BPI Direct BanKo Inc., A Savings Bank

Foreign Currency Deposit Unit

Financial Statements
As at and for the years ended December 31, 2023 and 2022

Independent Auditor's Report

To the Board of Directors and Shareholder of
BPI Direct BanKo, Inc., A Savings Bank
Foreign Currency Deposit Unit
220 Ortigas Avenue, BanKO Center
North Greenhills, San Juan City
Metro Manila

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements of the Foreign Currency Deposit Unit (FCDU) of BPI Direct BanKo, Inc., A Savings Bank (the "Bank") as at and for the years ended December 31, 2023 and 2022, are prepared, in all material respects, in accordance with the reporting guidelines of the Bangko Sentral ng Pilipinas (BSP).

What we have audited

The financial statements of the Bank comprise:

- the statements of condition as at December 31, 2023 and 2022;
- the statements of income for the years ended December 31, 2023 and 2022;
- the statements of total comprehensive income for the years ended December 31, 2023 and 2022;
- the statements of changes in due to or from regular banking unit for the years ended December 31, 2023 and 2022;
- the statements of cash flows for the years ended December 31, 2023 and 2022; and
- the notes to the financial statements, including material accounting policy information.

Basis for Opinion

We conducted our audit in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

Emphasis of Matter - Basis of Accounting and Restriction on Use

We draw attention to Note 11 to the financial statements, which describe the basis of accounting. The financial statements are prepared in accordance with the reporting guidelines prescribed by the Bangko Sentral ng Pilipinas (BSP). As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the information and use of the management of the Bank, and for purposes of submission to the BSP and Bureau of Internal Revenue and is not intended for any other purpose. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation of the financial statements in accordance with the reporting guidelines of the BSP as described fully in Note 11 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in accordance with the reporting guidelines of the BSP, as described in Note 11 to the financial statements.

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.

Isla Lipana & Co.

John John Patrick V. Lim
Partner
CPA Cert. No. 83389
P.T.R. No. 0007706; issued on January 12, 2024, Makati City
T.I.N. 112-071-386
BIR A.N. 08-000745-017-2021, issued on November 23, 2021; effective until November 22, 2024
BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City
March 27, 2024

BPI Direct BanKo, Inc., A Savings Bank
Foreign Currency Deposit Unit

Statements of Condition
As at December 31, 2023 and 2022
(All amounts in Philippine Peso)

	Notes	2023	2022
RESOURCES			
Due from other banks	2,8	168,442,075	196,509,221
Other resources		131,791	18,114
Total resources		168,573,866	196,527,335
LIABILITIES AND DUE TO/FROM REGULAR BANKING UNIT			
Deposit liabilities	3	145,504,618	174,735,563
Accrued interest payable		126,074	8,242
Other liabilities	4	22,120,680	21,794,137
Total liabilities		167,751,372	196,537,942
Due to (from) regular banking unit		822,494	(10,607)
Total liabilities and due to/from regular banking unit		168,573,866	196,527,335

The notes on pages 1 to 13 are an integral part of these financial statements.

BPI Direct BanKo, Inc., A Savings Bank
Foreign Currency Deposit Unit

Statements of Income
For the years ended December 31, 2023 and 2022
(All amounts in Philippine Peso)

	Notes	2023	2022
Interest income	2	1,904,183	754,766
Interest expense	3	(564,582)	(412,100)
Net interest income		1,339,601	342,666
Service fee income	5	111,110	139,523
Miscellaneous expenses	6	(340,508)	(376,016)
Income before income tax		1,110,203	106,173
Income tax expense	7	(287,709)	(116,780)
Net income (loss) for the year		822,494	(10,607)

The notes on pages 1 to 13 are an integral part of these financial statements.

BPI Direct BanKo, Inc., A Savings Bank
Foreign Currency Deposit Unit

Statements of Total Comprehensive Income
For the years ended December 31, 2023 and 2022
(All amounts in Philippine Peso)

	2023	**2022**
Net income (loss) for the year	822,494	(10,607)
Other comprehensive income	-	-
Total comprehensive income (loss) for the year	822,494	(10,607)

The notes on pages 1 to 13 are an integral part of these financial statements.

BPI Direct BanKo, Inc., A Savings Bank
Foreign Currency Deposit Unit

Statements of Changes in Due to/from Regular Banking Unit
For the years ended December 31, 2023 and 2022
(All amounts in Philippine Peso)

	2023	**2022**
Balances at January 1	(10,607)	(713,241)
Comprehensive income		
Net income (loss) for the year	822,494	(10,607)
Other comprehensive income	-	-
Total comprehensive income (loss) for the year	822,494	(10,607)
Transfer from regular banking unit	10,607	713,241
Balances at December 31	822,494	(10,607)

The notes on pages 1 to 13 are an integral part of these financial statements.

BPI Direct BanKo, Inc., A Savings Bank
Foreign Currency Deposit Unit

Statements of Cash Flows
For the years ended December 31, 2023 and 2022
(All amounts in Philippine Peso)

	Notes	2023	2022
Cash flows from operating activities			
Income before income tax		1,110,203	106,173
Adjustments for:			
Interest income on deposits with banks	2	(1,904,183)	(754,766)
Interest received on deposits with banks		1,916,598	741,745
Interest expense on deposit liabilities	3	564,582	412,100
Interest paid on deposit liabilities		(446,750)	(486,758)
Increase in other resources		(126,092)	-
Increase (decrease) in:			
Deposit liabilities		(29,230,945)	(18,745,110)
Other liabilities		326,545	1,684,907
Net cash used in operations		(27,790,042)	(17,041,709)
Income taxes paid		(287,711)	(116,780)
Net cash used in operating activities		(28,077,753)	(17,158,489)
Cash flows from financing activity			
Transfer from regular banking unit		10,607	713,241
Net decrease in cash		(28,067,146)	(16,445,248)
Cash	2		
January 1		196,509,221	212,954,469
December 31		168,442,075	196,509,221

The notes on pages 1 to 13 are an integral part of these financial statements.

BPI Direct BanKo, Inc., A Savings Bank
Foreign Currency Deposit Unit

Notes to Financial Statements
As at and for the years ended December 31, 2023 and 2022
(In the notes, all amounts are shown in Philippine Peso unless otherwise stated)

1 General information

1.1 Business information

BPI Direct BanKo, Inc., A Savings Bank (the "Bank") was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on September 26, 1986 primarily to engage in and carry on the general business of savings and mortgage banking.

The Foreign Currency Deposit Unit (FCDU) license was granted to the Bank on October 31, 2008.

The Bank is a wholly-owned subsidiary of Bank of the Philippine Islands ("BPI" or the "Parent Bank"), a domestic commercial bank with an expanded banking license, which is also its ultimate parent.

The Bank's registered office address, which is also its principal place of business, is 220 Ortigas Avenue, BanKO Center, North Greenhills, San Juan City, Metro Manila.

The Bank has 2,915 regular employees as at December 31, 2023 (2022 - 2,376).

1.2 Approval of the Bank's financial statements

These financial statements have been approved and authorized for issuance by the Board of Directors on March 21, 2024. There are no material events that occurred subsequent to March 21, 2024 until March 27, 2024.

2 Due from other banks

The account consists of deposits with the Parent Bank amounting to P168,442,075 as at December 31, 2023 (2022 - P196,509,221).

Interest income recognized on deposits with banks amounts to P1,904,183 for the year ended December 31, 2023 (2022 - P754,766).

Due from other banks is classified as current as at December 31, 2023 and 2022.

3 Deposit liabilities

The account consists of savings deposits amounting to P145,504,618 at December 31, 2023 (2022 - P174,735,563). All are payable on demand.

Interest expense recognized on deposit liabilities amounts to P564,582 for the year ended December 31, 2023 (2022 - P412,100).

4 Other liabilities

The account at December 31 consists of:

	2023	2022
Inter-unit clearing account	22,103,361	21,691,575
Miscellaneous liabilities	17,319	102,562
	22,120,680	21,794,137

Inter-unit clearing accounts is related to the transfer of foreign currencies between regular banking unit (RBU) and FCDU and other inter-unit transactions aside from transfer of income or loss to the Bank's RBU.

Miscellaneous liabilities include withholding taxes and sundry credits.

Other liabilities are classified as current as of December 31, 2023 and 2022.

5 Service fee income

The account consists of service charges on deposit accounts for failure to meet minimum balance requirements which amount to P111,110 for the year ended December 31, 2023 (2022 - P139,523).

6 Miscellaneous expenses

The account mainly includes allocated costs from the Bank's RBU which amount to P340,508 for the year ended December 31, 2023 (2022 - P376,016).

7 Income taxes

Income subject to tax for the year ended December 31 consists of revenue generated from on-shore transactions of the FCDU.

A reconciliation between the income tax expense at the statutory income tax rate to the actual income tax expense for the years ended December 31 are as follows:

	2023		2022	
	Amount	Rate (%)	Amount	Rate (%)
Statutory income tax	277,551	25.00	26,543	25.00
Effects of items not subjected to statutory tax rate				
Non-deductible expenses	198,495	50.85	162,149	152.72
Income subjected to lower tax rates	(188,337)	(49.94)	(71,912)	(67.73)
Income tax expense	287,709	25.91	116,780	109.99

8 Related party transactions

In the ordinary course of business, the Bank has transactions with the Parent Bank and other related entities which are recognized in the FCDU books. These transactions usually arise from normal banking activities such as deposit arrangements and outsourcing of certain services primarily loans operations, branch operations and human resource-related functions. These transactions are done on an arm's length basis and are made substantially on the same terms and conditions as transactions with unaffiliated individuals and businesses of comparable risks under the same or similar circumstance.

Significant related party transactions at December 31, 2023 of the FCDU pertain to deposits with the Parent Bank amounting to P168,442,075 (2022 - P196,509,221). Related interest income is disclosed in Note 2.

9 Other commitments and contingent liabilities

There are no outstanding commitments and contingent liabilities involving the Bank's FCDU as at December 31, 2023 and 2022.

10 Financial risk and capital management

Risk management in the Bank, including the FCDU, covers all perceived areas of risk exposure, even as it continuously endeavors to uncover hidden risks. Capital management is understood to be a facet of risk management. The Board of Directors is the Bank's principal risk and capital manager and the Bank's only strategic risk taker. The Board of Directors provides written policies for overall risk management, as well as written procedures for the management of foreign exchange risk, interest rate risk, credit risk, equity risk, and contingency risk, among others.

The primary objective of the Bank is the generation of recurring acceptable returns to shareholder's capital. To this end, the Bank's policies, business strategies, and business activities are directed towards the generation of cash flows that are in excess of its fiduciary and contractual obligations to its depositors, and to its various other funders and stakeholders.

To generate acceptable returns to its shareholder's capital, the Bank understands that it has to bear risk, that risk-taking is inherent in its business. Risk is understood by the Bank as the uncertainty in its future income - an uncertainty that emanates from the possibility of incurring losses that are due to unplanned and unexpected drops in revenues, increases in expenses, impairment of asset values, or increases in liabilities.

The possibility of incurring losses is, however, compensated by the possibility of earning more than expected income. Risk-taking is, therefore, not entirely a bad step to be avoided. Risk-taking presents opportunities if risks are accounted, deliberately taken, and are kept within rationalized limits.

The Risk Management Office is responsible for the management of market and liquidity risks. Its objective is to minimize adverse impact on the Bank's financial performance due to the unpredictability of financial markets.

Market and credit risks management in the Bank is carried out through policies approved by the Risk Management Committee and the Board of Directors. In addition, Internal Audit is responsible for the independent review of risk assessment measures and procedures and the control environment. For risk management purposes, risks emanating from Treasury activities are managed independently.

The most important risks that the Bank manages are credit risk, liquidity risk, market risk and other operational risks. Market risk includes currency exchange risk, interest rate and other price risks.

10.1 Credit risk

The Bank, including the FCDU, takes on exposure to credit risk, which is the risk that may arise if a borrower or counterparty fails to meet its obligations in accordance with agreed terms. Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk as governed by relevant regulatory requirements and international benchmarks.

Credit exposure in the FCDU arises principally from financial assets at amortized cost consisting of Due from other banks. The Credit Policy Group works with the Credit Committee in managing credit risks, and reports are regularly provided to the Board of Directors.

The maximum credit risk exposure relates to Due from other banks which amounts to P168,442,075 as at December 31, 2023 (2022 - P196,509,221), which are deposited in a reputable bank and are considered fully performing (Note 2). Deposits are made in a reputable bank with good credit ratings. Management has determined that there is a low risk of default on these deposits and has assessed that the said counterparty has strong capacity to meet its contractual cash flow obligations in the near term. Low credit risk assets are at a minimum subject to 12-month expected credit loss (ECL). Based on its assessment, management has ascertained that the corresponding 12-month ECL is not material for financial reporting purposes as at December 31, 2023 and 2022.

10.2 Market risk

The Bank, including the FCDU, is exposed to market risk, the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk management is incumbent on the Board of Directors through its Risk Management Committee.

9.2.1 Interest rate risk

There are two types of interest rate risk: (i) fair value interest rate risk and (ii) cash flow interest rate risk. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Bank, including the FCDU, takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates. Interest margins may increase as a result of such changes but may also result in losses in the event that unexpected movements arise.

The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the Risk Management Office.

Interest rate risk in the banking book arises from the Bank’s core banking activities. The main source of this type of interest rate risk is repricing risk, which reflects the fact that the Bank’s assets and liabilities are of different maturities and are priced at different interest rates.

The FCDU’s financial assets and liabilities as at December 31 are all non-repricing and are broken down as follows:

	2023	2022
Financial assets		
Due from other banks	168,442,075	196,509,221
Other resources	131,791	18,114
Total financial assets	168,573,866	196,527,335
Financial liabilities		
Deposit liabilities	145,504,618	174,735,563
Accrued interest payable	126,074	8,242
Total financial liabilities	145,630,692	174,743,805
Total interest repricing gap	22,943,174	21,783,530

9.2.2 Foreign currency exchange risk

Foreign currency exchange risk is being managed on a Bank-wide basis. As at December 31, 2023 and 2022, the FCDU of the Bank is not engaged in transactions denominated in currencies other than its functional currency, US Dollar. Accordingly, it has no exposure to foreign currency exchange risk.

10.3 Liquidity risk

Liquidity risk is the risk that the Bank, including the FCDU, is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

The Bank's liquidity management process, as carried out within the Bank and monitored by the Risk Management Committee and the Risk Management Office includes:

- day-to-day funding, which includes replenishment of funds as they mature or are borrowed by customers, managed by monitoring future cash flows to ensure that requirements can be met;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- managing the concentration and profile of debt maturities; and
- performing periodic liquidity stress testing on the Bank's liquidity position by assuming a faster rate of withdrawals in its deposit base.

Monitoring and reporting take the form of cash flow measurement and projections for the next days, weeks and months as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Sources of liquidity are regularly reviewed by the Bank to maintain a wide diversification by currency, geography, counterparty, product and term. Assets available to meet all of the liabilities include due from other banks. The Bank would also be able to meet unexpected net cash outflows by accessing additional funding sources.

The FCDU's financial liabilities at December 31, 2023, which consist of savings deposits and accrued interest payable amounting to P145,504,618 and P126,074, respectively, (2022 - P174,735,563 and P8,242, respectively), have no stated maturity and are repayable on demand.

The Bank has sufficient liquid assets (mainly Due from other banks) to meet its financial liabilities as at December 31, 2023 and 2022.

Liquidity Coverage Ratio (LCR)

Pursuant to Bangko Sentral ng Pilipinas (BSP) Circular No. 905 issued in 2016, the Bank is required to hold and maintain an adequate level of unencumbered High Quality Liquid Assets (HQLA) that are sufficient to meet its estimated total cash outflows over a 30 calendar-day period of liquidity stress. The LCR is the ratio of HQLAs to total net cash outflows which should be no lower than 100% on a daily basis. It is designed to promote short-term resilience of the Bank's liquidity risk profile to withstand significant liquidity shocks that may last over 30 calendar days. HQLA represent the Bank's stock of liquid assets that qualify for inclusion in the LCR which consist mainly of cash, regulatory reserves and unencumbered high-quality liquid securities. HQLAs therefore, serve as defense against potential stress events.

The main drivers of the Bank's LCR comprise the changes in the total stock of HQLA as well as changes in net cash outflows related to deposits, unsecured borrowings and commitment facilities, if any.

Net Stable Funding Ratio (NSFR)

On January 1, 2019, the Bank adopted BSP Circular No. 1007 issued in 2018 regarding the NSFR requirement. The NSFR is aimed at strengthening the Bank's long-term resilience by maintaining a stable funding in relation to its assets and off-balance sheet items as well as to limit the maturity transformation risk of the Bank. The NSFR is expressed as the ratio of available stable funding and the required stable funding and complements the LCR as it takes a longer view of the Bank's liquidity risk profile. The Bank's capital, retail deposits and long-term debt are considered as stable funding sources whereas the Bank's assets including, but not limited to, performing and non-performing loans and receivables, HQLA and non-HQLA securities as well as off-balance items form part of the required stable funding. The Bank's NSFR is well-above the regulatory minimum of 100%.

The Bank maintains a well-diversified funding base and has a substantial amount of core deposits, thereby avoiding undue concentrations by counterparty, maturity, and currency. The Bank manages its liquidity position through asset-liability management activities supported by a well-developed funds management practice as well as a sound risk management system. As part of risk oversight, the Bank monitors its liquidity risk on a daily basis, in terms of single currency and significant currencies, to ensure it is operating within the risk appetite set by the BOD and to assess ongoing compliance with the minimum requirement of the liquidity ratios. Furthermore, the Bank has a set of policies and escalation procedures in place that govern its day-to-day risk monitoring and reporting processes.

The table below shows the actual liquidity metrics of the Bank (combined RBU and FCDU) as at December 31:

	2023	2022
Liquidity coverage ratio	133.97%	231.13%
Net stable funding ratio	135.91%	137.00%
Leverage ratio	10.83%	16.30%
Total exposure measure	43,493,133,715	22,381,413,480

10.4 Fair values of financial assets and liabilities

As at December 31, 2023 and 2022, the carrying value of the financial asset and liabilities approximates its fair value.

There are no financial assets and liabilities measured at fair value as at December 31, 2023 and 2022.

Due from other banks

The fair value of floating rate placements and overnight deposits approximates their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

Deposit liabilities

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The carrying amount of deposit liabilities approximates their fair value due to the short-term nature of these instruments.

Other resources/liabilities

Carrying amounts of other resources/liabilities which have no definite repayment dates are assumed to be their fair values.

10.5 Capital management

Capital management is understood to be a facet of risk management. The primary objective of the Bank, including the FCDU, is the generation of recurring acceptable returns to shareholder's capital. To this end, the Bank's policies, business strategies and activities are directed towards the generation of cash flows that are in excess of its fiduciary and contractual obligations to its depositors, and to its various funders and stakeholders.

Cognizant of its exposure to risks, the Bank understands that it must maintain sufficient capital to absorb unexpected losses, to stay in business for the long haul, and to satisfy regulatory requirements. The Bank further understands that its performance, as well as the performance of its various units, should be measured in terms of returns generated vis-à-vis allocated capital and the amount of risk borne in the conduct of business.

Effective January 1, 2014, the BSP, through its Circular 781, requires each bank and its financial affiliated subsidiaries to adopt new capital requirements in accordance with the provisions of Basel III. The new guidelines are meant to strengthen the composition of the Bank's capital by increasing the level of core capital and regulatory capital. The Circular sets out minimum Common Equity Tier 1 (CET1) ratio and Tier 1 Capital ratios of 6% and 7.5%, respectively. A capital conservation buffer of 2.5%, comprised of CET1 capital, was likewise imposed. The minimum required capital adequacy ratio (CAR) remains at 10% which includes the capital conservation buffer.

The table below summarizes the Bank's CAR (combined RBU and FCDU) under the Basel III framework for the years ended December 31:

	2023	2022
Tier 1 capital	5,426,916,061	4,165,669,372
Tier 2 capital	263,664,096	141,119,944
Gross qualifying capital	5,690,580,157	4,306,789,316
Less: Required deductions	717,783,527	517,531,626
Total qualifying capital	4,972,796,630	3,789,257,690
Risk weighted assets	33,686,718,954	20,571,489,815
CET1	13.98%	17.73%
CAR (%)	14.76%	18.42%

The Bank has fully complied with the CAR requirement of the BSP as at December 31, 2023 and 2022.

11 Summary of material accounting policies

The accompanying financial statements reflect the accounts maintained by the FCDU of the Bank. The material accounting policies applied in the preparation of the financial statements of the FCDU of the Bank are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

11.1 Basis of preparation

The financial statements of the Bank's FCDU have been prepared in accordance with the reporting guidelines of the BSP. In general, the said guidelines as they relate to the preparation and presentation of the FCDU financial statements of banks, include all applicable Philippine Financial Reporting Standards (PFRSs), Philippine Accounting Standards (PAS), and interpretations approved by the Financial and Sustainability Reporting Standards Council (FSRSC) and adopted by the SEC, except with respect to the determination and translation of functional currency as discussed in Note 11.6.

The financial statements of the FCDU of the Bank have been prepared under the historical cost convention.

The financial statements comprise the statements of condition, statements of income and statements of total comprehensive income shown as two statements, statements of changes in due to regular banking unit, statements of cash flows and the notes.

The preparation of financial statements in conformity with PFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. There are no areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements.

11.1.1 Changes in accounting policy and disclosures

(a) Amendments to existing standards adopted by the Bank's FCDU

The Bank's FCDU has adopted the following amendments to existing standards effective January 1, 2023:

- Amendments to PAS1, 'Presentation of Financial Statements', and PFRS Practice Statement 2

  The amendments require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' (being information that, when considered together with other information included in an entity's financial statements, can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements) and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

  To support these amendments, PFRS Practice Statement 2, Making Materiality Judgements, was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

  The adoption of these amendments resulted to changes in the accounting policies disclosure in Note 11 series.

(b) Amendments to existing standards that are not yet effective and not early adopted by the Bank

There are no new standards, amendments to existing standards, or interpretations that are effective for annual periods beginning after January 1, 2023 that are considered relevant or expected to have a material effect on the financial statement of the Bank.

11.2 Financial assets

11.2.1 Classification

The Bank, including the FCDU, classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income (FVOCI); and
- those to be measured at amortized cost.

The classification depends on the Bank's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at FVOCI, gains and losses will be recorded other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Bank, including the FCDU, has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

11.2.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade date, the date on which the Bank commits to purchase or sell the asset.

11.2.3 Measurement

The classification requirements for debt and equity instruments are described below:

The Bank classifies its debt instruments at amortized cost.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Amortized cost financial assets of the FCDU as at December 31, 2023 and 2022 include due from other banks (Note 2) and other resources.

Cash and cash equivalents consist of deposits with the Parent Bank.

Business model: The business model reflects how the Bank, including the FCDU, manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Bank, including the FCDU, in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank, including the FCDU, assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank, including the FCDU, considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The FCDU reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

11.2.4 Impairment and write-off

The Bank, including the FCDU, assesses on a forward- looking basis the expected credit losses (ECL) associated with its debt instrument assets carried at FVOCI and amortized cost. The Bank, including the FCDU, recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The FCDU's financial assets pertain to due from other banks and other resources. The FCDU applies the simplified approach, as permitted by PFRS 9, in measuring ECL which uses a lifetime expected loss allowance for other financial assets. To measure the expected credit losses, other financial assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of receivables over a period of 36 months and corresponding historical credit losses experienced within this periods. The forward- looking information on macroeconomic factors are considered insignificant in calculating impairment of the FCDU's financial assets.

Write-off

Financial assets are written-off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the FCDU and a failure to make contractual payments for a period of greater than 120 days past due.

11.3 Financial liabilities

11.3.1 Classification

The Bank, including the FCDU, classifies its financial liabilities at amortized cost.

Financial liabilities measured at amortized cost include deposit liabilities and accrued interest payable.

11.3.2 Recognition and measurement

Initial recognition and measurement

Financial liabilities at amortized cost are initially recognized at fair value less transaction costs.

Subsequent measurement

Financial liabilities at amortized cost are subsequently measured at amortized cost using the effective interest rate method.

11.3.3 Derecognition

A financial liability is removed from the statement of condition when it is extinguished, i.e., when the obligation is discharged or is canceled or expires.

11.4 Fair value measurement

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

11.5 Interest income and expense

Interest income and expense are recognized using the effective interest rate method.

When calculating the effective interest rate, the Bank, including the FCDU, estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, 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 using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

11.6 Foreign currency translation

Functional and presentation currency

Items in the financial statements are measured using the currency of the primary economic environment in which the FCDU operates (the "functional currency"). In accordance with BSP Circular 601, series of 2008, the functional currency of the FCDU is US Dollar while the financial statements are presented in Philippine Peso (the "presentation currency").

For financial reporting purposes and following the requirements under Section 84 of the Manual of Regulations on Foreign Exchange Transactions (MORFXT), the functional currency of the Bank's FCDU is the US Dollar. The FCDU accounts are translated into their equivalent amounts in Philippine Peso. In determining the presentation currency of the FCDU, the Bank's management considered the primary users of these financial statements. These financial statements are prepared mainly for submission to the BSP and for filing with the Bureau of Internal Revenue along with the annual income tax return of the FCDU, which is also presented in Philippine Peso. Consistent with the provision of PAS 21, The Effects of Changes in Foreign Exchange Rates, the Bank's FCDU adopts Philippine Peso as its presentation currency.

The results and financial position of the FCDU are translated into Philippine Peso as follows:

- resources and liabilities are translated at closing rate at year-end;
- income and expenses are translated at exchange rates at the dates of the transactions; and
- all resulting exchange differences are taken to statement of total comprehensive income under cumulative translation adjustment.

Management assessed that the impact of the translation adjustment is insignificant and decided not to present the cumulative translation adjustment separately in the FCDU's financial statements as at December 31, 2023 and 2022.

11.7 Service fee income

The Bank, including the FCDU, recognizes revenue when (or as) the Bank satisfies a performance obligation by transferring a promised good or service to a customer (i.e. an asset). An asset is transferred when (or as) the customer obtains control of that asset.

Fees and commissions are generally recognized over time when the service has been provided and the control over the service is transferred to the customer. The service being rendered by the Bank represents a single performance obligation.

Fees and commissions, mainly representing service fees, are recognized on an accrual basis when the service has been provided. Fees and commission arising from loans, deposits and other banking transactions are recognized as income based on agreed terms and conditions.

11.8 Income taxes

Income earned by the FCDU is taxed as follows: (a) offshore income is tax-exempt, (b) gross onshore income is taxed at 10%, and (c) all other income not classifiable as onshore or offshore is subject to the regular corporate tax rate of 25% of net taxable income.

Income derived by the FCDU from foreign currency transactions with local commercial banks, including branches of foreign banks authorized by the BSP to transact business with the FCDU is subject to 10% final tax. Also, interest earned on deposits with foreign currency denominated units of other banks is subject to 15% final tax.

11.9 Expense allocation

Certain expenses of the Bank are allocated to the FCDU which takes into consideration the specific transactions of the FCDU.