

# BPI Capital Corporation

**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 Capital Corporation**  
23<sup>rd</sup> Floor, Ayala Triangle Gardens Tower 2  
Paseo de Roxas corner Makati Avenue  
Makati City, Metro Manila 1226

### ***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 Capital Corporation (the "Company") 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 (PFRS).

#### *What we have audited*

The financial statements of the Company comprise:

- the statements of financial position as at December 31, 2023 and 2022;
- the statements of income for the years ended December 31, 2023 and 2022;
- the statements of comprehensive income for the years ended December 31, 2023 and 2022;
- the statements of changes in equity 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 financial statements, including material accounting policy information.

#### **Basis for Opinion**

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

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

#### *Independence*

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

Isla Lipana & Co., 29th Floor, AIA Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines  
T: +63 (2) 8845 2728, [www.pwc.com/ph](http://www.pwc.com/ph)

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

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

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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



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

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



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***Report on the Bureau of Internal Revenue Requirement***

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 21 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Isla Lipana & Co.**

  
Imelda Dela Vega-Mangundaya  
Partner

CPA Cert. No. 0090670

PTR No. 0024586, issued on January 12, 2024, Makati City

TIN 152-015-124

BIR A.N. 08-000745-047-2021, issued on November 23, 2021; effective until November 22, 2024

BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City  
April 17, 2024

## BPI Capital Corporation

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

	Notes	2023	2022
<b><u>ASSETS</u></b>			
Cash and cash equivalents	2	710,208,649	1,542,184,812
Investment securities	3	2,730,230,404	2,044,534,670
Trade receivables, net	4	64,901,648	114,670
Investment in a subsidiary	5	202,361,610	202,361,610
Property and equipment, net	6	88,311,221	14,288,926
Other assets, net	8	32,194,059	58,590,012
<b>Total assets</b>		<b>3,828,207,591</b>	<b>3,862,074,700</b>
<b><u>LIABILITIES AND EQUITY</u></b>			
Accounts payable and other liabilities	9	88,781,172	68,798,441
Lease liability	17	84,884,017	5,188,861
Deferred income tax liabilities, net	7	48,189,361	40,318,561
Total liabilities		221,854,550	114,305,863
<b>Equity</b>			
Share capital		506,435,080	506,435,080
Share premium		260,364,020	260,364,020
Accumulated reserves		(182,515,994)	(105,290,588)
Retained earnings		3,022,069,935	3,086,260,325
Total equity	10	3,606,353,041	3,747,768,837
<b>Total liabilities and equity</b>		<b>3,828,207,591</b>	<b>3,862,074,700</b>

(The notes on pages 1 to 41 are an integral part of these financial statements)

## BPI Capital Corporation

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

	Notes	2023	2022
<b>Income</b>			
Fees and commissions	11	822,502,599	1,018,480,493
Dividend income	3	25,652,439	23,160,501
Interest income	12	25,978,008	13,194,878
Foreign exchange gain, net	18	-	12,966,794
Trading gain, net	3	98,509,474	-
Miscellaneous income		1,469,472	1,367,540
		974,111,992	1,069,170,206
<b>Expenses</b>			
Compensation and fringe benefits	15	224,758,416	161,317,912
Gross receipts tax		48,184,220	57,702,132
Occupancy and equipment-related expense	6,17	32,784,263	73,232,338
Management and other professional fees		16,952,509	4,443,424
Foreign exchange loss, net	18	2,978,495	-
Brokerage and underwriting fees		1,876,317	2,256,265
Taxes and licenses		1,173,015	1,655,176
Reversal of impairment		2,836	-
Trading loss, net	3	-	173,801,313
Other operating expenses	13	81,483,250	63,115,923
		410,193,321	537,524,483
<b>Profit before income tax</b>		563,918,671	531,645,723
<b>Income tax expense (benefit)</b>			
Current		128,367,744	158,676,149
Deferred	7	(258,683)	(3,443,906)
	14	128,109,061	155,232,243
<b>Net income for the year</b>		435,809,610	376,413,480

(The notes on pages 1 to 41 are an integral part of these financial statements)

## BPI Capital Corporation

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

	Notes	2023	2022
<b>Net income for the year</b>		435,809,610	376,413,480
<b>Other comprehensive (loss) income</b>	10		
<i>Items that will not be subsequently reclassified to profit or loss</i>			
Net change in fair value reserve on investments in equity instruments measured at FVOCI, net of tax	3,10	(56,780,975)	25,984,832
Remeasurements of defined benefit obligation, net of tax	15,10	(14,536,586)	(4,755,172)
Total other comprehensive (loss) income, net of tax		(71,317,561)	21,229,660
<b>Total comprehensive income for the year</b>		364,492,049	397,643,140

(The notes on pages 1 to 41 are an integral part of these financial statements)



## BPI Capital Corporation

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

	Share capital (Note 10)	Share premium	Accumulated reserves (Note 10)	Retained earnings (Note 10)	Total equity
<b>Balances at January 1, 2022</b>	506,435,080	260,364,020	(127,313,581)	2,709,846,845	3,349,332,364
<b>Comprehensive income</b>					
Net income for the year	-	-	-	376,413,480	376,413,480
Other comprehensive income	-	-	21,229,660	-	21,229,660
<b>Total comprehensive income</b>	-	-	21,229,660	376,413,480	397,643,140
<b>Transactions with owner</b>					
Employee stock option plan amortization	-	-	793,333	-	793,333
<b>Balances at December 31, 2022</b>	506,435,080	260,364,020	(105,290,588)	3,086,260,325	3,747,768,837
<b>Comprehensive income</b>					
Net income for the year	-	-	-	435,809,610	435,809,610
Other comprehensive income	-	-	(71,317,561)	-	(71,317,561)
<b>Total comprehensive income</b>	-	-	(71,317,561)	435,809,610	364,492,049
<b>Transaction with owner</b>					
Employee stock option plan amortization	-	-	(5,907,845)	-	(5,907,845)
Cash dividends declared and paid	-	-	-	(500,000,000)	(500,000,000)
<b>Balances at December 31, 2023</b>	506,435,080	260,364,020	(182,515,994)	3,022,069,935	3,606,353,041

(The notes on pages 1 to 41 are an integral part of these financial statements)

## BPI Capital Corporation

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

	Notes	2023	2022
<b>Cash flows from operating activities</b>			
Profit before income tax		563,918,671	531,645,723
Adjustments for:			
Unrealized fair value (gain) loss on financial assets at fair value through profit or loss (FVTPL)	3	(17,773,960)	110,762,732
Depreciation	6	17,181,963	15,470,907
Retirement benefit expense	15	5,851,253	7,181,885
Write-off of derivatives	3	293,903	9,802,259
Interest expense	17	2,983,392	908,754
Stock option plan amortization	10	(5,907,845)	793,333
Provision for (reversal of) allowance for impairment losses	4	(143,414)	4,878
Unrealized foreign exchange (gain) loss, net	18	(3,756,340)	1,001
Gain on sale of property and equipment	6	-	(177,191)
Interest income	12	(25,978,008)	(13,194,878)
Dividend income	3	(25,652,439)	(23,160,501)
Changes in operating assets and liabilities (Increase) decrease in:			
Investment securities		(796,067,753)	72,621,605
Trade and other receivables		(64,643,564)	6,084,022
Other assets		26,395,953	(16,261,525)
Increase in accounts payable and other liabilities		19,982,731	4,278,093
Cash (used in) generated from operations		(303,315,457)	699,579,212
Interest received	12	25,978,008	13,194,878
Payment of interest portion of lease liability	17	(2,983,392)	(908,754)
Income taxes paid		(75,298,724)	(169,493,453)
Contributions to retirement fund	15	(6,845,650)	(6,275,640)
Net cash (used in) generated from operating activities		(362,465,215)	542,371,883
<b>Cash flows from investing activities</b>			
Acquisition of financial assets at FVOCI	3	(111,925,887)	(18,054,000)
Disposal of financial assets at FVOCI	3	124,276,027	-
Dividends received	3,5	25,652,439	23,160,501
Acquisition of property and equipment	6	(2,000,000)	(7,881,585)
Proceeds from disposals of property and equipment	6	-	2,720,559
Net cash generated from (used in) investing activities		36,002,579	(142,748)
<b>Cash flows from financing activities</b>			
Payment of principal portion of lease liability	17	(9,269,867)	(14,575,103)
Maturities of investment securities at amortized cost	3	-	554,355,000
Interest received from investment in amortized cost	3	-	8,657,312
Cash dividends paid	10	(500,000,000)	-
Net cash (used in) generated from financing activities		(509,269,867)	548,437,209
<b>Net (decrease) increase in cash and cash equivalents</b>		(835,732,503)	1,090,666,344
Cash and cash equivalents			
January 1		1,542,184,812	451,519,469
Effect of exchange rate changes on cash		3,756,340	(1,001)
<b>December 31</b>	2	710,208,649	1,542,184,812

(The notes on pages 1 to 41 are an integral part of these financial statements)

## **BPI Capital Corporation**

### Notes to Financial Statements

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

(All amounts are shown in Philippine Peso, unless otherwise stated)

#### **Note 1 - General Information**

BPI Capital Corporation (the “Company”) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on February 5, 1976 primarily to act as an institutional vehicle by and through which the business of financial intermediation may be provided by carrying out and exercising the powers, rights, privileges, and attributes of an investment house as may be allowed under applicable laws.

The Company is a wholly owned subsidiary of the Bank of the Philippine Islands (the “Parent Bank” or “BPI”), a commercial bank with an expanded banking license registered in the Philippines and listed in the Philippine Stock Exchange (PSE).

The Company’s office address, which also serves as its principal place of business, is on the 23rd Floor, Ayala Triangle Gardens Tower Two, Paseo De Roxas corner Makati Avenue, Makati City.

The Company has 53 employees as at December 31, 2023 (2022 - 54 employees).

#### **Approval and authorization for issuance of the financial statements**

These financial statements have been approved and authorized for issuance by the Company’s Board of Directors (BOD) on April 17, 2024.

#### **Note 2 - Cash and cash equivalents**

The account at December 31 consists of:

	2023	2022
Cash in bank	60,208,649	142,184,812
Time deposits	650,000,000	1,400,000,000
	<u>710,208,649</u>	<u>1,542,184,812</u>

Interest income earned from cash and cash equivalents is disclosed in Note 12.

As at December 31, 2023, time deposits have maturities of 14 to 90 days (2022 - 56 to 90 days) with interest rates of 1.75% to 5.88% (2022 - 0.13% to 5.00%).

#### **Note 3 - Investment securities**

The account at December 31 consists of:

	2023	2022
Financial assets at FVTPL	1,607,031,433	1,002,039,465
Financial assets at FVOCI	1,123,198,971	1,042,495,205
	<u>2,730,230,404</u>	<u>2,044,534,670</u>

a) *Financial assets at FVTPL*

	2023	2022
Debt securities	1,491,950,977	855,678,648
Listed equity securities	110,899,375	146,066,914
Derivatives	4,181,081	293,903
	1,607,031,433	1,002,039,465

Debt securities consist of treasury bills, mutual funds and money market placements managed by the Company's fund manager. These are expected to be realized within one year from reporting dates.

Listed equity securities are issued by Philippine corporations and traded in the PSE. Dividend income earned from investments in equity securities for the year ended December 31, 2023 amounts to P9.04 million (2022 - P7.00 million).

Derivatives pertain to foreign exchange forwards which represent commitments to purchase or sell one currency against another at an agreed forward rate on a specified date in the future. Settlement can be made via full delivery of forward proceeds or via payment of the difference (non-deliverable forward) between the contracted forward rate and the prevailing market rate at maturity in 2024.

Details of trading gain (loss), net for the years ended December 31 on financial assets at FVTPL are summarized below:

	2023	2022
Realized gain (loss)	80,735,514	(63,038,581)
Unrealized fair value gain (loss)	17,773,960	(110,762,732)
	98,509,474	(173,801,313)

*Critical accounting estimate - Determination of fair value of derivatives*

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 possible effects of sensitivities surrounding the fair value of derivatives are deemed immaterial for financial reporting purposes.

b) *Financial assets at FVOCI*

	2023	2022
Unlisted	909,255,567	764,700,475
Listed	213,943,404	277,794,730
	1,123,198,971	1,042,495,205

The Company has designated some of its equity securities from listed and unlisted private corporations as financial assets at FVOCI. The Company adopted this presentation as the investments were made for strategic purposes rather than with a view to profiting from a subsequent sale.

Listed equity securities are issued by Philippine corporations and traded in the PSE.

The movements of the account as at December 31 are as follows:

	2023	2022
Beginning balance	1,042,495,205	925,274,387
Additions	111,925,887	18,054,000
Disposals	(124,276,027)	-
Fair value adjustment	93,053,906	99,166,817
Ending balance	1,123,198,971	1,042,495,205

Dividend income earned from investments in equity securities in 2023 amount to P16.61 million (2022 - P16.18 million).

*Critical accounting estimate - Fair value of unquoted 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 values of financial instruments. The sensitivity analysis is disclosed in Note 18.8.

c) *Investment securities at amortized cost*

Investment securities at amortized cost amounting to P554.36 million which pertain to government debt securities were fully matured in 2022. The total interest received in 2022 is P8.66 million.

**Note 4 - Trade receivables, net**

The account at December 31 consists of:

	2023	2022
Trade receivables	64,908,446	264,882
Allowance for impairment losses	(6,798)	(150,212)
	64,901,648	114,670

Trade receivables are expected to be realized within one year from reporting dates.

The movement in allowance for impairment of trade receivables for the years ended December 31 are as follows:

	2023	2022
Beginning of year	150,212	145,334
Provision	-	4,878
Reversal	(143,414)	-
End of year	6,798	150,212

### Critical accounting estimate - Trade receivables ECL

The Company applies the simplified approach allowed by Philippine Financial Reporting Standards (PFRS) 9, *Financial Instruments*, in determining the recoverable amount of trade and other receivables based on the ECL of the portfolio of receivables, as a whole. In arriving at the ECL for a particular period, management considers both historical loss experience and certain macroeconomic factors of the countries of the related parties to which it renders services.

In these cases, management uses judgments based on the best available facts and circumstances, including but not limited to the length of relationship with the related parties and whether there had been payment defaults in the past. An evaluation of receivables designed to identify potential charges to the provision is performed on a continuous basis throughout the year. The carrying value of receivables at the end of each reporting period and the amount and timing of recorded provision for any period could differ based on actual experience and changes in judgments made.

The detailed accounting policy for credit losses is disclosed in Note 20. Likewise, information on the credit quality of trade receivables is presented in Note 18.

### **Note 5 - Investment in a subsidiary**

The account pertains to the Company's 100% equity ownership of BPI Securities Corporation (BSC). BSC is primarily engaged in the brokerage business of purchase and sale of any and all kinds of shares, bonds, debentures, securities and any and all kinds of properties, either in the Philippines or in any foreign country; to underwrite and distribute securities issued by another person, firm, corporation or association, whether domestic or foreign; and to sell the aforesaid securities to customers and/or to act as broker and/or dealer of securities.

The investment is carried at cost as at December 31, 2023 and 2022 in accordance with Philippine Accounting Standards (PAS) 27, *Separate financial statements* (Note 20).

The summarized financial information of BSC as at and for the years ended December 31 are as follows:

	2023	2022
Total current assets	941,693,605	1,197,303,094
Total non-current assets	278,795,163	180,471,798
Total assets	1,220,488,768	1,377,774,892
Total current liabilities	499,836,219	695,815,576
Total non-current liability	72,639,871	-
Total liabilities	572,476,090	695,815,576
Net assets	648,012,678	681,959,316
	2023	2022
Revenues	281,025,864	280,225,303
Expenses	293,932,681	270,194,410
(Loss) income before income tax	(12,906,817)	10,030,893
Income tax (expense) benefit	(1,916,550)	430,105
Net (loss) income	(14,823,367)	10,460,998
Other comprehensive loss	(19,123,271)	(1,266,294)
Total comprehensive (loss) income	(33,946,638)	9,194,704

There was no dividend income earned from BSC for the years ended December 31, 2023 and 2022.

Critical accounting judgment - Impairment of investment in a subsidiary

Impairment assessment on investment in a subsidiary is performed whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment loss is recognized whenever the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is computed based on the higher of the asset's fair value less cost to sell or value-in-use. Management has not identified any indicators of impairment as at December 31, 2023 and 2022.

**Note 6 - Property and equipment, net**

Details of and movements in the account follow:

	Furniture, fixtures and equipment	Computer equipment	Office space and leasehold improvement (Note 17)	Total
Cost				
On January 1, 2022	19,430,174	739,822	52,670,701	72,840,697
Additions	7,881,585	-	88,223	7,969,808
Disposals	(10,680,000)	-	-	(10,680,000)
December 31, 2022	16,631,759	739,822	52,758,924	70,130,505
Additions	2,000,000	-	94,218,746	96,218,746
Disposals	(8,394,573)	(527,130)	(1,280,117)	(10,201,820)
December 31, 2023	10,237,186	212,692	145,697,553	156,147,431
Accumulated depreciation				
January 1, 2022	11,951,416	739,810	35,816,078	48,507,304
Depreciation	2,750,539	-	12,720,368	15,470,907
Disposals	(8,136,632)	-	-	(8,136,632)
December 31, 2022	6,565,323	739,810	48,536,446	55,841,579
Depreciation	2,554,672	-	14,627,291	17,181,963
Disposals	(4,660,211)	(527,121)	-	(5,187,332)
December 31, 2023	4,459,784	212,689	63,163,737	67,836,210
Net carrying value on December 31, 2022	10,066,436	12	4,222,478	14,288,926
Net carrying value on December 31, 2023	5,777,402	3	82,533,816	88,311,221

In 2022, the Company sold certain transportation equipment for a consideration of P2.72 million resulting in a gain on sale of P0.18 million and is presented under Miscellaneous income in the statement of income.

Depreciation expense is included in Occupancy and equipment-related expenses in the statement of income.

Critical accounting estimate - Useful lives of property and equipment

The Company determines the estimated useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Company annually reviews the estimated useful lives of property 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 possible effects of sensitivities surrounding the carrying values of property and equipment are deemed immaterial for financial reporting purposes.

### **Note 7 - Deferred income taxes, net**

Deferred income taxes (DIT) as at December 31 represent the tax effects of the following temporary differences, including the period in which the temporary differences are expected to be recovered or settled:

	2023	2022
DIT assets		
Provision for short-term employee benefits	10,706,547	8,691,728
Past service cost	3,585,251	3,654,566
Stock options plan	764,806	2,241,767
Allowance for impairment losses	27,199	63,053
Total DIT assets	15,083,803	14,651,114
DIT liabilities		
Unrealized fair value gains on financial assets at FVOCI	(61,977,815)	(49,393,989)
Retirement benefit asset	(1,295,349)	(5,575,686)
Total DIT liabilities	(63,273,164)	(54,969,675)
DIT liabilities, net	(48,189,361)	(40,318,561)

The movements in DIT liabilities, net for the years ended December 31 are as follows:

	2023	2022
Beginning of year	(40,318,561)	(47,142,131)
Charged against statement of income	258,683	3,443,906
(Credited to) charged against other comprehensive income (OCI)	(8,129,483)	3,379,664
End of year	(48,189,361)	(40,318,561)

### **Significant judgment - Realization of DIT assets**

The recognition of DIT assets depends on management's assessment of adequate future taxable income against which the temporary differences can be applied. The Company reviews the carrying amounts of DIT assets at the end of each reporting period and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will allow all or part of its DIT assets to be utilized. The Company's management believes that the DIT assets at the end of each reporting period will be fully realized.

### **Note 8 - Other assets, net**

The account at December 31 consists of:

	Note	2023	2022
Prepaid taxes		16,783,149	15,372,385
Accrued interest receivable		1,925,694	6,970,486
Retirement benefit asset, net	15	3,997,079	22,302,745
Creditable withholding taxes		2,430,025	7,134,994
Other investments		1,717,330	1,717,330
Others		5,442,782	5,194,072
		32,296,059	58,692,012
Allowance for impairment losses - other investments		(102,000)	(102,000)
		32,194,059	58,590,012

Others pertain to accrued interest from time deposits, prepaid expenses and deposit on leased property.



The current and non-current portion of other assets follow:

	2023	2022
Current (within 12 months)	26,479,650	34,671,937
Non-current (beyond 12 months)	5,714,409	24,020,075
	32,194,059	58,692,012

#### **Note 9 - Accounts payable and other liabilities**

The account at December 31 consists of:

	Note	2023	2022
Accrued expenses			
Salaries and wages		43,481,512	35,475,477
Taxes and licenses		8,845,156	7,924,734
Withholding taxes		4,591,946	5,484,404
Other accrued expenses		2,132,793	2,506,175
Accounts payables		3,895,958	6,227,489
Due to a related party	16	7,869,857	5,807,673
Income tax payable		16,076,487	-
Other liabilities		1,887,463	5,372,489
		88,781,172	68,798,441

Other accrued expenses pertain to accruals of gross receipts tax and professional fees.

Accounts payables pertain to those payable due to the purchase of retail treasury bonds and insurance.

Other liabilities include sundries, derivative liability and other payables.

Accounts payables and other liabilities are expected to be settled within the next financial year.

#### **Note 10 - Equity**

##### *Share capital; share premium*

Details of the account as at December 31, 2023 and 2022 follow:

	Shares	Amount
Authorized, at P10 par value per share	100,000,000	1,000,000,000
Issued and outstanding shares	50,643,508	506,435,080
Share premium		260,364,020

##### *Retained earnings*

As at December 31, 2023, the Company has retained earnings in excess of its additional paid-in capital amounting to P2.3 billion (2022 - P2.3 billion). Management intends to retain the excess retained earnings in preparation for any potential equity investment if the market proves favorable. Likewise, the excess retained earnings will be used by the Company for its regular and future capital market underwriting activities.

##### *Dividends*

On December 13, 2023 the Company declared cash dividends to the Parent Bank amounting to P500 million, which have been paid in full on December 22, 2023.

### Accumulated reserves

The details and movements of the account for the years ended December 31 are summarized below:

	Notes	2023	2022
Fair value reserve on financial assets at FVOCI, net of tax			
Beginning of year		(109,520,535)	(135,505,367)
Unrealized fair value (loss) gain	3	(56,780,975)	25,984,832
End of year		(166,301,510)	(109,520,535)
Remeasurement of retirement obligation, net of tax			
Beginning of year		(4,737,120)	18,052
Remeasurement loss		(14,536,586)	(4,755,172)
End of year	15	(19,273,706)	(4,737,120)
Stock option reserve			
Beginning of year		8,967,067	8,173,734
Employee stock option plan amortization		(5,907,845)	793,333
End of year		3,059,222	8,967,067
		(182,515,994)	(105,290,588)

Employee stock option plan amortization is booked under Compensation and fringe benefits in the statement of income.

### **Note 11 - Fees and commissions**

The account for the years ended December 31 consists of income from the following activities:

	2023	2022
Underwriting and loan syndication	598,106,168	890,934,039
Financial advisory	170,077,250	69,963,224
Broker's fees	30,636,247	29,838,138
Service fees	23,682,934	27,745,092
	822,502,599	1,018,480,493

### **Note 12 - Interest income**

Interest income for the years ended December 31 are as follows:

	Notes	2023	2022
Cash and cash equivalents	2	20,526,157	7,296,126
Investment securities at amortized cost		-	4,533,139
Loans and receivables		586	2,631
Others		5,451,265	1,362,982
		25,978,008	13,194,878

Others pertain to interest income earned from short term trading account government and private securities.

### **Note 13 - Other operating expenses**

Other operating expenses for the years ended December 31 consist of:

	Notes	2023	2022
Outsourced services		65,395,653	35,204,182
Directors' remuneration	16	5,250,000	5,150,000
Interest expense on lease liabilities	17	2,983,095	908,754
Advertising expense		1,973,063	2,391,214
Stationery and office supplies		1,268,594	954,111
Representation and entertainment		1,035,269	602,583
Postage and telegram		1,029,590	869,367
Underwriting expenses		436,561	88,191
Periodicals and magazines		305,127	5,657,738
Write-off of derivatives	3	293,903	9,802,259
Transportation expense		209,041	23,199
Others		1,303,354	1,464,325
		81,483,250	63,115,923

Others comprise mainly of membership fees and dues and repairs and maintenance.

### **Note 14 - Income taxes**

The reconciliation between income tax expense at the statutory rate and the actual income tax expense presented in the statement of income for the years ended December 31 follows:

	2023		2022	
	Amount	Rate (%)	Amount	Rate (%)
Statutory income tax	140,979,668	25.00	132,911,431	25.00
Non-deductible expenses	(6,884,168)	(1.22)	28,902,177	5.44
Income subjected to lower tax rates, net	(750,800)	(0.13)	(791,240)	(0.15)
Tax-exempt income	(5,235,639)	(0.93)	(5,790,125)	(1.09)
Effective income tax expense	128,109,061	22.72	155,232,243	29.20

The Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) bill which provides for lower corporate income tax rates and rationalizes fiscal incentives had been signed into law by the President of the Philippines in 2021, with an effective date of July 1, 2020.

### **Note 15 - Retirement benefits**

The BPI Group maintains 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*

BPI has a unified plan which covers all subsidiaries (including the Company) except insurance entities. Under this plan, the normal retirement age is 60 years. 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. 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 determined on the same basis as in voluntary retirement.

The net defined benefit cost and contributions to be paid by the entities within the BPI Group are determined by an independent actuary. The actuarial information applicable to the Company is presented below.

The amount recognized in the statement of financial position as of December 31 follows:

	Note	2023	2022
Fair value of plan assets		110,643,870	107,864,453
Present value of retirement obligation		(106,447,274)	(80,991,125)
Excess of plan assets over retirement obligation		4,196,596	26,873,328
Asset ceiling limit		(199,517)	(4,570,583)
Retirement benefit asset	8	3,997,079	22,302,745

The retirement benefit asset is recorded as part of Other assets in the statement of financial position.

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

	2023	2022
Beginning of year	80,991,125	73,561,268
Current service cost	5,716,511	5,369,623
Past service cost	-	969,767
Interest cost	5,790,865	3,626,571
Benefits paid	(853,533)	(606,259)
Remeasurement - changes in financial assumptions	7,160,169	(10,392,936)
Remeasurement - changes in demographic	(6,852,616)	-
Remeasurement - experience	14,494,753	8,463,091
End of year	106,447,274	80,991,125

The movements in fair value of plan asset for the years ended December 31 are as follows:

	2023	2022
Beginning of year	107,864,453	108,682,976
Interest income	7,782,498	5,421,487
Contributions	3,563,385	4,285,479
Benefits paid	(853,533)	(606,259)
Remeasurement - return on plan assets	(7,712,933)	(9,919,230)
End of year	110,643,870	107,864,453

The composition of the plan assets at fair value as at December 31 are as follows:

	2023	2022
Debt securities	56,428,374	55,010,871
Equity securities	29,873,845	29,123,402
Others	24,341,651	23,730,180
	110,643,870	107,864,453

The plan assets of the BPI unified plan include investments in BPI's common shares. The actual return on plan assets attributable to the Company for the year ended December 31, 2023 amounts to P0.07 million net gain (2022 - P4.50 million net loss).

The Company has no other transactions with the fund other than the contributions presented above.

The components of pension expense recognized in the statement of income for the years ended December 31 consist of:

	2023	2022
Current service cost	5,716,511	5,369,623
Past service cost	-	969,767
Net interest income	(1,991,633)	(1,526,416)
Pension expense	3,724,878	4,812,974

Pension expense is presented as part of Compensation and fringe benefits in the statement of income.

The movements in reserve for remeasurement of defined benefit obligation as at December 31 are as follows:

	Note	2023	2022
Beginning of year		(6,473,728)	(11,607,650)
Remeasurement (gain) loss recognized in OCI			
Remeasurement gain on retirement obligation		14,802,306	(1,929,845)
Remeasurement loss on plan assets		7,712,933	9,919,230
Changes in the effect of asset ceiling		(4,697,864)	(1,144,157)
		17,817,375	6,845,228
DIT effect		(4,454,343)	(1,711,306)
End of year	10	6,889,304	(6,473,728)

Expected maturity analysis of undiscounted retirement benefits as of December 31:

	Less than a year	Between 1-5 years	Between 5-10 years	Between 10-15 years	More than 15 years
December 31, 2023	11,381,948	64,426,287	-	-	193,434,063
December 31, 2022	3,324,192	7,567,717	54,725,084	50,618,642	332,485,845

*Critical accounting estimate - Calculation of defined benefit obligation*

The present value of the retirement benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate and future salary increases as follows:

	2023	2022
Discount rate	6.03%	7.15%
Future salary increases	6.00%	6.00%

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 Company to a number of risks such as investment risk, interest rate risk and salary risk. The most significant of which relates to investment and interest rate risk. 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 the defined benefit obligation is directly affected by the discount rate to be applied by the Company. However, the Company believes that due to the long-term nature of the pension liability and the strength of the Company itself, the mix of debt and equity securities holdings of the plan is an appropriate element of the Company's long-term strategy to manage the plan efficiently.

The Company 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 Company'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.

For the year ended December 31, 2023, the weighted average duration of the defined benefit obligation is 6.35 years (2022 - 10.06 years).

The sensitivity of the defined benefit plan to changes in the weighted principal assumptions is presented as follows:

	Change in assumption	Impact on defined benefit plan	
		Increase in assumption	Decrease in assumption
<i>December 31, 2023</i>			
Discount rate	0.5%	7,084,258	6,438,058
Salary increase rate	1.0%	7,015,949	6,497,431
<i>December 31, 2022</i>			
Discount rate	0.5%	8,742,881	7,521,653
Salary increase rate	1.0%	8,756,568	7,664,763

The 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 in the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

*(b) Defined contribution retirement plan*

All non-unionized employees hired on or after January 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.

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 Republic Act ("RA") No. 7641.

Under the normal or late retirement, employees are entitled to a benefit equal to the total of the following amounts:

- The higher between (a) cumulative fund balance equivalent to 8% of the basic monthly salary and (b) the minimum legal retirement benefit under the Retirement Law.
- Employee contributions fund.

Accordingly, the liability for the defined benefit minimum guarantee is actuarially calculated similar to the defined benefit plan.

Following are the details of the Company's defined contribution plan that has a defined benefit minimum guarantee as of December 31:

	2023	2022
Fair value of plan assets	22,646,331	20,228,851
Present value of retirement obligation	(6,036,448)	(10,900,649)
Excess of plan assets over retirement obligation	16,609,883	9,328,202
Asset ceiling limit	(16,609,883)	(9,328,202)
Retirement benefit asset	-	-

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

	2023	2022
Beginning of year	10,900,649	8,614,590
Current service cost	1,911,008	2,015,297
Past service cost	-	251,883
Interest expense	803,164	423,838
Benefits paid from plan assets	(12,442,253)	(3,293,708)
Transfer to (from) the plan	(17,665)	-
Remeasurement - changes in financial assumptions	1,090,776	(76,404)
Remeasurement - experience	3,790,769	2,965,153
End of year	6,036,448	10,900,649

The movements in the fair value of plan asset for the years ended December 31 are as follows:

	2023	2022
Beginning of year	20,228,851	14,406,140
Interest income	1,276,218	607,051
Contributions	3,282,265	1,990,161
Benefits paid from plan assets	(12,442,253)	(3,293,708)
Remeasurement - return on plan assets	10,301,250	6,519,207
End of year	22,646,331	20,228,851

The components of pension expense recognized in the statement of income for the years ended December 31 consist of:

	2023	2022
Current service cost	1,911,008	2,015,297
Past service cost	-	251,883
Net interest cost	215,367	101,731
Pension expense	2,126,375	2,368,911

Pension expense is presented as part of Compensation and fringe benefits in the statement of income.

The movements in reserve for remeasurement of net defined contribution asset as at December 31 are as follows:

	Note	2023	2022
Beginning of year		11,210,848	11,589,598
Remeasurement (gain) loss recognized in OCI			
Remeasurement loss on retirement obligation		4,881,544	2,888,749
Remeasurement gain on plan assets		(10,301,250)	(6,519,207)
Changes in the effect of asset ceiling		6,593,260	3,251,708
		1,173,554	(378,750)
DIT effect		-	-
End of year	10	12,384,402	11,210,848

Remeasurements on retirement benefits recognized in other comprehensive income are presented in the statement of comprehensive income.

### **Note 16 - Related party transactions**

In the normal course of business, the Company transacts with its Parent Bank and other related entities and with its directors, officers, shareholder and related interests (DOSRI). These transactions such as loans and advances, deposit arrangements, underwriting/advisory services and advances for operating expenses are made in the normal operating activities and have terms and conditions that are generally comparable to those offered to non-related parties and to similar transactions in the market.

Transactions with the Parent Bank include outsourcing of services related to the following activities: (a) anti-money laundering; (b) accounting and securities administration services; (c) deposit arrangements; and (d) loan operations, treasury operations, human resource-related functions and information systems.

Significant related party transactions as at and for the years ended December 31 are summarized below:

	Transactions for the year	Outstanding balances	Terms and conditions
December 31, 2023			
Trade receivables, net Parent Bank	114,865,630	-	These are unsecured, non-interest bearing, non-guaranteed and collectible in cash on demand at gross amount.
Cash deposits to: Parent Bank	1,400,998,254	710,208,649	These are time (matured in 14-90 days), demand and savings deposits bearing the following average interest rates: - Time - 1.75% to 5.88% - Savings - 0.76% to 1.14%
Accounts payable and other liabilities Parent Bank	3,529,876	7,869,857	These are unsecured, non-interest bearing, non-guaranteed, payable in cash on demand at gross amount



	Transactions for the year	Outstanding balances	Terms and conditions
December 31, 2022			
Trade receivables, net Parent Bank	(180,956)	-	These are unsecured, non-interest bearing, non-guaranteed and collectible in cash on demand at gross amount
Cash deposits to: Parent Bank	1,090,665,343	1,542,184,812	These are time (matured in 56-90 days), demand and savings deposits bearing the following average interest rates: - Time - 0.13% to 5.00% - Savings - 0.76% to 1.14%
Accounts payable and other liabilities Parent Bank	4,055,760	5,807,673	These are unsecured, non-interest bearing, non-guaranteed, payable in cash on demand at gross amount

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

	2023	2022
Interest income Parent Bank	20,526,157	7,296,126
Fees and commission		
South Luzon Thermal Energy Corporation	-	62,550,057
Ayala Land Inc.	72,088,360	58,572,857
AC Infrastructure Holdings Corporation	-	31,578,947
Parent Bank	114,865,630	21,191,446
Ayala Corporation	19,169,940	14,536,053
ACEN Corporation	26,972,716	11,842,105
BPI Asset Management and Trust Corporation	4,115,905	5,790,970
BPI Investment Management Inc.	782,571	1,687,924
AYC Finance Limited	-	1,396,678
Mermac, Inc.	9,450,526	-
	247,445,648	209,147,037
Outsourcing services Parent Bank	28,464,648	35,585,561
Rent		
Ayala Real Estate Investment Trust Inc	10,384,358	8,975,608
Ayala Land, Inc.	7,789,399	-
Insurance fees BPI AIA Life Assurance Corporation	291,492	443,018
Other operating expenses		
Ayala Real Estate Investment Trust Inc	489,739	908,754
BPI Europe PLC	52,688	49,754
BPI Securities	79,575	33,591
Ayala Land, Inc.	300,000	-
Retirement benefits Key management personnel	3,200,681	3,307,086
Salaries, allowances and other short-term benefits		
Key management personnel	93,836,149	55,863,398
Directors' remuneration	5,325,000	5,150,000

Other operating expenses pertain to process agent fees and utilities expenses.

The commissions earned by the Company from BPI Investment Management Inc. include those earned from the following funds:

- Philam Managed Income Fund, Inc. amounting to P23,965 (2022 - P152,041), and
- ALFM Peso Bond Fund, Inc. amounting to P226,567 (2022 - P1,386,427).

There were no provisions recognized against receivables from related parties. Also, no additional provision was recognized during the year.

### **Note 17 - Leases**

The Company has a lease agreement with the Parent Bank for its office space renewable under certain terms and conditions and for a period of four (4) years from January 1, 2019, to April 1, 2023. The lease agreement was renewed for another three (3) months from April to June 2023. On July 1, 2023, the Company relocated to its new office on the 23<sup>rd</sup> Floor, Ayala Triangle Gardens Tower Two, Paseo De Roxas corner Makati Avenue, Makati City 1226. The lease agreement is for a period of eight (8) years. The balances arising from the current lease is presented below.

Details of right-of-use assets and lease liability on December 31 are as follows:

	Note	2023	2022
<i>Right-of-use assets - Office space and leasehold improvement</i>	6		
Cost		145,697,553	52,758,924
Accumulated depreciation		(63,163,737)	(48,536,446)
		82,533,816	4,222,478
<i>Lease liability</i>			
Current		9,028,065	5,188,861
Non-current		75,855,952	-
		84,884,017	5,188,861

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

	2023	2022
On January 1	5,188,861	19,763,964
Additions	88,965,023	-
Interest expense	2,983,392	908,754
Cash outflows for principal and interest payments	(12,253,259)	(15,483,857)
On December 31	84,884,017	5,188,861

There are no variable lease payments as at December 31, 2023 and 2022.

Amounts recognized in the statement of income relating to leases as at December 31 are as follows:

	Notes	2023	2022
Depreciation expense (included in "Occupancy and equipment-related expenses")	6	14,627,291	12,720,368
Interest expense (included in "Others" under Other operating expenses)	13	2,983,392	908,754
Expense relating to short-term leases (included in "Occupancy and equipment-related expenses")		1,682,082	1,616,351
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in "Occupancy and equipment-related expenses")		1,479,660	1,088,411
		20,772,425	16,333,884

Critical accounting judgment - Determining the lease term

In determining the lease term, the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Management believes that lease extension and terminations will not be exercised, thus, extension and termination options have not been included in the lease liabilities.

Critical accounting judgment - Determining the incremental borrowing rate

The Company's incremental borrowing rate applied to the lease liability arising from the lease contracts is 6.84% (2022 - 6.84%). The rate was determined in reference to the prevailing bank lending rates that are reflective of the Company's own credit risk taking into consideration the nature of the leased asset and other terms and conditions of the lease contracts.

**Note 18 - Financial risk and capital management**

The BOD carries out its risk management function through the Risk Management Committee (RMC). The RMC is tasked with nurturing a culture of risk management across the enterprise. The RMC sets the risk appetite; proposes and approves risk management policies, frameworks, and guidelines; and regularly reviews risk management structures, metrics, limits, and issues across the Company, to meet and comply with regulatory and international standards on risk measurement and management.

At the management level, the Risk Management Office is headed by the Chief Risk Officer (CRO). The CRO is ultimately responsible in leading the formulation of risk management policies and methodologies in alignment with the overall business strategy of the Company, ensuring that risks are prudently and rationally undertaken and within its risk appetite, as well as commensurate and disciplined to maximize returns on the shareholder's capital. Risk management is carried out by a dedicated team of skilled risk managers and senior officers who have extensive prior operational experience. The Company's risk managers regularly monitor key risk indicators and report exposures against carefully established financial and business risk metrics and limits approved by the RMC. Finally, independent reviews are regularly conducted by the Internal Audit group and regulatory examiners to ensure that risk controls and mitigants are in place and functioning effectively as intended.

The possibility of incurring losses is, however, compensated for by the possibility of earning more than expected income. Risk-taking is, therefore, not entirely negative to be avoided. Risk-taking actions present opportunities if risks are fully identified and accounted, deliberately taken, and are kept within prudent and rationalized limits.

The most important financial risks that the Company manages are credit risk, liquidity risk and market risk.

## 18.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that the counterparty will cause a financial loss for the Company by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment that may represent a concentration in the Company's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk. Credit exposure arises principally in trade and other receivables and debt securities.

### 18.1.1 Credit risk management

#### (a) Trade and other receivables

The Company applies the simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade and other receivables. The detailed impairment policy of the Company is disclosed in Note 20.

#### (b) Debt securities carried at amortized cost

Investments in high grade securities and bills 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 probability of default 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.

<b>Classifications</b>	<b>Credit Risk Grade following S&amp;P or its equivalent</b>
Standard monitoring	Investment grade (IG) (AAA to BBB-)
Special monitoring	Non-IG (BB+ to C)
Default	Default (D)

### 18.1.2 Risk limit control and mitigation policies

The Company manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties and groups, to industries and sovereigns.

The Company 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 subject to an annual or more frequent review, when considered necessary.

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.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

### 18.1.3 Maximum exposure to credit risk

Credit risk exposures relating to financial assets are as follows:

	2023	2022
Cash and cash equivalents	710,208,649	1,542,184,812
Financial assets at FVTPL - debt securities	1,491,390,543	855,678,648
Trade receivables	64,908,446	264,882
Other receivables	1,933,407	7,008,536
	<b>2,268,441,045</b>	<b>2,405,136,878</b>

The carrying amount of financial assets above also represents the Company's maximum exposure to credit risk.

### 18.1.4 Credit quality of financial assets other than trade and other receivables

Credit risk exposures relating to on-balance sheet assets are as follows:

	2023				2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Cash and cash equivalents	710,208,649	-	-	710,208,649	1,542,184,812	-	-	1,542,184,812
Financial assets at FVTPL	1,491,390,543	-	-	1,491,390,543	855,678,648	-	-	855,678,648
Gross carrying amount	2,201,599,192	-	-	2,201,599,192	2,397,863,460	-	-	2,397,863,460
Loss allowance	-	-	-	-	-	-	-	-
<b>Carrying amount</b>	<b>2,201,599,192</b>	<b>-</b>	<b>-</b>	<b>2,201,599,192</b>	<b>2,397,863,460</b>	<b>-</b>	<b>-</b>	<b>2,397,863,460</b>

Cash and cash equivalents substantially consist of savings and time deposit placements with the Parent Bank.

The cash and cash equivalents are deemed to have low credit risk. Accordingly, the applicable 12-month ECL is deemed not material for financial reporting purposes.

The Company's financial assets at FVTPL are investments in mutual funds or open-end investment companies which are redeemable any time in accordance with their prospectus which carry a performing status (Stage 1).

### 18.1.5 Credit quality of trade receivables

The carrying amount of the Company's trade receivables as of December 31, 2023, amounts to P64.91 million (2022 - P0.26 million).

The Company's trade and other receivables generally arise from transactions with various unrated counterparties with good credit standing. The Company applies the simplified approach to measuring ECL which uses a lifetime expected loss methodology for trade and other receivables.

Credit risk exposures relating to trade receivables follows:

	2023				2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Trade receivables	64,894,890	-	-	64,894,890	103,069	-	161,813	264,882
Loss allowance	(6,798)	-	-	(6,798)	-	-	(150,212)	(150,212)
Carrying amount	64,901,688	-	-	64,901,688	103,069	-	11,601	114,670
Other receivables	1,933,408	-	-	1,933,408	7,008,536	-	-	7,008,536
<b>Trade and other receivables</b>	<b>66,835,096</b>	<b>-</b>	<b>-</b>	<b>66,835,096</b>	<b>7,111,605</b>	<b>-</b>	<b>11,601</b>	<b>7,123,206</b>

## 18.2 Concentration of risk on financial assets with credit risk exposure

The Company's main credit exposure at their carrying amounts as categorized by industry sectors are as follows:

On December 31, 2023

	Financial institutions	Manufacturing	Real estate	Others	Total
(In Millions of Pesos)					
Cash and cash equivalents	710	-	-	-	710
Financial assets at FVTPL - debt securities	-	-	-	1,491	1,491
Trade receivables, net	-	-	-	1	1
Other receivables	2	-	-	-	2
	<b>712</b>	<b>-</b>	<b>-</b>	<b>1,492</b>	<b>2,204</b>

On December 31, 2022

	Financial institutions	Manufacturing	Real estate	Others	Total
(In Millions of Pesos)					
Cash and cash equivalents	1,542	-	-	-	1,542
Financial assets at FVTPL - debt securities	-	-	-	856	856
Trade receivables, net	-	-	-	1	1
Other receivables	7	-	-	-	7
	<b>1,549</b>	<b>-</b>	<b>-</b>	<b>857</b>	<b>2,406</b>

## 18.3 Market risk management

The Company is exposed to market risk - the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk management is guided by policies and procedures reviewed by the Company's RMC and approved by the Executive Committee/BOD.

The Company reviews and controls market risk exposures in its trading operations. Trading portfolios include those positions arising from the Company's market-making transactions.

To estimate its exposure to market risk relative to interest rates, the Company computes the statistical "value at risk" (VaR) of its trading position daily. The VaR measurement estimates, at 99% degree of confidence, the maximum loss, due to adverse market movements, that could be incurred by portfolios over assumed holding periods. As such, there remains a 1% statistical probability that the portfolios' actual loss could be greater than the VaR estimate.

VaR of the Company as at December 31 follows:

	2023	2022
	(Amounts in thousands of Pesos)	
Balance Sheet VaR	21,167	27,438

VaR is an integral part of the Company's market risk control system. VaR limits for all trading portfolios are set by the Company's BOD. Actual market risk exposures vis-à-vis market risk limits are reported daily to the Company's management as well as the Parent Bank's RMC.

#### 18.4 Foreign exchange risk

The Company takes on exposure to the effects of fluctuations in the prevailing exchange rates on its foreign currency financial position and cash flows.

The Company's exposure to foreign currency exchange rate risk at December 31, 2022, arises from its cash and other cash items denominated in United States Dollar (US Dollar) equivalent to P0.43 million (2022 - P2.09 million). The Company has no other foreign-currency denominated assets and liabilities as at December 31, 2023 and 2022.

Foreign exchange (loss) gain, net at December 31 is as follows:

	2023	2022
Realized foreign exchange (loss) gain, net	(6,734,835)	12,967,795
Unrealized foreign exchange gain (loss), net	3,756,340	(1,001)
Foreign exchange (loss) gain, net	(2,978,495)	12,966,794

At December 31, 2023 and 2022, if the Philippine Peso had weakened/strengthened by 1% against the US Dollar based on rate 60 days after reporting period with all other variables held constant, pre-tax income as at and for the year ended December 31, 2022 would have been P0.04 million (2022 - P0.21 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US Dollar-denominated assets.

The reasonable possible change in foreign exchange rates used in the sensitivity analysis is based on the monthly average closing exchange rate movement of the respective years.

#### 18.5 Interest rate risk

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. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company 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 if unexpected movements arise. The BOD sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The Company's financial assets and liabilities are mostly non-interest bearing and measured at amortized cost and thus, insensitive to fluctuations in interest rate. The Company's exposure to interest rate risk is mainly from debt securities at FVTPL amounting to P1.49 billion (2022 - P855.68 million).

A shift of +/- 100 basis points on the prevailing market rates (with all other variables held constant), would reduce/increase its income for the year ended December 31, 2023, by P11.19 million (2022 - P6.42 million).

## 18.6 Price risk

The Company is exposed to price risk to the extent of equity securities at FVPL and FVOCI. The Company's sensitivity and exposure to price risk on its equity securities are measured and monitored through the Company's VaR (Note 18.3).

## 18.7 Liquidity risk

Liquidity risk is the risk that the Company 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 current obligations and/or immediate sale of securities.

The Company's liquidity management process, as carried out within the Company includes:

- day-to-day funding is managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- 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; and
- managing the concentration and profile of debt maturities.

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

The table below presents the maturity profile of non-derivative financial instruments based on undiscounted cash flows, which the Company uses to manage the inherent liquidity risk. The analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date the 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
<b>As at December 31, 2023</b>				
<b>Financial assets</b>				
Cash and cash equivalents	710,208,649	-	-	710,208,649
Financial assets at FVTPL	1,602,850,352	-	-	1,602,850,352
Financial assets at FVOCI	1,123,198,971	-	-	1,123,198,971
Trade receivables, net	64,908,446	-	-	64,908,446
Other receivables	1,933,408	-	-	1,933,408
<b>Total financial assets</b>	<b>3,503,099,826</b>	<b>-</b>	<b>-</b>	<b>3,503,099,826</b>
<b>Financial liabilities</b>				
Accounts payable	3,895,958	-	-	3,895,958
Accrued expenses, excluding accrued taxes and licenses and other non-financial liabilities	45,614,305	-	-	45,614,305
Due to a related party	7,869,857	-	-	7,869,857
Lease liability	14,353,754	91,097,660	-	105,451,414
Other liabilities	1,887,463	-	-	1,887,463
<b>Total financial liabilities</b>	<b>73,621,337</b>	<b>91,097,660</b>	<b>-</b>	<b>164,718,997</b>
<b>Total maturity surplus</b>	<b>3,429,478,489</b>	<b>(91,097,660)</b>	<b>-</b>	<b>3,338,380,829</b>



	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
<b>As at December 31, 2022</b>				
<b>Financial assets</b>				
Cash and cash equivalents	1,542,184,812	-	-	1,542,184,812
Financial assets at FVTPL	1,001,745,562	-	-	1,001,745,562
Financial assets at FVOCI	1,042,495,205	-	-	1,042,495,205
Trade receivables, net	114,670	-	-	114,670
Other receivables	7,008,536	-	-	7,008,536
<b>Total financial assets</b>	<b>3,593,548,785</b>	<b>-</b>	<b>-</b>	<b>3,593,548,785</b>
<b>Financial liabilities</b>				
Accounts payable	6,227,489	-	-	6,227,489
Accrued expenses, excluding accrued taxes and licenses and other non-financial liabilities	37,981,652	-	-	37,981,652
Due to a related party	5,807,673	-	-	5,807,673
Lease liability	5,263,048	-	-	5,263,048
Other liabilities	5,372,489	-	-	5,372,489
<b>Total financial liabilities</b>	<b>60,652,351</b>	<b>-</b>	<b>-</b>	<b>60,652,351</b>
<b>Total maturity surplus</b>	<b>3,532,896,434</b>	<b>-</b>	<b>-</b>	<b>3,532,896,434</b>

## 18.8 Fair value hierarchy

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

2023	Fair value			Total
	Level 1	Level 2	Level 3	
<b>Recurring measurements</b>				
<b>Financial assets</b>				
Financial assets at FVTPL	1,491,950,977	115,080,456	-	1,607,031,433
Financial assets at FVOCI	213,943,404	-	909,255,567	1,123,198,971
<b>Fair values disclosed</b>				
<b>Financial assets</b>				
Cash and cash equivalents	-	710,208,649	-	710,208,649
Trade receivables, net	-	64,901,648	-	64,901,648
Other receivables	-	1,933,408	-	1,933,408
<b>Financial liabilities</b>				
Accounts payable	-	3,895,958	-	3,895,958
Accrued expenses, excluding accrued taxes and licenses and other non- financial liabilities	-	45,777,933	-	45,777,933
Due to a related party	-	7,869,857	-	7,869,857
Lease liability	-	84,884,017	-	84,884,017
Other liabilities	-	1,887,463	-	1,887,463

2022	Fair value			Total
	Level 1	Level 2	Level 3	
<b>Recurring measurements</b>				
<b>Financial assets</b>				
Financial assets at FVTPL	855,678,648	146,360,817	-	1,002,039,465
Financial assets at FVOCI	277,794,730	-	764,700,475	1,042,495,205
<b>Fair values disclosed</b>				
<b>Financial assets</b>				
Cash and cash equivalents	-	1,542,184,812	-	1,542,184,812
Trade receivables, net	-	114,670	-	114,670
Other receivables	-	7,008,536	-	7,008,536
<b>Financial liabilities</b>				
Accounts payable	-	6,227,489	-	6,227,489
Accrued expenses, excluding accrued taxes and licenses and other non-financial liabilities	-	37,981,652	-	37,981,652
Due to a related party	-	5,807,673	-	5,807,673
Lease liability	-	5,188,861	-	5,188,861
Other liabilities	-	5,372,489	-	5,372,489

The Company's RMC is responsible for performing the valuation of fair value measurements included in the financial statements, including Level 3 fair values. The valuation processes and results for recurring measurements are reviewed and approved by the Chief Risk Officer (CRO) at least once every quarter, in line with the Company's quarterly reporting dates. The valuation processes and results for non-recurring measurements are reviewed and approved by the CRO in the quarter in which the measurement occurs. All Level 3 valuation results are discussed with the Audit Committee as part of its quarterly review of the Company's financial statements.

The Company's Level 2 financial instruments include government debt securities. The fair values of Level 2 financial instruments are estimated using values obtained from government board summary.

The table below shows the valuation techniques and applicable unobservable inputs used to measure the Company's Level 3 financial instruments (equities classified at FVOCI) as of December 31:

Description	Valuation technique	Unobservable inputs	2023	2022
			Unlisted equity securities	Net asset value; investment multiple

The investment valuation sensitivity of the underlying portfolio investee company is mainly impacted by the movement in net asset value and investment multiple. On December 31, 2023 and 2022, if the net asset value and investment multiple had increased/ decreased by 1% with all other variables held constant, net income and equity as at and for the year ended December 31, 2023, would have been P6.82 million (2022 - P5.74 million) higher/lower.

## 18.9 Capital management

Capital management is understood to be a facet of risk management. The primary objective of the Company is the generation of recurring acceptable returns to the shareholder's capital. To this end, the Company'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 Company 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 Company 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.

Under the provisions of Section 8 of Republic Act (RA) No. 8366, an Act amending Presidential Decree No. 29, otherwise known as the Investment Houses Law, the Company is required to maintain a minimum paid-up capital of P300 million. The Company is fully compliant with the regulatory capital requirements.

### **Note 19 - Basic quantitative indicators of financial performance**

The key financial performance indicators of the Company follow:

	2023	2022
Return on average equity <sup>1</sup>	10.86%	10.45%
Return on average assets <sup>2</sup>	10.81%	11.36%
Net interest margin <sup>3</sup>	0.67%	0.43%

<sup>1</sup>Net income divided by average total equity for the period indicated. Average equity is based on the average balance of equity for the years ended December 31, 2023 and 2022.

<sup>2</sup>Net income divided by average total assets as at period indicated. Average total assets are based on the average balance of total assets as at December 31, 2023 and 2022.

<sup>3</sup>Net interest income divided by average interest-earning assets. Average interest earning assets is based on the average balance of interest earning assets as at December 31, 2023 and 2022.

### **Note 20 - Summary of material accounting policies**

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

#### **20.1 Basis of preparation**

The financial statements of the Company have been prepared in accordance with PFRS. The term PFRS in general includes all applicable PFRS, PAS, and interpretations of the Philippine Interpretations Committee, Standing Interpretations Committee and International Financial Reporting Interpretations Committee which have been approved by the Financial and Sustainability Reporting Standards Council and adopted by the SEC.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at FVTPL, financial assets at FVOCI and plan assets of the retirement plans which are 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 Company's accounting policies. 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 and judgment*

- Determination of fair value of derivatives (Note 3)
- Fair value of unquoted financial instruments (Note 3)
- Trade receivables ECL (Note 4)
- Impairment of investment in subsidiary (Note 5)
- Useful lives of property and equipment (Note 6)
- Realization of DIT assets (Note 7)
- Calculation of defined benefit obligation (Note 15)
- Determining the lease term and incremental borrowing rate of the lease contract (Note 17)

## Changes in accounting policy and disclosures

### *(a) Amendments to existing standards adopted by the Company*

The following amendments to existing standards have been adopted by the Company effective January 1, 2023:

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

The amendment requires 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 this amendment, 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 20 series.

### *(b) New standards, interpretations and amendments not yet adopted by the Company*

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 Company.

## **20.2 Exemption from consolidation**

These financial statements are prepared as the Company's separate financial statements. The Company does not issue consolidated financial statements because it is a wholly-owned subsidiary and its ultimate parent company publishes consolidated financial statements which are available for public use that can be obtained from parent company's and SEC's official websites and prepared in accordance with Philippine Financial Reporting Standards. In accordance with PFRS 10, *Consolidated Financial Statements*, a parent that is in itself a controlled subsidiary and that meets certain requirements need not present consolidated financial statements. The ultimate parent company's consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiary.

## **20.3 Cash and cash equivalents**

Cash and cash equivalents consist of cash and time deposits with maturities of less than three months from the date of acquisition and that are subject to insignificant risk of changes in value.

## **20.4 Financial instruments**

### **20.4.1 Measurement methods**

#### *Amortized cost and effective interest rate*

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider ECL and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Company revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

#### *Initial recognition and measurement*

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

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognizes the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.
- In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

### **20.4.2 Financial assets**

#### **20.4.2.1 Classification and subsequent measurement**

The Company classifies its financial assets in the following measurement categories: at FVTPL, FVOCI and at amortized cost. The classification requirements for debt and equity instruments are described below:

#### *Debt instruments*

Classification and subsequent measurement of debt instruments depend on the Company's business model for managing the asset and the cash flow characteristics of the asset.

Based on these factors, the Company classifies its debt instruments into one of the following three measurement categories:

- *Amortized cost*  
Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any ECL allowance recognized and measured. Interest income from these financial assets is included in "Interest income" using the effective interest rate method. Amortized cost financial assets include cash and cash equivalents, investments in debt securities, trade receivables and other financial receivables.
- *FVOCI*  
Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in the statements of comprehensive income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in "Interest income" using the effective interest rate method.
- *FVTPL*  
Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognized in profit or loss and presented in the statements of comprehensive income within "Trading gain on securities" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately.

*Business model:* The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Company 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 Company assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. 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 Company 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 Company subsequently measures all equity investments at FVTPL, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Company'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) 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 Company's right to receive payments is established. Gains and losses on equity investments at FVTPL are included in the "Trading gain (loss), net" in the statements of comprehensive income.

#### **20.4.2.2 Impairment of financial assets**

##### **(a) Trade and other receivables**

The Company applies the PFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade and other financial receivables.

To measure the ECL, trade and other receivables 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 customers over a period of 36 month and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the domestic GDP and the inflation rate to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

##### **(b) Debt investments**

All of the Company's debt investments at amortized cost and FVOCI are considered to have low credit risk, and the loss allowance recognized is therefore limited to 12-month ECL. Management considers "low credit risk" for listed 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.

#### **20.4.2.3 Derecognition of financial assets**

Financial assets are derecognized when the contractual right to receive cash flows from the financial assets has ceased to exist or the Company has transferred substantially all risks and rewards of ownership.

#### **20.4.3 Financial liabilities**

The Company classifies its financial liabilities as: (i) financial liabilities at FVTPL (including financial liabilities held for trading and those that are designated at fair value); and (ii) other financial liabilities measured at amortized cost.

##### **20.4.3.1 Classification**

###### **(a) Financial liabilities at FVTPL**

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Company as at FVTPL upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller. The Company has no financial liabilities that are held for trading or designated at FVTPL.

(b) Other liabilities measured at amortized cost

The Company's other financial liabilities at amortized cost comprise mainly of accounts payable and other liabilities (except for payables to the Bureau of Internal Revenue and other government agencies for taxes and remittances and advances from a customer), which are carried at amortized cost using the effective interest rate method. These are included in current liabilities, except for maturities greater than 12 months after the reporting date or when the Company has an unconditional right to defer settlement for at least 12 months after the reporting date which are classified as non-current liabilities.

#### **20.4.3.2 Recognition and measurement**

(a) *Recognition*

Financial liabilities are recognized in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

(b) *Measurement*

Financial liabilities carried at FVTPL are initially recognized at fair value, and transaction costs are expensed in profit or loss. Other financial liabilities carried at amortized cost are initially recognized at fair value plus transaction cost.

Financial liabilities carried at FVTPL are subsequently carried at fair value. Other financial liabilities at amortized cost are subsequently measured at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of financial assets and liabilities at FVTPL, including interest and dividend income and interest expense, are presented in profit or loss within other income (expenses) in the period in which they arise. Dividend income from financial assets at FVTPL is recognized in profit or loss as part of other income when the Company's right to receive payment is established.

(c) *Derecognition*

Financial liabilities are derecognized when it is extinguished, that is, when the obligation specified in a contract is discharged or cancelled, or when the obligation expires. When an existing financial liability is replaced by another financial liability from the same creditor with substantially different terms, or the terms of an existing liability are substantially modified, such modification is treated as a derecognition of the original financial liability and a recognition of a new financial liability, and the difference in the respective carrying amounts is recognized in profit or loss within finance costs.

#### **20.5 Derivative financial instruments**

A derivative instrument is initially recognized at fair value on the date a derivative contract is entered into, and is subsequently remeasured to its fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument or is held for trading.



Changes in the fair value of any derivative instrument that does not qualify for hedge accounting (and therefore, held for trading) are recognized immediately in profit or loss.

At inception of the hedge relationship, the Company documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time shall be reclassified to profit or loss in the same periods during which the future cash flows affect profit or loss. When the future cash flows are no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

Derivatives are not deemed significant for financial reporting purposes.

## **20.6 Determination of fair value of financial instruments**

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

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

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example: PSE, Philippine Dealing and Exchange Corp., etc.).
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter ("OTC") derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available.

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the most representative price within the bid-ask spread. These instruments are included in Level 1.

The fair value of assets and liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the asset or liability is included in Level 2. If one or more of the significant inputs is not based on observable market data, the asset or liability is included in Level 3.

## **20.7 Investments in subsidiaries**

Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Company also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Company's voting rights relative to the size and dispersion of holdings of other shareholders give the Company the power to govern the financial and operating policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The Company applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Company recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is not accounted for within equity.

The excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss.

When the Company ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

As allowed under PFRS 10, *Consolidated Financial Statements*, investment in a wholly-owned subsidiary is accounted for at cost method in the separate financial statements of the Company. Under this method, income from investment is recognized in the statement of income only to the extent that the investor receives distributions from accumulated net income of the investee arising subsequent to the date of acquisition.

## 20.8 Other assets

Creditable withholding tax is recognized as asset to the extent that it is probable that the benefit will flow to the Company. This are derecognized when applied against the related tax liability or refunded by the tax authorities as prescribed by the relevant tax laws.

Other assets are included in current assets, except when the related goods or services are expected to be received or rendered more than twelve (12) months after the reporting date, which are then classified as non-current assets.

## 20.9 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the year in which they are incurred.

Depreciation is calculated using the straight-line method to allocate cost or residual values over the estimated useful lives of the assets as follows:

Computer equipment	3 years
Furniture, fixtures and equipment	3 to 5 years
Office space and leasehold improvements	4 years
Right-of-use assets	Shorter of lease term and useful life of 4 years

Major renovations are depreciated over the remaining useful life of the related asset.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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 and value in use.

The Company derecognizes the carrying amount of an item of property and equipment on disposal or when no future economic benefits are expected from its use or disposal.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of income.

## 20.10 Software costs

Acquired software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful life of three (3) years.

Cost associated with maintaining computer software programs are recognized as an expense when incurred.

The carrying amount of software costs is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition is recognized in profit or loss.

## **20.11 Income taxes**

The income tax expense for the period comprises current and DIT. Income tax is recognized in profit or loss, except to the extent that that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

DIT assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. DIT assets arising from NOLCO and excess MCIT are recognized to the extent that it is probable that the Company will have future taxable profit before any unused tax losses or unused tax credits expire as prescribed by the relevant tax provisions.

DIT liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. DIT liabilities are recognized in full for all taxable temporary differences.

DIT assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the DIT assets and liabilities relate to income taxes levied by the same taxation authority on the taxable entity and where there is an intention to settle the balances on a net basis.

The Company has substantial income from its investment in government securities subject to final withholding tax. Such income is presented at its gross amount and the tax paid or withheld is included in Current provision for income tax.

The Company re-assesses at each reporting date the need to derecognize a previously recognized DIT asset.

## **20.12 Income and expense recognition**

### *(a) Revenue from fees and commissions*

The Company recognizes revenue when (or as) the Company 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.

The recognition of revenue can be either over time or at a point in time depending on when the performance obligation is satisfied.

When control of a good or service is transferred over time, that is, when the customer simultaneously receives and consumes the benefits, the Company satisfies the performance obligation and recognizes revenue over time. Otherwise, revenue is recognized at the point in time at the point of transfer control of the good or service to the customer.

Variable consideration is measured using either the expected value method or the most likely amount method depending on which method the Company expects to better predict the amount of consideration to which it will be entitled. This is the estimated amount of variable consideration, or the portion, if any, of that amount for which it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Where there is a single performance obligation, the transaction price is allocated in its entirety to that performance obligation. Where there are multiple performance obligations, the transaction price is allocated to the performance obligation to which it relates based on stand-alone selling prices.

The Company recognizes revenue based on the price specified in the contract, and include variable consideration, if there is any in accordance with agreed performance obligation under its contract or mandate. Fees and commission income from underwriting, loan syndication and financial advisory activities are recognized in the period the related services are rendered and completed based on agreed performance obligation and the right to receive payment is established.

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

There are no warranties and other similar obligation and refunds agreed with customers.

(b) Other income

Other income is recognized when earned and the Company's right to receive payment is established.

(c) Cost and expenses

Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset, or an increase in a liability has arisen, that can be measured reliably.

Brokerage fees and underwriting fees pertain to payments made by the Company to broker-dealers for brokering and underwriting services rendered related to certain underwritten deals.

## **20.13 Employee benefits**

(a) Pension benefits

The Company has both defined benefit and defined contribution plans. 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. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate fund. Under a defined contribution plan, the Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

*Defined benefit plan*

The Company's defined benefit plan is funded through payments to a trustee-administered fund as determined by periodic actuarial calculations.

The defined benefit obligation is calculated annually by independent actuaries 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 Philippine Peso, and that have terms to maturity approximating the terms of the related retirement benefit obligation.

The liability recognized in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. In cases when the amount determined results in a surplus (being an excess of the fair value of the plan assets over the present value of the defined benefit obligation), the Company measures the resulting asset at the lower of the surplus in the defined benefit plan and the present value of future benefits in the form of refunds or reductions in future contributions to the plan.

Restricted or non-transferrable assets of the fund are excluded in the determination of the fair value of plan assets.

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

All past service costs are recognized immediately in profit or loss.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included as part of retirement benefit expense recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains or losses on the settlement of a defined benefit plan when the settlement occurs.

#### *Defined contribution plan*

The Company also maintains a defined contribution plan that covers certain full-time employees. Under its defined contribution plan, the Company pays fixed contributions based on the employees' monthly salaries to a privately trustee-administered fund. Contribution is determined by periodic actuarial calculations and compensation. The Company, however, is covered under RA No. 7641, otherwise known as The Philippine Retirement 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 Company 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 liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. 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 fair value of plan asset is 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.

The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when these are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

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.

(b) Profit-sharing and bonus plans

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

(c) Share-based compensation

The Company's management awards high-performing employees bonuses in the form of options to purchase Parent Bank's common shares, from time to time, on a discretionary basis. The options are subject to certain service vesting conditions.

The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The grant by BPI of the options over its equity instruments to the employees of the Company is recorded in equity. The fair value of employee services received by the Company in respect of the options granted is recognized in profit or loss over the period that the services are received, which is the vesting period. The Company is recharged by BPI for the share-based payment when the award vests. The subsidiary recognizes the recharge over the vesting period as a charge to equity.

The fair value of the options granted is determined using option pricing models which take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors.

When the stock options are exercised, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (par value) and share premium for the excess of exercise price over par value.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

## **20.14 Share capital; retained earnings**

Common shares are classified as equity and are measured at par value for all shares issued. The amount of proceeds from the issuance or sale of shares representing the aggregate par or stated value is credited to share capital. Proceeds in excess of the aggregate par or stated value of shares, if any, are credited to share premium. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

## **20.15 Dividends on common shares**

Dividends on common shares are recognized in the period in which they are approved by the BOD.

## **20.16 Leases (the Company is the lessee)**

### *Measurement of lease liabilities*

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held for entities which do not have recent third-party financing, and
- makes adjustments specific to the lease (i.e. term, currency and security).

Lease payments are allocated between principal and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

### *Measurement of right-of-use assets*

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.



### *Extension and termination options*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is revised only if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

### *Short-term leases and leases of low-value assets*

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the statements of income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

### *Lease modification*

Lease modifications are accounted either as a separate lease or not a separate lease. The Company accounts for the lease modification as a separate lease if both:

- the modification increases the scope of the lease by adding the right of use to one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For lease modification that is not accounted for a separate lease, at the effective date of lease modification, the Company:

- allocates the consideration in the modified contract on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components;
- determine the lease term of the modified lease; and
- remeasure the lease liability by discounting the revised lease payments using a revised discount rate.

The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

For a lease modification that is not accounted for as a separate lease, the Company accounts for the remeasurement of the lease liability by:

- decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease; and
- making a corresponding adjustment to the right-of-use asset for all other lease modifications.

The Company recognizes in profit or loss any gain or loss relating to the partial or full termination of the lease.

## 20.17 Related party relationships and transactions

Related party relationships exist when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholder. In considering each possible related party relationships, attention is directed to the substance of the relationship and not merely the legal form.

## 20.18 Foreign currency transactions and translation

### *Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Philippine Peso, which is the Company's functional and presentation currency.

### *Transactions and balances*

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

### **Note 21 - Supplementary information required by Revenue Regulations No. 15-2010**

The following information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

#### *(i) Withholding taxes*

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

	Paid	Accrued	Total
Income taxes withheld on compensation	57,233,750	3,606,336	60,840,086
Final income taxes withheld on income payment	2,604,957	273,683	2,878,640
Creditable income taxes withheld (expanded)	2,096,449	412,305	2,508,754
Fringe benefit tax	678,825	163,628	842,453
VAT withholding tax	1,285,056	135,994	1,421,050
	63,899,037	4,591,946	68,490,983

Accrued withholding taxes are presented as part of Accounts payable and other liabilities in the statement of financial position.

(ii) *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	47,263,798	8,845,156	56,108,954
Municipal taxes/Mayor's permit	72,461	-	72,461
Others	326,802	-	326,802
	47,663,061	8,845,156	56,508,217

(iii) *Tax assessment*

As at December 31, 2023, the Company did not have outstanding preliminary or final assessment.

(iv) *Tax cases*

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

**BPI Capital Corporation**  
**23<sup>rd</sup> Floor, Ayala Triangle Gardens Tower Two**  
**Paseo De Roxas corner Makati Avenue**  
**Makati City**

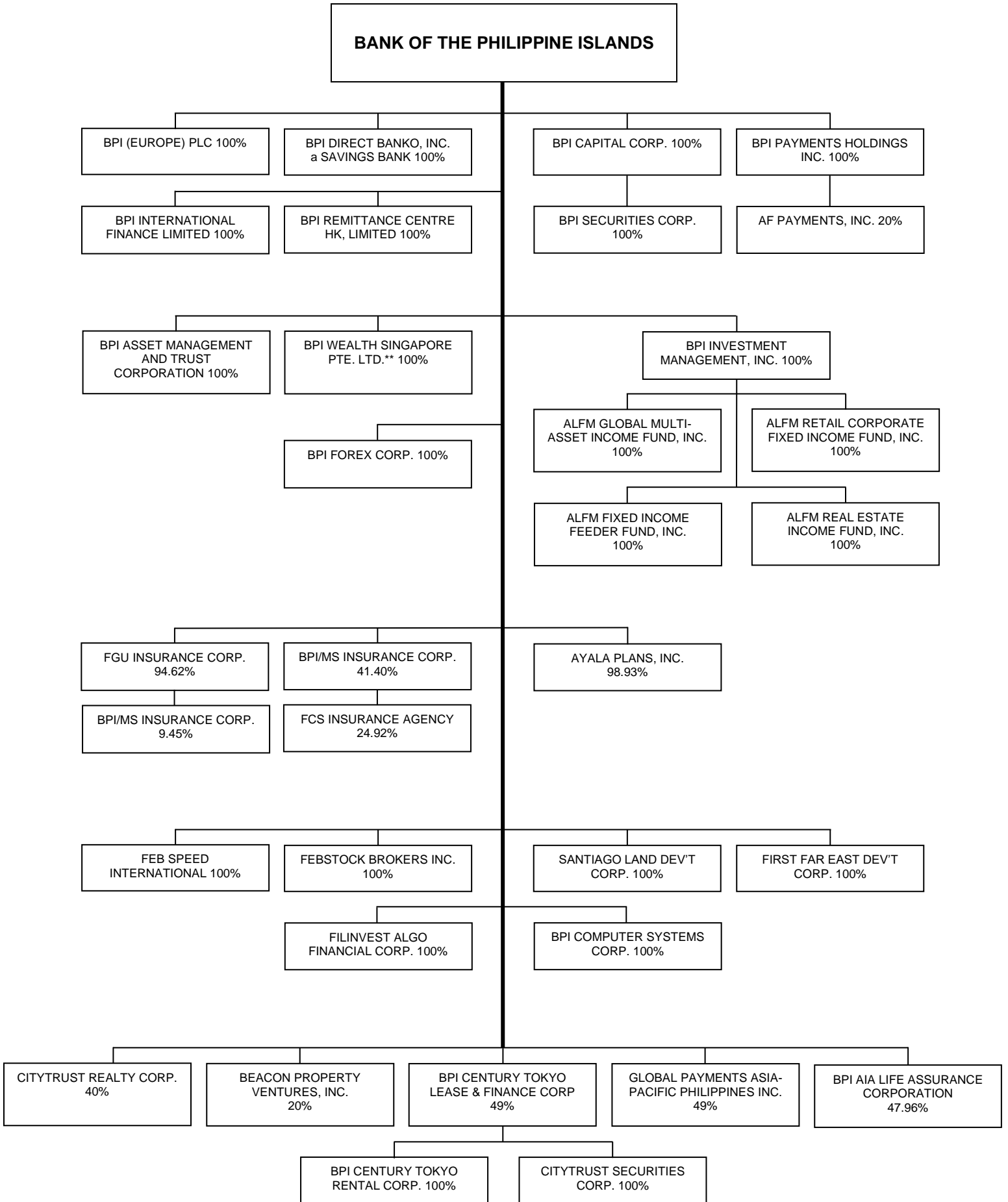
**Reconciliation of Retained Earnings Available for Dividend Declaration**  
**As at December 31, 2023**  
**(All amounts in thousands of Philippine Peso)**

<b>Unappropriated Retained Earnings, beginning of the year/period</b>		2,979,019
Add: Category A: Items that are directly credited to		
Unappropriated retained earnings		
Reversal of Retained earnings appropriation/s	-	
Effect of restatements or prior-period adjustments	-	
Others (describe nature)	-	-
Less: Category B: Items that are directly debited to		
Unappropriated retained earnings		
Dividend declaration during the reporting period	500,000	
Retained earnings appropriated during the reporting period	-	
Effect of restatements or prior-period adjustments	-	
Others (describe nature)	-	500,000
<b>Unappropriated Retained Earnings, as adjusted</b>		2,479,019
Add/Less: Net Income (loss) for the current year/period		435,810
<b>Less: Category C.1: Unrealized income recognized in the profit or loss during the year/period (net of tax)</b>		
Equity in net income of associate/joint venture, net of dividends declared	-	
Unrealized foreign exchange gain, except those attributable to cash and cash equivalents	-	
Unrealized fair value adjustment (mark-to-market gains) of financial instruments at fair value through profit or loss (FVTPL)	13,330	
Unrealized fair value gain of investment property	-	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS (describe nature)	-	13,330

Add: Category C.2: Unrealized income recognized in the profit or loss in prior reporting periods but realized in the current reporting period (net of tax)	-	
Realized foreign exchange gain, except those attributable to Cash and cash equivalents	-	
Realized fair value adjustment (mark-to-market gains) of financial instruments at fair value through profit or loss (FVTPL)	-	
Realized fair value gain of Investment property	-	
Other realized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS (describe nature)	-	-
Add: Category C.3: Unrealized income recognized in profit or loss in prior periods but reversed in the current reporting period (net of tax)	-	
Reversal of previously recorded foreign exchange gain, except those attributable to cash and cash equivalents	-	
Reversal of previously recorded fair value adjustment (mark-to-market gains) of financial instruments at fair value through profit or loss (FVTPL)	83,072	
Reversal of previously recorded fair value gain of investment property	-	
Reversal of other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS, previously recorded (describe nature)	-	83,072
Adjusted net income/loss		-
Add: Category D: Non-actual losses recognized in profit or loss during the reporting period (net of tax)		
Depreciation on revaluation increment (after tax)		-
Add/Less: Category E: Adjustments related to relief granted by the SEC and BSP		
Amortization of the effect of reporting relief	-	
Total amount of reporting relief granted during the year	-	
Others (describe nature)	-	-

<b>Add/Less: Category F: Other items that should be excluded from the determination of the amount of available for dividends distribution</b>	
Net movement of treasury shares (except for reacquisition of redeemable shares)	-
Net movement of deferred tax asset not considered in the reconciling items under the previous categories	-
Net movement in deferred tax asset and deferred tax liabilities related to same transaction, e.g., set up of right of use of asset and lease liability, set-up of asset and asset retirement obligation, and set-up of service concession asset and concession payable	-
Adjustment due to deviation from PFRS/GAAP - gain (loss)	-
Others (describe nature):	
Redemption of redeemable shares	-
<b>Total Retained Earnings, end of the year/period available for dividend declaration</b>	<b>2,984,571</b>

# BANK OF THE PHILIPPINE ISLANDS



\*Updated as of March 5, 2024

\*\* Incorporated on June 20, 2023 with the Accounting and Corporate Regulatory Authority of Singapore; with Capital Market Services license application still pending approval by the Monetary Authority of Singapore