	465,248	221,929	463,912	357,184
	₱10,776,982	₱9,273,934	₱8,148,489	₱10,499,405	₱8,952,550	₱7,861,672

Miscellaneous expense includes travelling expenses amounting to ₱119.2 million, ₱75.4 million, and ₱58.3 million for the Group and ₱118.5 million, ₱75.1 million, and ₱58.1 million for the Parent Company for the years ended December 31, 2023, 2022 and 2021, respectively. It also includes athletics and other events amounting to ₱83.7 million, ₱37.1 million, and ₱47.5 million for the Group and ₱83.7 million, ₱37.1 million, and ₱47.5 million for the Parent Company, and fuel and lubricants amounting to ₱49.9 million, ₱50.3 million, and ₱36.1 million for the Group and ₱49.1 million, ₱49.5 million, and ₱35.3 million for the Parent Company for the years ended December 31, 2023, 2022, and 2021, respectively.

31. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group's related parties include:

- Key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
- Subsidiaries, joint ventures and their respective subsidiaries;
- Entities under the same group (other affiliates); and
- Post-employment benefit plans for the benefit of the Groups employees

The Group has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties and are usually settled in cash. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.



Transactions of the Parent Company with Subsidiaries

December 31, 2023			
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
Loans and receivables		₱1,909,111	Long term, unsecured, with interest ranging from 2.75% to 7.15%
Grants	₱1,754,500		
Settlements	1,046,583		
Accrued interest receivable	6,476	41	Interest income and accrued interest receivable
Accounts receivable		2,994	On demand, unsecured, non-interest bearing
Deposit liabilities		2,249,323	Earns interest at the respective bank deposit rates
Deposits	129,401,084		
Withdrawals	128,752,789		
Accrued interest payable		—	Interest expense and accrued interest payable
Accounts payable		56	On demand, unsecured, non-interest bearing
Rent income	7,230		Lease of office spaces for periods ranging from 1 to 5 years
Rent expense	1,760		Lease of transportation equipment for 3 years
Other assets		3,306	Security deposits
Other liability		947	Security deposits
December 31, 2022			
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
Loans and receivables		₱1,201,194	Long term, unsecured, with interest ranging from 2.75% to 7.15%
Grants	₱881,000		
Settlements	755,000		
Accrued interest receivable	7,796		Interest income and accrued interest receivable
Accounts receivable		3,120	On demand, unsecured, non-interest bearing
Deposit liabilities		1,713,961	Earns interest at the respective bank deposit rates
Deposits	136,765,977		
Withdrawals	136,125,323		
Accrued interest payable		—	Interest expense and accrued interest payable
Accounts payable		1,235	On demand, unsecured, non-interest bearing
Rent income	11,183		Lease of office spaces for periods ranging from 1 to 5 years
Rent expense	6,753		Lease of transportation equipment for 3 years
Other assets		3,306	Security deposits
Other liability		—	Security deposits

Accounts receivable from subsidiaries pertains to expenses paid by the Parent Company, which were later billed for reimbursement. Accounts payable to SBCC pertains to collections received from credit cardholders on behalf of the Parent Company.

The Parent Company has lease agreements with some of its subsidiaries for periods ranging from 1 to 5 years. The lease agreements include the share of the subsidiaries in the maintenance of the building.

The foregoing transactions were eliminated in the consolidated financial statements of the Group. Other related party transactions conducted in the normal course of business includes the following, as detailed in the Memorandum of Agreement (MOA) between the Parent Company and its subsidiaries:

- Human resource related services
- Finance, accounting and tax services including audit
- Collection services (for legal action)
- Preparation of reports
- Processing of credit application (for property appraisal and credit information)
- Legal documentation
- Risk and compliance services
- Corporate secretarial services
- Information technology related service
- General services



Expenses allocated to SBFI, SBML, SBCIC, SBEI, SBRC and SBCC pertaining to the above services amounted to ₱173.9 million in 2023, ₱113.3 million in 2022 and ₱185.8 million in 2021. The Parent Company has not charged expenses to the other subsidiaries since the levels of their operations remain low.

Transaction of the Group with the Joint Ventures

December 31, 2023			
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
Receivables purchased	₱668,620		Assignment of rights on a without recourse basis
Collection Fee		₱1,181	Collection fee expense and prepaid collection fee, equivalent to 0.2% of the selling price of the lease receivables amortized over the lease term
Sale of loans			Sale of loans on a without recourse basis
Loans receivable:		961,000	2 to 3-year term; earns 3.5% to 6.25% interest
Grants	1,116,000		
Settlement	3,290,972		
Accrued interest receivable	86,761	2,492	Interest income and accrued interest receivable
Accounts receivable	2,430	3,420	Expenses advanced by the Parent Company and outstanding accounts payable (on demand, unsecured, non-interest bearing)
Deposit liabilities:		676,795	Earns interest at the respective bank deposit rates
Deposits	38,327,719		
Withdrawals	37,961,353		
Accrued interest payable	2,436		Interest expense and accrued interest payable
December 31, 2022			
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
Receivables purchased	₱740,958	₱-	Assignment of rights on a without recourse basis
Collection Fee	-	3,402	Collection fee expense and prepaid collection fee, equivalent to 0.2% of the selling price of the lease receivables amortized over the lease term
Sale of loans	317,128		2 to 3-year term; earns 3.5% to 6.25% interest
Loans receivable:		3,135,972	
Grants	1,100,000		
Settlement	1,182,097		
Accrued interest receivable	126,563	5,151	Interest income and accrued interest receivable
Accounts receivable	-	16,214	Expenses advanced by the Parent Company and outstanding accounts payable (on demand, unsecured, non-interest bearing)
Deposit liabilities:		336,326	Earns interest at the respective bank deposit rates
Deposits	38,866,189		
Withdrawals	39,005,759		
Accrued interest payable	4,381		Interest expense and accrued interest payable

In 2023, 2022, and 2021, SBML sold various loans and lease receivables to the Parent Company with carrying amounts of ₱665.0 million, ₱716.0 million and ₱224.0 million, respectively, and realized gains amounting to ₱25.3 million, ₱27.6 million and ₱5.7 million, respectively.

The Parent Company's proportionate share in the gain on sale of lease receivables was eliminated in the consolidated financial statements of the Group.



Transactions of the Parent Company with Other Affiliates

December 31, 2023			
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
Due from other banks		\$37	Earns interest at the respective bank deposit rates
Deposits	\$43,397		
Withdrawals	44,074		
Due from other banks		¥431,599	Earns interest at the respective bank deposit rates
Deposits	¥2,269,896,705		
Withdrawals	2,269,907,634		
Accounts receivable		P4,082	Unsecured, noninterest bearing
Loans and receivable		\$900	Unsecured, noninterest bearing
Accrued interest receivable	P44,578		Interest income and accrued interest receivable
Deposit liabilities		P880	Earns interest at the respective bank deposit rates
Deposits	P520		
Withdrawals	552		
Deposit liabilities		P1,381,728	Earns interest at the respective bank deposit rates
Deposits	P16,364,332		
Withdrawals	16,133,278		
Bills payable (USD)		\$-	1 – 6 months term; earns 1.08% to 1.70% interest
Availments	\$-		
Payments	-		
Loans and Payable		\$88,795	Unsecured, noninterest bearing
Accrued interest payable	P71,012	P81,588	Interest expense and accrued

December 31, 2022			
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
Due from other banks		\$714	Earns interest at the respective bank deposit rates
Deposits	\$65,787		
Withdrawals	65,179		
Due from other banks		¥442,528	Earns interest at the respective bank deposit rates
Deposits	¥746,441,869		
Withdrawals	746,394,655		
Accounts receivable		P6,275	Unsecured, noninterest bearing
Accrued interest receivable	P105,689	P991	Interest income and accrued interest receivable
Deposit liabilities		\$912	Earns interest at the respective bank deposit rates
Deposits	\$545		
Withdrawals	350		
Deposit liabilities		P1,150,674	Earns interest at the respective bank deposit rates
Deposits	P11,420,387		
Withdrawals	10,822,526		
Bills payable (USD)		\$-	3 months – 3 years term; earns 2% to 5% interest
Availments	\$-		
Payments	157,026		
Accrued interest payable	P15		Interest expense and accrued

Transaction of the Group with another Related Party

As part of the Group's continuing support for worthwhile education and livelihood projects, it has made donations to SB Foundation, Inc. (SB Foundation), a non-stock, non-profit organization registered with the SEC and accredited by the Philippine Council for Non-Governmental Organization, as follows:

Donor	2023	2022
Parent Company	P214,446	P140,855

The Parent Company also recognized trust fees amounting to P0.7 million in 2023 and 2022 for acting as the Investment Manager of SB Foundation's fund.



Transactions of the Group with Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The Group considers senior officers to constitute key management personnel.

Consolidated			
December 31, 2023			
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
Deposit liabilities	(₱87,448)	₱285,542	Earns interest at respective bank deposit rates

Consolidated			
December 31, 2022			
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
Deposit liabilities	₱26,914	₱372,991	Earns interest at respective bank deposit rates

Parent Company			
December 31, 2023			
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
Deposit liabilities	(₱88,312)	₱284,522	Earns interest at respective bank deposit rates

Parent Company			
December 31, 2022			
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
Deposit liabilities	₱26,960	₱372,834	Earns interest at respective bank deposit rates

Compensation of key management personnel follows:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Salaries and other short-term benefits	₱420,530	₱366,486	₱330,122	₱382,732	₱335,775	₱298,059
Post-employment benefits	15,935	14,876	8,268	15,935	14,876	7,811
	₱436,465	₱381,362	₱338,390	₱398,667	₱350,651	₱305,870

There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's retirement plan.

Transactions of the Group with Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Parent Company has business relationships with a number of its retirement plans pursuant to which it provides trust and management services to these plans. Income earned by the Parent Company from such services amounted to ₱10.7 million and ₱11.0 million in 2023 and 2022, respectively.

As of December 31, 2023 and 2022, the fair values of the plan assets of the Parent Company and some of its subsidiaries in the retirement funds amounted to ₱4.1 billion and ₱4.4 billion, respectively.



Relevant information on statements of financial position of carrying values of the Group and the Parent Company's retirement funds:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Debt instruments	₱2,016,741	₱2,042,505	₱1,987,185	₱2,011,147
Equity instruments	2,025,197	2,172,118	2,024,001	2,169,484
Deposits in banks	25,702	7,498	15,035	5,060
Loans and other receivables	75,770	156,338	75,528	161,320
Investments in Unit Investment Trust Funds	9,369	68,750	–	55,000
Total Fund Assets	₱4,152,779	₱4,447,209	₱4,101,749	₱4,402,011
Total Fund Liability	₱17,338	₱9,937	₱17,206	₱9,860

Debt instruments include government and private securities.

The Group's retirement funds may hold or trade the Parent Company's shares or securities. Significant transactions of the retirement fund, particularly with related parties, are approved by the Parent Company's Employees Retirement Plan Board of Trustees. A summary of transactions with related party retirement plans follows (*amounts in thousands except number of shares and market value per share*):

	Consolidated		Parent Company	
	2023	2022	2023	2022
Dividend income	₱68,914	₱83,624	₱68,791	₱83,440
Number of Parent Company's shares held by plan - common	4,523,120	3,232,170	4,523,120	3,232,170
Number of Parent Company's shares held by plan - preferred	2,060,400	2,060,400	2,060,400	2,060,400
Market value per common share	₱71.50	₱87.00	₱71.50	₱87.00
Market value of common shares	₱323,403,080	₱281,198,790	₱323,403,080	₱281,198,790

Voting rights over the Parent Company's shares are exercised by an authorized trust officer.

32. Long-term Leases

The Group has entered into commercial property leases with various tenants on its investment property portfolio and part of its bank premises, consisting of the Group's surplus offices and real properties acquired. These non-cancellable leases have remaining lease terms of between 1 and 5 years as of December 31, 2023 and 2022. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 5.0%. Rent income from long-term leases (included in 'Rent income' in the statements of income) amounted to ₱708.4 million in 2023, ₱631.1 million in 2022 and ₱570.2 million in 2021 for the Group, of which, ₱39.5 million in 2023, ₱74.7 million in 2022 and ₱42.7 million in 2021 pertain to the Parent Company (see Note 15).



Future minimum rental receivable under non-cancellable operating leases follow:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Within one year	₱662,845	₱440,569	₱601	₱552
After one year but not more than five years	672,296	373,938	26,561	37,550
More than five years	5,588	6,105	5,588	6,105
	₱1,340,729	₱820,612	₱32,750	₱44,207

The Parent Company leases the premises occupied by some of its branches (about 14.24% of the branch sites are Parent Company-owned). Some of its subsidiaries also lease the premises occupied by their head offices and most of their branches. The lease contracts are for periods ranging from 1 to 15 years and are renewable at the Parent Company's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 5.0%.

33. Commitments and Contingent Liabilities

In the normal course of operations of the Group, there are outstanding commitments and contingent liabilities and bank guarantees that are not reflected in the financial statements. The Group does not anticipate losses that will materially affect its financial position and financial performance as a result of these transactions.

There are several suits, claims and assessments that remain unsettled. Management believes, based on the opinion of its legal counsels, that the ultimate outcome of such cases and claims will not have a material effect on the Group's financial position and financial performance.

Regulatory Reporting

The following is a summary of the Group's and of the Parent Company's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2023	2022
Derivatives	₱370,310,050	₱193,973,621
Trust department accounts	108,624,757	95,116,738
Unutilized credit limit of credit cardholders	89,916,523	53,158,655
Unused commercial letters of credit	46,505,642	37,521,064
Spot foreign exchange contracts	18,857,987	3,039,571
Committed loan line	18,784,025	32,470,332
Inward bills for collection	1,615,541	950,852
Outstanding guarantees	833,748	899,839
Late deposit/payment received	307,630	587,806
Financial guarantees with commitment	254,274	27,968
Outward bills for collection	232,364	422,970
Others	250,770	—



Changes in allowance for credit losses on financial guarantees, loan and other commitments of the Group and Parent Company follow (see Note 23):

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at January 1, 2023	₱186,441	₱91,281	–	₱277,722
Provision for credit losses (Note 13)	249,397	47,075	1,313	297,785
Transfers to Stage 1	81,882	(81,255)	(627)	–
Transfers to Stage 2	(48,698)	48,832	(134)	–
Transfers to Stage 3	(412)	(26)	438	–
Foreign exchange and other adjustments	(136)	30,688	–	30,552
	₱468,474	₱136,595	₱990	₱606,059

	Stage 1	Stage 2	Total
ECL allowance as at January 1, 2022	₱410,651	₱288,730	₱699,381
Provision for credit losses (Note 13)	(231,484)	(191,742)	(423,226)
Transfers to Stage 1	5,830	(5,830)	–
Transfers to Stage 2	(123)	123	–
Foreign exchange and other adjustment	1,567	–	1,567
	₱186,441	₱91,281	₱277,722

34. Segment Information

The Group's operating businesses are recognized and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. The Group underwent changes in the structure of its internal organization in a manner that caused the composition of its reportable segments to change and in the performance reporting. Formerly part of the Retail Banking Segment, the Business Banking Segment was created to differentiate and optimize our service to the micro, small and medium enterprises (MSMEs). The Group's equity brokerage operation was also transferred from Wholesale Banking Segment to Financial Markets Segment. Accordingly, the corresponding segment information for the prior period presented herein is restated to reflect such changes in the structure and performance reporting.

The Group derives revenues from the following main operating business segments:

Retail Banking Segment - this segment serves individual clients. It covers deposits, consumer loans, credit cards, bancassurance and investments. Share in net income from SBF is also part of the segment.

Wholesale Banking Segment - this segment addresses corporates, institutional, and public sector markets and commercial clients. Services include relationship management, loans, trade, cash management, deposits and investments. It also provides structured financing and advisory services, debt and equity capital raising, project financing, and mergers and acquisitions advisory via SB Capital. Operating leases via SBRC and share in net income from SBML are also part of the segment.

Business Banking Segment - this segment serves the MSMEs with holistic propositions covering deposits, loans, cash management, insurance and investments.

Financial Markets Segment - this segment focuses on providing money market, foreign exchange, financial derivatives, debt and equity securities brokerage, asset management, trust and fiduciary services, as well as the management of the funding operations for the Group. The Group's equity



brokerage operations are also part of this segment.

Eliminations and Others - This segment includes the Bank's non-reportable segments such as support services and eliminations in accordance with the Bank's group internal reporting. Eliminations in 2023 include net interest income from third party and intersegment amounting to ₱11.1 billion and ₱10.0 billion, respectively; non-interest income and non-interest expense amounting to ₱6.6 billion and ₱13.4 billion, respectively; and total assets and total liabilities amounting to ₱4.3 billion and ₱189.6 billion, respectively. Eliminations in 2022 include net interest income from third party and intersegment amounting to ₱2.9 billion and ₱4.5 billion, respectively; non-interest income and non-interest expense amounting to ₱2.0 billion and ₱11.4 billion, respectively; and total assets and total liabilities amounting to ₱6.1 billion and ₱161.9 billion, respectively.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

The Group's revenue-producing assets are located in the Philippines (i.e., one geographical location), therefore, geographical segment information is no longer presented.

The Group has no significant customers which contribute 10.0% or more of the consolidated revenue, net of interest expense.

The segment results include internal transfer pricing adjustments across business units as deemed appropriate by management. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to the business units based on a pool rate which approximates the marginal cost of funds.

Segment information follows (amounts in millions):

	December 31, 2023					
	Financial Markets	Wholesale Banking	Retail Banking	Business Banking	Elimination and Others	Total
Statement of Income						
Net interest income:						
Third party	(₱8,688)	₱22,178	₱8,887	₱1,324	₱11,033	₱34,734
Intersegment	8,058	(10,368)	5,872	2,294	(5,856)	-
	(630)	11,810	14,759	3,618	5,177	34,734
Noninterest income	2,249	3,276	7,692	574	(5,566)	8,225
Revenue – net of interest expense	1,619	15,086	22,451	4,192	(389)	42,959
Noninterest expense	3,898	6,226	18,050	3,000	(274)	30,900
Income before income tax	(2,279)	8,860	4,401	1,192	(115)	12,059
Provision for income tax	-	2,035	1,012	274	(367)	2,954
Net income for the period attributable to the Parent Company	(₱2,279)	₱6,825	₱3,389	₱918	₱252	₱9,105

(Forward)



December 31, 2023

	Financial Markets	Wholesale Banking	Retail Banking	Business Banking	Elimination and Others	Total
Statement of Financial Position						
Total Assets	₱310,128	₱408,549	₱124,307	₱8,868	₱19,657	₱871,509
Total Liabilities	₱395,791	₱213,047	₱250,645	₱52,516	(₱176,620)	₱735,379
Other Segment Information						
Capital expenditures	₱17	₱931	₱1,087	₱23	₱2,340	₱4,398
Depreciation and amortization	₱11	₱598	₱698	₱15	₱1,503	₱2,825
Provision for credit and impairment losses	(₱2)	₱107	₱4,970	₱571	(₱845)	₱4,801

December 31, 2022

	Financial Markets	Wholesale Banking	Retail Banking	Business Banking	Eliminations and Others	Total
Statement of Income						
Net interest income:						
Third party	(₱499)	₱17,431	₱8,514	₱854	₱2,946	₱29,246
Intersegment	3,213	(5,760)	2,528	1,426	(1,407)	–
	2,714	11,671	11,042	2,280	1,539	29,246
Noninterest income	1,525	2,629	6,960	566	(1,290)	10,390
Revenue - net of interest expense	4,239	14,300	18,002	2,846	249	39,636
Noninterest expense	3,157	7,486	13,011	1,537	559	25,750
Income before income tax	1,082	6,814	4,991	1,309	(310)	13,886
Provision for (benefit from) income tax	270	1,704	1,247	327	(218)	3,330
Net income for the period attributable to the Parent Company	₱812	₱5,110	₱3,744	₱982	(₱92)	₱10,556
Statement of Financial Position						
Total Assets	₱264,073	₱437,692	₱119,262	₱6,058	15,206	₱842,291
Total Liabilities	₱280,891	₱312,512	₱213,272	₱59,118	(149,350)	₱716,443
Other Segment Information						
Capital expenditures	₱11	₱560	₱583	₱7	₱1,222	₱2,383
Depreciation and amortization	₱12	₱626	₱652	₱8	₱1,368	₱2,666
Provision for credit and impairment losses	₱1	₱673	₱1,281	(₱8)	₱894	₱2,841

December 31, 2021

	Financial Markets	Wholesale Banking	Retail Banking	Eliminations and Others	Total
Statement of Income					
Net interest income:					
Third party	₱939	₱16,422	₱10,064	₱31	₱27,456
Intersegment	855	(5,687)	2,643	2,189	–
	1,794	10,735	12,707	2,220	27,456
Noninterest income	2,453	1,021	6,310	(429)	9,355
Revenue - net of interest expense	4,247	11,756	19,017	1,791	36,811
Noninterest expense	1,757	11,997	12,064	731	26,549
Income before income tax	2,490	(241)	6,953	1,060	10,262
Provision/(benefit) for income tax	727	869	1,875	(126)	3,345
Net income for the year attributable to the Parent Company	₱1,763	(₱1,110)	₱5,078	₱1,186	₱6,917
Statement of Financial Position					
Total assets	₱227,321	₱345,467	₱109,381	₱17,448	₱699,617



	December 31, 2021				Total
	Financial Markets	Wholesale Banking	Retail Banking	Eliminations and Others	
Total liabilities	₱70,819	₱234,973	₱260,044	₱8,711	₱574,547
Other Segment Information					
Capital expenditures	₱13	₱623	₱917	₱578	₱2,131
Depreciation and amortization	₱13	₱635	₱935	₱590	₱2,173
Provision for credit and impairment losses	(₱4)	₱4,795	₱1,168	(₱694)	₱5,265

No operating segments have been aggregated to form the above reportable operating business segments.

35. Earnings Per Share

Basic earnings per share amounts were computed as follows (amounts in thousands except earnings per share and weighted average number of outstanding common shares):

	2023	2022	2021
a. Net income attributable to the equity holders of the Parent Company	₱9,105,438	₱10,555,599	₱6,916,970
b. Dividends declared to Preferred Shares	4,259	4,259	4,259
c. Weighted average number of outstanding common shares	753,538,887	753,538,887	753,538,887
d. Earnings per share [(a-b)/c]	₱12.08	₱14.00	₱9.17

As of December 31, 2023, 2022 and 2021, the Parent Company has no potentially dilutive common shares.

36. Notes to the Statements of Cash Flows

The amounts of interbank loans receivables and securities purchased under agreements to resell considered as cash and cash equivalents follow:

	2023	2022
Interbank loans receivable and SPURA		
SPURA	₱-	₱23,518,740
Interbank loans receivable	2,080,999	-
Interbank loans receivable and SPURA not considered as cash and cash equivalents		
Interbank loans receivable	2,000,000	3,996,627
	₱4,080,999	₱27,515,367

As of December 31, 2023 and 2022, movements in allowance for credit losses on 'Due from other banks' and 'Interbank loans receivable and securities purchased under agreements to resell' as follows:

	2023	2022
Due from other banks (Note 7)	(₱279)	₱159
Interbank loans receivable and SPURA	1,386	(1,224)
	₱1,107	(₱1,065)



Significant non-cash transactions of the Group and the Parent Company include foreclosures of investment properties and chattels as disclosed in Notes 16 and 17, respectively.

Reconciliation of liabilities arising from financing activities follows:

	Consolidated					
	Beginning Balance	Cashflows		Non-cash charges		Ending balance
		Proceeds/Availments	Payments	Foreign exchange movement	Amortization of transaction costs	
December 31, 2023						
Bills payable and SSURA	₱40,920,403	₱736,658,375	₱724,538,355	(₱1,701,318)	₱-	₱51,339,105
Notes payable	47,111,693	18,352,354	17,056,500	304,769	251,205	48,963,521
LTNCD	24,766,786	-	14,381,000	-	30,228	10,416,014
	₱112,798,882	₱755,010,729	₱755,975,855	(₱1,396,549)	₱281,433	₱110,718,640
December 31, 2022						
Bills payable and SSURA	₱3,464,424	₱494,565,466	₱457,098,389	(₱11,098)	₱-	₱40,920,403
Notes payable	28,721,313	30,359,962	13,500,000	1,348,109	182,309	47,111,693
LTNCD	24,728,573	-	-	-	38,213	24,766,786
	₱56,914,310	₱524,925,428	₱470,598,389	₱1,337,011	₱220,522	₱112,798,882

	Parent Company					
	Beginning balance	Cashflows		Non-cash charges		Ending balance
		Proceeds/Availments	Payments	Foreign exchange movement	Amortization of transaction costs	
December 31, 2023						
Bills payable and SSURA	₱40,802,069	₱736,658,375	₱724,485,855	(₱1,701,318)	₱-	₱51,273,271
Notes payable	47,111,693	18,352,354	17,056,500	304,769	251,205	48,963,521
LTNCD	24,766,786	-	14,381,000	-	30,228	10,416,014
	₱112,680,548	₱755,010,729	₱755,923,355	(₱1,396,549)	₱281,433	₱110,652,806
December 31, 2022						
Bills payable and SSURA	₱3,367,757	₱494,543,799	₱457,098,389	(₱11,098)	₱-	₱40,802,069
Notes payable	28,721,313	30,359,962	13,500,000	1,348,109	182,309	47,111,693
LTNCD	24,728,573	-	-	-	38,213	24,766,786
	₱56,817,643	₱524,903,761	₱470,598,389	₱1,337,011	₱220,522	₱112,680,548

Reconciliation of lease liabilities of the Group and the Parent Company are disclosed in Note 15.

37. Events after the Reporting Period

On January 22, 2024, the Parent Company settled ₱16.0 billion in matured fixed rate bonds (see Note 21).

The Parent Company's BOD, in its meeting held on February 27, 2024, approved the declaration of the following annual cash dividends:

Shares	Date of declaration	Per share	Record date	Payment date
Preferred	February 27, 2024	₱0.004805	March 14, 2024	April 1, 2024
Preferred	February 27, 2024	0.0039	June 26, 2024	July 10, 2024

As part of Preferred Stock features stated in the Seventh Article of the Bank's Amended Articles of Incorporation, the dividend rate will be repriced every 10 years thereafter at the 10-year prevailing rate on each relevant 10th year anniversary from the issue date. On February 27, 2024, the Parent Company's BOD approved to reprice the dividend rate for the first tranche of Preferred Stock on July 10, 2024 using the 10-year PHP BVAL from 10-Year PDST-R2.



38. Approval of the Release of the Financial Statements

The BOD of the Parent Company delegated the review and approval for the release of the accompanying consolidated and parent company financial statements to the Audit Committee on February 27, 2024. The Audit Committee reviewed and approved the release of the accompanying consolidated and parent company financial statements on February 28, 2024.

39. Supplementary Information Required Under Revenue Regulation No. 15-2010

On November 25, 2010, the BIR issued Revenue Regulation (RR) No. 15-2010 to amend certain provisions of RR No. 21-2002. The Regulations provide that starting 2010, the notes to financial statements shall include information on taxes and licenses paid or accrued during the taxable year. In compliance with the requirements set forth by RR No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the calendar year ended December 31, 2023:

Gross receipt tax (GRT)

The Parent Company is subject to GRT on its gross income from Philippine sources. GRT is imposed on interest, fees and commissions from lending activities at 5.0% or 1.0%, depending on the loan term, and at 7.0% on non-lending fees and commissions, trading and foreign exchange gains and other items constituting gross income.

In FCDU, income classified under Others, which is subject to corporate income tax, is also subject to GRT at 7.0%.

The details of the Parent Company's GRT payments and corresponding GRT tax base in 2023 are as follows:

	GRT	GRT tax base
Income from lending activities	₱1,728,354	₱43,692,419
Other income	549,326	7,847,521
	₱2,277,680	₱51,539,940

Taxes and Licenses

This includes all other taxes, local and national, incurred in 2023 and lodged under 'Taxes and licenses' in the statement of income, as follows:

	Amount
Documentary stamp taxes	₱685,821
Mayor's permit	92,947
Fringe benefit taxes	68,888
Real estate taxes	22,933
Other taxes	5,745
	₱876,334

Other taxes include car registration fees, privilege taxes and other permits.



Withholding Taxes

Details of total remittances in 2023 and balances as of December 31, 2023 are as follows:

	Total Remittance	Balance
Final withholding taxes	₱1,979,603	₱149,022
Withholding taxes on compensation and benefits	1,116,950	181,857
Expanded withholding taxes	637,556	67,968
	₱3,734,109	₱398,847

Tax Assessments and Cases

As of December 31, 2023, the Parent Company has no deficiency tax assessments and has no tax cases, litigation and/or prosecution in courts or bodies outside the BIR.

40. Supplementary Information Required Under Section 174 of the Manual of Regulations for Banks

Section 174 of the MORB provides for disclosure requirements to the audited financial statements, which are to be presented either (i) on specific notes to the financial statements, or (ii) in a separate note containing supplementary information as required by the BSP. This supplementary information is not a required disclosure under PFRS.

In compliance with the requirements of Section 174 of the MORB, hereunder are the supplementary information:

Financial performance indicators

The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated			Parent Company		
	2023	2022	2021	2023	2022	2021
Return on average equity	6.95%	8.42%	5.57%	6.95%	8.45%	5.61%
Return on average assets	1.06%	1.37%	1.02%	1.06%	1.37%	1.03%
Net interest margin	4.49%	4.23%	4.43%	4.49%	4.24%	4.44%

The following formulas were used to compute the indicators:

Performance Indicator	BSP Prescribed Formula
Return on Average Equity	$\frac{\text{Net Income (or Loss) after Income Tax} \times 100}{\text{Average Total Capital Accounts}}$ <p style="text-align: center;">Where: Average Total Capital Accounts = $\frac{\text{Current calendar/fiscal year-end Total capital accounts balance} + \text{previous calendar /fiscal year-end Total capital accounts balance}}{2}$</p>



Return on Average Assets	$\frac{\text{Net Income (or Loss) after Income Tax} \times 100}{\text{Average Total Assets}}$ <p>Where: Average Total Assets = $\frac{\text{Current calendar/fiscal year-end Total assets balance} + \text{previous calendar /fiscal year-end Total assets balance}}{2}$</p>
Net Interest Margin	$\frac{\text{Net Interest Income} \times 100}{\text{Average Interest Earning Assets}}$ <p>Where: Net Interest Income = Total Interest Income – Total Interest Expense</p> <p>Average Interest Earning Assets = $\frac{\text{Current calendar/fiscal year-end Total interest earning assets balance} + \text{previous calendar /fiscal year-end Total interest earning assets balance}}{2}$</p>

Capital instruments

As of December 31, 2023 and 2022, the Parent Company's capital stock consists of:

	Shares*	Amount
Common stock - ₱10 par value		
Authorized	1,000,000,000	₱10,000,000
Issued and outstanding		
Balance at the beginning and end of the period	753,538,887	7,535,389
Preferred stock - ₱0.10 par value		
Authorized	1,000,000,000	100,000
Issued and outstanding		
Balance at the beginning and end of the period	1,000,000,000	100,000
	1,753,538,887	₱7,635,389

*Absolute number of shares

There are no capital instruments issued by the Group and the Parent Company in 2023 and 2022.

Significant credit exposures as to industry/economic sector

As of December 31, 2023 and 2022, information on the concentration of credit as to industry, net of unearned discounts and deferred credits, follows (amounts in millions):

	Consolidated				Parent Company			
	2023		2022		2023		2022	
	Amount	%	Amount	%	Amount	%	Amount	%
Real estate activities	₱148,272	27.2	₱124,325	24.3	₱148,272	27.1	₱124,325	24.2
Wholesale and retail trade; repair of motor vehicles and motorcycles	92,584	17.0	85,691	16.7	92,584	16.9	85,691	16.7
Electricity, gas, steam and air conditioning supply	77,611	14.2	76,678	15.0	77,611	14.2	76,678	15.0
Activities of households as employers; undifferentiated goods and services producing activities of households for own use*	61,035	11.2	43,305	8.4	61,035	11.1	43,304	8.4

(Forward)



	Consolidated				Parent Company			
	2023		2022		2023		2022	
	Amount	%	Amount	%	Amount	%	Amount	%
Manufacturing	₱46,917	8.6	₱60,430	11.8	₱46,917	8.6	₱60,430	11.8
Financial and insurance activities	22,199	4.1	15,583	3.0	24,108	4.4	16,784	3.3
Transportation and storage	21,750	4.0	21,631	4.2	21,750	4.0	21,631	4.2
Construction	20,504	3.8	17,156	3.3	20,504	3.7	17,156	3.3
Information and communication	17,239	3.2	23,783	4.6	17,239	3.1	23,783	4.6
Agriculture, forestry and fishing	9,881	1.8	10,407	2.0	9,881	1.8	10,407	2.0
Water supply, sewerage, waste management and remediation activities	9,418	1.7	9,892	1.9	9,418	1.7	9,892	1.9
Professional scientific and technical services	4,310	0.8	10,298	2.0	4,310	0.8	10,298	2.0
Others	14,291	2.6	13,392	2.6	13,950	2.5	12,361	2.4
	₱546,011	100.0	₱512,571	100.0	₱547,579	100.0	₱512,740	100.0

*Excludes loans and receivables on real estate or dwelling units which are considered production activities and classified under "Real estate"

Breakdown of total loans as to security and status

The following table shows the breakdown of receivable from customers as to secured and unsecured and the breakdown of secured receivables from customers as to the type of security as of December 31, 2023 and 2022 (amounts in millions):

	Consolidated				Parent Company			
	2023		2022		2023		2022	
	Amount	%	Amount	%	Amount	%	Amount	%
Secured by:								
Real estate	₱84,439	15.4	₱74,325	14.4	₱84,439	15.4	₱74,325	14.4
Chattel	18,032	3.3	16,883	3.3	18,032	3.3	16,883	3.3
Assignment of projects/ company assets/contracts	22,556	4.1	20,661	4.0	22,556	4.1	20,661	4.0
Mortgage trust indenture	8,338	1.5	9,485	1.8	8,338	1.5	9,485	1.8
Deposit hold-out	2,945	0.5	3,278	0.6	2,945	0.5	3,278	0.6
Others	10,765	2.0	11,655	2.3	10,427	1.9	10,625	2.1
	147,075	26.8	136,287	26.5	146,737	26.7	135,257	26.3
Unsecured	401,078	73.2	378,160	73.5	402,985	73.3	379,358	73.7
	₱548,153	100.0	₱514,447	100.0	₱549,722	100.0	₱514,615	100.0

The following table shows the breakdown of receivable from customers net of unearned discounts and deferred credits as to performing and non-performing as of December 31, 2023 and 2022:

	Consolidated		Parent Company	
	2023	2022	2023	2022
Performing loans				
Corporate lending	₱371,751,722	₱376,188,196	₱373,407,024	₱376,637,653
Consumer lending	73,290,766	50,675,378	73,204,136	50,394,424
Residential mortgages	81,740,538	69,094,360	81,740,538	69,094,360
Small business lending	533,793	655,181	533,793	655,181
	527,316,819	496,613,115	528,885,491	496,781,618
Non-performing loans				
Corporate lending	14,060,673	11,705,398	14,060,673	11,705,398
Consumer lending	2,946,004	2,433,038	2,946,004	2,433,038
Residential mortgages	1,635,354	1,757,024	1,635,354	1,757,024
Small business lending	51,781	62,888	51,781	62,888
	18,693,812	15,958,348	18,693,812	15,958,348
	₱546,010,631	₱512,571,463	₱547,579,303	₱512,739,966



Information on related party loans

In the ordinary course of business, the Parent Company has loan transactions with subsidiaries and with certain DOSRI. Under the Parent Company's policies, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that shall govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 10.00% of the bank's net worth, the unsecured portion shall not exceed 5.00% of such net worth. Further, the total outstanding exposures shall not exceed 20.00% of the net worth of the lending bank. The said Circular became effective on February 15, 2007.

BSP Circular No. 423, dated March 15, 2004 amended the definition of DOSRI accounts. Further, BSP issued Circular No. 464 dated January 4, 2005 clarifying the definition of DOSRI accounts.

The following table shows information relating to DOSRI accounts of the Parent Company:

	2023	2022
Total outstanding DOSRI accounts (in billions)	₱0.376	₱0.344
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	0.07	0.07
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	-	-
Percent of DOSRI accounts to total loans	0.07	0.07
Percent of unsecured DOSRI accounts to total DOSRI loans	5.33	5.21
Percent of past due DOSRI accounts to total DOSRI loans	-	-
Percent of nonperforming DOSRI accounts to total DOSRI loans	-	-

Total interest income on DOSRI accounts in 2023, 2022, and 2021 amounted to ₱161.5 million, ₱66.9 million, ₱52.1 million, respectively.

Aggregate amount of secured liabilities and assets pledged as security

The following are the carrying values of the investment securities pledged and transferred under SSURA transactions of the Group:

	December 31, 2023		December 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets at FVTPL (Note 10)				
Government securities	₱3,813,159	₱3,813,159	₱3,857,764	₱3,857,764
Financial assets at FVTOCI (Note 11)				
Treasury bonds	19,832,200	19,832,200	4,142,731	4,142,731
Investment securities at amortized cost (Note 12)				
Private bonds	31,093,477	30,551,895	19,888,110	18,708,912
	₱54,738,836	₱54,197,254	₱27,888,605	₱26,709,407



As of December 31, 2023 and 2022, the carrying amount of SSURA amounted to ₱46.5 billion and ₱23.4 billion, respectively.

Commitments and contingent liabilities

The following is a summary of the Group's and of the Parent Company's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2023	2022
Derivatives	₱370,310,050	₱193,973,621
Trust department accounts	108,624,757	95,116,738
Unutilized credit limit of credit cardholders	89,916,523	53,158,655
Unused commercial letters of credit	46,505,642	37,521,064
Spot Foreign Exchange Contracts	18,857,987	3,039,571
Committed loan line	18,784,025	32,470,332
Inward bills for collection	1,615,541	950,852
Outstanding guarantees	833,748	899,839
Late deposit/payment received	307,630	587,806
Financial guarantees with commitment	254,274	27,968
Outward bills for collection	232,364	422,970
Others	250,770	-



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