BPI Direct BanKo, Inc., A Savings Bank

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
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 present fairly, in all material respects, the financial position of BPI Direct BanKo, Inc., A Savings Bank (the "Bank") as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

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 capital funds 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 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 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 Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our 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.

Other Information

Management is responsible for other information. The other information comprises the Annual Report, but does not include the financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the 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 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 Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 in Note 24 and Bureau of Internal Revenue (BIR) Revenue Regulations No. 15-2010 in Note 25 to the financial statements is presented for the purposes of filing with the BSP and BIR, respectively, and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management of the Bank. The supplementary information has been subjected to the auditing procedures applied in our audits of the basic financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

	Notes	2023	2022
RESOURCES			
Cash and other cash items	2	386,079,377	250,147,358
Due from other banks	2	3,218,312,911	767,097,024
Interbank loans receivable and securities purchased under agreement to resell	2,3	3,196,962,969	135,594,884
Due from Bangko Sentral ng Pilipinas	2,4	7,372,891,154	4,334,661,084
Investment security at fair value through other comprehensive income	5	7,548	14,939
Loans and advances, net	6	27,696,336,887	15,679,134,887
Assets held for sale		68,525,646	77,880,288
Bank premises, furniture, fixtures and equipment, net	7	616,464,545	496,808,502
Deferred income tax assets, net	8	687,752,072	490,516,905
Other resources, net	9	307,000,733	216,515,286
Total resources		43,550,333,842	22,448,371,157
LIABILITIES AND CAPITAL FUNDS			
Deposit liabilities	10	35,012,013,081	16,792,441,424
Accrued taxes, interest and other expenses	11	975,292,080	345,969,454
Other liabilities	12	2,108,999,974	1,129,339,083
Total liabilities		38,096,305,135	18,267,749,961
CAPITAL FUNDS	13		
Share capital		1,405,572,100	1,405,572,100
Accumulated other comprehensive loss		(47,463,086)	(29,772,580)
Other reserves		(269,815,403)	(269,815,403)
Surplus		4,365,735,096	3,074,637,079
Total capital funds		5,454,028,707	4,180,621,196
Total liabilities and capital funds		43,550,333,842	22,448,371,157

(The notes on pages 1 to 50 are an integral part of these financial statements.)

BPI Direct BanKo, Inc., A Savings Bank
(Formerly BPI Direct Savings Bank, Inc.)

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

	Notes	2023	2022
INTEREST INCOME			
Loans and advances	6	6,489,309,948	3,974,308,405
Deposits with BSP and other banks	2,4	263,066,385	56,409,435
Interbank loans receivable	3	109,730,642	13,739,745
		6,862,106,975	4,044,457,585
INTEREST EXPENSE ON DEPOSITS	10	1,009,259,455	86,929,058
NET INTEREST INCOME		5,852,847,520	3,957,528,527
PROVISION FOR IMPAIRMENT	21	1,790,745,047	702,356,232
NET INCOME AFTER PROVISION FOR IMPAIRMENT		4,062,102,473	3,255,172,295
OTHER INCOME			
Service fee income		761,272,945	526,085,439
Profit on assets sold		8,112,967	7,484,831
Miscellaneous income	14	93,085,952	123,814,886
		862,471,864	657,385,156
OTHER EXPENSES			
Compensation and fringe benefits		1,268,585,222	984,514,746
Occupancy and equipment-related expenses	16	1,115,619,486	983,805,225
Other operating expenses	15	842,297,835	635,624,168
		3,226,502,543	2,603,944,139
INCOME BEFORE PROVISION FOR INCOME TAX		1,698,071,794	1,308,613,312
PROVISION FOR INCOME TAX	17		
Current		593,534,411	327,101,725
Deferred	8	(186,560,634)	3,092,294
		406,973,777	330,194,019
NET INCOME FOR THE YEAR		1,291,098,017	978,419,293

(The notes on pages 1 to 50 are an integral part of these financial statements.)

BPI Direct BanKo, Inc., A Savings Bank

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

	Note	2023	2022
NET INCOME FOR THE YEAR		1,291,098,017	978,419,293
OTHER COMPREHENSIVE LOSS	13		
Items that will not be subsequently reclassified to profit or loss			
Change in fair value reserve on equity securities at fair value through other comprehensive income, net of tax		(7,391)	(2,184)
Remeasurement loss on retirement benefit obligation, net of tax		(17,683,115)	(618,651)
Total other comprehensive loss		(17,690,506)	(620,835)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,273,407,511	977,798,458

(The notes on pages 1 to 50 are an integral part of the financial statements.)

BPI Direct BanKo, Inc., A Savings Bank

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

	Share capital (Note 13)	Accumulated other comprehensive loss (Note 13)	Other reserves (Note 13)	Surplus (Note 13)	Total
BALANCE, JANUARY 1, 2022	1,405,572,100	(29,151,745)	(269,815,403)	2,096,217,786	3,202,822,738
COMPREHENSIVE INCOME					
Net income for the year	-	-	-	978,419,293	978,419,293
Other comprehensive loss	-	(620,835)	-	-	(620,835)
Total comprehensive income for the year	-	(620,835)	-	978,419,293	977,798,458
BALANCE, DECEMBER 31, 2022	1,405,572,100	(29,772,580)	(269,815,403)	3,074,637,079	4,180,621,196
COMPREHENSIVE INCOME					
Net income (loss) for the year	-		-	1,291,098,017	1,291,098,017
Other comprehensive loss	-	(17,690,506)	-	-	(17,690,506)
Total comprehensive income for the year	-	(17,690,506)	-	1,291,098,017	1,273,407,511
BALANCE, DECEMBER 31, 2023	1,405,572,100	(47,463,086)	(269,815,403)	4,365,735,096	5,454,028,707

(The notes on pages 1 to 50 are an integral part of the financial statements.)

BPI Direct BanKo, Inc., A Savings Bank

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 provision for income tax		1,698,041,347	1,308,613,312
Adjustments for:			
Interest income		(6,862,106,975)	(4,044,457,585)
Interest expense on deposit and lease liabilities	10,20	1,032,531,488	104,526,498
Depreciation and amortization	7	287,762,189	324,963,708
Amortization of computer software and intangible assets		1,986,842	1,899,758
Profit on assets sold		(7,513,947)	(7,484,831)
Retirement benefit expense	18	15,616,759	22,443,240
Provision for impairment	6,9,21	1,790,775,494	702,356,232
Interest received		6,488,172,099	3,892,925,729
Interest paid		(560,677,005)	(85,808,182)
Operating income before changes in operating assets and liabilities		3,884,588,291	2,219,977,879
(Increase) decrease in:			
Loans and advances		(13,423,586,991)	(5,258,769,789)
Assets held for sale		16,413,190	19,271,227
Other resources		(109,626,492)	39,543,660
Increase in:			
Deposit liabilities		18,219,571,657	2,515,206,109
Accrued taxes, interest and other expenses		107,147,516	257,045,498
Other liabilities		872,500,169	320,704,343
Net cash from operations		9,567,007,340	112,978,927
Retirement plan contributions	18	(36,789,985)	(23,947,095)
Income tax paid		(543,376,886)	(480,017,613)
Net cash from (used in) operating activities		8,986,840,469	(390,985,781)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of bank premises, furniture, fixture, and equipment	7	(166,511,401)	(48,007,563)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of principal portion of lease liabilities	20	(133,583,007)	(140,383,071)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		8,686,746,061	(579,376,415)
CASH AND CASH EQUIVALENTS			
January 1		5,487,500,350	6,066,876,765
December 31	2	14,174,246,411	5,487,500,350

(The notes on pages 1 to 50 are an integral part of these financial statements.)

BPI Direct BanKo, Inc., A Savings Bank

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 March 17, 1956 primarily to engage in and carry on the general business of savings and mortgage banking.

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 (BOD) on March 21, 2024. There are no material events that occurred subsequent to March 21, 2024 until March 27, 2024.

2 Cash and cash equivalents

The account as at December 31 consists of:

	Notes	2023	2022
Cash and other cash items		386,079,377	250,147,358
Due from other banks		3,218,312,911	767,097,024
Interbank loans receivable and securities purchased under agreement to resell (SPAR)	3	3,196,962,969	135,594,884
Due from Bangko Sentral ng Pilipinas (BSP)	4	7,372,891,154	4,334,661,084
		14,174,246,411	5,487,500,350

Due from other banks represent demand deposits which are due on demand. Demand deposits earn annual interest of 0.05% to 0.0625% in 2023 (2022 - 0.10% to 0.0625%). Interest earned from due from other banks for the year ended December 31, 2023 amounts to P2,621,970 (2022 - P1,124,301).

Cash and cash equivalents are classified as current as at December 31, 2023 and 2022.

3 Interbank loans receivable and SPAR

The account at December 31, 2023 consists of government securities under reverse repurchase agreement with the BSP amounting to P3,196,962,969 (2022 - P135,594,884).

Interest rate on interbank loans receivable and SPAR in 2023 is 6.39% (2022 - 5.50%). For the year ended, December 31, 2023, the total interest earned on interbank loans receivable and SPAR amounts to P109,730,642 (2022 - P13,739,745).

Interbank loans receivable and SPAR is classified as current.

4 Due from BSP

The account as at December 31 consists of:

	2023	2022
Special deposit accounts	6,000,000,000	2,849,000,000
Clearing accounts	1,372,891,154	1,485,661,084
	7,372,891,154	4,334,661,084

Special deposit accounts classified as cash equivalents are fixed-term demand Philippine Peso deposits maintained mainly for liquidity purposes and in compliance with the simplified minimum reserve requirements of the BSP (Note 10).

Clearing accounts represent temporary deposit accounts wherein funds flow from cleared checks are credited against or debited for.

As at December 31, 2023, the special deposit placements have maturities of not more than 28 days and carries an average interest rate of 6.65% (2022 - 6.16%). For the year ended December 31, 2023, the total interest earned on due from BSP amounts to P260,444,415 (2022 - P55,285,134).

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

5 Investment security at fair value through other comprehensive income (FVOCI)

The account consists of listed equity security which amounts to P7,548 as at December 31, 2023 (2022 - P14,939).

Movements in investment security at FVOCI for the years ended December 31 are as follows:

	2023	2022
At January 1	14,939	17,123
Fair value adjustment	(7,391)	(2,184)
At December 31	7,548	14,939

Investment security at FVOCI as at December 31, 2023 and 2022 is classified as current.

6 Loans and advances, net

The account as at December 31 consists of:

	2023	2022
Retail customers		
Real estate mortgagers	1,174,152,190	1,275,017,499
Auto loans	336,859	368,324
Personal loans	18,643,195,579	9,035,675,996
Manpower/Microfinance loans	9,507,502,908	6,657,958,932
Corporate entities		
Large corporate customers	40,489,706	58,246,232
Small and medium enterprises	5,136,569	7,252,624
	29,370,813,811	17,034,519,607
Accrued interest receivable	913,795,910	543,880,208
Unearned discount	(54,475)	(54,475)
	30,284,555,246	17,578,345,340
Allowance for impairment	(2,588,218,359)	(1,899,210,453)
	27,696,336,887	15,679,134,887

The effective interest rate on loans and advances ranges from 1.25% to 55.32% for the year ended December 31, 2023 (2022 - 1.25% to 55.32%). Interest income from loans and advances amounts to P6,489,309,948 for the year ended December 31, 2023 (2022 - P3,974,308,405).

Maturity profile of loans and advances, net of accrued interest receivable and unearned discount, as at December 31 follows:

	2023	2022
Current (within 12 months)	10,347,310,959	8,500,364,660
Non-current (over 12 months)	19,937,244,287	9,077,980,680
	30,284,555,246	17,578,345,340

Movements in allowance for impairment for the years ended December 31 are as follows:

	2023	2022
Balance, January 1	1,899,210,453	1,888,047,381
Provision for impairment	1,776,300,693	696,846,189
Write-offs	(1,084,426,255)	(684,478,998)
Transfers/other movements	(2,866,532)	(1,204,119)
Balance, December 31	2,588,218,359	1,899,210,453

In 2023, the Bank purchased personal loan portfolio of its Parent Bank amounting to P17,532,151,256 (2022 - P3,623,586,925) presented as part of personal loans above.

7 Bank premises, furniture, fixtures and equipment, net

The movements in the account for the years ended December 31 are summarized as follows:

	2023					
	Furniture, fixtures, and equipment	Leasehold rights and improvement	Computer equipment	Leasehold rights and improvements in progress	Buildings	Total
Cost						
January 1, 2023	496,339,573	732,913,512	58,416,752	11,745,784	728,663,615	2,028,079,236
Additions	53,928,625	109,392,539	1,949,020	1,241,217	240,906,831	407,418,232
Pre-termination	-	-	-	-	-	-
December 31, 2023	550,268,198	842,306,051	60,365,772	12,987,001	969,570,446	2,435,497,468
Accumulated depreciation and amortization						
January 1, 2023	446,752,370	570,983,207	51,892,610	-	461,642,547	1,531,270,734
Depreciation and amortization	41,717,989	102,427,593	6,348,949	-	137,267,658	287,762,189
Pre-termination	-	-	-	-	-	-
December 31, 2023	488,470,359	673,410,800	58,241,559	-	598,910,205	1,819,032,923
Net book value, December 31, 2023	61,797,839	168,895,251	2,124,213	12,987,001	370,660,241	616,464,545

	2022					
	Furniture, fixtures, and equipment	Leasehold rights and improvement	Computer equipment	Leasehold rights and improvements in progress	Buildings	Total
Cost						
January 1, 2022	483,501,301	711,705,546	56,413,600	-	553,637,270	1,805,257,717
Additions	13,050,661	21,207,966	2,003,152	11,745,784	179,111,487	227,119,050
Pre-termination	(212,389)	-	-	-	(4,085,142)	(4,297,531)
December 31, 2022	496,339,573	732,913,512	58,416,752	11,745,784	728,663,615	2,028,079,236
Accumulated depreciation and amortization						
January 1, 2022	378,524,617	444,285,657	45,807,422	-	338,354,681	1,206,972,377
Depreciation and amortization	68,440,042	126,697,550	6,085,188	-	123,740,928	324,963,708
Pre-termination	(212,289)	-	-	-	(453,062)	(665,351)
December 31, 2022	446,752,370	570,983,207	51,892,610	-	461,642,547	1,531,270,734
Net book value, December 31, 2022	49,587,203	161,930,305	6,524,142	11,745,784	267,021,068	496,808,502

The Bank recognized right-of-use assets from the long-term leases of spaces for its main office and branches presented as part of Buildings above. (Note 20).

Depreciation and amortization is included in Occupancy and equipment-related expenses in the statement of income (Note 16).

Bank premises, furniture, fixtures and equipment are all considered non-current assets.

Critical accounting estimate - Useful lives of bank premises, furniture, fixtures and equipment

The Bank determines the estimated useful lives of its bank premises, furniture, fixtures and equipment based on the period over which the assets are expected to be available for use. The Bank annually reviews the estimated useful lives of bank premises, furniture, fixtures and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of assets tempered by related industry benchmark information. 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.

The Bank considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the carrying values of bank premises, furniture, fixtures and equipment.

8 Deferred income tax assets, net

Deferred income tax assets and liabilities at December 31 consist of:

	2023	2022
Deferred income tax assets		
Allowance for impairment	654,936,745	479,104,440
Expense accruals and provisions	8,581,335	12,671,005
Amortization of past service cost	24,233,992	20,472,887
	687,752,072	512,248,332
Deferred income tax liability		
Retirement benefit asset	-	21,731,427
Deferred income tax assets, net	687,752,072	490,516,905

Movements in the net deferred income tax assets for the years ended December 31 are summarized below:

	2023	2022
At January 1	490,516,905	505,013,516
Amounts credited (charged) to statement of income	186,560,634	(3,092,294)
Amounts charged to other comprehensive income	10,674,533	(11,404,317)
At December 31	687,752,072	490,516,905

The deferred tax (benefit) expense in the statement of income for the years ended December 31 comprises the following temporary differences:

	2023	2022
Allowance for impairment	(175,832,304)	(3,996,773)
Others	(10,728,330)	7,089,067
	(186,560,634)	3,092,294

Critical accounting judgement - Realization of deferred income tax assets

Management reviews at each reporting date the carrying amounts of deferred tax assets. The carrying amount of deferred tax assets is reduced to the extent that the related tax assets cannot be utilized due to insufficient taxable profit against which the deferred tax losses will be applied. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilized.

9 Other resources, net

The account at December 31 consists of:

	Note	2023	2022
Injunction bond		155,920,192	44,111,052
Accounts receivable		38,244,931	22,958,088
Rental deposits		36,630,073	33,383,616
Pension asset	18	30,335,780	27,321,996
Prepaid expenses		24,754,919	34,838,920
Accrued interest receivable		5,547,365	1,528,191
Computer software		3,065,521	2,909,569
Membership shares		2,500,000	2,500,000
Miscellaneous		38,156,450	62,586,283
		335,155,231	232,137,715
Allowance for impairment		(28,154,498)	(15,622,429)
		307,000,733	216,515,286

Other resources are expected to be realized as follows:

	2023	2022
Current	299,253,930	199,406,151
Non-current	35,901,301	32,731,564
	335,155,231	232,137,715

Injunction bond mainly pertains to the revolving fund covering transactions with a payment partner and other online transactions.

Accounts receivables mainly include employee cash advances, commissions and other receivables.

Miscellaneous assets include returned checks and float items which are expected to clear within seven days.

Allowance for impairment pertains to accounts receivables that are doubtful of collection.

The movements in the allowance for impairment as at December 31 are as follows:

	2023	2022
At January 1	15,622,429	11,130,941
Provision for impairment	13,988,955	4,491,488
Write-off	(1,456,886)	-
At December 31	28,154,498	15,622,429

10 Deposit liabilities

The account as at December 31 consists of:

	2023	2022
Demand	443,893,734	512,886,649
Savings	11,717,457,576	12,464,620,234
Time	22,850,661,771	3,814,934,541
	35,012,013,081	16,792,441,424

Deposit liabilities are expected to be settled as follows:

	2023	2022
Current	28,083,183,067	10,404,759,764
Non-current	6,928,830,014	6,387,681,660
	35,012,013,081	16,792,441,424

Related interest expense on deposit liabilities for the years ended December 31 is broken down as follows:

	2023	2022
Demand	291,426	319,820
Savings	49,878,157	61,260,369
Time	959,089,872	25,348,869
	1,009,259,455	86,929,058

In 2023, the interest rate on savings and demand deposit ranges from 0.063% to 5.00% (2022 - 0.063% to 5.00%) and interest rate on regular and special time deposit ranges from 0.25% to 6.75% (2022 - 0.25% to 6.25%).

BSP reserve requirement

Under current and existing BSP regulations, the Bank should comply with a minimum reserve requirement. Further, it is required that all reserves must be set aside in deposits with the BSP.

In 2020, the reserve ratio decreased to 3% from 4% following the BSP's decision to reduce the requirements. In 2023, the BSP approved further reduction in reserves which brought the requirement from 3% down to 2% effective June 30, 2023 by virtue of BSP Circular No.1175. These rates continue to be consistent throughout 2023.

The required reserve as reported to BSP as at December 31, 2023 amounts to P697,330,169 (2022 - P486,830,544), which is included in Due from BSP (Note 4). The Bank is in full compliance with the reserve requirement as at December 31, 2023 and 2022.

11 Accrued taxes, interest and other expenses

The account as at December 31 consists of:

	2023	2022
Accrued expenses	191,399,592	142,601,747
Accrued income tax	278,464,890	171,109,462
Accrued taxes and licenses	1,503,723	351,955
Accrued interest on deposits	503,923,875	31,906,290
	975,292,080	345,969,454

Accrued expenses mainly pertain to accruals for utilities, penalties and outsourced services by the Bank.

The above accrued expenses are all considered current.

12 Other liabilities

The account at December 31 consists of:

	Note	2023	2022
Accounts payable		1,613,647,008	805,587,216
Lease liabilities	20	384,131,246	284,416,142
Withholding taxes payable		28,194,696	5,517,507
Miscellaneous		83,027,024	33,818,218
		2,108,999,974	1,129,339,083

The lease liabilities are measured at the present value of the remaining lease payments using an incremental borrowing rate applied by the Bank (Note 20).

Miscellaneous liabilities mainly include mandatory contributions payable to SSS, Medicare and Philhealth, and float items which are expected to clear within seven days.

Other liabilities are considered current, except for the non-current portion of the lease liabilities disclosed in Note 20.

13 Capital funds

Details of share capital at December 31, 2023 and 2022 are as follows:

	Authorized		Issued and outstanding	
	Number of shares	Amount	Number of shares	Amount
Common shares, at P100 par value per share				
Class A	37,400,000	3,740,000,000	13,455,721	1,345,572,100
Class B	2,000,000	200,000,000	600,000	60,000,000
	39,400,000	3,940,000,000	14,055,721	1,405,572,100
Preferred shares, at P100 par value per share, 12% cumulative, participating and redeemable				
Class A	200,000	20,000,000	-	-
Class B	400,000	40,000,000	-	-
	600,000	60,000,000	-	-
	40,000,000	4,000,000,000	14,055,721	1,405,572,100

The Class A (common and preferred) shares are available only to Philippine nationals while the Class B (common and preferred) shares may be issued to non-Filipinos. The Bank, at its option, may redeem the preferred shares after ten years from issue date.

On December 29, 2020, the SEC approved the Bank's increase in authorized capital stock from P470 million in 2019 to P4 billion in 2020. On September 30, 2020, the Bank received P500 million from the Parent Bank as a capital infusion to strengthen the Bank's capital position against the economic effects of the COVID-19 pandemic.

In March 2021, the Bank received additional capital infusion from the Parent Bank amounting to P500 million to assist on its capital requirements. The said capital infusion has been duly approved by the BSP.

Surplus

As at December 31, 2023, the Bank has surplus in excess of its paid-up capital amounting to P2,960,162,996 (2022 - P1,669,064,979). On January 24, 2024, the BOD approved the Bank’s medium-term plan for business expansion to new geographic territories with opening of additional branches and branch-lite units (BLUs), launch of new product lines, and digitalization of the Bank’s end process through introduction of a new application.

Other comprehensive income

The movements in the account for the years ended December 31 are summarized below:

	2023	2022
Fair value reserve on investment securities at FVOCI		
At January 1	(1,473)	711
Unrealized fair value loss before tax	(7,391)	(2,184)
Deferred income tax effect	-	-
At December 31	(8,864)	(1,473)
Remeasurement loss on defined benefit plan, net		
At January 1	(29,771,107)	(29,152,456)
Remeasurement loss before tax	(28,357,648)	(824,867)
Deferred income tax effect	10,674,533	206,216
At December 31	(47,454,222)	(29,771,107)
	(47,463,086)	(29,772,580)

Other reserves

Other reserves represent the difference between the consideration given and the aggregate book value of the assets and liabilities acquired from the previous merger with BPI Globe BanKo in 2016 which is accounted for under the predecessor cost method.

14 Miscellaneous income

The account for the years ended December 31 consists of:

	2023	2022
Recoveries	43,711,280	132,798,796
Other income	56,375,923	312,006
Gross receipts tax	(7,001,251)	(9,295,916)
	93,085,952	123,814,886

Recoveries pertain to the collection of personal loans previously written-off.

Other income includes recoveries of accounts receivables previously written-off.

15 Other operating expenses

The account for the years ended December 31 consists of:

	Note	2023	2022
Shared operating costs	19	346,745,829	221,749,077
Travel and communications		126,161,727	98,098,265
Service fees		79,121,526	16,103,675
Insurance		62,178,002	55,277,140
Advertising and publicity		61,689,146	101,346,043
Stationery and supplies used		58,082,062	44,055,575
Taxes and licenses		32,465,009	26,336,485
Litigation expenses		7,710,170	3,898,231
Membership fees		5,329,400	5,993,620
Regulatory examination fees		5,162,203	4,706,098
Fines, penalties, and other charges		1,967,227	11,079,739
Others		55,685,534	46,980,220
		842,297,835	635,624,168

Other operating expenses pertain mainly to professional fees, representation and entertainment, freight expenses and other outsourced service costs.

16 Occupancy and equipment-related expenses

	Note	2023	2022
Contractual services		455,054,066	371,031,372
Depreciation and amortization	7	287,762,189	324,963,708
Repairs and maintenance		163,110,324	85,445,857
Utilities		42,022,463	40,765,459
Rent		32,242,211	29,041,664
Communication		27,761,625	44,781,733
Interest expense on lease liabilities		23,272,033	17,597,440
IT outsourced services		14,262,489	12,341,091
Shared IT cost		12,870,692	46,886,244
Taxes and licenses		734,546	1,126,285
Insurance		9,681	-
Miscellaneous expense		56,517,167	9,824,372
		1,115,619,486	983,805,225

17 Income taxes

A reconciliation between the provision for income tax at the statutory income tax rate to the actual provision for income tax for the years ended December 31 is presented below:

	2023		2022	
	Amount	%	Amount	%
Statutory income tax	424,517,949	25.00	327,153,328	25.00
Effect of items not subject to statutory tax rate				
Income subject to lower tax rates	(18,982,090)	(1.11)	(3,536,578)	(0.27)
Others	1,437,918	0.08	6,577,269	0.50
Provisions for income tax	406,973,777	23.97	330,194,019	25.23

Others mainly consist of various permanent differences and non-deductible expenses.

18 Retirement plan

The BPI and its subsidiaries (the “BPI Group”), which include the Bank, maintain both defined benefit and defined contribution retirement plans. Assets of both retirement plans are held in trust and governed by local regulations and practices in the Philippines. The key terms of these pension plans are discussed below.

a) Defined benefit retirement plan

Under this plan, the normal retirement age is 60 years. Those who elect to retire prior to the normal retirement age will require company approval, subject to meeting the eligibility conditions on age and years of credited services. Normal retirement benefit consists of a lump sum benefit equivalent to 200% of the basic monthly salary of the employee at the time of his retirement for each year of service, if he has rendered at least 10 years of service, or to 150% of his basic monthly salary, if he has rendered less than 10 years of service and cash equivalent of the accrued and unused vacation and sick leave, if any, subject to the Bank’s implementing guidelines and policies. For voluntary retirement, the benefit is equivalent to 112.50% of the employee’s basic monthly salary for a minimum of 10 years of service with the rate factor progressing to a maximum of 200% of basic monthly salary for service years of 25 or more. Death or disability benefit, on the other hand, shall be the highest amount among the (1) same basis as in voluntary retirement; (2) 100% of basic monthly salary of the employee at the time of his retirement for each year of service; and (3) minimum amount required by Labor Code.

b) Defined contribution retirement plan subject to the requirements of Republic Act (RA) No. 7641

All employees hired on or after the October 1, 2016 are automatically under the new defined contribution plan. Employees hired prior to the effective date shall have the option to elect to become members of the new defined contribution plan.

Upon normal or late retirement, employees are entitled to a lump sum benefit equal to the total of the following amounts:
- The greater of the (a) updated member account balance where the Bank periodically contributes 8% of the basic monthly salary and (b) the minimum legal retirement benefit under the Labor Code; and
- The updated member account balance funded by (a) voluntary employee contribution and (b) employer matching contribution; and
- Cash equivalent of the accrued and unused vacation and sick leave, if any.

The defined contribution retirement plan has a defined benefit minimum guarantee equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA No. 7641.

The net defined benefit cost and contributions to be paid by the entities within the BPI Group are determined by an independent actuary.

Following are the amounts recognized that relate to the Bank based on the recent actuarial valuation reports:

Defined benefit retirement plan

(a) Pension asset as at December 31 recognized under Other resources in the statement of condition follows:

	2023	2022
Fair value of plan assets	52,201,826	48,311,534
Present value of defined benefit obligation	(16,907,712)	(11,603,395)
Surplus	35,294,114	36,708,139
Effect of the asset ceiling	(4,958,334)	(9,386,143)
Pension asset recognized in the statement of condition	30,335,780	27,321,996

The movements in plan assets for the years ended December 31 are summarized as follows:

	2023	2022
At January 1	48,311,534	52,075,799
Asset return at net interest cost	3,573,461	2,590,444
Contributions	3,858,292	1,247,650
Benefits paid from plan assets	-	(2,926,550)
Remeasurement loss return on plan assets	(3,541,461)	(4,675,809)
At December 31	52,201,826	48,311,534

The carrying value of the plan assets as at December 31, 2023 is equivalent to its fair value of P52 million (2022 - P48 million).

The plan assets at December 31 are comprised of the following:

	2023		2022	
	Amount	%	Amount	%
Debt securities	31,524,060	60%	25,121,998	52%
Equity securities	15,941,446	31%	18,358,383	38%
Others	4,736,320	9%	4,831,153	10%
	52,201,826	100%	48,311,534	100%

The plan assets of the unified retirement plan include investment in BPI's common share with aggregate fair value of P2,413 million at December 31, 2023 (2022 - P489 million). An officer of the Parent Bank exercises the voting rights over the plan's investment in BPI's common shares.

The movements in the present value of defined benefit obligation for the years ended December 31 are summarized as follows:

	2023	2022
At January 1	11,603,395	13,095,439
Current service cost	4,210,788	1,630,094
Past service cost	-	163,696
Interest cost	829,643	645,605
Benefits paid from plan assets	-	(2,926,550)
Remeasurement loss (gain)		
Changes in financial assumptions	1,385,982	(1,129,797)
Changes in demographic assumptions	(5,325,329)	-
Experience adjustments	4,203,233	124,908
At December 31	16,907,712	11,603,395

The Bank has no further transactions with the plan other than the contributions for the years ended December 31, 2023 and 2022.

The retirement benefit expense recognized in the statement of income for the year ended December 31, 2023 amounts to P2,138,079 (2022 - P538,795).

The principal assumptions used for the actuarial valuations of the defined benefit plan of the Bank at December 31 are as follows:

	2023	2022
Discount rate	6.03%	7.15%
Salary increase rate	6.00%	6.00%

Discount rate

The discount rate is determined by reference to PHP Bloomberg Valuation (BVAL) rates and adjusted to reflect the term similar to the estimated term of the benefit obligation as determined by the actuary as at the end of the reporting period as there is no deep market in high quality corporate bonds in the Philippines.

Future salary rate increases

This is the expected long-term average rate of salary increase taking into account inflation, seniority, promotion and other market factors. Salary increases comprise of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period over which benefits are expected to be paid.

Demographic assumptions

Assumptions regarding future mortality and disability experience are based on published statistics generally used for local actuarial valuation purposes.

The defined benefit plan typically exposes the Bank to a number of risks such as investment risk, interest rate risk and salary risk. The most significant of which relate to investment and interest rate risks. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. A decrease in government bond yields will increase the defined benefit obligation although this will also be partially offset by an increase in the value of the plan's fixed income holdings. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the Bank. However, the Bank believes that due to the long-term nature of the pension liability and the strength of the Bank itself, the mix of debt and equity securities holdings of the plan is an appropriate element of the Bank's long term strategy to manage the plan efficiently.

The Bank ensures that the investment positions are managed within an asset-liability matching framework that has been developed to achieve long-term investments that are in line with the obligations under the plan. The Bank's main objective is to match assets to the defined benefit obligation by investing primarily in long-term debt securities with maturities that match the benefit payments as they fall due. The asset-liability matching is being monitored on a regular basis and potential change in investment mix is being discussed with the trustor, as necessary, to better ensure the appropriate asset-liability matching.

The average remaining service life of employees under the BPI unified retirement plan as at December 31, 2023 is 26.9 years (2022 - 27.0 years). The Bank contributes to the plan depending on the suggested funding contribution as calculated by an independent actuary. The expected contributions for the year ending December 31, 2024 for the Bank amount to P7,619,486.

The weighted average duration of the defined benefit obligation as at December 31, 2023 is 7.95 years (2022 - 7.72 years).

The projected maturity analysis of retirement benefit payments as at December 31 is as follows:

	2023	2022
Between 1 to 5 years	1,537,704	1,736,508
Between 5 to 10 years	11,698,734	11,020,253
Between 10 to 15 years	35,993,714	18,841,942
Between 15 to 20 years	81,975,204	40,242,881
Over 20 years	281,070,237	363,372,960

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions follows:

		Impact on defined benefit obligation	
December 31, 2023	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.0%	Decrease by 8.5%	Increase by 7.4%
Salary growth rate	1.0%	Increase by 8.4%	Decrease by 7.4%
		Impact on defined benefit obligation	
December 31, 2022	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.0%	Decrease by 8.2%	Increase by 7.1%
Salary growth rate	1.0%	Increase by 8.2%	Decrease by 7.3%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement benefit obligation recognized within the statement of condition.

Defined contribution retirement plan subject to the requirements of RA No. 7641

	2023	2022
Fair value of plan assets	197,412,281	158,575,093
Present value of defined benefit obligation under RA No. 7641	(22,888,759)	(59,503,334)
Deficit	174,523,522	99,071,759
Effect of asset ceiling	(174,523,522)	(99,071,759)
Pension liability recognized in the statement of condition	-	-

The movements in the present value of the defined benefit obligation for the years ended December 31 follow:

	2023	2022
At January 1	59,503,334	58,008,911
Current service cost	13,937,938	18,282,644
Past service cost	-	4,022,005
Interest cost	4,373,405	2,854,038
Benefits paid from plan assets	(9,181,676)	(7,087,565)
Transfer from plan	(243,104)	-
Remeasurement loss (gain)		
Changes in financial assumptions	3,687,797	(18,480,523)
Changes in demographic assumptions	(55,150,053)	-
Experience adjustments	5,961,118	1,903,824
At December 31	22,888,759	59,503,334

The movements in the fair value of plan assets for the years ended December 31 follow:

	2023	2022
At January 1	158,575,093	141,918,792
Asset return at net interest cost	12,144,159	7,382,608
Contributions	32,931,693	22,699,445
Benefits paid	(9,181,676)	(7,087,565)
Remeasurement gain (loss) - return on plan assets	2,943,012	(6,338,187)
At December 31	197,412,281	158,575,093

Total retirement benefit expense for the year ended December 31, 2023 under the defined contribution plan amounts to P13,478,680 (2022 - P21,904,445).

The principal assumptions used for the actuarial valuation of the defined contribution plan of the Bank at December 31 are as follows:

	2023	2022
Discount rate	6.13%	7.38%
Salary increase rate	6.00%	6.00%

The major categories of plan assets as a percentage of the fair value of total plan assets at December 31 follow:

	2023		2022	
	Amount	%	Amount	%
Debt securities	130,567,145	66%	87,216,301	55%
Equity securities	54,057,360	27%	63,430,037	40%
Others	12,787,776	7%	7,928,755	5%
	197,412,281	100%	158,575,093	100%

The asset allocation of the plan is set and reviewed from time to time by the plan trustees taking into account the membership profile, the liquidity requirements of the plan and risk appetite of the plan sponsor.

Contributions are determined on the plan provisions. The expected contributions of the Bank for the year ending December 31, 2024 amount to P40,167,748.

Critical accounting estimates - Pension liability on defined benefit plan

The Bank estimates its pension benefit obligation and expense for defined benefit pension plans based on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described above and include, among others, the discount rate and future salary increases. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligation.

The present value of the defined benefit obligation of the Bank at December 31, 2023 and 2022 are determined using the market yields on Philippine government bonds with terms consistent with the expected payments of employee benefits. Plan assets are invested in either equity securities, debt securities or other forms of investments. Equity markets may experience volatility, which could affect the value of pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. Actual results that differ from the Bank’s assumptions are reflected as remeasurements in other comprehensive income. The Bank’s assumptions are based on actual historical experience and external data regarding compensation and discount rate trends.

19 Related party transactions

In the ordinary course of business, the Bank has transactions with its directors, officers, stockholders and related interests (DOSRI) and with its Parent Bank such as cash deposit arrangements, purchase of investment securities and outsourcing of certain services, primarily loans operations, branch operations and human resource-related functions.

Significant related party transactions are summarized below:

As at and for the year ended December 31, 2023

	Transactions for the year	Outstanding balance	Terms and conditions
Deposits to:			
Parent Bank	2,298,300,740	3,038,407,772	- These are demand deposits with interest rates ranging from 0.05% to 0.0625%.
Deposits from:			
Fellow subsidiary	-	2,500,000,000	- These are time deposits with interest rates ranging from 6.25% to 6.75%.
Accounts payable:			
Parent Bank	(707,874,412)	61,353,055	- Shared operating costs, occupancy and equipment related costs and office rental - Unsecured, unguaranteed and non-interest bearing - Payable in cash at gross amount and on demand but not later than 12 months from reporting period - Refer to Notes (a), (b) and (c) below

As at and for the year ended December 31, 2022

	Transactions for the year	Outstanding balance	Terms and conditions
Deposits to:			
Parent Bank	(267,624,606)	740,107,032	- These are demand deposits with interest rates ranging from 0.66% to 1.11%.
Deposits from:			
Fellow subsidiary	2,500,000,000	2,500,000,000	- These are time deposits with interest rates ranging from 6.25% to 6.75%.
Accounts payable:			
Parent Bank	310,713,395	769,227,467	- Shared operating costs, occupancy and equipment related costs and office rental - Unsecured, unguaranteed and non-interest bearing - Payable in cash at gross amount and on demand but not later than 12 months from reporting period - Refer to Notes (a), (b) and (c) below

The aggregate amounts included in the determination of income before income tax for the years ended December 31 that resulted from transactions with each class of related parties are as follows:

	Notes	2023	2022
Interest income	2		
Parent Bank		2,230,603	1,082,881
Interest expense			
Fellow subsidiaries		96,572,287	15,941,781
Shared operating costs [Refer to Note (a) below]			
Parent Bank	15	346,745,829	221,749,077
Occupancy and equipment related costs [Refer to Note (b) below]			
Parent Bank		180,089,609	147,186,032
Office rental [Refer to Note (c) below]			
Parent Bank		8,365,990	7,812,673
Other income [Refer to Note (d) below]			
Fellow subsidiaries		4,444,148	2,469,250
Other expense [Refer to Note (e) below]			
Parent Bank		24,234,093	17,687,452
Fellow subsidiaries		28,864,412	32,825,820
		53,098,505	50,513,272
Retirement benefits		847,757	634,820
Salaries, allowances and other short-term benefits			
Key management personnel		10,650,832	10,259,443
Directors' remuneration		750,000	850,000

(a) Shared operating costs

These pertain to the Parent Bank's outsourcing of services relating to anti-money laundering services, accounting and securities administration services, loan operations, treasury operations, human resource-related functions and information systems. Shared operating costs are billed based on rate and terms agreed by the parties. The agreement remains in force unless terminated by the parties.

(b) Occupancy and equipment related costs

These pertain to the Parent Bank's services relating to shared technology costs. It is billed based on rate and terms agreed by the parties. The agreement remains in force unless terminated by the parties.

(c) Office rental

In 2017, the Bank transferred its office premise at BPI Greentop Condominium building, a property of the Parent Bank, for a lease period of 5 years from December 1, 2014 to November 30, 2019. The rent shall increase by 5% yearly starting on the second year and by 7% on the fourth year thereafter. The security deposit in relation to the lease is presented as part of Other resources, net, in the statement of condition. The lease was renewed for another 5 years with the same terms and conditions.

(d) Other income

These pertain to the fees and commission earned by the Bank through offering insurance products of related parties along with its loan products. This is presented as part of Service fee income under Other income in the statement of income.

(e) Other expense

These pertains to reimbursable expenses paid by the Parent Bank and billed to the Bank and insurance payments to related parties. This is presented as part of Other operating expenses in the statement of income.

The Bank has no DOSRI loans and loans to related parties at December 31, 2023 and 2022.

The Bank is in full compliance with the General Banking Act as at December 31, 2023 and 2022.

Personal loans were purchased from the Parent Bank to support unsecured lending system and the core business of the Bank (Note 6).

20 Other commitments and contingent liabilities

As a result of the merger that took place in 2016, the existing lease agreements by BPI Globe BanKo, Inc. prior to the merger was assumed by the Bank effective December 29, 2016. The lease term of the Bank's main office space commenced on December 1, 2014 and ended on November 30, 2019 but was renewed thereafter. Likewise, the branch office spaces have various lease agreements that are renewable under certain terms and conditions. The rent is subject to 5% to 10% escalation rate. This agreement requires the Bank to pay security deposit which is presented at Other resources, net, in the statement of condition.

Lease terms are negotiated either on a collective or individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets cannot be used as security for borrowing purposes.

The balances arising from these leases are presented below:

a) Right-of-use assets and lease liabilities (PFRS 16)

The Bank has recognized right-of-use assets and lease liabilities from its long-term leases.

Details of right-of-use assets and lease liabilities at December 31 are as follows:

	Notes	2023	2022
Right-of-use assets (included in Bank premises, furniture and equipment, net under Building)	7	370,660,241	267,021,068
Lease liabilities (included in Other liabilities)	12		
Current		23,949,031	32,105,608
Non-current		360,182,215	252,310,534
		384,131,246	284,416,142

Additions to the right-of-use assets in 2023 aggregated P241 million (2022 - P179 million) (Note 7).

Movements in lease liabilities for the years ended December 31 are as follows:

	2023	2022
Balance, January 1	284,416,142	238,062,374
Additions during the year		
Lease liabilities on contracts entered	233,461,213	190,499,762
Interest accretion on lease liabilities	23,272,033	17,597,440
Pre-terminated lease	-	(3,880,928)
Payments during the year		
Principal portion of lease liabilities	(133,583,007)	(140,383,071)
Interest on lease liabilities	(23,435,135)	(17,479,435)
Balance, December 31	384,131,246	284,416,142

Total cash outflow for leases in 2023 amounted to P157.02 million (2022 - P157.9 million).

Amounts recognized under Occupancy and equipment-related expenses in the statement of income for the years ended December 31 relating to leases follow:

	2023	2022
Depreciation expense		
Building (Note 7)	137,267,658	123,740,928
Interest expense on lease liabilities	23,272,033	17,597,440
Expenses relating to low-value leases	21,238,000	17,437,212

Critical accounting estimate - Determination of incremental borrowing rate

To determine the incremental borrowing rate, the Bank:
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held which do not have recent third-party financing, and
- makes adjustments specific to the lease, (e.g. term, currency and security).

The Bank's weighted average incremental borrowing rates applied to the lease liabilities range from 3.20% to 7.71% (2022 - 2.97% to 7.71%).

The Bank considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding its lease liabilities.

Critical accounting judgement - Determining the lease term

In determining the lease term, the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

21 Financial risk and capital management

Risk management in the Bank 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 BOD is the Bank's principal risk and capital manager, and the Bank's only strategic risk taker. The BOD provides written policies for overall risk management, as well as written procedures for the management of credit risk, foreign exchange risk, interest rate risk, equity risk, liquidity risk, and contingency risk, among others.

The primary objective of the Bank is the generation of recurring acceptable returns to shareholders' 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 shareholders' 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 most important financial risks that the Bank manages are credit risk, liquidity risk and market risk.

21.1 Credit risk

The Bank 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 risk may also arise due to substantial exposures to a particular counterparty which the Bank manages by adopting proper risk controls and diversification strategies to prevent undue risk concentrations from excessive exposures to particular counterparties, industries, countries or regions.

The most evident source of credit risk is loans and advances; however, other sources of credit risk exist throughout the activities of the Bank, including in credit-related activities recorded in the banking, investment securities in the trading books and off-balance sheet transactions.

21.1.1 Credit risk management

The Credit Policy and Risk Management division of the Parent Bank supports the Credit Committees in coordination with various business lending and operations units in managing credit risk, and reports are regularly provided to the Bank's Senior Management and the BOD. A rigorous control framework is applied in the determination of expected credit loss (ECL) models. The Parent Bank has policies and procedures that govern the calculation of ECL and such policies are consistently being observed by the Bank. All ECL models are regularly reviewed by the Risk Management Office (RMO) to ensure that necessary controls are in place and the models are applied accordingly.

The review and validation are performed by groups that are independent of the team that prepares the calculations, e.g., Risk Models Validation and Internal Auditors. Expert judgements on measurement methodologies and assumptions are reviewed by a group of internal experts from various functions.

The Bank employs a range of policies and practices to mitigate credit risk. The Bank monitors its portfolio based on different segmentation to reflect the acceptable level of diversification and concentration. Credit concentration arises from substantial exposures to particular counterparties. Concentration risk in credit portfolios is inherent in banking and cannot be totally eliminated. However, said risk may be reduced by adopting proper risk control and diversification strategies to prevent undue risk concentrations from excessive exposures to particular counterparties, industries, countries or regions.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subjected to annual or more frequent review, when deemed necessary. Limits on large exposures and credit concentration are approved by the BOD through the Risk Management Committee (RMC).

The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored regularly.

Settlement risk arises in any situation where a payment in cash, securities, foreign exchange currencies, or equities is made in the expectation of a corresponding receipt in cash, securities, foreign exchange currencies, or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day. For certain securities, the introduction of the delivery versus payment facility in the local market has brought down settlement risk significantly.

The Bank employs a range of policies and practices to mitigate credit risk. Some of these specific control and risk mitigation measures include collateral or guarantees.

Collateral or guarantees

One of the most traditional and common practice in mitigating credit risk is requiring security particularly for loans and advances. The Bank implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The Bank assesses the valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The common collateral types for loans and advances are:

- Mortgages over physical properties (e.g., real estate and personal) and
- Mortgages over financial assets (e.g., guarantees).

In order to minimize credit loss, the Bank seeks additional collateral from the counterparty when impairment indicators are observed for the relevant individual loans and advances.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collaterals held by the Bank since the prior period.

21.1.2 Credit risk rating

The Bank uses internal credit risk gradings that reflect its assessment of the probability of default (PD) of individual counterparties. The Bank uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. In addition, the models enable expert judgement from the Credit Review Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The Bank has put in place a credit classification system to promptly identify deteriorating exposures and to determine the appropriate credit losses. Classification is being done on the basis of the Bank's existing internal credit risk rating system, credit models or determined using reputable external rating agencies. The following are the considerations observed by the Bank in classifying its exposures:

- *Standard monitoring* refers to accounts which do not have a greater-than-normal risk and do not possess the characteristics of special monitoring and defaulted loans. The counterparty has the ability to satisfy the obligation in full and therefore minimal loss, if any, is anticipated.

- *Special monitoring* are accounts which need closer and frequent monitoring to prevent any further deterioration of the credit. The counterparty is assessed to be vulnerable to highly vulnerable and its capacity to meet its financial obligations is dependent upon favorable business, financial, and economic conditions.

- *Default* refers to accounts which exhibit probable to severe weaknesses wherein possibility of non-repayment of loan obligation is ranging from high to extremely high severity.

The mapping of internal credit risk ratings with the Bank's standard account classification is shown below:

(a) Loans and advances

The Bank's internal credit risk rating system comprises a 30-scale rating with eighteen (18) 'pass' rating levels for large corporate accounts; and 14-scale rating system with ten (10) 'pass' rating grades for loans mapped based on reputable external rating agency.

The Bank uses automated scoring models to assess the level of risk for retail accounts. Behavioral indicators are considered in conjunction with other forward-looking information (e.g., industry forecast) to assess the level of risk of a financial asset. After the date of initial recognition, the payment behavior of the borrower is monitored on a periodic basis to develop a behavioral score which is mapped to a PD.

Self-Employed Micro-Entrepreneur (SEME) Loans

Loans for SEME is the core business of BanKo. The SEME Loans are typically in small denominations, loan amount ranges from P25,000 to P500,000 per borrower. Credit policies are in place for a standard process and management of loans. The loan evaluation and approval process is decentralized in branches. The Branch Manager has the primary responsibility of branch performance and ensures proper and complete documentation prior to loan release.

The borrower is evaluated using a SEME credit scorecard and passes thru the credit evaluation and approval process to mitigate credit risk.

In 2023, the Bank updated the default definition for SEME loan portfolio from 7 days to 10 days in line with the amended cure period from 7 days to 10 days in 2022 as a result of the Cure Period Analysis study conducted by the BPI Group's Enterprise Risk Stress Testing Department of the RMO, taking into account the changes in the BPI Group's collection activities and impact of the Coronavirus pandemic to the borrowers.

Classifications	**PL, Auto, Housing**	**Self-employed and microentrepreneurs**
Standard monitoring	Current to 30 dpd	Current to 10 dpd
Special monitoring	31-90 dpd	>10 days
Default	>90, IL, Loss	>10 days

(b) Treasury and debt securities

Investments in high grade securities are viewed as a way to gain better credit quality mix and at the same time, maintain a readily available source to meet funding requirements. The level of credit risk for treasury and other investment debt securities and their associated PD are determined using reputable external ratings and/or available and reliable qualitative and quantitative information. In the absence of credit ratings, a comparable issuer or guarantor rating is used. Should there be a change in the credit rating of the chosen comparable, evaluation is made to ascertain whether the rating change is applicable to the security being assessed for impairment.

Classifications	**Credit Risk Grade following S&P or its equivalent**
Standard monitoring	Investment Grade (AAA to BBB-)
Special monitoring	Non-Investment Grade (BB+ to C)
Default	Default (D)

(c) Other financial assets

For other financial assets (accounts receivable and rental deposits), the Bank applies the simplified approach, as permitted by PFRS 9, in measuring ECL which uses a lifetime ECL methodology. These financial assets are grouped based on shared risk characteristics and aging profile. For some of these, impairment is assessed individually at a counterparty level.

21.1.3 Maximum exposure to credit risk

The following tables contain an analysis of the credit risk exposure of each financial instrument for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets at December 31.

Credit quality of loans and advances, net

	2023			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	27,252,522,495	56,780,613	-	27,309,303,108
Special monitoring	773,848	419,561,115	-	420,334,963
Default	-	-	2,554,917,175	2,554,917,175
Gross carrying amount	27,253,296,343	476,341,728	2,554,917,175	30,284,555,246
Loss allowance	(744,334,608)	(12,867,801)	(1,831,015,950)	(2,588,218,359)
Carrying amount	26,508,961,735	463,473,927	723,901,225	27,696,336,887

	2022			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	15,485,282,890	65,390,924	-	15,550,673,814
Special monitoring	579,435	170,832,187	-	171,411,622
Default	-	-	1,856,259,904	1,856,259,904
Gross carrying amount	15,485,862,325	236,223,111	1,856,259,904	17,578,345,340
Loss allowance	(528,110,991)	(7,088,513)	(1,364,010,949)	(1,899,210,453)
Carrying amount	14,957,751,334	229,134,598	492,248,955	15,679,134,887

Treasury and other investment securities

Credit risk exposures relating to treasury and other investment securities at December 31 are as follows:

	2023	2022
Due from other banks	3,218,312,911	767,097,024
Interbank loans receivable and SPAR	3,196,962,969	135,594,884
Due from BSP	7,372,891,154	4,334,661,084
	13,788,167,034	5,237,352,992

Credit quality of treasury and other investment securities

	2023			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring				
Due from other banks	3,218,312,911	-	-	3,218,312,911
Interbank loans receivable and SPAR	3,196,962,969	-	-	3,196,962,969
Due from BSP	7,372,891,154	-	-	7,372,891,154
Gross carrying amount	13,788,167,034	-	-	13,788,167,034
Loss allowance	-	-	-	-
Carrying amount	13,788,167,034	-	-	13,788,167,034

	2022			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring				
Due from other banks	767,097,024	-	-	767,097,024
Interbank loans receivable and SPAR	135,594,884	-	-	135,594,884
Due from BSP	4,334,661,084	-	-	4,334,661,084
Gross carrying amount	5,237,352,992	-	-	5,237,352,992
Loss allowance	-	-	-	-
Carrying amount	5,237,352,992	-	-	5,237,352,992

Credit quality of other financial assets

Credit risk exposures relating to other financial assets at December 31 are as follows:

	2023	2022
Accounts receivable, net	10,090,433	7,335,659
Rental deposits	36,630,073	33,383,616
Injunction bond	155,920,192	44,111,052
Accrued interest receivable	5,547,365	1,528,191
	208,188,063	86,358,518

The Bank's other financial assets generally arise from transactions with various unrated counterparties with good credit standing. The Bank applies the simplified approach, as permitted by PFRS 9, in measuring ECL which uses a lifetime expected loss methodology for other financial assets.

To measure the ECL, 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 other financial assets over a period of 36 months and corresponding historical credit losses experienced within the said period. The impact of forward-looking variables on macroeconomic factors is considered insignificant in calculating ECL provisions for other financial assets.

Critical accounting estimate - Measurement of the ECL allowance

The measurement of the ECL for loans and advances is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Forward-looking scenarios

Three distinct macroeconomic scenarios (baseline, upside and downside) are considered in the Bank's estimation of ECL in Stage 1 and Stage 2. These scenarios are based on assumptions supported by economic theories and historical experience. The downside scenario reflects a negative macroeconomic event occurring within the first 12 months, with conditions deteriorating for up to two years, followed by a recovery for the remainder of the period. This scenario is grounded in historical experience and assumes a monetary policy response that returns the economy to a long-run, sustainable growth rate within the forecast period. The probability of each scenario is determined using expert judgment and recession probability tools provided by reputable external service providers. The baseline case incorporates the Bank's outlook for the domestic and global economy. The best and worst case scenarios take into account certain adjustments that will lead to a more positive or negative economic outcome.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes is likewise considered, if material.

The Bank has performed historical analyses and identified the key economic variables impacting credit risk and ECL for each portfolio. The most significant period-end assumptions used for the ECL estimate at December 31 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

2023

	Base Scenario		Upside Scenario		Downside Scenario	
	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)
Real GDP growth (%)	6.2	6.3	7.3	7.9	1.9	1.0
Inflation Rate (%)	3.7	2.8	3.4	2.1	6.5	9.2
PDST-R2 5Y (%)	6.1	5.3	4.9	3.4	7.8	10.1
US Treasury 5Y (%)	4.6	4.0	3.5	2.1	6.4	8.8
Exchange Rate	54.33	57.33	53.46	55.65	55.65	67.66

2022

	Base Scenario		Upside Scenario		Downside Scenario	
	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)
Real GDP growth (%)	5.5	5.1	6.7	6.8	4.3	3.4
Inflation Rate (%)	3.9	2.8	2.9	1.5	5.0	4.0
PDST-R2 5Y (%)	7.3	5.8	5.1	3.2	9.4	8.4
US Treasury 5Y (%)	5.5	4.2	3.4	1.5	7.6	6.8
Exchange Rate	56.73	56.55	56.38	53.16	57.07	60.15

Sensitivity analysis

The Bank's loan portfolio has different sensitivities to movements in macroeconomic variables (MEVs), so the above three scenarios have varying impact on the ECL of the Bank's portfolio. The allowance for impairment is calculated as the weighted average of ECL under the baseline, upside and downside scenarios. The impact of weighting these multiple scenarios was an increase in the allowance for impairment by P2.6090 million from the baseline scenario as at December 31, 2023 (2022 - P0.0047 million).

Transfers between stages

Transfers from Stage 1 and Stage 2 are based on the assessment of SICR from initial recognition. The impact of moving from 12 months ECL to lifetime ECL, or vice versa, varies by product and is dependent on the expected remaining life at the date of the transfer. Stage transfers may result in significant fluctuations in ECL. Assuming all Stage 2 accounts are considered as Stage 1, allowance for impairment would have decreased by P2.43 million as at December 31, 2023 (2022 - P1.81 million).

21.1.4 Credit impaired loans and advances

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held at December 31 in order to mitigate potential losses are shown below:

	2023			2022		
	Gross exposure	Impairment allowance	Carrying amount	Gross exposure	Impairment allowance	Carrying amount
Credit-impaired assets						
Corporate entities	-	-	-	50,000,000	(50,000,000)	-
Retail customers	2,554,917,175	(1,831,015,950)	723,901,225	1,806,259,904	(1,314,010,949)	492,248,955
Total credit-impaired assets	2,554,917,175	(1,831,015,950)	723,901,225	1,856,259,904	(1,364,010,949)	492,248,955
Fair value of collateral	58,534,516			114,072,466		

As at December 31, 2023, the Bank acquired assets by taking possession of collaterals held as security for loans and advances with carrying amount of P68,525,646 (2022 - P 77,880,288). The related foreclosed collaterals at December 31, 2023 have aggregate fair value of P156,519,768 (2022 - P155,521,616).

As at December 31, 2023 and 2022, the allowance for impairment of foreclosed collateral amounts to P4,159,967. Foreclosed collaterals include real estate (land, building, and improvements) and chattel.

Repossessed properties are sold as soon as practicable and are classified as assets held for sale in the statement of condition.

21.1.5 Loss allowance

The loss allowance recognized in the period is affected by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in PDs, Exposure at Default (EAD) and Loss Given Default (LGD) in the period;
- Impact on the measurement of ECL due to changes made to models and assumptions;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

The following table summarizes the changes in the loss allowance for loans and advances between the beginning and the end of the annual period.

For the year ended December 31, 2023

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance, beginning	537,015,472	7,088,513	1,355,106,468	1,899,210,453
Provision for impairment for the year				
Transfers:				
Transfer in (out of) Stage 1	(790,044,291)	11,443,943	1,254,246,126	475,645,778
Transfer in (out of) Stage 2	300,418	(46,462,844)	83,741,347	37,578,921
Transfer in (out of) Stage 3	263,859	437,455	(13,921,916)	(13,220,602)
New financial assets originated	1,218,637,883	-	-	1,218,637,883
Financial assets derecognized during the year	(283,212,041)	(1,148,745)	(86,923,080)	(371,283,866)
Changes in assumptions and other movements in provision	68,942,267	41,564,637	318,435,675	428,942,579
	214,888,095	5,834,446	1,555,578,152	1,776,300,693
Write-offs and other movements	(7,568,959)	(55,158)	(1,079,668,670)	(1,087,292,787)
Loss allowance, ending	744,334,608	12,867,801	1,831,015,950	2,588,218,359

For the year ended December 31, 2022

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance, beginning	413,613,074	10,578,351	1,463,855,956	1,888,047,381
Provision for impairment for the year				
Transfers:				
Transfer in (out of) Stage 1	(395,113,286)	4,708,841	660,281,397	269,876,952
Transfer in (out of) Stage 2	721,708	(33,472,370)	46,388,601	13,637,939
Transfer in (out of) Stage 3	1,048,843	472,798	(16,486,704)	(14,965,063)
New financial assets originated	714,490,301	-	-	714,490,301
Financial assets derecognized during the year	(238,989,657)	(1,143,426)	(104,255,590)	(344,388,673)
Changes in assumptions and other movements in provision	42,172,486	25,943,012	(9,920,765)	58,194,733
	124,330,395	(3,491,145)	576,006,939	696,846,189
Write-offs and other movements	(9,832,478)	1,307	(675,851,946)	(685,683,117)
Loss allowance, ending	528,110,991	7,088,513	1,364,010,949	1,899,210,453

No movement analysis of allowance for impairment for other financial assets subject to impairment as the related loss allowance is deemed insignificant for financial reporting purposes.

Write-off policy

The Bank writes off financial assets when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Bank may write-off financial assets that are still subject to enforcement activity. The write-off of loans is approved by the Board of Directors in compliance with the BSP requirements. Loans written-off in 2023 and 2022 are fully covered with allowance.

21.1.6 Concentration of financial assets with credit exposure

The Bank's main credit exposures based on carrying amounts and categorized by industry sectors are summarized below:

	Financial institutions	Manufacturing	Business services and real estate	Others	Less - Allowance	Total
At December 31, 2023						
Due from other banks	3,218,312,911	-	-	-	-	3,218,312,911
Interbank loans receivable and SPAR	-	-	-	3,196,962,969	-	3,196,962,969
Due from BSP	-	-	-	7,372,891,154	-	7,372,891,154
Loans and advances, net	11,203,291	679,964,456	1,235,457,054	28,357,930,445	(2,588,218,359)	27,696,336,887
Other resources, net	-	-	-	236,342,561	(28,154,498)	208,188,063
	3,229,516,202	679,964,456	1,235,457,054	39,164,127,129	(2,616,372,857)	41,692,691,984

	Financial institutions	Manufacturing	Business services and real estate	Others	Less - Allowance	Total
At December 31, 2022						
Due from other banks	767,097,024	-	-	-	-	767,097,024
Interbank loans receivable and SPAR	-	-	-	135,594,884	-	135,594,884
Due from BSP	-	-	-	4,334,661,084	-	4,334,661,084
Loans and advances, net	66,263,112	489,299,468	1,298,628,773	15,724,153,987	(1,899,210,453)	15,679,134,887
Other resources, net	-	-	-	101,980,947	(15,622,429)	86,358,518
	833,360,136	489,299,468	1,298,628,773	20,296,390,902	(1,914,832,882)	21,002,846,397

21.1.7 Provision for credit and impairment losses

The Bank's provision for credit and impairment losses are attributable to the following accounts:

	Notes	2023	2022
Loans and advances	6	1,776,300,693	696,846,189
Other resources	9	13,988,955	4,491,488
Assets held for sale		455,399	1,018,555
		1,790,745,047	702,356,232

21.2 Market Risks

The Bank 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 is managed by the RMO who directly reports to the Risk Management Committee of the Board.

Market risk management is incumbent on the BOD through its Risk Management Committee. Market risk management in the Bank covers managing exposures to trading risk, foreign exchange risk, counterparty credit risk, interest rate risk of the banking book and liquidity risk. At the management level, the Bank's market risk exposure is managed by RMO, headed by the Company Risk Officer who reports directly to the BPI Chief Risk Officer and BanKo Risk Management Committee. In addition, Internal Audit is responsible for the independent review of risk assessment measures and procedures and the control environment.

The Bank reviews and controls market risk exposures of both its trading and non-trading portfolios. Trading portfolios include those positions arising from the Bank's market-making transactions. Non-trading portfolios primarily arise from the interest rate management of the Bank's retail and commercial banking assets and liabilities.

Value-at-Risk (VaR) measurement is an integral part of the Bank's market risk control system. This metric estimates, at 99% confidence level, the maximum loss that a trading portfolio may incur over a trading day. This metric indicates as well that there is 1% statistical probability that the trading portfolios' actual loss would be greater than the computed VaR. In order to ensure model soundness, the VaR is periodically subject to model validation and back testing. VaR is supplemented by other risk metrics and measurements that would provide preliminary signals to Treasury and to the management to assess the vulnerability of Bank's positions. To control the risk, the RMC sets risk limits for trading portfolios which are consistent with the Bank's goals, objectives, risk appetite, and strategy.

Stress tests indicate the potential losses that could arise in extreme conditions that would have detrimental effect to the Bank's positions. The Bank periodically performs stress testing (price risk and liquidity risk) to assess the Bank's condition on assumed stress scenarios. Contingency plans are frequently reviewed to ensure the Bank's preparedness in the event of real stress. Results of stress tests are reviewed by senior management and by the RMC.

The average daily VaR for the trading portfolios in 2023 is at P814,125 (2022 - P501,054).

21.2.1 Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in foreign exchange rates. It arises on financial instruments that are denominated in a foreign currency other than the functional currency which they are measured.

The Bank takes on exposure to the effects of fluctuations in the prevailing exchange rates on its foreign currency financial position and cash flows. The table below summarizes the Bank's exposure to foreign currency exchange rate risk relative to its financial assets and liabilities denominated in United States Dollar (US Dollar) at December 31.

	2023	2022
Financial assets		
Due from other banks	168,442,075	196,509,221
Other resources	131,791	145,082
	168,573,866	196,654,303
Financial liabilities		
Deposit liabilities	145,504,618	174,735,563
Accrued interest	126,075	-
	145,630,693	174,735,563
Net foreign exchange exposure	22,943,173	21,918,740

At December 31, 2023, if the Philippine Peso had strengthened by 1% (2022 - 5%) against the US Dollar based on historical information in the last five years with all other variables held constant, net income as at and for the year ended December 31, 2023 would have been P172,074 higher/lower (2022 - P821,953 higher/lower), mainly as a result of foreign exchange gains/losses on translation of US Dollar-denominated deposits with other banks and deposit liabilities.

21.2.2 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 takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may also result in losses in the event that unexpected movements arise.

The BOD sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the RMO.

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.

	Up to 1 year	Over 1 year and up to 3 years	Over 3 years	Non-repricing	Total
As at December 31, 2023					
Financial assets					
Cash and other cash items	-	-	-	386,079,377	386,079,377
Due from other banks	-	-	-	3,218,312,911	3,218,312,911
Interbank loans receivable and SPAR	-	-	-	3,196,962,969	3,196,962,969
Due from BSP	-	-	-	7,372,891,154	7,372,891,154
Loans and advances, net	227,763,089	338,584,348	572,835,624	29,145,372,184	30,284,555,245
Other resources, net	-	-	-	208,188,063	208,188,063
Total financial assets	227,763,089	338,584,348	572,835,624	43,527,806,658	44,666,989,719
Financial liabilities					
Deposit liabilities	28,083,183,067	2,771,532,006	4,157,298,008	-	35,012,013,081
Accrued interest and other expenses	-	-	-	695,323,467	695,323,467
Other liabilities	-	-	-	1,997,778,254	1,997,778,254
Total financial liabilities	28,083,183,067	2,771,532,006	4,157,298,008	2,693,101,721	37,705,114,802
Total interest gap	(27,855,419,978)	(2,432,947,658)	(3,584,462,384)	40,834,704,937	6,961,874,917

	Up to 1 year	Over 1 year and up to 3 years	Over 3 years	Non-repricing	Total
As at December 31, 2022					
Financial assets					
Cash and other cash items	-	-	-	250,147,358	250,147,358
Due from other banks	-	-	-	767,097,024	767,097,024
Interbank loans receivable and SPAR	-	-	-	135,594,884	135,594,884
Due from BSP	-	-	-	4,334,661,084	4,334,661,084
Loans and advances, net	896,170,539	407,150,205	66,994,536	16,208,030,060	17,578,345,340
Other resources, net	-	-	-	86,358,518	86,358,518
Total financial assets	896,170,539	407,150,205	66,994,536	21,781,888,928	23,152,204,208
Financial liabilities					
Deposit liabilities	10,404,759,764	2,555,072,664	3,832,608,996	-	16,792,441,424
Accrued interest and other expenses	-	-	-	174,508,037	174,508,037
Other liabilities	-	-	-	1,090,003,358	1,090,003,358
Total financial liabilities	10,404,759,764	2,555,072,664	3,832,608,996	1,264,511,395	18,056,952,819
Total interest gap	(9,508,589,225)	(2,147,922,459)	(3,765,614,460)	20,517,377,533	5,095,251,389

The Bank uses a simple version of the Balance Sheet VaR (BSVaR) whereby only the principal and interest payments due and relating to the banking book as at particular valuation dates are considered. The BSVaR assumes a static balance sheet, i.e., it is assumed that there will be no new transactions moving forward, and no portfolio rebalancing will be undertaken in response to future changes in market rates.

The BSVaR is founded on re-pricing gaps, or the difference between the amounts of rate sensitive assets and the amounts of rate sensitive liabilities. An asset or liability is considered to be rate-sensitive if the interest rate applied to the outstanding principal balance changes (either contractually or because of a change in a reference rate) during the interval.

The BSVaR estimates the “riskiness of the balance sheet” and compares the degree of risk-taking activity in the banking books from one period to the next. In consideration of the static framework, and the fact that income from the positions is accrued rather than generated from marking-to-market, the probable loss (that may be exceeded 1% of the time) that is indicated by the BSVaR is not realized in accounting income.

The cumulative BSVaR for the banking or non-trading book in 2023 amounts to P500,482,183
(2022 - P197,000,000).

21.3 Liquidity risk

Liquidity risk is the risk that the Bank 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 profile is observed and monitored through its metric, the Minimum Cumulative Liquidity Gap (MCLG). The MCLG is the smallest net cumulative cash inflow (if positive) or the largest net cumulative cash outflow (if negative) over the next three (3) months. The MCLG indicates the biggest funding requirement in the short term and the degree of liquidity risk present in the current cash flow profile of the Bank. The MCLG is computed monthly and reported in the RMC meetings. A red flag is immediately raised and reported to management and the RMC when the MCLG level projected over the next 3 months breaches the RMC prescribed MCLG limit.

21.3.1 Liquidity risk management process

The Bank’s liquidity management process, as carried out within the Bank and monitored by the RMC and the RMO 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 day, week and month 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.

The Bank also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities (if any).

Liquidity Coverage Ratio (LCR)

Pursuant to 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 and retail deposits 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 sheet 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 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

21.3.2 Funding approach

Sources of liquidity are regularly reviewed by the Bank to maintain a wide diversification by currency, geography, counterparty, product and term.

21.3.3 Non-derivative cash flows

The table below presents the maturity profile of non-derivative financial instruments at December 31 based on undiscounted cash flows, including interest, which the Bank uses to manage the inherent liquidity risk. The analysis takes into account the maturity grouping based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date the financial asset will be realized or the financial liability will be settled.

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2023				
Financial assets				
Cash and other cash items	386,079,377	-	-	386,079,377
Due from other banks	3,218,312,911	-	-	3,218,312,911
Interbank loans receivable and SPAR	3,197,076,366	-	-	3,197,076,366
Due from BSP	7,382,215,154	-	-	7,382,215,154
Loans and advances	13,111,635,872	19,522,573,552	2,094,880,481	34,729,089,905
Other resources	208,188,063	-	-	208,188,063
Total financial assets	27,503,507,743	19,522,573,552	2,094,880,481	49,120,961,776
Financial liabilities				
Deposit liabilities	28,896,069,096	2,775,002,560	4,162,533,841	35,833,605,497
Accrued interest and other expense	695,323,467	-	-	695,323,467
Other liabilities including lease liabilities	1,742,253,824	202,672,058	101,442,603	2,046,368,485
Total financial liabilities	31,333,646,387	2,977,674,618	4,263,976,444	38,575,297,449
Total maturity gap	(3,830,138,644)	16,544,898,934	(2,169,095,963)	10,545,664,327

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2022				
Financial assets				
Cash and other cash items	250,147,358	-	-	250,147,358
Due from other banks	767,097,024	-	-	767,097,024
Interbank loans receivable and SPAR	135,636,303	-	-	135,636,303
Due from BSP	4,339,307,333	-	-	4,339,307,333
Loans and advances	15,033,386,856	9,769,289,208	1,511,773,339	26,314,449,403
Other resources	86,358,518	-	-	86,358,518
Total financial assets	20,611,933,392	9,769,289,208	1,511,773,339	31,892,995,939
Financial liabilities				
Deposit liabilities	10,436,637,856	2,557,618,185	3,836,427,278	16,830,683,319
Accrued interest and other expense	174,508,037	-	-	174,508,037
Other liabilities including lease liabilities	941,998,239	231,603,480	201,117,997	1,374,719,716
Total financial liabilities	11,553,144,132	2,789,221,665	4,037,545,275	18,379,911,072
Total maturity gap	9,058,789,260	6,980,067,543	(2,525,771,936)	13,513,084,867

The maturity gap is being managed through the minimum cumulative liquidity gap.

21.4 Fair values of financial assets and liabilities

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities at December 31 not presented in the statement of condition at fair value.

	Carrying value		Fair value	
	2023	2022	2023	2022
Financial assets				
Cash and other cash items	386,079,377	250,147,358	386,079,377	250,147,358
Due from other banks	3,218,312,911	767,097,024	3,218,312,911	767,097,024
Interbank loans receivable and SPAR	3,196,962,969	135,594,884	3,196,962,969	135,594,884
Due from BSP	7,372,891,154	4,334,661,084	7,372,891,154	4,334,661,084
Loans and advances, net	27,696,336,887	15,679,134,887	30,284,555,245	17,578,345,341
Other resources, net	208,188,063	86,358,518	208,188,063	86,358,518
Financial liabilities				
Deposit liabilities	35,012,013,081	16,792,441,424	34,538,730,553	16,716,773,392
Accrued interest and other expenses	695,323,467	174,508,037	695,323,467	174,508,037
Other liabilities	1,997,778,254	1,090,003,358	1,997,778,254	1,090,003,358

Cash and other cash items, due from BSP and other banks, and interbank loans receivable and SPAR

The fair value of floating rate placements and overnight deposits approximates their carrying amounts. 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. All of these financial assets have a maturity of one year, thus their fair values approximate their carrying amounts.

Loans and advances

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted with the use of assumptions regarding appropriate credit spread for the loan, derived from other market instruments.

Financial liabilities

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Other resources and other liabilities

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

Critical accounting estimate - Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using generally accepted valuation techniques. Where valuation techniques (for example, discounted cash flow models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Inputs used in these models are from observable data and quoted market prices in respect of similar financial instruments.

All models are approved by the BOD before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Changes in assumptions about these factors could affect reported fair value of financial instruments.

The Bank considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of financial instruments that are not quoted in active markets.

21.4.1 Fair value hierarchy

The following table presents the fair value hierarchy of the Bank's financial assets and liabilities at December 31:

	Fair value		
2023	Level 1	Level 2	Total
Recurring measurements			
Financial asset at FVOCI			
Equity security	7,548	-	7,548
	7,548	-	7,548

Non-recurring measurements			
Assets held for sale, net	-	68,525,646	68,525,646

	Fair value		
2023	Level 1	Level 2	Total
Financial assets			
Cash and other cash items	-	386,079,377	386,079,377
Due from other banks	-	3,218,312,911	3,218,312,911
Interbank loans receivable and SPAR	-	3,196,962,969	3,196,962,969
Due from BSP	-	7,372,891,154	7,372,891,154
Loans and advances, net	-	30,284,555,245	30,284,555,245
Other resources, net	-	208,188,063	208,188,063
Financial liabilities			
Deposit liabilities	-	35,012,013,081	35,012,013,081
Accrued interest and other expenses	-	695,323,467	695,323,467
Other liabilities	-	1,997,778,254	1,997,778,254

	Fair value		
2022	Level 1	Level 2	Total
Recurring measurements			
Financial asset at FVOCI			
Equity security	14,939	-	14,939
	14,939	-	14,939

Non-recurring measurements			
Assets held for sale, net	-	77,880,288	77,880,288

	Fair value		
2022	Level 1	Level 2	Total
Financial assets			
Cash and other cash items	-	250,147,358	250,147,358
Due from other banks	-	767,097,024	767,097,024
Interbank loans receivable and SPAR	-	135,594,884	135,594,884
Due from BSP	-	4,334,661,084	4,334,661,084
Loans and advances, net	-	17,578,345,341	17,578,345,341
Other resources, net	-	86,358,518	86,358,518
Financial liabilities			
Deposit liabilities	-	16,792,441,424	16,792,441,424
Accrued interest and other expenses	-	174,508,037	174,508,037
Other liabilities	-	1,090,003,358	1,090,003,358

There are no transfers between the fair value hierarchy above for the years ended December 31, 2023 and 2022.

22 Capital management

Capital management is understood to be a facet of risk management. 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 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 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.

23 Summary of material accounting policies

The material information of the principal accounting policies applied in the preparation of the Bank's financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

23.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). The term PFRSs in general includes all applicable PFRSs, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial and Sustainability Reporting Standards Council (FSRSC) and adopted by the SEC.

The financial statements comprise the statement of condition, statement of income and statement of comprehensive income shown as two statements, statement of changes in capital funds, the statement of cash flows and the notes.

These financial statements of the Bank have been prepared under the historical cost convention, as modified by the revaluation of investment security at FVOCI and plan assets of the Bank's pension plans measured at fair value.

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 financial statements therefore fairly present the financial position and results of the Bank. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are shown below:

Critical accounting estimates
- Measurement of expected credit losses for loans and advances (Note 21.1.3)
- Fair value of financial instruments (Note 21.6)
- Pension liability on defined benefit obligation (Note 18)
- Valuation of assets held for sale
- Useful lives of bank premises, furniture, fixtures and equipment (Note 7)
- Determination of incremental borrowing rate (Note 20)

Critical accounting judgments
- Realization of deferred income tax assets (Note 8)
- Determining the lease term (Note 20)
- Classification of assets held for sale

23.1.1 Changes in accounting policy and disclosures

(a) Amendments to existing standards adopted by the Bank

The Bank 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 22 series.

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

23.2 Financial assets

23.2.1 Classification

Th Bank 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 in OCI. For investments in equity instruments that are not held for trading, this will depend on whether Bank has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes.

In the determination of the business model, the Bank considers its past experience on how the cash flows for these assets were collected, how the assets' performance are evaluated and how risks are assessed and managed.

23.2.2 Recognition

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.

23.2.3 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 SPPI, and that are not designated at fair value through profit or loss (FVTPL), are measured at amortized cost. The carrying amount of these assets is adjusted by any ECL allowance recognized and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Financial assets at amortized cost at December 31, 2023 and 2022 include cash and other cash items, due from BSP, due from other banks, interbank loans receivables and SPAR, loans and advances, and other resources.

Cash and cash equivalents consist of cash and other cash items, due from BSP and other banks and interbank loans receivable and SPAR with maturities of less than three months from the date of acquisition and that are subject to insignificant risk of changes in value.

Securities sold subject to repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method. Securities purchased under agreements to resell are recorded as loans and advances to other banks and customers and included in the statement of condition under "Interbank loans receivable and securities under agreement to resell." Securities lent to counterparties are also retained in the financial statements.

Business model: The business model reflects how the Bank 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 fair value through profit or loss. Factors considered by the Bank 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 assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. 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 FVTPL.

The Bank 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.

Equity instruments

The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, even on disposal. Impairment losses and reversal of impairment losses, if any, are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Bank's right to receive payments is established.

The Bank's investment in a listed equity security at December 31, 2023 and 2022 is measured at FVOCI.

23.2.4 Impairment of financial assets at FVOCI and at amortized cost

The Bank assesses impairment as follows:

- individually for loans that exceed specified thresholds - where there is an objective evidence of impairment, individually assessed provisions will be recognized; and
- collectively for loans below the specified thresholds noted above or if there is no objective evidence of impairment. These loans are included in a group of loans with similar risk characteristics and collectively assessed for impairment. If there is objective evidence that the group of loans is collectively impaired, collectively assessed provisions will be recognized.

The Bank assesses on a forward-looking basis the ECL associated with its debt instruments carried at amortized cost and FVOCI and with the exposure arising from loan commitments. The Bank 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.

PFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Bank.
- If a SICR since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired. The Bank determines SICR based on prescribed benchmarks approved by the Board of the Directors.
- If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on ECL on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with PFRS 9 is that it should consider forward-looking information.

The Bank assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI. The Bank recognizes a loss allowance for such losses at each reporting date.

The following diagram summarizes the impairment requirements under PFRS 9 (other than purchased originated credit-impaired financial assets):

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

For ECL provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

Determination of SICR

The Bank compares the probabilities of default occurring over its expected life as at the reporting date with the probability of default occurring over its expected life on the date of initial recognition to determine significant increase in credit risk. Since comparison is made between forward-looking information at reporting date against initial recognition, the deterioration in credit risk may be triggered by the following factors:

- substantial deterioration in credit quality as measured by the applicable internal or external ratings, credit score or shift from investment grade category to non-investment grade category;
- adverse changes in business, financial and/or economic conditions of the borrower;
- early warning signs of worsening credit where the ability of the counterparty to honor his obligation is dependent upon favorable business or economic condition;
- the account has become past due beyond 30 days where an account is classified under special monitoring category; and
- expert judgment for the other quantitative and qualitative factors which may result to SICR as defined by the Bank.

Measuring ECL - Inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECLs are the discounted product of the PD, EAD and LGD, defined as follows:

- The PD represents the likelihood that the borrower will default (as per “Definition of default and credit-impaired” above), either over the next 12 months (12M PD), or over the remaining life (lifetime PD) of the asset.

- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining life (lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

  The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

  - For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.
  - For committed credit lines, the exposure at default is predicted by taking current drawn balance and adding a “credit conversion factor” which allows for the expected drawdown of the remaining limit by the time of default.

- LGD represents the Bank’s expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

  The LGDs are determined based on the factors which impact the recoveries made post-default.

  - For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
  - For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies and historical recoveries.

The ECL is determined by multiplying the PD, LGD and EAD together for each individual exposure or collective segment. This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the life of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band.

Forward-looking economic information is also included in determining the 12-month and lifetime PD. These assumptions vary by product type.

The assumptions underlying the ECL calculation such as how the maturity profile of the PDs and how collateral values change are monitored and reviewed regularly.

The Bank's forward-looking, point-in-time PD models are driven by internal forecasts of MEVs over the next five years. These models were previously recalibrated annually, but in view of the COVID-19 pandemic, more frequent review and update of these models were conducted starting April 2020 as MEV forecasts were revised quarterly in response to changing macroeconomic conditions. Furthermore, the pandemic was expected to dampen demand for auto and real estate collaterals and thus decrease market prices, so appropriate haircuts were applied on estimated recoveries from collaterals. These haircuts, however, did not increase the Bank's LGD as these were offset by the Bank's favorable collection experience.

Forward-looking information incorporated in the ECL models

The Bank incorporates historical and current information, and forecasts forward-looking events and key economic variables that are assessed to impact credit risk and ECL for each portfolio. Macroeconomic variables that affect a specific portfolio's non-performing loan rate(s) are determined through statistical modelling and the application of expert judgement. The Bank's economics team establishes possible global and domestic economic scenarios. With the use of economic theories and conventions, expert judgement and external forecasts, the economics team develops assumptions to be used in forecasting variables in the next five (5) years, subsequently reverting to long run-averages. The probability-weighted ECL is calculated by running each scenario through the relevant ECL models and multiplying it by the appropriate scenario weighting.

The estimation and application of forward-looking information requires significant judgment. As with any economic forecasts, the projections and likelihood of occurrences are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The scenarios and their attributes are reassessed at each reporting date. Information regarding the forward-looking economic variables and the relevant sensitivity analysis is disclosed in Note 21.

Financial assets with low credit risk

Loss allowance for financial assets at amortized cost and FVOCI that have low credit risk is limited to 12-month ECLs. Management considers "low credit risk" for listed government bonds to be an investment grade credit rating with at least one major rating agency. Other debt instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Definition of default and credit-impaired assets

The Bank considers a financial instrument in default or credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments (with the exception of credit cards and micro-finance loans where a borrower is required to be 90 days past due and over 7 days past due, respectively, to be considered in default).

Qualitative criteria

The counterparty is experiencing significant financial difficulty which may lead to non-payment of loan as may be indicated by any or combination of the following events:

- The counterparty is in long-term forbearance;
- The counterparty is insolvent;
- The counterparty is in breach of major financial covenant(s) which lead(s) to event of default;
- An active market for the security has disappeared;
- Granting of concession that would not be otherwise considered due to economic or contractual reasons relating to the counterparty's financial difficulty;
- It is becoming probable that the counterparty will enter bankruptcy or other financial reorganization; and
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD, and LGD throughout the Bank's ECL calculations.

The Bank's definition of default is substantially consistent with non-performing loan definition of the BSP. For treasury and debt securities, these are classified as defaulted based on combination of BSP and external credit rating agency definitions.

23.2.5 Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

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

If the terms are not substantially different, the Bank recalculates the gross carrying amount of the financial asset and recognizes a modification gain or loss in the statement of income. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets.

23.2.6 Derecognition of financial assets other than modification

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
(ii) Is prohibited from selling or pledging the assets; and
(iii) Has an obligation to remit any cash it collects from the assets without material delay.

23.2.7 Write-off policy

The Bank writes off financial assets when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Bank may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended December 31, 2023 was P1,084.43 million (2022 - P684.48 million). The write-off of loans is being approved by the BOD in compliance with the BSP requirements.

23.3 Financial liabilities

23.3.1 Classification

The Bank classifies its financial liabilities at amortized cost.

Financial liabilities measured at amortized cost include deposit liabilities, accrued interest and other expenses, and other liabilities (except tax-related or statutory payables).

23.3.2 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.

23.3.3 Derecognition

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished (i.e. when the obligation is discharged or is cancelled or has expired).

23.4 Fair value measurement

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.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes mainly from PDEX and Bloomberg.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at reporting dates. The Bank uses widely recognized valuation models for determining fair values of non-standardized financial instruments of lower complexity. For these financial instruments, inputs into models are generally market observable.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

Non-financial assets or liabilities

The Bank uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- Market approach – A valuation technique that uses observable inputs, such as prices, broker quotes and other relevant information generated by market transactions involving identical or comparable assets or group of assets.

- Income approach – A valuation technique that converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

- Cost approach – A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair values were determined in reference to observable market inputs reflecting orderly transactions, i.e. market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions.

The fair values of the Bank's foreclosed assets (shown as Assets held for sale) fall under level 2 of the fair value hierarchy using market approach. The Bank has no non-financial assets or liabilities classified under Level 3 as at December 31, 2023 and 2022.

23.5 Bank premises, furniture, fixtures and equipment

Bank premises, furniture, fixtures and equipment are stated at historical cost less accumulated depreciation.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate cost of each asset less its residual value over its estimated useful life as follows:

	Estimated useful life
Leasehold, rights and improvements	Based on lease term or life of the leased item whichever is shorter
Furniture, fixtures, and equipment	36 months
Computer equipment	36 months

Leasehold rights and improvements in progress are stated at cost. Costs are accumulated in the accounts until these projects are completed upon which these are classified to the appropriate property accounts and accordingly depreciated.

Major renovations are depreciated over the remaining useful life of the related asset. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value-in-use.

23.6 Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specified software. These costs are amortized on a straight-line basis over the expected useful lives of three to five years. Computer software is included in Other resources, net.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Computer software is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

23.7 Impairment of non-financial assets

Asset that have indefinite useful lives are not subject to amortization and depreciation and are tested annually for impairment. Assets that have definite useful life are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there is a separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

23.8 Foreclosed asset

Assets foreclosed shown as Assets held for sale in the statement of condition are accounted for at the lower of cost and fair value less cost to sell, similar to the principles of PFRS 5. The cost of assets foreclosed includes the carrying amount of the related loan less allowance for impairment at the time of foreclosure. Impairment loss is recognized for any subsequent write-down of the asset to fair value less cost to sell.

These foreclosed assets are classified as assets held for sale since it is the intention of the Bank's management to principally recover the carrying amount through sale transactions and the sale is considered highly probable.

The sale is expected to be completed within one year from the date of classification. In case events or circumstances may extend the period to complete the sale beyond one year, the extension of the period to complete the sale does not preclude the asset from being classified as held-for-sale if the delay is caused by events or circumstances beyond the Bank's control and the Bank remains committed to its plan to sell the asset.

23.9 Provisions for legal or contractual obligations

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the obligation. The increase in provision due to the passage of time is recognized as interest expense.

23.10 Interest income and expense

Interest income and expense are recognized in the statement of income for all interest-bearing financial instruments using the effective interest rate method.

When calculating the effective interest rate, the Bank 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.

23.11 Service fee income

The Bank recognized 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. Services fees compose of the processing fee and the motorized collector for both personal loans and SEME loans. Fees and commission arising from loans, deposits and other banking transactions are recognized as income based on agreed terms and conditions.

23.12 Foreign currency translation

Functional and presentation currency

Items in the financial statements of the Bank are measured using the currency of the primary economic environment in which it operates (the functional currency). The financial statements are presented in Philippine Peso, which is the Bank’s functional currency.

23.13 Income taxes

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the country where the Bank operates and generates taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax liabilities are recognized in full for all taxable temporary differences. Deferred income tax liabilities are provided on taxable temporary differences except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the temporary difference will not reverse in the foreseeable future.

23.14 Employee benefits

(a) Short-term benefits

The Bank recognizes a liability, net of amount already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given to its employees include salaries and wages, social security contributions, short-term compensated absences and bonuses, and non-monetary benefits.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(b) Defined benefit retirement plan

A defined benefit plan is a pension plan that defines an 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 liability recognized in the statement of condition in respect of defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

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. The amount of pension asset recognized in the books is reduced by the amount of asset ceiling, as applicable.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in profit or loss.

For individual financial reporting purposes, the unified plan assets are allocated based on the level of the defined benefit obligation attributable to each entity to arrive at the net liability or asset that should be recognized in the individual financial statements.

(c) Defined contribution retirement plan

The Bank also maintains a defined contribution plan that covers certain full-time employees. Under its defined contribution plan, the Bank pays fixed contributions based on the employees' monthly salaries. The Bank, however, is covered under RA No. 7641, otherwise known as The Philippine Retirement Pay Law, which provides for its qualified employees a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA No. 7641. Accordingly, the Bank accounts for its retirement obligation under the higher of the defined benefit obligation relating to the minimum guarantee and the obligation arising from the defined contribution plan.

For the defined benefit minimum guarantee plan, the liability is determined based on the present value of the excess of the projected defined benefit obligation over the projected defined contribution obligation at the end of the reporting period. The defined benefit obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) and then, it takes into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in the statement of income.

The defined contribution liability is measured at the fair value of the defined contribution assets upon which the defined contribution benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the defined contribution benefits.

Actuarial gains and losses arising from the remeasurements of the net defined contribution liability are recognized immediately in other comprehensive income.

(d) Profit sharing and bonus plans

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

23.15 Leases

The Bank recognizes leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

Assets and liabilities arising from long-terms leases are initially measured on a present value basis. The interest expense is recognized in the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the lease commencement date plus any initial direct costs incurred, less any lease incentives received. The right-of-use asset is subsequently depreciated on a straight-line basis over the lease term. The right-of-use asset may be reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Payments associated with leases of low-value assets are recognized on a straight-line basis as an expense in the statement of income. Low-value assets comprise certain IT-equipment and office furniture.

24 Supplementary information required by BSP Circular No. 1074

Presented below are the additional information required by BSP Circular No. 1074 issued on January 8, 2020. This information is presented for BSP reporting purposes and is not required in the basic financial statements.

(i) Basic quantitative indicators of financial performance

The key financial performance indicators as at December 31 follow:

	2023	2022
Return on average equity[1]	26.80%	25.33%
Return on average assets[2]	3.91%	5.14%
Net interest margin[3]	17.82%	20.80%

[1]Net income divided by average total equity for the period indicated. Average total equity is based on the year-on-year balance of equity for the years ended December 31, 2023 and 2022.
[2]Net income divided by average total assets as at period indicated. Average total assets is based on the year-on-year balance of total assets as at December 31, 2023 and 2022.
[3]Net interest income divided by average interest-earning assets. Average interest earning assets is based on the year-on-year balance of interest earning assets as at December 31, 2023 and 2022.

(ii) Description of capital instrument issued

The Bank considers its common shares as capital instrument for the purpose of calculating its CAR as at December 31, 2023 and 2022.

(iii) Significant credit exposures

Details of the Bank's loans and advances portfolio as to concentration to industry/economic sector (in %) at December 31 are as follows:

	2023	2022
Private household with employed persons	45	34
Wholesale and retail trade	25	29
Consumer	18	-
Real estate, renting and other related activities	7	8
Manufacturing	2	19
Others	3	10
	100	100

Details of the loans and advances portfolio as to concentration per industry/economic sector over Tier 1 Capital (in %) as at December 31 are as follows:

	2023	2022
Private household with employed persons	244	139
Wholesale and retail trade	133	119
Consumer	99	-
Real estate, renting and other related activities	22	33
Manufacturing	12	78
Others	37	41

(iv) Breakdown of total loans

Details of the Bank's loans and advances portfolio as to collateral (amounts net of unearned discounts and accrued interest receivable) at December 31 are as follows:

	2023	2022
Secured loans		
Large corporate customer	40,489,706	58,246,232
Small and medium enterprise	5,136,569	7,252,624
Real estate mortgage	1,174,152,190	1,275,017,499
Chattel mortgage	336,859	368,324
	1,220,115,324	1,340,884,679
Unsecured loans		
Personal loans	18,643,195,579	9,035,675,996
Manpower/Microfinance loans	9,507,502,908	6,657,958,932
	28,150,698,487	15,693,634,928
	29,370,813,811	17,034,519,607

Non-performing loans, net of allowance for credit losses, at December 31 are as follows:

	2023	2022
Non-performing loans (NPL)	1,958,295,317	1,442,676,019
Accounts with specific allowance for credit losses	(1,445,884,536)	(1,056,756,930)
Net NPL	512,410,781	385,919,089

BSP Circular 941, Amendments to Regulations on Past Due and Non-Performing Loans, states that 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 if there is an evidence that full repayment of principal and interest is unlikely without foreclosure of collateral. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

(v) Information on related party loans

The Bank does not have DOSRI loans and loans to related parties as at December 31, 2023 and 2022.

(vi) Liabilities and assets pledged as security

There are no loans and advances at December 31, 2023 and 2022 used as security for liabilities.

(vii) Contingencies and commitments arising from off-balance sheet items

The Bank does not have any contingencies and commitments arising from off-balance sheet items as at December 31, 2023 and 2022.

25 Supplementary information required by the Bureau of Internal Revenue (BIR)

Below is the additional information required by Revenue Regulations No. 15-2010 that is relevant to the Bank. This information is presented for the purposes of filing with the BIR and is not a required part of the basic financial statements.

(i) Documentary stamp tax

	2023	2022
Deposit and loan documents	289,063,037	122,923,600
Others	634,778	465,600
	289,697,815	123,389,200

(ii) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2023 consist of:

	Paid	Accrued	Total
Final income taxes withheld on interest on deposits and yield on deposit substitutes	139,801,133	20,388,301	160,189,434
Income taxes withheld on compensation	35,876,245	6,656,277	42,532,522
Creditable income taxes withheld (expanded)	28,434,542	8,695,594	37,130,136
Final income taxes withheld on the amount withdrawn from decedent’s deposit account	87,640	-	87,640
	204,199,560	35,740,172	239,939,732

Withholding tax payable is presented as part of Accrued income tax under Accrued taxes, interest and other expenses in the statement of condition.

(iii) All other local and national taxes

All other local and national taxes paid/accrued for the year ended December 31, 2023 consist of:

	Paid	Accrued	Total
Gross receipts tax	367,168,442	131,452,215	498,620,657
Municipal taxes / Mayor’s permit	32,167,446	-	32,167,446
Real property tax	1,404,991	-	1,404,991
Fringe benefits tax	75,384	21,453	96,837
Others	297,562	-	297,562
	401,113,825	131,473,668	532,587,493

Except for the gross receipts tax which is netted against the related income, local and national taxes are presented as part of taxes and licenses under Other operating expenses and Occupancy and equipment-related expense in the statement of income.

(iv) Tax cases and assessments

As at reporting date, the Bank has no outstanding tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR.