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PHILIPPINE BANK OF COMMUNICATIONS
(a banking corporation organized and existing under Philippine laws)

₱15,000,000,000
Peso Bond Programme

Under the ₱15,000,000,000 Bond Programme (the “**Programme**”), Philippine Bank of Communications (“**PBCOM**”, the “**Bank**”, the “**Issuer**” or, to the extent it performs the functions of a selling agent in connection with an offering and issuance of the Bonds, a “**Selling Agent**”) may from time to time (and subject to applicable laws and regulations then in force) issue bonds (the “**Bonds**”) in an aggregate principal amount of up to ₱15,000,000,000 or such other increased amount as may be authorized in accordance with the terms and conditions of the Programme (the “**Programme Limit**”). The Programme has been established and Bonds will be issued in accordance with Section X236 of the Manual of Regulations for Banks, as amended by Circular Nos. 1010 and 1062 issued by the *Bangko Sentral ng Pilipinas* (“**BSP**”), the General Banking Law of 2000 (Republic Act No.8791), and other applicable laws and regulations. The Programme and the Bonds issued thereunder are subject to the terms and conditions of the Programme Agreement dated 26 September 2024 among PBCOM and the Sole Arranger and Sole Bookrunner (including the Master Terms and Conditions of the Bonds annexed to the Programme Agreement), the Registry and Paying Agency Agreement dated 26 September 2024 between PBCOM and Philippine Depository and Trust Corporation (“**PDTC**” or the “**Registrar**” or “**Paying Agent**”), the Trust Agreement dated 26 September 2024 between PBCOM and Development Bank of the Philippines Trust Banking Group (the “**Trustee**”), and the Bond Certificate issued for each tranche of the Bonds (each such tranche, a “**Tranche**”).

THE SECURITIES BEING OFFERED OR SOLD UNDER THIS OFFERING CIRCULAR ARE EXEMPT FROM REGISTRATION UNDER SECTION 9.1(e) OF THE SECURITIES REGULATION CODE (REPUBLIC ACT NO. 8799) AND CONSEQUENTLY, HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION (“SEC”).

Upon their issuance, the Bonds shall be listed or enrolled as securities that may be traded on the Philippine Dealing & Exchange Corp. (“**PDEX**”) in accordance with the procedures and requirements set out in this Offering Circular and the relevant PDEX rules, operating framework, and trading conventions. The Bonds shall be issued in scripless form. Legal title to the Bonds shall be shown in the Registry Book to be maintained by the designated registrar of the Bonds. A Bond Certificate representing the Bonds shall be issued to and registered in the name of the Trustee, on behalf of the bondholders.

The Bonds shall constitute the direct, unconditional, and unsecured obligations of the Bank and shall at all times rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsecured obligations of the Bank, other than obligations preferred by law. The Bonds shall effectively be subordinated in right of payment to, among others, all of the Bank’s secured debts to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14)(a) of the Civil Code of the Philippines without a waiver of preference or priority.

The specific terms of the Bonds for each Tranche will be determined by the Bank considering prevailing market conditions and shall be provided in a supplement to be circulated at the time of the offer of the relevant tranche (each a “**Pricing Supplement**”).

The Bank has an Issuer Credit Rating of PRS Aa minus (corp.), with a Stable Outlook, dated 20 September 2024 by Philippine Rating Services Corporation (“**PhilRatings**”). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

THE BONDS ARE NOT A DEPOSIT AND ARE NOT INSURED WITH THE PHILIPPINE DEPOSIT INSURANCE CORPORATION.

See “**Investment Considerations**” for a discussion of certain factors to be considered in connection with

an investment in the Bonds.

Sole Arranger and Sole Bookrunner



Selling Agents



For inquiries or complaints, you may contact the Bank at +632 8777-2266 or at customercare@pbcom.com.ph or the BSP Financial Consumer Protection Department at telephone no. +632 8708-7087.

The date of this Offering Circular is 26 September 2024

The Bank accepts responsibility for the information contained in this Offering Circular. The Bank, having made all reasonable inquiries, confirms that: (a) this Offering Circular contains or incorporates all information which is material in the context of the Programme and the Bonds, (b) the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, (c) the opinions and intentions expressed in this Offering Circular are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, (d) there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading, and (e) all reasonable enquiries have been made by the Bank to verify the accuracy of the information in this Offering Circular. The Bank confirms that it accepts full and sole responsibility for the accuracy of the information contained in this Offering Circular, notwithstanding any disclaimers made in this Offering Circular by or on behalf of the Selling Agents (which term may include the Bank, to the extent the Bank performs the functions of a selling agent in connection with the offering and issuance of the Bonds). Unless otherwise indicated, all information in this Offering Circular is as of the date of this Offering Circular.

None of the Sole Arranger and Sole Bookrunner or Selling Agents has verified the information contained or incorporated by reference in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of the Sole Arranger and Sole Bookrunner or any of the Selling Agents (other than the Bank) as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided in connection with the Programme or the Bonds. To the fullest extent permitted by law, none of the Joint Lead Arrangers and Joint Bookrunners or Selling Agents (other than the Bank) accepts any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Sole Arranger and Sole Bookrunner or the Selling Agents or on their respective behalf in connection with the Bank, the Programme, or the issue and offering of the Bonds. Accordingly, each of the Sole Arranger and Sole Bookrunner and the Selling Agents (except the Bank) disclaims any and all liability whether arising in tort, contract, or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. No person has been authorized to give any information or to make any representation concerning the Bank or the Bonds other than as contained in this Offering Circular and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Bank or the Sole Arranger and Sole Bookrunner.

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

Neither the Bank, nor the Sole Arranger, nor the Sole Bookrunner, nor the Selling Agents (other than the Bank) nor any of their respective affiliates or representatives is making any representation to any purchaser of Bonds regarding the legality of an investment by such purchaser under applicable laws. In addition, the contents of this Offering Circular are not to be considered as legal, business, or tax advice. You should be aware that you may be required to bear the financial risks of an investment in the Bonds for an indefinite period. You should consult with your own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Bonds.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Bonds (i) is intended to provide the basis of any credit or other evaluation, or (ii) should be considered as a recommendation by the Sole Arranger and Sole Bookrunner or the Selling Agents (other than the Bank) that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Bonds should purchase any of the Bonds. In making an investment decision, investors must rely on their own examination of the Bank and the terms of the Bonds, including the merits and

material risks involved. Investors are not entitled to rely on the Sole Arranger, Sole Bookrunner, or on the Selling Agents (other than the Bank) or on any person affiliated with the Sole Arranger, Sole Bookrunner, or the Selling Agents (other than the Bank) in connection with his/her/its investigation of the accuracy of any information in this Offering Circular or his/her/its investment decision to purchase the Bonds.

Each of the Sole Arranger, the Sole Bookrunner, the Selling Agents (other than the Bank), the Trustee, and the Registrar and Paying Agent is a third-party in relation to the Issuer, and none of the foregoing entities is (i) a subsidiary or affiliate of the Issuer or (ii) related in any manner to the Issuer as would undermine its independence and ability to perform its obligations in relation to the issuance of the Bonds.

The Bank's reviewed financial statements as of and for the period ended 30 June 2024 and audited financial statements as of and for the years ended 31 December 2023, 2022, and 2021 which will be considered an integral part hereof, have been prepared in compliance with Philippine Financial Reporting Standards ("PFRS"). The review and audits for aforementioned periods were performed by SyCip Gorres Velayo & Co ("SGV").

CONVENTIONS WHICH APPLY TO THIS OFFERING CIRCULAR

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the "Philippines" are references to the Republic of the Philippines. All references to the "Government", "Philippine Government" or the "National Government" herein are references to the Government of the Philippines. All references to "United States" or "U.S." herein are to the United States of America. All references to "Peso", "Php", "PHP" or "₱" herein are to the lawful currency of the Philippines and all references to "U.S. dollars" or "US\$" herein are to the lawful currency of the United States.

Figures in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown for the same item of information may vary and figures which are totals may not be an arithmetic aggregate of their components.

FORWARD-LOOKING STATEMENTS

This Offering Circular includes forward-looking statements. The Bank has based these forward-looking statements largely on its current expectations and projections about future events and financial trends affecting its business. The words "believes", "can", "may", "will", "would", "estimates", "continues", "anticipates", "intends", "expects" and similar words are intended to identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, without limitation, those regarding the Bank's financial position and results, business strategy, plans and objectives of management for future operations, including development plans and objectives relating to the Bank's products and services, are forward-looking statements. In light of these known and unknown risks, uncertainties, and other factors associated with forward-looking statements, investors should be aware that the forward-looking events and circumstances discussed in this Offering Circular might not occur, and the Bank's actual results performance or achievements may be materially different from the future results, performance or achievements expressed or implied by forward-looking statements. Such forward-looking statements are based on current beliefs, assumptions, expectations, estimates and projections regarding the Bank's present and future business strategies and the environment in which the Bank will operate in the future. Among the important factors that could cause some or all of those assumptions not to occur or cause the Bank's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- the actual growth in demand for banking and other financial products and services;
- future levels of non-performing assets;
- the Bank's growth strategy and expansion plans;
- the adequacy of the Bank's allowance for credit and investment losses;
- technological change;
- the Bank's ability to market new products and services;
- the Bank's ability to successfully implement its business strategy;
- the outcome of any legal or regulatory proceedings to which the Bank is or may become a party;
- the future impact of new accounting standards;
- the impact on the Bank of Philippine banking regulations (and of other government regulations where the Bank may operate);
- the Bank's ability to access low-cost funding;

- increased competition from other banks;
- the Bank’s exposure to market risks;
- risks related to the Bank;
- risks relating to the Philippines;
- risks associated with the Bonds; and
- risks relating to certain statistical information in this Offering Circular.

By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on net interest income and net income could materially differ from those that have been estimated.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: general economic and political conditions in the Philippines and the other countries which have an impact on the Bank’s business activities or investments; the monetary and interest rate policies of the Government; inflation, volatility in interest rates, foreign exchange rates, equity prices or other rates or prices; the performance of the financial markets in the Philippines and globally; changes in Philippine and foreign laws and regulations, including tax, accounting and banking regulations; changes in competition in the Philippines; and changes in asset valuations. For further discussion of the factors that could cause actual results to differ, see “Investment Considerations”.

The Bank, the Sole Arranger, the Sole Bookrunner, and the Selling Agents assume no obligation to update any of the forward- looking statements after the date of this Offering Circular or to confirm these statements to actual results, subject to compliance with all applicable laws. The Bank, the Sole Arranger, the Sole Bookrunner, and the Selling Agents assume no obligation to update any information contained in this Offering Circular or to publicly release any revisions to any forward-looking statements to reflect events or circumstances; or to reflect that the Issuer became aware of any such events or circumstances that occur after the date of this Offering Circular.

INDUSTRY AND MARKET DATA

Unless otherwise indicated, market data and certain industry forecasts used throughout this Offering Circular were obtained from internal surveys, market research, information compiled and made available by the BSP, or other publicly available sources and industry publications. None of the Bank or the Sole Arranger and Sole Bookrunner or Selling Agents have verified such information with independent sources nor make any representation as to the accuracy or completeness of such information. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and neither the Bank nor the Sole Arranger and Sole Bookrunners and Selling Agents make any representation as to the accuracy and completeness of such information.

PRICING SUPPLEMENT

For each issuance of a Tranche of the Bonds under the Programme, the Bank shall distribute the relevant Pricing Supplement applicable to such Tranche which shall be disclosed to the public through filing with the PDEx and made available for download from the website of the Bank, specifically, <https://www.pbcom.com.ph/>.

In addition to the name of the Issuer and description of the Programme, the Pricing Supplement shall contain the following information in respect of the Tranche to be issued:

- (a) offer size;
- (b) applicable interest rate;
- (c) tenor;
- (d) offer price;
- (e) manner of distribution;
- (f) form and denomination;
- (g) provisions relating to redemption;
- (h) other terms and conditions applicable to the specific Tranche; and
- (i) parties to the distribution.

The Pricing Supplement shall also contain amendments or updates to this Offering Circular, if any.

DOCUMENTS INCORPORATED BY REFERENCE

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

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

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

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

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

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, to an extent which is material in the context of the Programme, a new offering circular will be prepared.

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SECTION 1. OFFERING CIRCULAR SUMMARY

This summary highlights information contained elsewhere in this Offering Circular. The following summary is qualified in its entirety by, and must be read in conjunction with, the more detailed information and financial statements, including notes thereto, appearing elsewhere in this Offering Circular. Investors are recommended to read this entire Offering Circular carefully, including the Bank's financial statements and related notes (the "Financial Statements") and "Investment Considerations".

1.1 DESCRIPTION OF THE BANK

Philippine Bank of Communications (the "**Bank**") is a commercial bank based in the Philippines. PBCOM offers a broad suite of financial solutions, ranging from deposit products and cash management solutions, corporate and consumer loans, investment services, as well as trust and wealth management. PBCOM mostly caters to the middle market segment and small and medium-sized enterprises ("SMEs"). The Bank's total assets stood at ₱148.65 billion, ₱147.48 billion, ₱124.88 and ₱109.23 billion as of 30 June 2024, 31 December 2023, 31 December 2022 and 31 December 2021, respectively. Total equity was ₱18.38 billion ₱17.66 billion, ₱15.57 billion, and ₱14.18 billion as of 30 June 2024, 31 December 2023, 31 December 2022 and 31 December 2021, respectively.

As of 30 June 2024, the Bank has network of 89 regular branches and 4 branch lite units across Metro Manila, Luzon, Visayas and Mindanao. PBCOM also has 166 ATMs which 91 are onsite and 75 offsite, and 3 CRMs nationwide.

The Bank has been listed in the Philippine Stock Exchange ("PSE") since 1988 (then Makati and Manila Stock Exchanges). As of 30 June 2024, the Bank has a market capitalization of ₱6.98 billion.

The Philippine Bank of Communications started operations on September 4, 1939 at the Trade and Commerce Building on Juan Luna Street, Binodo, Manila. A branch of the Bank of Communications headquartered in Taiwan, it was one of the first non-American foreign commercial banks to operate in the Philippines.

PBCOM came under Filipino ownership when Ralph Nubla and company purchased majority of the Bank's outstanding capital stock on June 21, 1974. In February 1988, PBCOM was listed in the Makati and Manila Stock Exchanges. In December 1995, in order to finance its information Technology and Branch Expansion Program, the Bank offered 1 million of its common shares to the public for the first time.

In 2000, PBCOM began to take bolder steps towards becoming a modern and competitive commercial bank. Major shareholders displayed their commitment to the Bank by pouring P2.6 billion in fresh equity, making PBCOM one of the biggest capitalized commercial banks. That year, PBCOM also acquired Consumer Savings Bank, a 19-branch thrift bank with a strong presence in retail market. In 2001, PBCOM transferred its Head Office from Binodo to the PBCOM Tower, then the country's tallest building, located in the heart of Makati City.

In 2011, ISM communication Corporation (the "ISM Group") signed on as a Strategic Third-Party investor to PBCOM. The ISM Group is a listed Philippine holding company with investments in the production and sale of media information systems for the hospitality industry and development of software and hardware internet solutions under its associate, Acentic Holdings Limited. The ISM Group is led by its Chairman, Mr. Eric O. Recto. It is owned by Monfortino Holdings Inc., Dennison Holdings Corporation, Accion Common Development Fund SPC and as well as other strategic partners.

Eric Recto was elected as the Bank's Chairman on 8 May 2012.

In September 2014, the entry of Mr. Lucio Co as the Bank's strategic investor placed PBCOM in a unique position for growth. The Bank is focused on building its capabilities in order to leverage the more than 3,000 suppliers and trade partners 1.1 million royal customers of Puregold Price Club Inc. and 600,000 active members of S&R.

With Chairman Eric O. Recto and President and CEO Patricia May T. Siy at the helm, PBCOM embarks on the next phase of its growth and development as it strives to deliver world-class customer service, expand its distribution network to bring banking services, and introduce new products and services. The Bank is poised to expand its suite of financial solutions, which ranges from Deposits and Investment Services to Cash Management Solutions, as well as Commercial and Personal Loans.

1.2 STRENGTHS

PBCOM has identified several key competitive advantage that underpins its success in the Philippine market.

- **Strong Ecosystem and Expertise:** PBCOM benefits from the synergies within the Lucio Co Group of Companies as well as the companies owned by the other members of the Board. The bank likewise leverages the expertise of its Board of Director to develop innovative financial solutions, allowing PBCOM to cater to the specific needs of its customers.
- **Loyal Customer Base:** PBCOM has cultivated a strong relationship with its Filipino-Chinese customer base, building on the years of trust and exceptional service. By employing targeted marketing strategies, the bank can continue to nurture this loyalty and expand its reach to the next generation of the Filipino-Chinese customers.
- **Exception Leadership:** The bank's commitment to having a strong succession plan and investment in leadership development fosters a culture of excellence, innovation and talent retention. This ensures a solid future for the bank and its ability to adapt to changing market dynamics.
- **Universal Bank License:** PBCOM's universal banking license empowers the bank to offer a wider range of financial products and services, enabling it to expand into new market segments and provide comprehensive solutions to its customers.
- **Legacy of Resilience:** PBCOM's 85 years history of resilience demonstrates its ability to withstand economic challenges and navigate future challenges.

1.3 STRATEGIES

The Bank's aim to become a stronger, simpler and highly synergistic bank will be achieved through

1. Asset expansion in sustainable industries and markets
2. Growing a Capital-Light, Fee-Based business by diversifying revenue streams beyond the traditional interest based income resulting to reduced risk and enhanced profitability. This can be achieved by developing innovative fee based products and services that cater to the evolving needs and preferences of our customers.
3. Pursuing a Two-pronged approach to Net Income growth by improving the low-cost funding mix and scaling operations to achieve scale and improve unit economics.
4. Simpler operations that provides a seamless customer experience through integrated distribution channels and a comprehensive suite of financial products and services and partnership
5. Leveraging the Bank's data assets to provide personalized offerings.

1.4 BANK INFORMATION

The Philippine Bank of Communications was incorporated under the laws of the Philippines in 1939. The Bank's head office and principal place of business is located at the PBCOM Tower, 6795 Ayala Avenue corner V.A. Rufino St.1226 Makati City, Philippines The Bank's telephone number at this location is (632) 8777-2266. The Bank's primary website is www.pbcom.com.ph.

SECTION 2. SUMMARY OF FINANCIAL INFORMATION

The following tables present the Bank's selected financial information and should be read in conjunction with the Bank's audited financial statements and notes thereto contained in this Offering Circular and the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations", and "Business" in this Offering Circular. The selected financial information presented below were derived from the unaudited consolidated financial statements as of and for the six-month period ended 30 June 2024 prepared in accordance with Philippine Accounting Standards (PAS) 34, Interim Financial Reporting and reviewed by SyCip Gorres Velayo & Co. in accordance with Philippine Standards on Review Engagements 2410, Review of Review of Interim Financial Information Performed by the Independent Auditor of the Entity, and the audited consolidated financial statements of the Bank as of and for the years ended 31 December 2023 and 2022, and 2021 prepared in accordance with PFRS and audited by SyCip Gorres Velayo & Co. in accordance with Philippine Standards on Auditing and are qualified in their entirety by reference to those financial statements and the related notes thereto. The selected financial information set out below does not purport to project the results of operations or financial condition for any future period or date.

2.1 STATEMENTS OF FINANCIAL POSITION

| PHILIPPINE BANK OF COMMUNICATIONS | | | | |
|---|-------------------------------|--------------------------|--------------------|--------------------|
| STATEMENTS OF FINANCIAL POSITION | | | | |
| | As of 30 June | As of December 31 | | |
| | 2024 | 2023 | 2022 | 2021 |
| | (Amounts in Thousands) | | | |
| ASSETS | | | | |
| Cash and Other Cash Items | P926,127 | P1,562,747 | P1,404,214 | P1,515,914 |
| Due from Bangko Sentral ng Pilipinas | 10,612,062 | 12,204,980 | 11,336,471 | 10,271,486 |
| Due from Other Banks | 633,537 | 485,530 | 1,089,190 | 658,593 |
| Interbank Loans Receivable and Securities Purchased under Resale Agreements | 1,083,823 | 492,353 | 2,600,579 | 4,195,846 |
| Financial Assets at Fair Value through Profit or Loss | 479,697 | - | - | 886,291 |
| Financial Assets at Fair Value through Other Comprehensive Income | 13,924,895 | 8,415,559 | 5,008,596 | 6,489,287 |
| Investment Securities at Amortized Cost | 25,274,646 | 27,776,391 | 21,661,825 | 15,520,279 |
| Loans and Receivables | 89,992,716 | 91,774,314 | 76,923,878 | 64,785,392 |
| Investments in Subsidiary and an Associate | 16,683 | 16,343 | 14,715 | 14,401 |
| Property and Equipment | 818,363 | 814,490 | 803,837 | 882,217 |
| Investment Properties | | | | |
| Condominium units for lease | 1,579,977 | 1,603,231 | 1,691,796 | 1,740,177 |
| Foreclosed properties | 1,996,364 | 975,759 | 962,112 | 834,303 |
| Office units for lease | 1,812 | 1,988 | 2,338 | 2,689 |
| Intangible Assets | 518,990 | 525,218 | 525,605 | 527,503 |
| Deferred Tax Assets | 402,795 | 404,323 | 390,567 | 325,614 |
| Other Assets | 385,045 | 424,464 | 462,776 | 579,328 |
| Total Assets | 148,647,532 | 147,477,690 | 124,878,499 | 109,229,320 |
| LIABILITIES AND EQUITY | | | | |
| Deposit Liabilities | | | | |
| Demand | 41,202,362 | 41,395,954 | 45,499,687 | 41,166,107 |
| Savings | 11,617,120 | 13,314,707 | 12,667,907 | 11,359,112 |
| Time | 59,453,306 | 59,089,567 | 38,382,737 | 31,531,570 |
| Long-Term Negotiable Certificates | - | 2,900,016 | 2,893,897 | 2,889,116 |
| | 112,272,788 | 116,700,244 | 99,444,228 | 86,945,905 |
| Bills Payable | 14,671,928 | 9,686,755 | 7,594,019 | 6,010,988 |
| Outstanding Acceptances | 125,181 | 105,410 | 50,218 | 71,609 |
| Manager's Checks | 572,976 | 632,058 | 221,535 | 172,247 |
| Accrued Interest, Taxes and Other Expenses | 1,436,867 | 1,549,139 | 864,400 | 680,734 |
| Income Tax Payable | 125,985 | 100,584 | 118,813 | 66,823 |
| Other Liabilities | 1,065,534 | 1,047,749 | 1,019,239 | 1,105,196 |

PHILIPPINE BANK OF COMMUNICATIONS

STATEMENTS OF FINANCIAL POSITION

| | As of 30 June | | As of December 31 | |
|--|------------------------|---------------------|---------------------|---------------------|
| | 2024 | 2023 | 2022 | 2021 |
| | (Amounts in Thousands) | | | |
| Total Liabilities | 130,271,259 | 129,821,939 | 109,312,452 | 95,053,502 |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY | | | | |
| Common stock | 12,016,129 | 12,016,129 | 12,016,129 | 12,016,129 |
| Additional paid-in capital | 2,262,246 | 2,262,246 | 2,262,246 | 2,262,246 |
| Surplus reserves | 454,283 | 454,283 | 212,838 | 106,922 |
| Surplus | 4,144,268 | 3,115,836 | 1,459,710 | (66,061) |
| Unrealized losses on financial assets carried at fair value through other comprehensive income | (357,462) | (38,155) | (314,585) | 53,509 |
| Cumulative translation adjustment | (96,027) | (107,424) | (106,005) | (237,668) |
| Remeasurement gains (losses) on retirement liability | (47,164) | (47,164) | 35,714 | 40,741 |
| Total Equity | 18,376,273 | 17,655,751 | 15,566,047 | 14,175,818 |
| Total Liabilities and Equity | P148,647,532 | P147,477,690 | P124,878,499 | P109,229,320 |

2.2 STATEMENTS OF INCOME

PHILIPPINE BANK OF COMMUNICATIONS

STATEMENTS OF INCOME

| | Six-Month Period Ended 30 June | | For the Years Ended December 31 | |
|--|-----------------------------------|------------------|---------------------------------|------------------|
| | 2024 | 2023 | 2022 | 2021 |
| | (Amounts in Thousands) | | | |
| INTEREST INCOME | | | | |
| Loans and receivables | P3,556,814 | P6,117,020 | P4,595,114 | P4,109,882 |
| Investment securities | 965,207 | 1,608,524 | 878,058 | 472,796 |
| Interbank loans receivable and securities purchased under resale agreements | 29,661 | 129,839 | 67,142 | 60,069 |
| Financial assets at fair value through profit or loss | 56,231 | 40,953 | 28,876 | 40,345 |
| Deposits with other banks and others | 13,474 | 28,849 | 29,634 | 55,686 |
| | 4,621,387 | 7,925,185 | 5,598,824 | 4,738,778 |
| INTEREST AND FINANCE CHARGES | | | | |
| Deposit liabilities | 1,565,659 | 2,515,619 | 599,343 | 434,899 |
| Bills payable, borrowings and others | 427,729 | 707,325 | 188,985 | 59,099 |
| | 1,993,388 | 3,222,944 | 788,328 | 493,998 |
| NET INTEREST INCOME | 2,627,999 | 4,702,241 | 4,810,496 | 4,244,780 |
| Rent income | 178,008 | 395,768 | 420,007 | 505,241 |
| Service charges, fees and commissions | 229,774 | 427,478 | 390,110 | 331,729 |
| Trading and securities gain – net | 70,242 | 128,776 | (366,327) | (241,598) |
| Foreign exchange gain – net | 46,510 | 100,974 | 97,652 | 56,831 |
| Income from trust operations | 19,766 | 37,349 | 31,756 | 29,231 |
| Profit from assets sold | 12,675 | 22,260 | 61,043 | 13,567 |
| Gain (loss) on assets exchange – net | 29,279 | 11,824 | (3,476) | 7,460 |
| Miscellaneous | 76,255 | 136,524 | 121,071 | 137,346 |
| TOTAL OPERATING INCOME | 3,290,508 | 5,963,194 | 5,562,332 | 5,084,587 |
| OPERATING EXPENSES | | | | |
| Compensation and fringe benefits | 653,782 | 1,208,064 | 1,115,468 | 1,016,559 |
| Taxes and licenses (Notes 15 and 29) | 422,919 | 748,172 | 499,414 | 477,442 |
| Depreciation and amortization (Notes 12, 14 and 15) | 175,050 | 342,465 | 386,526 | 387,619 |
| Provision for (reversal of) credit and impairment losses – net (Note 16) | (5,387) | (24,409) | 287,686 | 322,301 |
| Insurance | 116,719 | 202,331 | 183,804 | 162,820 |
| Entertainment, amusement and recreation | 45,243 | 81,934 | 78,224 | 120,375 |
| Occupancy and other equipment-related costs (Notes 13, 27 and 30) | 92,229 | 159,501 | 136,133 | 118,519 |
| Management and professional fees | 50,887 | 102,570 | 166,313 | 99,541 |
| Security, clerical, messengerial and janitorial services | 65,207 | 130,095 | 105,295 | 88,850 |

PHILIPPINE BANK OF COMMUNICATIONS

STATEMENTS OF INCOME

**Six-Month Period
Ended 30 June**

For the Years Ended December 31

| | 2024 | 2023 | 2022 | 2021 |
|--|-------------------|-------------------|-------------------|-------------------|
| (Amounts in Thousands) | | | | |
| Communications | 25,339 | 49,513 | 57,147 | 49,684 |
| Miscellaneous (Notes 13 and 28) | 235,016 | 423,510 | 389,302 | 411,474 |
| TOTAL OPERATING EXPENSES | 1,877,004 | 3,423,746 | 3,405,312 | 3,255,184 |
| INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARY AND AN ASSOCIATE | 1,413,504 | 2,539,448 | 2,157,020 | 1,829,403 |
| SHARE IN NET LOSS OF SUBSIDIARY SHARE IN NET INCOME OF AN ASSOCIATE | - | - | - | - |
| | 340 | 1,628 | 313 | 287 |
| INCOME BEFORE INCOME TAX | 1,413,844 | 2,541,076 | 2,157,333 | 1,829,690 |
| PROVISION FOR INCOME TAX | 385,412 | 643,505 | 525,646 | 256,626 |
| NET INCOME | ₱1,028,432 | ₱1,897,571 | ₱1,631,687 | ₱1,573,064 |

2.3 STATEMENTS OF COMPREHENSIVE INCOME

PHILIPPINE BANK OF COMMUNICATIONS

STATEMENTS OF COMPREHENSIVE INCOME

**Period Ended 30
June**

Years Ended December 31

| | 2024 | 2023 | 2022 | 2021 |
|---|-------------------|-------------------|-------------------|-------------------|
| (Amounts in Thousands) | | | | |
| NET INCOME FOR THE YEAR | ₱1,028,432 | ₱1,897,571 | ₱1,631,687 | ₱1,573,064 |
| OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX | - | - | - | - |
| Items that may be reclassified to profit or loss in subsequent periods: | | | | |
| Net unrealized gains (losses) on debt securities at fair value through other comprehensive income | 11,397 | 242,678 | (388,577) | (62,055) |
| Net movement in cumulative translation adjustment | (329,124) | (1,419) | 131,663 | (26,204) |
| | (317,727) | 241,259 | (256,914) | (88,259) |
| Items that may not be reclassified to profit or loss in subsequent periods: | | | | |
| Unrealized gains/loss on equity securities carried at fair value through other comprehensive income | 9,817 | 33,752 | 20,483 | 15,471 |
| Change in remeasurement gains (losses) on retirement liability | - | (110,504) | (6,702) | 204,497 |
| Income tax relating to change in remeasurement gains/losses on retirement liability | - | 27,626 | 1,675 | (58,633) |
| | 9,817 | (49,126) | 15,456 | 161,335 |
| | (307,910) | 192,133 | (241,458) | 73,076 |
| TOTAL OTHER COMPREHENSIVE INCOME (LOSS) | ₱720,522 | ₱2,089,704 | ₱1,390,229 | ₱1,646,140 |
| Attributable to: | | | | |
| Equity holders of the Parent Company | ₱720,522 | ₱2,089,704 | ₱1,390,229 | ₱1,646,140 |
| Non-controlling interests | - | - | - | - |
| TOTAL COMPREHENSIVE INCOME | ₱720,522 | ₱2,089,704 | ₱1,390,229 | ₱1,646,140 |

2.4 STATEMENTS OF CASH FLOWS

| PHILIPPINE BANK OF COMMUNICATIONS | | | | |
|---|---------------------|-------------------------|--------------------|---------------------|
| STATEMENTS OF CASH FLOWS | | | | |
| | Period Ended 30 | Years Ended December 31 | | |
| | June | 2024 | 2023 | 2022 |
| (Amounts in Thousands) | | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Income before income tax | ₱1,413,844 | ₱2,541,076 | ₱2,157,333 | ₱1,829,690 |
| Adjustments to reconcile income before income tax to net cash generated from (used for) operations: | | | | |
| Depreciation and amortization | 175,050 | 342,465 | 386,526 | 387,619 |
| Provision for credit and impairment losses | (5,387) | (24,409) | 287,686 | 322,301 |
| Trading loss (gain) on financial assets at FVOCI | (23,117) | (39,068) | 440,279 | 285,542 |
| Profit from assets sold | (12,675) | (22,260) | (61,043) | (13,567) |
| Accretion of interest on unquoted debt securities | (12,038) | (40,325) | (57,928) | (66,038) |
| Amortization of premium (discount) on investment securities | 156,580 | 337,540 | 262,715 | (69,351) |
| Unrealized foreign exchange losses (gains) on investment securities, bills and acceptables payable | - | 25,076 | (343,517) | 82,759 |
| Accretion of interest on lease liability | 6,351 | 12,458 | 12,256 | 14,528 |
| Loss (gain) on assets exchange | (29,279) | (11,824) | 3,476 | (7,460) |
| Share in net income of subsidiary and an associate | (340) | (1,628) | (313) | (287) |
| Unrealized losses (gains) on financial assets at fair value through profit or loss | (731) | - | - | 9,794 |
| Changes in operating assets and liabilities: | | | | |
| Decrease (increase) in the amounts of: | | | | |
| Loans and receivables | 715,459 | (14,872,267) | (12,639,333) | (6,464,055) |
| Financial assets at fair value through profit or loss | (478,966) | - | 886,291 | (177,791) |
| Other assets | 38,164 | (58,183) | 102,102 | 373,809 |
| Increase (decrease) in the amounts of: | | | | |
| Deposit liabilities | (4,427,456) | 17,256,016 | 12,498,323 | 3,164,493 |
| Manager's checks | (59,082) | 410,523 | 49,288 | (15,853) |
| Accrued interest, taxes and other expenses | (112,272) | 684,739 | 183,666 | (122,051) |
| Other liabilities | (8,024) | 16,177 | (47,651) | 230,593 |
| Net cash (absorbed by) generated from operations | ₱(2,663,919) | ₱6,556,106 | ₱4,120,156 | ₱(235,325) |
| Income taxes paid | (359,574) | (651,614) | (539,759) | (551,454) |
| Net cash (used in) provided by operating activities | (3,023,493) | 5,904,492 | 3,580,397 | (786,779) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Decrease (increase) in interbank loans receivable | - | 2,565,680 | 905,209 | 432,063 |
| Acquisitions of: | | | | |
| Financial assets at FVTOCI | (59,034,163) | (85,997,169) | (38,846,620) | (86,497,255) |
| Investment securities at amortized cost | (3,199,557) | (6,633,315) | (5,636,058) | (13,263,211) |
| Property and equipment | (23,548) | (72,283) | (52,149) | (195,531) |
| Software costs | (10,643) | (39,012) | (80,152) | (8,971) |
| Proceeds from disposals of: | | | | |
| Financial assets at FVTOCI | 53,176,336 | 78,698,766 | ₱39,309,597 | ₱84,804,597 |
| Investment properties (Note | 61,930 | 41,234 | 124,324 | 62,581 |
| Property and equipment | 7,024 | 6,264 | 4,182 | 3,475 |
| Chattel mortgage | - | 11,813 | 22,544 | 24,118 |
| Proceeds from maturity of investment securities | 5,598,114 | 4,470,812 | 75,000 | 10,000 |
| Net cash provided by (used in) investing activities | (3,424,507) | (6,947,210) | (4,174,123) | (14,628,134) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Availments of: | | | | |
| Bills payable | 144,872,589 | 326,755,150 | 242,380,414 | 111,742,108 |
| Outstanding acceptances | 234,028 | 2,644,361 | 1,096,307 | 595,094 |
| Marginal deposits | 19,699 | 9,855 | 60,687 | 32,857 |
| Settlements of: | | | | |
| Bills payable | (139,887,416) | (324,771,977) | (241,070,236) | (107,981,483) |
| Outstanding acceptances | (214,257) | (2,583,597) | (1,132,364) | (1,036,538) |
| Marginal deposits | (17,864) | - | (60,687) | (39,630) |
| Lease liabilities (Note 20) | (60,237) | (128,819) | (118,234) | (124,868) |
| Net cash (used in) provided by financing activities | 4,946,542 | 1,924,973 | 1,155,887 | 3,187,540 |

SECTION 3. MASTER TERMS AND CONDITIONS OF THE BONDS

The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Programme. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Charter, By-Laws and resolutions of the Board of Directors of the Bank, the information contained in this Offering Circular, the Trust Agreement and other agreements relevant to the Offer. Copies of the Trust Agreement and the Registry and Paying Agency Agreement are available for inspection during normal business hours at the specified offices of the Public Trustee. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Agreement and are deemed to have notice of those provisions of the Registry and Paying Agency Agreement applicable to them.

These Peso-Denominated Bonds within the unissued balance (the “**Programme Limit**” as may be amended from time to time) under the Peso Bond Programme of the Philippine Bank of Communications (the “**Bank**”, “**Issuer**”, and “**PBCom**”) are being issued by the Bank in favor of the Trustee for the benefit of the Bondholders (as defined below) in accordance with these Master Terms and Conditions, the Contracts and the Governing Regulations.

1.0 Definitions and Interpretation

(a) When used in these Master Terms and Conditions:

Agreement Date means, in respect of a Series or Tranche of Bonds (as defined below), as the case may be, the date on which the agreement is reached for the issue of such Series or Tranche of Bonds, which will be the date on which the relevant Lead Arranger/s and Bookrunner/s and the Selling Agent/s, as the case may be, agree on the pricing details for such Bonds with the Bank, the execution date of the relevant Issue Management and Placement Agreement, and the date of execution of the relevant Pricing Supplement (or any other document evidencing the issue details of such Series or Tranche of Bonds);

AMLC means the Anti-Money Laundering Council created to implement the Anti-Money Laundering and Anti-Terrorism Financing Laws of the Philippines;

Anti-Money Laundering and Anti-Terrorism Financing Laws of the Philippines means Republic Act No. 9160, as amended by Republic Act Nos. 9194, 10167, 10365, and 10927, Republic Act No. 10168, otherwise known as The Terrorism Financing Prevention and Suppression Act of 2012, and BSP Circular Nos. 251, 253, 279, 302, 495, 527, 564, 608, 612, 706, 794, 950, and 1022, and all other amendatory laws and implementing rules and regulations, jurisprudence, notices, or orders of any Philippine governmental body relating thereto;

Arrangers means, collectively, the relevant Arranger/s and the relevant Lead Arranger/s and Bookrunner/s appointed by the Issuer from time to time. For the avoidance of doubt, the term **Arranger** shall refer to such entities appointed by the Bank as Arranger for the establishment, maintenance, and update of the Programme, and for purposes of the Programme Agreement is ING Bank N.V. Manila Branch (as the “**Sole Arranger**”);

Bank or Issuer means Philippine Bank of Communications, a corporation duly organized and existing under the laws of the Philippines, and duly authorized to operate as a universal bank;

BIR means the Bureau of Internal Revenue of the Philippines;

BSP means the Bangko Sentral ng Pilipinas;

Benchmark Rate means the relevant BVAL rate (or its successor benchmark), as applicable and referred to in the Pricing Supplement, and which refers to the Bloomberg Valuation Reference Rates as shown in PDEX1 page of Bloomberg as of 5:00 pm on the Interest Setting Date;

Bond Programme means the programme established by the Bank for the issuance of bonds in accordance with the applicable Governing Regulations, as may be updated from time to time;

Bond Certificate means the certificate to be issued by the Bank to the Trustee evidencing and covering such amount corresponding to a Series or Tranche of Bonds issued on the relevant Issue Date;

Bondholder means a person who is not a Prohibited Bondholder and who, at any relevant time, appears in the Registry as the registered owner of a Bond issued under a specific Series or Tranche of Bonds;

Bonds means the bonds issued pursuant to the Programme which has such maturity and interest rate and other details as may be agreed upon by the Issuer and the relevant Lead Arranger/s and Bookrunner/s evidenced by a corresponding Bond Certificate. These Bonds can be issued in any form allowed by the Governing Regulations, including without limitation, with a fixed or floating interest rate, as zero-coupon bonds, green, social, sustainable, or sustainability-linked, tokenized, or non-tokenized or digital bonds. It may be issued through various portals or distribution systems allowed by the Governing Regulations including, without limitation, the "Electronic Securities Issue Portal" or "e-SIP" of the PDS Group, which is the e-Securities Issue Portal established and maintained by the Philippine Dealing System Holdings Corp. e-SIP is a permissioned web-based facility designed as a gateway to streamline processes in the primary issuance of fixed income instruments, available to identified stakeholders such as issuers, underwriters or arrangers, selling agents and client investor applicants. e-SIP will serve as an electronic channel for submission of documents for listing, enrollment, and registration of bondholders, as this may be updated from time to time;

BSP means the Bangko Sentral ng Pilipinas;

Business Day means any day (other than a Saturday or Sunday and national holidays) on which commercial banks in Makati City, the Philippine Clearing House Corporation, and the Peso Real Time Gross Settlement (RTGS) System or the PhilPaSS^{plus} are authorized to be open for business. All other days not otherwise specified shall mean calendar days;

Cash Settlement Account means an account designated by a Bondholder with a Cash Settlement Bank into which shall be credited the interests, principal, and other payments on the Bonds;

Cash Settlement Bank means a bank licensed and authorized under the laws of the Philippines and designated by the Bondholder as the bank with which the relevant Cash Settlement Account is maintained, such designation to be made in accordance with the procedures of the Paying Agent;

Closed Period means the relevant period described in Condition 8(b)(i) and 8(b)(ii), during which no person may request any transfer of Bonds to be recorded in the Registry, and no transfers of Bonds may be recorded in such Registry;

Contracts means insofar as the Bonds to be issued within the Programme Limit are concerned: (a) the Programme Agreement; (b) the Registry and Paying Agency Agreement; (c) the Trust Agreement; (d) the Bond Certificate for each Series or Tranche of Bonds; (e) these Master Terms and Conditions, including amendments thereto; (f) the Pricing Supplement for each Series or Tranche of Bonds; (g) the relevant Issue Management and Placement Agreement; and (h) such other separate letters or agreements covering conditions precedent, fees, expenses and other obligations of the parties, including amendments or accessions thereto. For the avoidance of doubt;

Early Redemption Amount means, in the case of Fixed and Floating Rate Bonds, an amount equal to the par value of 100% face value of the Bonds, or as specified in the Pricing Supplement, plus accrued and unpaid interest as of the Early Redemption Date;

Early Redemption Date means a date falling on an Interest Payment Date when the Early Redemption Option is exercised by the Bank; provided, that if any Early Redemption Date is not a Business Day, then the Early Redemption Amount, will be paid on the next succeeding Business Day without any adjustment as to the amount of yield, interest, or coupon to be paid;

Early Redemption Option means the option of the Bank to pre-terminate and redeem the Bonds in whole, but not in part, before Maturity Date at the Early Redemption Amount, on any Early Redemption Date, subject to the provisions of the Governing Regulations;

Event of Default means an event specified as such in Condition 11;

External Auditors mean the authorized third-party auditors of the Issuer, currently being Sycip Gorres Velayo & Co. ("SGV");

Final Redemption Amount means in the case of Fixed and Floating Rate Bonds, the par value or 100% of the face value of the Bonds, plus accrued and unpaid interest up to, but excluding, the Maturity Date;

Fixed and Floating Rate Bonds means collectively, the Fixed Rate Bonds and Floating Rate Bonds;

Fixed Rate Bonds means Bonds that have an Interest Rate that is fixed per annum for the entire tenor of a Series or Tranche of Bonds;

Floating Rate Bonds means Bonds that have, for each relevant Interest Period, an Interest Rate equivalent to the applicable Benchmark Rate to be defined in the Pricing Supplement, plus spread per annum on the outstanding principal of such Bond;

Governing Regulations means all the necessary rules and guidelines for the issuance of the Bonds, including, where applicable, the General Banking Law of 2000 (Republic Act No. 8791), the Manual of Regulations for Banks (“**MORB**”), BSP Circular No. 1010 (Series of 2018), BSP Circular No. 1062 (Series of 2019), BSP Memorandum No. M-2020-01, SEC Memorandum Circular (“**MC**”) No. 12 (Series of 2018), SEC MC No. 08 (Series of 2019) on the Guidelines on the Issuance of Bonds under the ASEAN Bonds Standards in the Philippines, SEC MC No. 9 (Series of 2019), and any other circulars and regulations as may be relevant for the issuance of any Series or Tranche of Bonds, as these may be amended from time to time;

Group means the Issuer and its Subsidiaries, taken as a whole, and each of them being a member of the Group;

Indebtedness means indebtedness for monies borrowed or any guarantee or indemnity for monies borrowed, other than the indebtedness under the Bonds;

Initial Selling Agents means each of Philippine Bank of Communications and ING Bank N.V., Manila Branch, and their respective successor entities;

Interest means for any Interest Period, the interest payable on the Fixed or Floating Rate Bonds, as reflected in the relevant Pricing Supplement;

Interest Payment Date means, in respect of any Series or Tranche of Bonds, the last day of a particular Interest Period when interest in respect of the relevant Series or Tranche of Fixed or Floating Rate Bonds is due and payable to the Bondholders as set out in the relevant Bond Certificate and Pricing Supplement, except that the last Interest Payment Date shall be on the Maturity Date provided, that if any Interest Payment Date is not a Business Day, then interest will be paid on the next succeeding Business Day without any adjustment as to the amount of interest to be paid;

Interest Period means, in respect of any Series or Tranche of Bonds, the period from and including the Issue Date to, but excluding the first Interest Payment Date, and every succeeding subsequent period beginning on and including the immediately preceding Interest Payment Date to, but excluding the next Interest Payment Date, but in the case of the last Interest Period, it will be the period from and including the immediately preceding Interest Payment Date up to, but excluding, the Maturity Date;

Interest Rate means (i) in the case of Fixed Rate Bonds, the rate per annum as indicated in the relevant Bond Certificate to be issued by the Bank, being the fixed per annum rate payable to the Bondholders for the entire tenor of a Series or Tranche of Bonds, and (ii) in the case of Floating Rate Bonds, for each relevant Interest Period, the rate of interest equivalent to the applicable Benchmark Rate to be defined in the Pricing Supplement, plus a fixed spread per annum on the outstanding principal of the Floating Rate Bond, to be repriced and redetermined on each Interest Rate Setting Date;

Interest Rate Setting Date means in the case of Floating Rate Bonds, the Interest Payment Date for the immediately preceding Interest Period, provided, that for the first Interest Period, the Interest Setting Date shall be a date prior to Issue Date;

Issue means the issuance of a Series or Tranche of Bonds by the Bank pursuant to these Master Terms and Conditions and the relevant Pricing Supplement;

Issue Date means, with respect to any Series or Tranche of Bonds, the date of issuance of such Series or Tranche of Bonds, pursuant to and in accordance with the Programme Agreement as set out in the relevant Pricing Supplement, or such other date as the Bank may advise the Registrar and Trustee in writing;

Issue Management and Placement Agreement means the agreement executed in relation to each Series or Tranche of Bonds which sets out the terms on which the Bank shall engage the relevant Lead Arranger/s and Bookrunner/s and Selling Agents appointed for the issuance of a particular Series or Tranche of Bonds;

Issue Price means the price of a Series or Tranche of Bonds that is at par or 100% of face value, as set out in the relevant Bond Certificate and Pricing Supplement;

Lead Arranger/s and Bookrunner/s means ING Bank N.V. Manila Branch as the Sole Arranger with respect to the Initial Tranche of Bonds and, with respect to each Series or Tranche of Bonds, the entity/ies which the Issuer may

appoint as Lead Arranger/s and Bookrunner/s (whether sole or joint) for the offering and issuance of such as specified in the relevant Issue Management and Placement Agreement and Pricing Supplement but excludes any entity whose appointment has been terminated pursuant to the relevant provisions of this Agreement.

Majority Bondholders means the holder or holders of more than fifty percent (50%) of the principal amount of the Bonds within a particular Tranche or Series then outstanding. For the avoidance of doubt, the Bondholders under the entire Programme will not be aggregated for purposes of determining a Majority Bondholder;

Master Terms and Conditions means in relation to any Series or Tranche of Bonds, these terms and conditions endorsed on or incorporated into the Bond Certificate constituting each Series or Tranche, as may be modified or supplemented by the relevant Pricing Supplement, or as may be amended or updated from time to time;

Material Adverse Effect means a material adverse effect on (a) the operations, activities, business, properties, liabilities, condition (financial or otherwise), results of operations, general affairs or prospects of the Issuer and its Subsidiaries, taken as a whole, whether or not arising in the ordinary course of business; (b) the validity or implementation of the issuance of the Bonds; or (c) the ability of the Issuer to perform and observe its obligations under the Contracts or the Bonds.

Maturity Date means the date at which the Series or Tranche of Bonds will be redeemed in accordance with the relevant Bond Certificate and the relevant Pricing Supplement; provided, that, if such date is declared to be a non-Business Day, the Maturity Date shall be the next succeeding Business Day, without adjustment to the amount of interest to be paid;

Offering Circular means the offering circular (including, for the avoidance of doubt, the consolidated financial statements of the Issuer included therein) in preliminary and final form in respect of the Programme, and all amendments, supplements, and addenda thereto (including, for the avoidance of doubt, the Pricing Supplement for the relevant Tranche or Series).

Paying Agent means the PDTC as appointed by the Bank under the Registry and Paying Agency Agreement, to perform the role of a paying agent required under the Governing Regulations and includes its successor entity, or any replacement Paying Agent;

Payment Account means, in respect of a Series or Tranche of Bonds issued pursuant to the Programme, the account to be opened and maintained by the Paying Agent with such Payment Bank designated by the Issuer and solely managed by the Paying Agent in trust and for the irrevocable benefit of the Bondholders, into which the Issuer shall deposit the amount of the interest and/or principal and other payments due on the Bonds on the relevant dates and exclusively used for such purpose, the beneficial ownership of which shall always remain with the Bondholders;

Payment Bank means, in respect of any Series or Tranche of Bonds, a duly-licensed bank designated by the Issuer, where the relevant Payment Account will be opened, maintained, and managed by the Paying Agent for and on behalf of the Issuer, into which the Issuer shall deposit, in good cleared funds, the amount of the relevant interest and principal payments due each Bondholder on each relevant Payment Date;

PDEX means the Philippine Dealing & Exchange Corp., a domestic corporation duly registered with the SEC to operate an exchange and trading market for fixed income securities and a member of the PDS Group;

PDIC means the Philippine Deposit Insurance Corporation, a government instrumentality attached to the Department of Finance, and established pursuant to Republic Act No. 3591, as amended by Republic Act No. 10846, with the following principal roles: deposit insurer, co-regulator of banks, and receiver and liquidator of closed banks;

PDS Group means the group of companies comprised of the Philippine Dealing System Holdings Corporation, which is the parent company of the group, and its operating subsidiaries, which are affiliates of PDTC (as defined below); namely, PDEX and the Philippine Securities Settlement Corp.;

PDTC means the Philippine Depository & Trust Corp., a private financial institution duly authorized to perform registry and paying agency functions by the appropriate authorities, and organized and existing under and by virtue of the laws of the Republic of the Philippines;

Philippine Pesos or **Pesos** or the symbol **PHP** means the lawful currency of the Republic of the Philippines;

Pricing Supplement means the pricing supplement issued in relation to each Series or Tranche of Bonds, which gives details of such Series or Tranche and, in relation to any particular Series or Tranche of Bonds, “relevant Pricing Supplement” means the Pricing Supplement applicable to that Series or Tranche specifying terms such as Interest

Rate, Interest Payment Dates, tenor and Maturity Date and such other similar series- specific terms, in relation to any particular Series or Tranche of Bonds;

Programme means, as of the date of the Programme Agreement, the Peso Bond Programme established by the Bank for the issuance of Bonds from time to time and as implemented by, among others, this Programme Agreement and the Contracts, as updated or amended from time to time;

Programme Agreement means the Programme Agreement executed among the Issuer, the Sole Arranger and the Initial Selling Agents dated 26 September 2024, as may be further modified, supplemented, or amended from time to time as this applies to the Bonds to be issued within the Programme Limit.

Prohibited Bondholders mean, subject to any amendments in an applicable Pricing Supplement, persons and entities which are prohibited from purchasing and/or holding the Bonds pursuant to regulations governing the Bank, specifically:

(1) (a) the Issuer (except where the Issuer purchases and cancels the Bonds under the allowable conditions in the Master Terms and Conditions), (b) the Issuer's "related parties" as defined in (and subject to exemptions under) the MORB, including but not limited to, in addition to the Issuer's subsidiaries and affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the Issuer exerts direct/indirect control over or that exerts direct/indirect control over the Issuer, any person or entity that is in possession or has access to material and non-public information which affects the pricing and marketability of the Bonds or which would substantially impact an investor's decision to buy or sell the Bonds once the same are disseminated to the public; *provided*, that without limiting the generality of the foregoing, the following persons shall be deemed "related parties" of the Issuer:

- (i) With respect to any issuance of Bonds:
 - (A) the Issuer's Directors, Board Advisers, Corporate Secretary, officers/staff of the Office of the Corporate Secretary and their relatives within the first degree of consanguinity or affinity, or by legal adoption;
 - (B) All members of the Bank's Senior Management Team ("**SMT**") (President & CEO; Chief Strategy and Implementation Officer; Chief Operations Officer; Heads of Finance Group, Treasury Group, Trust and Wealth Management Group, Corporate and Commercial Banking Group, Branch Banking Group, Transaction Banking Group, Consumer Finance Group, Heads of Human Resources Group, Legal Services Group, Marketing Services Division, Consumer Protection and Experience Management Division, Information Technology Group, Enterprise Risk Management Group, Internal Audit Group, Compliance Management Group); the Executive Assistant of the President; and their relatives within the first degree of consanguinity or affinity, or by legal adoption;
 - (C) All members of the Asset Liability Committee ("**ALCO**") including the ALCO secretariat and their relatives within the first degree of consanguinity or affinity, or by legal adoption;
 - (D) Members of the following Groups, Divisions, including their relatives within the first degree of consanguinity or affinity, or by legal adoption:
 - (1) Treasury Group;
 - (2) Trust and Wealth Management Group;
 - (3) Compliance Management Group;
 - (4) Office of the Corporate Secretary;
 - (5) Finance Group;
 - (6) Performance and Project Management Division;
 - (7) Legal Services Group;
 - (8) Marketing Services Division
 - (9) Customer Protection and Experience Management Division; and
 - (10) Market and Asset Liability Risk Management Team;
 - (E) The Bank's stockholders, substantial stockholders, subsidiaries, affiliates and other related parties, as defined in the MORB. For this purpose, "stockholders" shall refer to any stockholder of record of the Bank, whose stockholdings, amount to one percent (1%) or more of the total subscribed capital stock of the Bank, individual and/or collectively with

the stockholdings of: (a) his spouse and/or relative within the first degree by consanguinity or affinity or legal adoption; (b) a partnership in which the stockholder and/or the spouse and/or any of the aforementioned relatives is a general partner; and (c) association or firm of which the stockholder and/or his spouse and/or the aforementioned relatives own more than fifty percent (50%) of the total subscribed capital stock of such corporation, association or firm.

- (ii) in relation to any issuance of the Bonds, the following persons, but only to the extent such persons have performed the services or functions described below in respect of such Tranche:
- (A) The partners and associates of external legal counsel to the Issuer, and select officers and staff of the Arrangers and Bookrunners; and
 - (B) The officers and staff of the Issuer's external auditors, and auditors providing comfort letters;

Provided, further, that a party participating in an Offer as an underwriter or Arranger and Bookrunner of the Bonds may hold such Bonds even if such underwriter or Arranger and Bookrunner is a related party of the Issuer, to the extent that such party is authorized to hold Bonds pursuant to the relevant underwriting or arrangement agreement and otherwise is in compliance with the provisions of the Governing Regulations applicable to such investment.

(2) such persons who are otherwise not qualified under the Governing Regulations including any other person whose acquisition, holding, or transfer of the Bonds would violate any applicable law or regulation, including but not limited to the rules of the PDEX, BSP, AMLC, or other government regulation in any relevant jurisdiction; or

(3) persons classified as U.S. Persons under the Foreign Account Tax Compliance Act of the United States, as this may be amended from time to time ("**FATCA**"), which include: (a) a U.S. citizen (including a dual citizen who may have another citizenship besides having a U.S. citizenship); (b) a U.S. resident alien for tax purposes, which includes a person who has substantial presence in the U.S. ("substantial presence" is defined as more than 31 days in the current calendar year or a total of 183 days over the previous three years from the current tax year); (c) a U.S. partnership, U.S. corporation, or U.S. entity; (d) a U.S. estate; (e) a U.S. trust if a court within the United States is able to exercise primary supervision over the administration of the trust, or one or more U.S. persons have the authority to control all substantial decisions of the trust; or (f) any other person that is not a non-US person under the FATCA; or

(4) persons classified as a Restricted Party.

For purposes of the definition of Prohibited Bondholders, a **subsidiary** means, at any particular time, a company which is then directly controlled, or more than fifty percent (50%) of whose issued voting equity share capital (or equivalent) is then beneficially owned, by the Bank and/or one or more of its subsidiaries or affiliates. An **affiliate** means, at any particular time, a company at least twenty percent (20%) but not more than fifty percent (50%) of whose issued voting equity share capital is then owned by the Bank. For a company to be **controlled** by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has the power to control the affairs and policies of that company.

Purchaser means a prospective primary Bondholder who intends to purchase Bonds, as applicable, in the particular offer of the Bonds through the Selling Agents, and submits an Application to Purchase for that purpose;

Record Date means as used with respect to any relevant payment date, two (2) Business Days immediately preceding such Payment Date, which shall be the cut-off date in determining the existing Bondholders entitled to receive interest, principal, and other payments due, or such other date duly notified by the Issuer;

Registrar and/or Paying Agent means the Philippine Depository & Trust Corp., a domestic corporation duly registered and licensed as a registrar and paying agent, as appointed by the Issuer under the Registry and Paying Agency Agreement and the Pricing Supplement(s), and includes its successor entity, or any replacement Registrar or Paying Agent;

Registry means, in relation to any Series or Tranche of Bonds, the electronic registry book of the Registrar containing the official information on the Bondholders and the amount of Bonds they respectively hold, including all Transfers thereof or any liens or encumbrances thereon.

Registry and Paying Agency Agreement means the agreement executed by and between the Bank and the Registrar and Paying Agent dated on or about 26 September 2024, stipulating the rights and obligations of the Registrar and Paying Agent with respect to the Bonds, including any amendment or supplement thereto;

Registry Confirmation means, in relation to any Series or Tranche of Bonds, the written advice sent by the Registrar to the Bondholders, confirming the registration in the name of such Bondholder in the Registry of the specified amount of Bonds issued to or purchased by a Bondholder.

Restricted Party means a person that is:

- (a) listed on, or owned or controlled by a person or persons listed on, or acting on behalf of a person or persons listed on, any Sanctions List;
- (b) located in, incorporated under the laws of, or owned or (directly or indirectly) controlled by, or acting on behalf of, a person located in, residing or organized under the laws of a country or territory that is the target of country-wide or territory-wide Sanctions, including, without limitation, Cuba, Iran, The Democratic People's Republic of Korea, Sudan, Syria, and Crimea;
- (c) otherwise a target of Sanctions is or ever has been in violation of or subject to, has received or is aware of any claim, action, proceeding, investigation, notice or demand relating to Sanctions ("target of Sanctions" signifying a person with whom a US person or other national of a Sanctions Authority would be prohibited or restricted by law from engaging in trade, business or other activities); or
- (d) directly or indirectly, has conducted, conducts or is otherwise involved with any business with or involving any government (or any sub-division thereof), or any Person targeted by, or located in any country that is the subject of Sanctions or directly or indirectly supports or facilitates, or plans to support or facilitate or otherwise become involved with, any such Person or government.

Sanctions means any trade, economic, or financial sanctions laws, regulations, embargoes, or restrictive measures administered, enacted or enforced by: (i) the Philippines; (ii) the United States of America ("**US**"); (iii) the United Nations; (iv) the European Union (including its member-states); (v) the United Kingdom; (vi) the Hong Kong Monetary Authority; or (vii) the respective governmental institutions and agencies of any of the foregoing, including, without limitation, the Office of Foreign Assets Control of the United States Department of Treasury (OFAC), the US Department of State, Department of Commerce and Bureau of Industry, and His Majesty's Treasury ("**HMT**") (together the "**Sanctions Authorities**");

Sanctions List means the "Specially Designated Nationals and Blocked Persons", "Consolidated Sanctions" and "Sanctions Programs and Country Information" lists maintained by OFAC, the Consolidated List of Financial Sanctions Targets and the Investment Ban List maintained by HMT, or any similar list maintained by, or public announcement of Sanctions designation made by, any of the Sanctions Authorities, each as amended, supplemented or substituted from time to time;

SEC means the Philippine Securities and Exchange Commission;

Securities and Regulation Code refers to Republic Act No. 8799 and its implementing rules and regulations, as the same may be amended from time to time;

Selling Agents means with respect to each Series or Tranche of Bonds, each or any one of the entity/ies which the Issuer may appoint as selling agent of such Series or Tranche of Bonds (and their respective successor entities) as specified in the Issue Management and Placement Agreement and the relevant Pricing Supplement.

Series means a Tranche of Bonds, as the case may be, together with any further Tranche or Tranches of Bonds, as the case may be, which are (a) expressed to be consolidated and form a single series, and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices and the expressions Bonds of the relevant Series, Bondholders of the relevant Series, and related expressions shall (where appropriate) be construed accordingly;

Subsidiary means, in relation to the Issuer, any company (i) more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by the Issuer, or (ii) of which the Issuer is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which the Issuer controls (by contract or otherwise) a majority of the voting rights, or (iv) which at any time has its accounts consolidated with those of the Issuer or which, under the law, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time should have its accounts consolidated with those of the Issuer, and includes any company which is a Subsidiary of a Subsidiary of the Issuer;

Trading Participant means a trading participant of PDEX defined as such under the rules and regulations of PDEX;

Tranche means all Bonds which are identical in all respects (including as to listing and admission to trading);

Trust Agreement shall mean the indenture or agreement executed by and between the Issuer and the Trustee dated on or about 26 September 2024, stipulating the rights and obligations of the Trustee with respect to the Bonds and the Bondholders, including any amendment or supplement thereto; and

Trustee shall mean the Trust Banking Group of the Development Bank of the Philippines as appointed by the Bank for each Series or Tranche of Bonds, including any successor trustee, in accordance with the Trust Agreement and Pricing Supplement and the Governing Regulations.

(b) All terms defined in these Master Terms and Conditions shall have their defined meanings when used herein, and in any certificate, report, or other document or instrument made or delivered pursuant hereto. Titles of provisions in these Master Terms and Conditions are used for convenience of reference only, and do not limit or affect the interpretation of the provisions hereof.

(c) Words denoting persons shall include individuals, corporations, partnerships, joint ventures, trusts, unincorporated organizations, political subdivisions, agencies, or instrumentalities. Other than to a third party, references to “party”, “parties” or “parties hereto”, or similar references, and references to “Condition” or “Conditions” are to be construed as references to a party or the parties to these Master Terms and Conditions, and to a Condition or Conditions in these Master Terms and Conditions, respectively.

(d) No representation, undertaking, or promise shall be taken to have been given or be implied from anything said or written by the Bank prior to the execution of these Master Terms and Conditions, except as set out herein.

2. Form, Denomination, and Title

(a) Form and Denomination

The Bonds will be issued in such form pursuant to the terms of the Trust Agreement and these Master Terms and Conditions in a minimum investment size, increments of in excess thereof, and denominations of trading in the secondary market as indicated in the Pricing Supplement. Registry Confirmations will be issued in accordance with the Registry and Paying Agency Agreement and will contain a unique transaction reference number.

A Bond Certificate representing the Bonds shall be issued to and registered in the name of the Trustee, on behalf of the Bondholders, a copy of which shall be lodged with the Registrar.

(b) Bondholders

The Bonds may only be issued and transferred to investors who are not Prohibited Bondholders.

(c) Title

Title to the Bonds shall be indicated in the Registry maintained by the Registrar. The Registry shall be the best evidence of ownership and transactions with respect to the Bonds. The initial placement of the Bonds and subsequent transfers of interests in the Bonds shall be subject to applicable Philippine selling restrictions prevailing from time to time.

3. Status and Ranking

The Bonds constitute direct, unconditional, unsecured, and unsubordinated peso-denominated obligations of the Bank, enforceable pursuant to the terms of the Trust Agreement and these Master Terms and Conditions, and shall at all times rank *pari passu* and ratably without any preference or priority amongst themselves, and at least *pari passu* with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Bank, except

for any obligation enjoying a statutory preference or priority established under Philippine laws other than the preference under Article 2244, paragraph 14(a) of the Civil Code of the Philippines.

The Bonds are considered exempt securities pursuant to Sec. 9(e) of the Securities Regulation Code, and are thus exempt from the registration requirements of that code.

4. Interest

(a) Interest Accrual

The Fixed and Floating Rate Bonds shall bear relevant interest on its principal amount from and including the Issue Date, but excluding the Early Redemption Date or the Maturity Date, as the case may be. The Fixed and Floating Rate Bonds shall continue to bear interest in accordance with these Master Terms and Conditions until all sums in respect of such Bond are received by or on behalf of the relevant Bondholder.

The Floating Rate Bonds shall bear such applicable Interest Rate for the Interest Period concerned on its principal amount, which Interest Rate shall be to be repriced and redetermined on each Interest Rate Setting Date.

(b) Interest Payment Dates

Interest on the Fixed and Floating Rate Bonds shall be payable on each relevant Interest Payment Date as specified in the Pricing Supplement; provided that, if any Interest Payment Date or the Maturity Date is not a Business Day, then interest will be paid on the next succeeding Business Day without any adjustment as to the amount of interest to be paid.

(c) Determination of Interest

The amount of interest payable in respect of the Fixed and Floating Rate Bonds for each Interest Period shall be determined by the Registrar by applying the Interest Rate to the principal amount of the Bonds, and calculating the result on a 30/360-day basis, and the resultant figure shall be rounded to the second decimal place in accordance with the Registrar's and Paying Agent's system algorithm.

In the case of Floating Rate Bonds, the Calculation / Paying Agent shall, no later than the deadline for determination as provided in these Terms and Conditions, send written notice to the Issuer and the Paying Agent of the applicable Interest Rate for the Floating Rate Bonds for each Interest Period.

5. Redemption, Early Redemption, and Purchase

(a) Redemption at Maturity Date

Unless previously pre-terminated and cancelled in accordance with these Master Terms and Conditions, the Bonds shall be redeemed by the Bank at the Final Redemption Amount on the Maturity Date.

(b) Early Redemption: Purchase

- (i) *Early Redemption Option due to Change in Tax.* If any payment of principal or interest due under the Bonds becomes subject to additional or increased taxes other than the taxes and rates of such taxes prevailing as of the Issue Date as a result of changes in law, rule, or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by the use of reasonable measures available to the Bank, such event shall be considered as change in taxation ("**Change in Tax**") in reference to the obligations of the Bank and to the rights and interests of the Bondholders under the Trust Agreement and the Bonds.
- (ii) *Early Redemption Option due to Change in Law or Circumstance.* If any provision of the Trust Agreement or any of the Contracts is, or shall become, for any reason, invalid, illegal, or unenforceable to the extent that it shall become, for any reason, unlawful for the Bank to give effect to its rights or obligations hereunder, or to enforce any provisions of the Trust Agreement or any of the related documents in whole or in part, or any law shall be introduced to prevent or restrain the performance by the parties of their obligations under the Trust Agreement or any other related documents, or if as a result of certain changes in law, rule or regulation, or in the interpretation thereof, the Bank becomes subject to increased reserve requirements against Peso denominated obligations that include the Bonds, and such additional or increased rate of such tax or reserve requirement by Law or by regulation of the BSP cannot be avoided by use of reasonable measures

available to the Issuer, such event shall be considered as change in law or circumstance (“*Change in Law*”) in reference to the obligations of the Bank and to the rights and interests of the Bondholders under the Trust Agreement and the Bonds.

In the event that the Bank invokes the Early Redemption Option under Condition 5(b)(i) (*Change in Tax*) and 5(b)(ii) (*Change in Law*), the Bank shall provide the Trustee an opinion from a reputable legal counsel (reasonably acceptable to Trustee) confirming the bases therefor. Thereupon, the Trustee, upon notice to the Bank, shall declare the principal amount of the Bonds, including all accrued interest and other charges thereon, if any, to be immediately due and payable, and upon such declaration, the same shall be immediately due and payable without any pre-payment penalty, notwithstanding anything in the Trust Agreement and other related documents to the contrary.

- (iii) *Manner of Exercising the Early Redemption Option.* In exercising the Early Redemption Option, the Bank shall give to the Bondholders through the Trustee, the Registrar, and, to the extent required under the Governing Regulations, the appropriate supervision and examination department of the BSP, not more than sixty (60) days nor less than fifteen (15) calendar days prior written notice, stating therein the ground relied upon for the exercise of the Early Redemption Option, which ground must be one of the grounds specified in Condition 5(b)(i) or (ii). The notice referred to in this Condition 5(b)(iii) shall be published in at least two (2) newspapers of general circulation in the Philippines in accordance with SEC Memorandum Circular No. 1 (2008) for two (2) consecutive days at any time prior to the exercise of such Early Redemption Option. Once issued, said notice shall be irrevocable, and shall be binding on the Bank and each Bondholder.
- (iv) *Payments; Taxes.* After the issuance of the notice under Condition 5(b)(iii), the Bank shall be obliged to repay all of the Bonds at the Early Redemption Amount on the Early Redemption Date. On the Early Redemption Date and following payment of the Early Redemption Amount, the Registrar shall transfer all of the interests of the Bondholders in the Bonds to the Bank. All such Bonds pre-terminated pursuant to this Condition 5(b) shall then be deemed fully redeemed and cancelled.

As a consequence of the exercise of the Early Redemption Option under Condition 5(b)(i) and (ii), any incremental tax that may be due on the interest income already earned under the Bonds prior to or as a result of the exercise by the Bank of its option for pre-termination shall be for the account of the Bank.

- (v) *No Pre-termination by Bondholders.* Except as otherwise contemplated under Condition 12 on account of the occurrence of an event described under Condition 11 (“*Events of Default*”), none of the Bondholders shall have the right to require the Bank to redeem and repay any or all of the Bonds before the Maturity Date. In accordance with the Governing Regulations, transfers of the Bonds to a person other than the Bank shall not constitute pre-termination. To the extent applicable, for tax purposes, however, negotiations/transfers from a Bondholder to another shall be subject to the pertinent provisions of the National Internal Revenue Code of 1997, as amended, and the applicable BIR regulations (the “Tax Code”).

(c) **Purchase and Cancellation**

The Bank may, subject to the Governing Regulations and the relevant rules, conventions and guidelines of PDEX and PDTC, at any time purchase any of the Bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase Bonds pro-rata from all Bondholders, and the Bondholders shall not be obligated to sell. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued. For the avoidance of doubt, the Bank may not directly or indirectly purchase the Bonds in any instance for the purpose of trading or market making.

6. Payments

- (a) Principal and interest (as applicable) as specified in the Pricing Supplement, and all other amounts payable on the Bonds net of taxes and fees, if any, shall be credited to the relevant Cash Settlement Accounts maintained with the Cash Settlement Banks.
- (b) All payments on the Bonds shall be drawn by the Paying Agent from the Payment Account and shall be made in Philippine Pesos.

7. Taxation

- (a) Interest income on the Bonds is subject to a final withholding tax at rates ranging from 0% to 20% to 25% (or such other rates as may be required by law or regulations) depending on the tenor of the Bonds and tax status of the relevant Bondholder under relevant law, regulation, or tax treaty. Subject to Condition 8, if any payments of principal and/or interest in respect of the Bonds shall be subject to deductions and/or withholdings for or on account of any present or future taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having the power to tax, including but not limited to income, stamp, issue, registration, documentary, value-added or similar tax, or other taxes, duties, assessments, or government charges, including interest, surcharges, and penalties thereon (the “*Taxes*”), then such Taxes shall be for the account of the Bondholder concerned; and if the Bank shall be required by law or regulation, or any change in interpretation or implementation of such law or regulation prevailing, to deduct or withhold such Taxes, then the Bank shall make the necessary withholding or deduction for the account of the Bondholder concerned; provided, however, that all sums payable by the Bank to tax-exempt persons shall be paid in full without deductions for Taxes or government charges, subject to the submission by the relevant Bondholder claiming the exemption of reasonable and acceptable evidence of such exemption to the Issuer as provided below.
- (b) As issuer of the Bonds, the withholding of final tax on the interest due on the Bonds is the responsibility of the Bank pursuant to Section 57 of the Tax Code, and Section 2.57 of Revenue Regulations No. 2-98, as amended by Revenue Regulations No. 11-2018. The Bank may be required to abide by the terms of the BIR accreditation of the PDS Group Corporate Action Auto-Claim (“*CAAC*”) System to the extent of its applicability, and to the extent that it affects information processed by the CAAC system in relation to the Bank’s listed issues.
- (c) Notwithstanding the foregoing, the Bank shall not be liable for the filing of returns and other reportorial requirements, as well as the payment of the following:
- (i) Income tax on any gain by a Bondholder realized from the sale, exchange, or retirement of the Bonds;
 - (ii) The applicable final withholding tax on interest earned on the Bonds prescribed under the Tax Code;
 - (iii) Gross Receipts Tax under Section 121 of the Tax Code;
 - (iv) Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding; and
 - (v) Value Added Tax (“*VAT*”) under Sections 106 to 108 of the Tax Code, and as amended by Republic Act No. 9337, and as may be amended from time to time.
- (d) Documentary stamp tax for the primary issue of the Bonds and the execution of the Trust Agreement and other Bond Agreement, if any, shall be for the Bank’s account.
- (e) The tax exemption or preferential tax treatment of Bondholders claiming exemption from any applicable tax or preferential rates shall be implemented only upon submission of the following documents to the Registrar and Paying Agent:
- (i) Proof of tax exemption or entitlement to preferential tax rates:
 - For (a) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (b) cooperatives duly registered with the Cooperative Development Authority; and (c) BIR-approved pension fund and retirement plan – certified true copy of valid, current, and subsisting tax exemption certificate, ruling, or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed “valid, current and subsisting” if it has not been more than 3 years since the date of issuance thereof;
 - For Tax-Exempt Personal Equity Retirement Account established pursuant to the PERA Act of 2008 – certified true copy of the Bondholder’s current, valid and subsisting Certificate of Accreditation as PERA Administrator;

- For all other tax-exempt entities (including, but not limited to, (a) non-stock, non-profit educational institutions; (b) government-owned or -controlled corporations; and (c) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax;
 - For entities claiming tax treaty relief – pursuant to RMO 14-2021, prior to the payment of interest due: (1) three (3) originals of the appropriate form (currently, BIR Form 0901-I (Interest Income)) or Application Form for Treaty Purposes filed by the Bondholder or, if the Bondholder is a fiscally transparent entity, each of the Bondholder’s owners or beneficiaries, (2) one (1) original of the valid and existing tax residency certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws, (3) the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Issuer, (4) three (3) originals of the duly notarized, consularized, or apostilled (as the case may be) Special Power of Attorney executed by the Bondholder or the Bondholder’s owners or beneficiaries, as may be applicable, in favor of its authorized representative (if the Application Form for Treaty Purposes and other documents are accomplished by an authorized representative) and confirmation acceptable to the Issuer that the Bondholder or the Bondholder’s owners or beneficiaries, as may be applicable, is/are not doing business in the Philippines to support the applicability of a tax treaty relief; and (5) an original or certified true copy of the Certificate of Entitlement (“*COE*”) issued by the BIR International Tax Affairs Division (“*ITAD*”) certifying the Bondholder’s entitlement to tax treaty relief in connection with the Bonds. It shall be the Bondholder’s sole responsibility and obligation to file the tax treaty relief application (“*TTRA*”) with the BIR ITAD to prove its entitlement to tax treaty relief, and in relation thereto, the Issuer shall, upon request of the Bondholder, provide the relevant documents which are required to be submitted for purposes of filing a TTRA. For avoidance of doubt, in order for the preferential rate to apply, the Bondholder must submit the COE issued by the BIR and the Tax Residency Certificate (“*TRC*”), together with the Application to Purchase, to the Selling Agents. In order for the Issuer to apply the preferential rate for the succeeding taxable years, the Bondholder must submit an updated TRC before the last day of the first month of the taxable year or at least ten (10) business days before the first interest payment for the taxable year, whichever is earlier. The Issuer shall withhold regular tax rates in its interest payments for the ensuing taxable year if the Bondholder fails to provide the updated TRC within the prescribed deadline;
 - Any other document that the Bank or PDTC may require from time to time; and
- (ii) A duly notarized declaration and undertaking, in the prescribed form, executed by (i.a) the Corporate Secretary or any authorized representative, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases the Bonds for its account, or (i.b) the Trust Officer, if the Applicant is a bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting its tax-exempt status, declaring and warranting that the same Bondholder named in the tax exemption certificate described in (i) above, is specifically exempt from the relevant tax or is specifically subject to a preferential tax rate for the relevant tax, and undertaking to immediately notify the Bank and the Registrar of any suspension, revocation, or modification of its tax exemption or treaty privileges, and agreeing to indemnify and hold the Bank, the Registrar and the Paying Agent free and harmless against any claims, actions, suits, expenses, penalties and liabilities resulting from the non-withholding or reduced withholding of the required tax; and
- (iii) To the extent applicable, such other documentary requirements as may be reasonably required by the Bank or the Registrar and Paying Agent, or required under the applicable regulations of the relevant taxing or other authorities.

8. Transfers of Bonds

- (a) Transfers

All transfers of the Bonds shall be executed only through PDEX and its Trading Participants, subject to *inter alia* the payment to PDEX and its Trading Participants and/or the Registrar of any reasonable fees, as the agreements between them would dictate. Transfers of the Bonds to a person other than the Bank shall not constitute pre-termination.

(b) Closed Periods

No person may require the transfer of any Bonds to be registered by the Registrar in the Registry: (i) during the period of two (2) Business Days preceding (and including) the Early Redemption Date or the Maturity Date, as the case may be; and (ii) during the period of two (2) Business Days preceding any Interest Payment Date. The Registrar will prevent any transfer of the Bonds to be recorded in the Registry during any Closed Period. The Registrar shall recognize and treat only those Bondholders registered as such in the Registry as of the relevant Record Date as the owners of the corresponding Bonds for any relevant payment or allocation purpose.

(c) Registry: Legal Title and Transfers

The Registry shall be kept at the specified office of the Registrar and shall contain the names and addresses of the Bondholders, the particulars of the Bonds held by them, as well as all records of purchases and transfers of Bonds, whether Trade Related or Non-Trade Related. Title to the Bonds shall be shown in the Registry maintained by the Registrar. For purposes of this clause, the term "Trade Related" mean transactions on the Bonds other than Non-Trade Transactions executed through PDEX (upon listing of the Bonds), while Non-Trade Transactions means transactions relating to the Bonds under any of the following instances: (i) nomination or change of nominated custodian by the beneficial owner of the Bonds; (ii) succession, provided that the heirs and successors-in-interest present a court order of partition or deed of extrajudicial settlement and the proper documentation evidencing the payment of applicable taxes and a certificate authorizing the transfer of the Bonds from the BIR; (iii) donation, provided that the donor presents a valid deed of donation and documents to evidence the payment of applicable taxes and a certificate authorizing the transfer of the Bonds from the BIR; (iv) request for recording or annotation of interests or liens on the Bonds of any party arising from transactions such as, but not limited to, pledge or escrow, provided that the pledgor or the beneficiary of the escrow shall present a proper contract of pledge or escrow agreement; and (e) such other transactions that may be deemed valid and "free of payment" transactions by PDTC; provided, that such transfer is not in violation of any law or regulation or made in circumvention thereof; Provided, further that, the burden of proving the validity of a "free of payment" transaction rests with the transferor of the Bonds.

Upon any transfer of the Bonds and subject to compliance with applicable conditions for transfers of the Bonds, including, but not limited to, the due execution and delivery by the transferor Bondholder of (i) a written instruction (in form and substance acceptable to the Registrar and Paying Agent and/or the Trading Participant) from a transferor-Bondholder to transfer all or part of the Bonds registered in its name; (ii) the delivery by the transferor-Bondholder of the transfer instructions required by the Registrar and Paying Agent pertaining to the Bonds intended to be transferred; and (iii) such other documents required by the Registrar and Paying Agent and/or a Trading Participant in accordance with the Registry and Paying Agency Agreement and the Registrar's rules, then transfers shall be recorded in the Registry, and new Registry Confirmations will be issued by the Registrar in favor of the transferees/purchasers of the affected Bonds. Upon such recording of the transfer, title shall then pass by registration to the transferee-Bondholder in the Registry.

Any costs associated with the settlement in respect of such transfer of the Bonds, including the settlement of taxes, if any, arising from subsequent transfers, shall be for the account of the transferor-Bondholder and/or its counterparty, as market convention or the agreements between them would dictate.

(d) Tax Status

The Trading Participant and/or the Registrar may, unless properly provided with satisfactory proof of the tax-exempt status of a Bondholder, assume that said Bondholder is taxable and proceed to apply the tax due on the Bonds. The Trading Participant and/or the Registrar may require the Bondholder claiming a preferential tax treatment to provide proof satisfactory to it of such preferential status. Notwithstanding the submission by the Bondholder, or the receipt by the Bank or any of its agents, of documentary proof of the tax-exempt status of a Bondholder, the Bank may, in its sole discretion, determine that such Bondholder is taxable and require the Registrar and Paying Agent to proceed to apply the appropriate tax due on the Bonds. Any question on such determination shall be referred to and be decided upon by the Bank.

(e) Change in Status

Transfers across tax categories shall not be allowed except on Interest Payment Dates that fall on a Business Day, provided however that transfers from a tax-exempt category to a taxable category on a non-Interest Payment Date

shall be allowed using the applicable tax-withheld series name on PDEX, ensuring the computations are based on the final withholding tax rate of the taxable party to the trade. Should this transaction occur, the tax-exempt entity shall be treated as being of the same tax category as its taxable counterpart for the interest period within which such transfer occurred. For purposes hereof, "Tax Categories" refer to the three (3) final withholding tax categories covering, particularly, tax-exempt entities, 20% tax-withheld entities and 25% tax-withheld entities. For purposes hereof, "tax categories" refer to the three (3) final withholding tax categories covering, particularly, tax-exempt entities, 20% tax-withheld entities, and 25% tax-withheld entities, as may be amended. This restriction shall be in force until a Non-Restricted Trading & Settlement Environment for Corporate Securities is implemented under PDEX.

Bondholders claiming tax-exempt status are required to submit to the Registrar the required tax-exempt documents as detailed in the Registry and Paying Agency Agreement upon submission of the account opening documents to the Registrar. Transfers taking place in the Registry after the Bonds are listed on PDEX shall be allowed between taxable and tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when so allowed under and in accordance with the relevant rules, conventions and guidelines of PDEX and PDTC.

In the case of a transfer by a taxable or non-tax-exempt Bondholder in favor of any transferee, whether taxable or not taxable, the final withholding tax on the interest income earned or deemed to be earned by the transferor-Bondholder on the Bonds during the Interest Period in which the transfer is made, based on the period that such Bonds were actually held by the transferor-Bondholder, shall be deducted from the purchase price due to it.

(f) Taxes

Documentary stamp taxes as well as other taxes due on the transfer of a Bond, if any, shall be for the account of the relevant Bondholder and/or its counterparties (and shall not be for the account of the Bank), to be deducted from the purchase price due to it.

Except as otherwise contemplated under Condition 12 on account of the occurrence of an event described under Condition 11 ("Events of Default"), none of the Bondholders shall have the right to require the Bank to redeem and repay any or all of the Bonds before the Maturity Date. In accordance with the Governing Regulations, transfers of the Bonds to a person other than the Bank shall not constitute pre-termination. To the extent applicable, for tax purposes, however, negotiations/transfers from a Bondholder to another shall be subject to the pertinent provisions of the Tax Code.

The foregoing notwithstanding, all sums payable by the Bank to tax-exempt persons, if applicable, shall be paid in full without deductions for such taxes, subject to the submission by the relevant Bondholder claiming the exemption of such documentation as may be required under these Master Terms and Conditions.

9. Representations and Warranties

The Bank hereby represents and warrants, as follows:

- (a) **Corporate Existence:** the Bank and its Subsidiaries are corporations duly organized and validly existing under and by virtue of the laws of the Republic of the Philippines, are registered or qualified to do business in every jurisdiction where registration or qualification is necessary and have corporate powers and authority to conduct their business as presently being conducted. Each member of the Group is capable of suing and being sued, and possess full power and authority to own, lease, and operate properties and assets for the purpose of its businesses, and to incur the indebtedness and other obligations provided for the Programme and each relevant Series or Tranche of Bonds;
- (b) **Title to Property:** each Group member has legal and beneficial title to all its respective property in each case free and clear of all liens, encumbrances, and defects; and any real property and buildings held under lease by it or them are held by it under valid, subsisting, and enforceable leases;
- (c) **Corporate Power:** the Issuer has the corporate power under the laws of its incorporation and its constitutive documents to establish and update, as the case may be, the Programme, create and issue the relevant Series or Tranche of Bonds, and to enter into and perform its obligations under and to take all other actions and to do all other things provided for or contemplated in the Contracts, and these Master Terms and Conditions;
- (d) **Capacity:** the Issuer (and, if applicable, any person on whose behalf it may act either as agent or in any representative capacity) has and will continue to have full capacity and authority to establish the Programme, enter into and update the Contracts, and to carry out the transactions contemplated in the Contracts, and has

taken and will continue to take all actions (including the obtaining of all necessary corporate approvals and governmental consents) to authorize the execution, delivery, and performance of the Contracts;

- (e) **Validity of the Bonds and Contracts:** the establishment of the Programme, the issuance of the Bonds and the execution and delivery of the Contracts by the Issuer have been duly authorized by the Issuer and, the Bonds, upon due execution, issuance and delivery in accordance with the Trust Agreement and the Issue Management and Placement Agreement, will constitute valid and legally binding obligations of the Issuer enforceable in accordance with their terms, subject to the laws of bankruptcy, moratorium and other similar laws affecting the rights of creditors generally and general principles of equity;
- (f) **Programme Limit:** the principal amount of the relevant Series or Tranche of Bonds, when issued, does not exceed the unissued principal under the Programme Limit, and the outstanding principal amount of all bonds under the Programme does not exceed the maximum aggregate principal amount under the Programme;
- (g) **Status:** the Bonds will constitute legal, direct, unconditional, unsecured, and unsubordinated Peso-denominated obligations of the Issuer, enforceable against it according to these Master Terms and Conditions, and shall at all times rank *pari passu* and ratably without any preference or priority amongst themselves, and at least *pari passu* with all its other present and future direct, unconditional, unsecured, and unsubordinated Peso-denominated obligations, except for any obligation enjoying a statutory preference or priority established under Philippine laws other than the preference under Article 2244, paragraph 14(a) of the Civil Code of the Philippines;
- (h) **Form:** that the Bonds will, upon due execution, issue and delivery in accordance with the Contracts, be in proper legal form under the laws of the Philippines, and to ensure the legality, validity, enforceability and admissibility into evidence of the Contracts, it is not necessary that the Contracts, the Bonds or any other document or instrument be filed or recorded with any court or other authority in the Philippines;
- (i) **Approvals:** all approvals of any court, governmental agency, office, department, or other regulatory body required for the establishment and maintenance and updating of the Programme, the execution and delivery of the Contracts by the Issuer and the issuance and distribution of the relevant Series or Tranche of Bonds, and the performance of the terms of the Bonds and the Contracts by the Issuer have been obtained and are unconditional and in full force and effect, including without limitation, the final approval of the BSP to the extent that the final approval of the BSP is applicable;
- (j) **BSP and SEC Conditions:** it is compliant with all qualifications and conditions of the applicable Governing Regulations to establish and maintain and update the Programme, issue, maintain, service, pay out, redeem, and cancel each relevant Series or Tranche of Bonds, the Bonds, which qualifications and conditions continue to be complied with and that the establishment and maintenance and updating of the Programme, the issuance of the Bonds in the manner described in the Offering Circular and the issue of the Offering Circular in the manner provided in the Programme Agreement will comply, where relevant, with all applicable laws, governmental or other regulations of the Philippines;
- (k) **Compliance:** the establishment and maintenance and updating of the Programme, the execution and delivery of the Contracts, the issuance of the Bonds, the carrying out of the other transactions contemplated by the Contracts and these Master Terms and Conditions, and compliance with their terms do not and will not (i) conflict with or result in a breach of any of the terms or provisions of, or constitute a default or violation under, the documents constituting the Issuer, or any contract, indenture, trust deed, mortgage, or other agreement or instrument to which the Issuer or any of its subsidiaries is a party or by which it or any of its properties is bound; or (ii) violate or infringe any existing applicable law, rule, regulation, judgment, order, or decree of any government, governmental body or court, domestic or foreign, having jurisdiction over it, any such subsidiary or any of their properties. The Issuer is in compliance with all applicable laws and regulations relating to the Philippine capital markets and recommendations and findings of the BSP;
- (l) **Offering Circular:** each of the Offering Circular as of the Agreement Date (and if amended or supplemented, at the date of any such amendment or supplement) (i) contains all information with respect to the Group, the establishment and updates, as the case may be, of the Programme and the Contracts which are material in the context of the issue and offering of the relevant Series or Tranche of Bonds (including without limitation, all information required by the applicable laws and regulations of the Philippines and the information which, according to the particular nature of the Issuer and of the relevant Series or Tranche of Bonds, is necessary to enable applicants and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and of the rights attaching to the relevant Series or Tranche of Bonds), (ii) each of the Offering Circular as of the Agreement Date (and if amended or supplemented, at the date of any such amendment or supplement) and any other

materials for use in connection with the offering and sale of any Series or Tranche of Bonds and during the roadshow, investor meetings or presentations held by the Issuer used in the offering and sale of any Series or Tranche of Bonds (including, without limitation, any roadshow or electronic roadshow materials) (“Marketing Materials”) do not contain an untrue statement of material fact or omit to state a material fact that is necessary in order to make the statements made in the Offering Circular and any such materials, in the light of the circumstances under which they were made, not misleading and there is no other fact or matter omitted from the Offering Circular and the Marketing Materials which was or is necessary to enable investors and their professional advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer or the Group and of the rights attaching to the relevant Series or Tranche of Bonds; (iii) the other financial data set forth in the Offering Circular relating to the Issuer is accurately presented and prepared on a basis consistent with the consolidated financial statements and books and records of the Group; that the Issuer and each member of the Group has no outstanding guarantees or contingent payment obligations with respect to indebtedness of third parties, except those issued in the ordinary course of business or as described in the Offering Circular; the Issuer and each Group member is in compliance with all of its obligations under any outstanding guarantees or contingent payment obligations as described in the Offering Circular; (iv) all statistical and market related data included in the Offering Circular is based on or derived from sources that the Issuer reasonably believes to be reliable and accurate in all material respects, has been accurately extracted from such source and the Issuer has obtained the written consent to the use of such data from such sources to the extent required; (v) the expression of opinions, beliefs, intentions, expectations or policies contained in the Offering Circular and the Marketing Materials (including, without limitation any such statement concerning prospects, dividends and working capital) are honestly and reasonably made. These statements are premised upon all pertinent facts available to, or reasonably expected to be ascertained by enquiry by the Issuer or its directors and are substantiable in their entirety.

- (m) **Post-Issuance Obligations:** Except for the required disclosure notices to be filed with the SEC, BSP, Philippine Stock Exchange (“PSE”), and PDEX following the issuance of the relevant Series or Tranche of Bonds (as applicable), and the payment of documentary stamp tax on the issuance of the relevant Series or Tranche of Bonds, all necessary actions and measures required to be taken, fulfilled or done (including the giving of any updates to the BSP) for the issuance of the Series or Tranche of Bonds, the execution of the other transactions contemplated by the Contracts or the compliance by the Issuer with the terms of the Contracts (including with respect to the payment of principal and interest on the relevant Series or Tranche of Bonds, as the case may be) have been, or by the Issue Date, will be taken, fulfilled or done.
- (n) **Independence and Third-Party Status:** Each of the relevant Arrangers, Lead Arrangers and Bookrunners and Selling Agents (including the Sole Arranger, Lead Arrangers and Bookrunners) is a third-party in relation to Issuer, such that, other than the Bank in its capacity as Selling Agent, (i) it has no subsidiary/affiliate relationship with Issuer; and that (ii) it is not related in any manner to the Issuer as would undermine the objective conduct of due diligence on the Issuer. Each of the Registrar and Paying Agent and the Trustee is likewise a third-party in relation to Issuer, such that, (i) it has no subsidiary/affiliate relationship with Issuer and (ii) it is not related in any manner to the Issuer as would undermine its independence. Insofar as the Bank is acting as Selling Agent, it shall comply with the applicable provisions of the Governing Regulations, specifically on the implementation of appropriate safeguards and controls as provided under the MORB on related party transactions, to prevent conflict of interest on the said arrangement.
- (o) **Accounting Policies:** the Offering Circular accurately describes (i) accounting policies which the Issuer believes to be the most important in the portrayal of its financial condition and results of operations (the “Critical Accounting Policies”); (ii) material judgments and uncertainties affecting the application of the Critical Accounting Policies; and (iii) an explanation of the likelihood that materially different amounts would be reported under different conditions or using different assumptions, and the Board of Directors and audit committee of the Issuer have reviewed and agreed with the selection and disclosure of the Critical Accounting Policies in the Offering Circular and have consulted with their Auditors with regard to such disclosure;
- (p) **Accounting Controls:** the Issuer maintains systems of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management’s general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with accounting principles generally accepted in the Philippines and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management’s general or specific authorization; (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences; and (v) each of its subsidiaries and affiliates has made and kept books, records, and accounts which, in reasonable detail, accurately and fairly

reflect the transactions and dispositions of assets of such entity and provide a sufficient basis for the preparation of the Issuer's consolidated financial statements in accordance with generally accepted accounting principles of the Philippines; and (vi) its current management information and accounting control system has been in operation for at least twelve (12) months during which none of the Issuer, its subsidiaries, or affiliates has experienced any material difficulties with regard to (i) through (v) above;

- (q) **Corporate Governance:** The Issuer has established and maintains and evaluates a system of disclosure and corporate governance controls and procedures to ensure that (i) material information relating to the Issuer is made known in a timely manner to the Issuer's board of directors and management, and (ii) the Issuer and its board of directors complies in a timely manner with the requirements of the SEC, BSP, PSE and PDEx and any other applicable laws, rules, regulations, statutes, ordinances, guidelines, opinions, notices, circulars, orders, judgments, decrees or ruling (collectively, Laws) of any Governmental, Authority, including, without limitation, including, without limitation, the requirements of the SEC and the PSE on disclosure of material information and transactions required to be disclosed, and such disclosure and corporate governance controls and procedures are effective to perform the functions for which they were established and documented properly and the implementation of such disclosure and corporate governance controls and procedures are monitored by the responsible persons; for the purposes of this subsection, the term "disclosure and corporate governance controls and procedures" means controls and other procedures that are designed to ensure that information required to be disclosed by the Issuer, including, without limitation, information in reports that it files or submits under any applicable Laws, material information and information on related party transactions required to be disclosed under the requirements of the SEC and the PSE, is recorded, processed, summarized and reported, in a timely manner and in any event within the time period required by applicable Law.
- (r) **Financial Statements:** the most recently published audited consolidated financial statements of the Group (the audited accounts), and the most recently prepared unaudited interim consolidated financial statements of the Group and the other financial data extracted from such audited accounts and financial statements appearing in or incorporated by reference in the Offering Circular (i) are in accordance with the books and records of the Issuer and are complete and correct in all material respects; (ii) were prepared in accordance with Philippine Financial Reporting Standards ("PFRS") and the accounting policies of the Issuer applied on a consistent basis throughout the periods involved; (iii) fairly present in all material respects the financial condition of the Issuer as at the relevant dates and of the results of operations, cash flows and the changes in shareholder's equity of the Issuer, for the relevant periods in respect of which they have been prepared in accordance with PFRS; and (iv) there has been no material change in the financial condition or results of operations of the Issuer sufficient to impair its ability to perform its obligations under the relevant Series or Tranche of Bonds and the Contracts according to their terms.
- (s) **Other Liabilities:** the Issuer has no liabilities or obligations of any nature, whether accrued, absolute, contingent, or otherwise, including but not limited to tax liabilities due or to become due, and whether incurred in respect of or measured by any income for any period prior to such date or arising out of transactions entered into or any state of facts existing prior thereto, which may in any case or in the aggregate, materially and adversely affect the Issuer's ability to discharge its obligations under the relevant Series or Tranche of Bonds to be issued under the Programme.
- (t) **Off-balance Sheet Arrangements:** the Offering Circular accurately and fully describes: (i) all material trends, demands, commitments, events, uncertainties and risks, and the potential effects thereof, that it believes would materially affect liquidity and are reasonably likely to occur, and (ii) all material off-balance sheet transactions, arrangements, and obligations; and neither the Issuer nor any of its subsidiaries or affiliates has any material relationships with unconsolidated entities that are contractually limited to narrow activities that facilitate the transfer of or access to assets by the Issuer or any other subsidiary or affiliate, such as structured finance entities and special purpose entities that are reasonably likely to have a material effect on the liquidity of the Issuer, its subsidiaries, or affiliates or the availability thereof or the requirements of the Issuer, its subsidiaries, or affiliates for capital resources;
- (u) **Provision of Information:** all information provided by the Issuer to its External Auditors required for the purposes of their comfort letters in connection with the offering and sale of the Bonds has been supplied, or as the case may be, will be supplied, in good faith and after due and careful inquiry; such information was when supplied and remains (to the extent not subsequently updated by further information supplied to such persons prior to the date hereof), or as the case may be, will be, when supplied, true and accurate in all material respects, and no further information has been withheld, the absence of which might reasonably have affected the contents of any of such letters in any material respect;

- (v) **External Auditors:** the Issuer's External Auditor/s, who have audited the financial statements of the Issuer (the "Independent Auditors") contained and incorporated by reference in the Offering Circular and delivered the reports with respect to such audited financial statements and the unaudited but reviewed interim financial statements included or incorporated by reference in the Offering Circular, are, with respect to the Issuer, independent auditors, who are responsible, reputable, and duly licensed under all applicable regulatory requirements of the Philippines including pursuant to the rules of the Philippine Board of Accountancy.
- (w) **Related Party Transactions:** all material transactions of the Issuer amongst it, and Group member, and its and their respective directors, officers, management, shareholders, or any other person, including persons formerly holding such positions, are on terms that are available to and from other parties on an arm's-length basis and that the descriptions of the transactions under the caption "Related Party Transactions" (or other similar caption) in the Offering Circular are accurate descriptions in all material respects and fairly summarize the transactions described therein and do not omit any material information which affects the import of such descriptions;
- (x) **Licenses, Permits, and Conduct of Business:** each member of the Group (i) has all licenses, franchises, permits, authorizations, approvals, registrations and orders, and other concessions that are necessary to own or lease its properties and conduct its businesses as described in the Offering Circular; (ii) is conducting its business and operations in compliance in all material respects with all applicable laws and regulations in each of the jurisdictions in which it conducts business and operations, including, without limitation, all regulations, guidelines, and circulars of the BSP, the SEC, the Philippine Stock Exchange (the PSE), the PDIC, and the Bureau of Internal Revenue; (iii) and, except as disclosed in the Offering Circular, all findings and recommendations of the BSP resulting from all past audits and examinations conducted by the BSP on the Issuer; and (iv) is otherwise in compliance with all agreements and other instruments to which it is a party, except where any failure to be in compliance with any of which would not have a Material Adverse Effect;
- (y) **Labor Disputes:** that no strike, lockout, work stoppage, slowdown, material labor dispute, or other conflict with the employees of the Issuer exists or is threatened or imminent that would have a Material Adverse Effect;
- (z) **Insurance:** the Issuer maintains insurance with responsible and reputable insurance companies in such amounts, covering such risks as are prudent and appropriate and as are usually carried by companies engaged in similar business and owning similar properties in the same geographical areas as those in which the Issuer operates;
- (aa) **Intellectual Property:** except as specifically described in the Offering Circular, the Issuer and its subsidiaries legally and validly owns or possesses, all patents, licenses, inventions, copyrights, know-how, trademarks, service marks, trade names, or other intellectual property (collectively, Intellectual Property) necessary to carry on the business now operated by it, and it has not received any notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect its interests therein, and which infringement or conflict (if the subject of any unfavorable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would reasonably be expected to result in a Material Adverse Effect;
- (bb) **Environmental Laws:** each member of the Group is not in violation of any statute, rule, regulation or order of any Philippine governmental agency or body or any Philippine court, relating to the use, disposal or release of hazardous or toxic substances or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substances (collectively, Environmental Laws). Moreover, the Issuer nor any of its Subsidiaries owns or operates any real property contaminated with any substance that is subject to any Environmental Laws, is liable for any off-site disposal or contamination pursuant to any Environmental Laws, or is subject to any claim relating to any Environmental Laws, except in each case where such violation, ownership, operation or liability would not have a Material Adverse Effect; and (iii) the Issuer and each of its subsidiaries are in compliance in all respects with all applicable Environmental Laws except for such non-compliance as would not have a Material Adverse Effect.
- (cc) **Information Technology:** all computer systems, communications systems, software and hardware which are currently owned, licensed or used by the Issuer or its Subsidiaries (collectively, "Information Technology") comprise all necessary information technology systems and related rights essential to conduct, or material to, the respective businesses of the Issuer and its subsidiaries, as they are currently operated. The Issuer or its subsidiaries either legally and beneficially own, or have obtained licenses for, or other rights to use, all of the Information Technology.

- (dd) **Litigation:** except as specifically described in the Offering Circular, there are no pending or threatened actions, suits, or proceedings including tax claims against or affecting the Issuer, its subsidiaries, or affiliates or any of their properties which, if determined adversely, would individually or in the aggregate have a Material Adverse Effect, or have, or have had in the previous 12 months, either individually or in aggregate, significant effects on the financial position or profitability of the Issuer and/or the Group, or affect the ability of the Issuer to perform its obligations under the Contracts or the Bonds, or may affect in any manner the validity and enforceability of the Contracts, or which are otherwise material in the context of the issue of the Bonds; and, there are no such actions, suits, or proceedings are threatened or contemplated, nor is there an order of any court, administrative agency, or tribunal of competent jurisdiction that has been issued or effective which would make the consummation of the transactions contemplated by the Contracts illegal or invalid or imposing any unreasonable conditions on the consummation of the transactions contemplated by the Contracts; and the Issuer has not taken any action nor have any steps been taken or legal proceedings commenced for its winding up or dissolution;
- (ee) **No Default:** that no Event of Default or event which with the giving of notice or lapse of time or other condition might constitute an Event of Default is subsisting in relation to any outstanding Bond, and no event has occurred which might constitute (after an issue of Bonds) an Event of Default thereunder, or which with the giving of notice or lapse of time or other condition might (after an issue of Bonds) constitute such an Event of Default;
- (ff) **Breach of Agreements:** the Issuer and each member of the Group is not in breach of the terms of, or in default under, any instrument, agreement, or order to which it or its property is bound, and no event has occurred which with the giving of notice or lapse of time or other condition would constitute a default under any such instrument, agreement or order;
- (gg) **Taxes:** (i) each of the Issuer and each member of the Group has paid all taxes applicable to it and filed all tax returns required to be paid or filed through the date hereof; and (ii) there is no tax deficiency that has been, or could reasonably be expected to be, asserted against any member of the Group or any of their respective properties or assets, except in each of (i) and (ii) for such taxes which are being contested in good faith or where the failure to pay or file or such tax deficiency that would not, individually or in the aggregate, have a Material Adverse Effect;
- (hh) **Immunity:** in any proceedings taken in relation to, or arising out of, the Contracts and the Bonds, none of the Issuer nor any of its Subsidiaries, nor any of their respective properties, assets or revenues has any right of immunity, on the grounds of sovereignty or otherwise, from any legal action, suit or proceeding;
- (ii) **Anti-money Laundering and compliance with Laws:** the operations of the Issuer and its Subsidiaries are and have been conducted at all times in compliance with applicable laws, financial record keeping and reporting requirements and the Anti-Money Laundering and Anti-Terrorism Financing Laws, and of all jurisdictions in which the Issuer and its Subsidiaries conduct business or operations, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued and administered or enforced by any governmental agency or proceeding by or before any court or governmental agency (collectively, "**Money Laundering Laws**"). The proceeds of Bonds shall not be used directly or indirectly in violation of the Money Laundering Laws. There are no pending or threatened actions, suits or proceedings by or before any court or governmental agency, authority or body or any arbitrator alleging such corrupt practices, or any violations of Money Laundering Laws against any of the Issuer and its Subsidiaries. The Issuer shall notify the relevant Arranger and Selling Agents of any breach of laws, or any action, investigation, or proceeding with respect to any breach of laws.
- (jj) **Anti-Bribery:** neither the Issuer nor any of its Subsidiaries, nor any director, officer, agent, employee, affiliate or other person associated with or acting on behalf of the Issuer or any of its Subsidiaries, has used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity; made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; violated or is in violation of, or is aware of any action, directly or indirectly that could result in a violation of, any provision of or any applicable anti-bribery or anti-corruption laws and/or regulations enacted in any jurisdiction applicable to the Issuer including without limitation, the U.S. Foreign Corrupt Practices Act of 1977 (the "**FCPA**"), the UK Bribery Act (the "**UKBA**") or comparable laws or regulations of the Philippines, each as may be amended, or the rules or regulations thereunder ("**Anti-Bribery and Corruption Laws**"); or made, offered or promised to make or authorized the payment or giving of any bribe, rebate, payoff, influence payment, facilitation payment, kickback or other unlawful payment or gift of money or anything of value prohibited under any applicable law or regulation equivalent to the FCPA, the UKBA or comparable laws or regulations of the Philippines (Prohibited Payment) and the

Issuer and its Subsidiaries have instituted and maintain policies and procedures to ensure compliance therewith;

- (kk) **Sanctions:** the Issuer and its Subsidiaries, and all directors, officers, agents, employees and affiliates of the Issuer, have conducted and will continue to conduct their businesses in compliance with all applicable statutes, laws, rules regulations, judgments, orders or decrees relating to anti-bribery or other corrupt practices, and are currently not subject to any Sanctions. None of the of the Issuer, its Subsidiaries, or any of their respective directors or officers, or any of their respective employees, agents, affiliates or other persons associated with or acting on behalf of the Issuer or any of its Subsidiaries, is or ever has been a Restricted Party.
- (ll) **Benefit to Restricted Party:** it shall not, and shall not permit or authorize any other person to, directly or indirectly, use, lend, make payments of, contribute or otherwise make available, all or any part of the proceeds of any transaction(s) contemplated by the Programme Agreement to fund any trade, business, or other activities: (i) involving, or for the benefit of, any Restricted Party, or (ii) in any other manner that would reasonably be expected to result in the Issuer or the relevant Arranger and Bookrunner or any Selling Agent being in breach of any Sanctions (if and to the extent applicable to either of them) or becoming a Restricted Party; and
- (mm) **Solvency:** each member of the Group is Solvent. As used in this paragraph, the term Solvent means, with respect to a particular date, that on such date (i) the present fair market value (or present fair saleable value) of its assets is not less than the total amount required to pay its liabilities on its total existing debts and liabilities (including contingent liabilities) as they become absolute and matured; (ii) the Issuer is able to realize upon its assets and pay its debts and other liabilities, contingent obligations and commitments as they mature and become due in the normal course of business; (iii) the Issuer is not incurring debts or liabilities beyond its ability to pay as such debts and liabilities mature; (iv) the Issuer is not engaged in any business or transaction, and does not propose to engage in any business or transaction, for which its property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which the Issuer is engaged; (v) the Issuer will be able to meet its obligations under all its outstanding indebtedness as it falls due; and (vi) the Issuer is not a defendant in any civil action that would result in a judgment that the Issuer is or would become unable to satisfy.

These representations and warranties are true and correct as of the date of the Offering Circular and as of each relevant Issue Date and shall remain true and correct as long as the Bonds remain outstanding, by reference to the facts and circumstances then existing.

10. Covenants

The Bank hereby covenants and agrees that, for as long as the Bonds remain outstanding:

- (a) **Payment:** it shall pay all amounts due under the Bonds and the Contracts at the times and in the manner specified in, and perform all its obligations, undertakings, and covenants under the Bonds and the Contracts;
- (b) **Taxes:** it shall pay and discharge all taxes, assessments, and government charges or levies imposed upon it, or upon its income or profits or upon any properties belonging to it prior to the date on which penalties are assessed; pay and discharge, when due, all lawful claims which, if unpaid, might become a lien or charge upon any of its properties; and take such steps as may be necessary in order to prevent its properties from being subjected to the possibilities of loss, forfeiture, or sale; *provided*, that it shall not be required to pay any such tax, assessment, charge, levy, or claim which is being contested by it in good faith and by proper proceedings;
- (c) **Corporate Existence:** it shall preserve and maintain its corporate existence, and all its rights, licenses, franchises, permits, concessions, and privileges, and it shall not change the nature of its business as presently conducted;
- (d) **Negative Pledge:** it shall, for as long as the Bonds or any portion thereof remain outstanding, unless it has obtained prior consent in accordance with these Master Terms and Conditions, and subject to the notification and ranking Conditions 3 and 9(g) of these Master Terms and Conditions:
 - a. It will not create or permit to subsist any mortgage, charge pledge, lien or other form of encumbrance or security interest (“Security Interest”) upon the whole or any part of its undertaking, assets or revenues (present or future) to secure any Indebtedness, or any guarantee of or indemnity in respect of any Indebtedness;

- b. It will procure that no other person creates or permits to subsist any Security Interest upon the whole or any part of the undertaking, assets or revenues present or future of that other person to secure (x) any of the Issuer's Indebtedness, or any guarantee of or indemnity in respect of any of the Issuer's Indebtedness, or (y) where the person in question is a Subsidiary of the Issuer, any of the Indebtedness of any person other than that Subsidiary, or any guarantee of or indemnity in respect of any such Indebtedness, unless, at the same time or prior thereto, the Issuer's obligations under the Bonds (i) are secured equally and ratably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement as approved in accordance with these Master Terms and Conditions; and
- c. It will not create or permit to subsist any preference or priority in respect of any other Indebtedness of the Issuer pursuant to Article 2244(14)(a) of the Civil Code of the Philippines, or any successor Philippine law providing for preferences or priority in respect of notarized Indebtedness unless amounts payable under the outstanding Bonds are granted preference or priority equally and ratably therewith.
- (e) **Financial Records:** it shall maintain adequate financial records and prepare all financial statements in accordance with generally accepted accounting principles and practices in the Philippines consistently applied, and in compliance with the regulations of the government body having jurisdiction over it, and, subject to receipt of a written request within a reasonable period before the proposed date of inspection, permit the Bondholders or their duly designated representatives, to inspect the books of accounts and records pertinent to the compliance by the Bank of its obligations under the Bonds;
- (f) **Compliance with Laws:** it shall comply with all the requirements, terms, covenants, conditions, and provisions of all laws, rules, regulations, orders, writs, judgments, indentures, mortgages, deeds of trust, agreements, and other instruments, arrangements, obligations, and duties to which it, its business, or its assets are legally bound, where non-compliance would have a Material Adverse Effect;
- (g) **Compliance with BSP Directives:** it shall fully and promptly comply with all BSP directives, orders, issuances, findings, and letters, including those regarding its capital, licenses, risk management, and operations and promptly and satisfactorily take all corrective measures that may be required under BSP audit reports;
- (h) **Use of Proceeds:** it shall use the net proceeds from the Bonds in accordance with the purpose of issuance provided in the Offering Circular;
- (i) **Obligations:** it shall pay all indebtedness and other liabilities, and perform all contractual obligations pursuant to all agreements to which it is a party, or by which it or any of its properties may be bound, except those being contested in good faith and by proper proceedings;
- (j) **Notice of Proceedings:** it shall give to the Bondholders, through the Trustee, written notice of (i) all assessments, litigation, or administrative or arbitration proceedings before any court, tribunal, arbitrator, or governmental or municipal authority affecting the Bank or any of its assets regarding any claim which (x) is in excess of PHP100,000,000.00 or (y) which might have a Material Adverse Effect; and (ii) of any other matter or condition affecting the Bank which may have a Material Adverse Effect, immediately upon becoming aware that the same has occurred, is pending or has been commenced;
- (k) **Contracts:** it shall ensure that any documents related to the Bonds will, at all times, comply in all material respects with the applicable laws, rules, regulations, and circulars, and, if necessary, make the appropriate revisions, supplements, and amendments to make them comply with such laws, rules, regulations, and circulars;
- (l) **Other Information:** it shall, upon prior written request of a Bondholder, execute and deliver to such Bondholder the reports, documents, and other information respecting the business, properties, condition, or operations, financial or otherwise, of the Bank as a Bondholder may from time to time reasonably require;
- (m) **Default:** it shall, as soon as possible, and in any event within three (3) days after the occurrence of any default on any of the obligations of the Bank, or other event which, with the giving of any notice and/or with the lapse of time, would constitute a default under any agreement of the Bank with any party, including, without limitation, the Contracts, serve a written notice to the Bondholders, through the Trustee, of the occurrence of any such default, specifying the details and the steps which the Bank is taking or proposes to

take for the purpose of curing such default, including the Bank's estimate of the length of time to correct the same;

- (n) **Compliance with Reporting Obligations:** it will duly and punctually comply with all disclosure reporting, filing, and similar requirements imposed by the BSP, the SEC, PDEX, and the PSE, or in accordance with any applicable Philippine law and regulations from time to time relating to the Bonds and the Contracts;
- (o) **Information and Warranties:** it will immediately notify the Bondholders, and the Registrar and Paying Agent, if anything occurs which renders or may render untrue or incorrect, in any material respect, any of the representations or warranties in Condition 9 of these Master Terms and Conditions, or the Bank otherwise breaches, or is alleged to breach any of its undertakings;
- (p) **Agents:** it shall ensure that there shall at all times be a Registrar and Paying Agent for the purposes of the Bonds, as provided in the Registry and Paying Agency Agreement;
- (q) **Request for Information:** it shall, when so requested in writing, provide any and all information reasonably needed by the PDEX, Trading Participant, the Paying Agent and/or Registrar, as the case may be, to enable them to comply with their respective responsibilities and duties under the Governing Regulations and the Contracts; *provided*, that, in the event that the Bank cannot, for any reason, provide the required information, the Bank shall immediately advise the party requesting, and shall perform such acts as may be necessary to provide for alternative information gathering;
- (r) **Listing:** it shall ensure that the Bonds are listed (or enrolled as the case may be) with PDEX unless applicable laws no longer require listing or enrollment of such Bonds with an exchange, and delisting is approved by the Bondholders through a meeting duly called for such purpose, in accordance with these Master Terms and Conditions;
- (s) **Government Agency Orders:** it shall promptly advise the Bondholders, through the Trustee of: (i) any request by any government agency for any information related to the Bonds; or (ii) the issuance by any governmental agency of any cease-and-desist order suspending the distribution or sale of the Bonds or the initiation of any proceedings for any such purpose and shall use its best efforts to obtain at its sole expense the withdrawal of any order suspending the transactions with respect to the Bonds at the earliest time possible;
- (t) **Sanctions:** the Issuer and its Subsidiaries, and all directors, officers, agents, employees and affiliates of the Issuer, have conducted and will continue to conduct their businesses in compliance with all applicable statutes, laws, rules regulations, judgments, orders or decrees relating to anti-bribery or other corrupt practices, and are currently not subject to any Sanctions. None of the of the Issuer, its Subsidiaries, or any of their respective directors or officers, or any of their respective employees, agents, affiliates or other persons associated with or acting on behalf of the Issuer or any of its subsidiaries is or ever has been a Restricted Party.
- (u) **Further Assurance:** the Bank shall execute and deliver such documents and perform such further acts as a relevant party may reasonably require in relation to the Governing Regulations or any of the Contracts.

These covenants of the Bank shall survive the issuance of the Bonds, and shall be complied with and performed fully and faithfully by the Bank at all times while the Bonds or any portion thereof remains outstanding.

11. Events of Default

A Bondholder shall have the right to declare the Bank in default, insofar as the Bonds registered under such Bondholder's name is concerned, in accordance with Condition 12, in case any of the following events shall occur and be continuing:

- (a) The Bank fails to pay any principal and/or interest (as applicable) due on the Bonds; provided, that such non-payment shall not constitute an Event of Default if the Bank has confirmed the Payment Instruction Report (as defined in the Registry and Paying Agency Agreement) prepared by the Registrar and Paying Agent and there are sufficient funds standing in the Payment Account (as defined in the Registry and Paying Agency Agreement) on a relevant payment date;
- (b) Unless otherwise redeemed by the Bank under Condition 5(b)(ii), it becomes unlawful for the Bank to perform or comply with any one or more of its obligations under the Bonds;

- (c) The Bank fails to perform or violates its covenants (other than Condition 11(a)) under these Master Terms and Conditions, and such failure or violation is not remediable or, if remediable, continues to be unremedied for a period of fifteen (15) calendar days from receipt of written notice by the Bank of such failure or violation;
- (d) Any of the Bank's representations and warranties under Condition 9 or any certificate or opinion submitted by it in connection with the issuance of the Bonds is untrue, incorrect, or misleading in any material respect;
- (e) Any final and executory judgment, decree, or arbitral award for the sum of money, damages, fine, or penalty in excess of PHP500,000,000.00 or its equivalent in any other currency is entered against the Bank and the enforcement of which is not stayed, or is not paid, discharged, or duly bonded within thirty (30) calendar days after the date when payment of such judgment, decree, or award is due under the applicable law or agreement;
- (f) (i) Any Indebtedness of the Bank with respect to borrowed money becomes due and repayable prematurely by reason of an Event of Default; (ii) any Indebtedness of the Bank with respect to borrowed money is not paid when due; (iii) any security given by the Bank for any Indebtedness of the Bank for borrowed money becomes enforceable; (iv) default is made by the Bank in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness of the Bank for borrowed money of any other person; or (v) any Indebtedness of the Bank with respect to borrowed money becomes (or is capable of becoming) fully due and repayable prematurely by reason of a default under the document relating to such indebtedness;
- (g) Any judgment, writ, warrant of attachment or execution, or similar process shall be issued or levied against all or substantially all of the Bank's assets and such judgment, writ, warrant, or similar process shall not be released, vacated, or fully bonded within thirty (30) calendar days after its issue or levy;
- (h) The government or any competent authority takes any action to suspend the whole or the substantial portion of the operations of the Bank, or condemns, seizes, or expropriates all or substantially all of the properties of the Bank;
- (i) The Bank voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of fifteen (15) calendar days, except in the case of strikes or lockouts, or when due to fortuitous events or *force majeure*, or when there is no Material Adverse Effect on the business operations or financial condition of the Bank;
- (j) The Bank becomes insolvent or is unable to pay its debts when due, or commits or permits any act of bankruptcy, including (i) filing, in accordance with applicable laws and regulations, of a voluntary or involuntary petition by or against the Bank, as the case may be in any bankruptcy, reorganization, winding-up, suspension of payment, liquidation, or other analogous proceeding; (ii) the appointment of a trustee or receiver or similar officer over all or a substantial portion of its assets, and such appointment is not lifted, discharged, or dismissed within thirty (30) calendar days from the Bank's receipt of notice of such appointment; (iii) the making of an assignment for the benefit of its creditors over all or substantially all of its assets; (iv) admission in writing of its inability to pay its debts; or (v) entry of any final and executory order or judgment of any court, tribunal, or administrative agency or body confirming the insolvency of the Bank, or approving any reorganization, winding-up or liquidation, of the Bank or a substantial portion of its assets; or
- (k) Any event occurs which, under the laws of any relevant jurisdiction, has an analogous effect to any of the events referred to above.

12. Effects of Default Events

(a) Declaration of Default

The Trustee shall, within thirty (30) days after the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it unless the same shall have been cured before the giving of such notice; provided that, in the case of payment default, as defined under the Events of Default in these Master Terms and Conditions, the Trustee shall immediately notify the Bondholders upon the occurrence of such payment default. The existence of a written notice required to be given to the Bondholders hereunder shall be published in a newspaper of general circulation in Metro Manila for two (2) consecutive days (at the expense of the Bank), further indicating in the published notice that the Bondholders or their duly authorized representatives may obtain an important notice regarding the Bonds at the principal office of the Trustee upon presentation of sufficient and acceptable identification.

If any one or more of the Events of Default shall have occurred and be continuing after any applicable curing period shall have lapsed, the Trustee, upon the written direction of the Majority Bondholders whose written instruction/consent/letter shall be verified by the Registrar and by written notice to the Bank, may declare the Bank in default in respect of the Bonds held by such Bondholders, stating the Event of Default relied upon, and require the principal amount of the Bonds held by such Bondholders, and all accrued interests (including any default interest) and other charges due thereon, to be immediately due and payable, and forthwith collect said outstanding principal, accrued interests (including any default interest) and other charges, without prejudice to any other remedies which such Bondholder or the other holders of the Bonds may be entitled.

(b) Default Interest

In case any amount payable by the Bank under the Bonds, whether for principal, interest, and/or fees due to Trustee or Registrar and Paying Agent or otherwise, is not paid on due date, the Bank shall pay default interest at the rate of twelve percent (12%) per annum thereon, which shall accrue from the date the amounts fall due until the same is fully paid.

(c) Application of Payments

Subject to the Registry and Paying Agency Agreement and the Trust Agreement, any money delivered to the Paying Agent upon the occurrence of an Event of Default under Condition 11 shall be applied by the Paying Agent in the order of preference as follows: *first*, to the *pro rata* payment to the Registrar and Paying Agent, the Trustee, Selling Agents, and PDEx and the Trading Participant, of the costs, expenses, fees, and other charges of collection, including reasonable compensation to each of them, their agents, attorneys, and all reasonable expenses and liabilities incurred or disbursements made by them, without gross negligence, or bad faith; *second*, to the payment of all outstanding interest owing to such Bondholder, including any default interest, in the order of maturity of such interest; *third*, to the payment of the whole amount then due and unpaid on the Bonds for principal and interest; *and fourth*, the remainder, if any shall be paid to the Bank, its successors, or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

13. Remedies; Waiver; Ability to File Suit; Limitations

(a) All remedies conferred by these Master Terms and Conditions to the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Bondholders of any legal remedy by judicial or extrajudicial proceedings appropriate to enforce such direct rights under these Master Terms and Conditions.

(b) No delay or omission by the Bondholders, or any one of them, to exercise any right or power arising from or on account of any Event of Default hereunder, shall impair any such right or power, or shall be construed to be a waiver of any such Event of Default or an acquiescence thereto; and every power and remedy given by these Master Terms and Conditions to the Bondholders may be exercised from time to time and as often as may be necessary or expedient.

(c) No Bondholder shall have any right by virtue of or by availing of any provision of the Trust Agreement to institute any suit, action or proceeding for the collection of any sum due from the Bank hereunder on account of principal, interest and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

- (i) such Bondholder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Bonds;
- (ii) the Majority Bondholders shall have decided and made the written request upon the Trustee to institute such action, suit or proceeding in the latter's name;
- (iii) the Trustee for 60 days after the receipt of such notice and request shall have neglected or refused to institute any such action, suit or proceeding; and
- (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Bondholders, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no one or more Bondholders shall have any right in any manner whatsoever, by virtue of or by availing of any provision of the Trust Agreement, to affect, disturb, or prejudice the rights of the holders of any other such Bonds, or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right

under the Trust Agreement, except in the manner herein provided and for the equal, ratable and common benefit of all the Bondholders.

(d) The Majority Bondholders may direct the time, method, and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or may, on behalf of all Bondholders, waive any past default, except the events of default defined as a payment default, Insolvency Default, or closure default, and its consequences. In case of any such waiver, the Bank, the Trustee, and the Bondholders shall be restored to their former positions and rights hereunder; provided however that, no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Bonds.

(e) Notwithstanding any other provisions in these Master Terms and Conditions, in no instance shall any of the parties be liable for special, indirect, consequential, nominal, exemplary, or punitive damages (including, without limitation, any loss of profits, business or anticipated savings).

14. Replacement Registry Confirmations

In case any Registry Confirmation shall be mutilated, destroyed, lost, or stolen, the Registrar, upon receipt of a written request in the form specified by the Registrar, shall cause the reprinting and delivery to the Bondholders of the Registry Confirmation, subject to applicable fees.

15. Change of Trustee by the Bondholders

(a) The Majority Bondholders may at any time remove the Trustee for cause, and appoint a successor trustee, by the delivery to the Trustee so removed, to the successor trustee and to the Bank, of the required evidence under the provisions of Clause 18 on Evidence Supporting the Action of the Bondholders.

(b) Any resignation or removal of the Trustee and the appointment of a successor trustee pursuant to any provisions of the Trust Agreement shall become effective upon the earlier of: (i) acceptance of appointment by the successor Trustee as provided in the Trust Agreement; or (ii) effectivity of the resignation notice sent by the Trustee under the Trust Agreement; provided however that, until such successor trustee is qualified and appointed, the resigning Trustee or the trustee to be removed shall continue to discharge its duties and responsibilities solely as custodian of records for turnover to the successor trustee promptly upon the appointment thereof by the Bank; provided finally that, such successor trustee possesses all the qualifications as required by pertinent laws.

16. Reports of the Bondholders

(a) The Trustee shall submit to the Bondholders on or before February 28 of each year from the relevant Issue Date of the relevant Series or Tranche of Bonds until full payment of the Bonds primarily through electronic mail (unless hand delivery is otherwise chosen by the Bondholder who will then have to bear the printing and delivery costs) a brief report dated as of December 31 of the immediately preceding year with respect to:

(i) the property and funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report; and

(ii) any action taken by the Trustee in the performance of its duties under the Trust Agreement which it has not previously reported and which in its opinion materially affects the Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.

(b) The Trustee shall submit to the Bondholders primarily through electronic mail (unless hand delivery is otherwise chosen by the Bondholder who will then have to bear the printing and delivery costs) a brief report within ninety (90) days from the making of any advance, the reimbursement of which it claims or may claim as a lien or charge which is prior to that of the Bondholders on the property or funds held or collected by the Paying Agent with respect to the character, amount and the circumstances surrounding the making of such advance; provided that, such advance remaining unpaid amounts to at least ten percent (10%) of the aggregate outstanding principal amount of the Bonds at such time.

(c) The following pertinent documents may be inspected during regular business hours on any Business Day at the principal office of the Trustee:

i. Trust Agreement;

- ii. Issue Management and Placement Agreement;
- iii. Registry and Paying Agency Agreement;
- iv. Articles of Incorporation and By-Laws of the Bank, as amended;
- v. Copies of the Bank's most recent audited financial statements; and
- vi. A copy of the Offering Circular together with any supplement to the Offering Circular.

17. Meetings of the Bondholders

A meeting of the Bondholders may be called at any time for the purpose of taking any actions authorized to be taken by or in behalf of the Bondholders of any specified aggregate principal amount of Bonds under any other provisions of the Trust Agreement or under the law and such other matters related to the rights and interests of the Bondholders under the Bonds.

(a) Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of a series or tranche of Bonds may direct in writing the Trustee to call a meeting of the Bondholders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Bank and to each of the registered Bondholders not earlier than forty-five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Bank within ten (10) days from receipt of the duly supported billing statement.

(b) Failure of the Trustee to Call a Meeting

In case at any time, the Bank, pursuant to a resolution of its board of directors or executive committee, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of a Series or Tranche of the Bonds shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, in accordance with the notice requirements, the notice of such meeting, then the Bank or the Bondholders in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof.

(c) Quorum

The Trustee shall determine and record the presence of the Majority Bondholders, personally or by proxy. The presence of the Majority Bondholders, personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Bondholders.

(d) Procedure for Meetings

- (1) The Trustee shall preside at all the meetings of the Bondholders, unless the meeting shall have been called by the Bank or by the Bondholders, in which case the Bank or the Bondholders calling the meeting, as the case may be, shall in like manner move for the election of the chairman and secretary of the meeting.
- (2) Any meeting of the Bondholders duly called may be adjourned for a period or periods not to exceed in the aggregate of one (1) year from the date for which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

(e) Voting Rights

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of one or more Bonds or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting.

Bondholders shall be entitled to one (1) vote for every Ten Thousand Pesos (PHP10,000.00) interest. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representatives of the Bank and its legal counsel.

(f) *Voting Requirement*

Except as provided in Condition 19 (*Amendments*), all matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders present or represented in a meeting at which there is a quorum except as otherwise provided in the Trust Agreement. Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Bank as if the votes were unanimous.

(g) *Role of the Trustee in Meetings of the Bondholders*

Notwithstanding any other provisions of the Trust Agreement, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Bondholders, in regard to proof of ownership of the Bonds, the appointment of proxies by registered holders of the Bonds, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit.

18. Evidence Supporting the Actions of the Bondholders

Wherever in the Trust Agreement it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of a Series or Tranche of the Bonds may take any action (including the making of any demand or requests and the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing, or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith, or (iii) a combination of such instrument and any such record of meeting of the Bondholders.

19. Amendments

The Bank and the Trustee may amend these Master Terms and Conditions with notice to every Bondholder following the written consent of the Majority Bondholders or a vote of the Majority Bondholders at a meeting called for the purpose. However, without the consent of each Bondholder affected thereby, an amendment may not:

- (a) reduce the percentage of principal amount of Bonds outstanding that must consent to an amendment or waiver;
- (b) reduce the rate of or extend the time for payment of interest on the Bonds;
- (c) reduce the principal of or extend the Maturity Date;
- (d) impair the right of any Bondholder to receive payment of principal of and interest on such Bondholder's Bonds on or after the due dates therefore or to institute suit for the enforcement of any payment on or with respect to such Bondholders;
- (e) reduce the amount payable upon the redemption or repurchase of the Bonds under these Master Terms and Conditions or change the time at which the Bonds may be redeemed;
- (f) make the Bonds payable in money other than that stated in the Bonds;
- (g) subordinate the Bonds to any other obligation of the Bank;
- (h) amend or modify the Payment, Taxation, the Events of Default of these Master Terms and Conditions or the Waiver of Default by the Bondholders; or
- (i) make any change or waiver of any of the foregoing Condition.

Moreover, the Bank and the Trustee may amend or waive any provisions of the Contracts if such amendment or waiver is of a formal, minor, or technical nature or to correct a manifest error or inconsistency, without prior notice to or the consent of the Bondholders or other parties, provided in all cases that such amendment or waiver does not

adversely affect the interests of the Bondholders and provided further that all Bondholders are notified after such amendment or waiver.

It shall not be necessary for the consent of the Bondholders under this Condition to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof. After an amendment under this Condition becomes effective, the Bank shall send a notice briefly describing such amendment to the Bondholders.

Any amendment of these Master Terms and Conditions is subject to the Governing Regulations.

20. Notices

All notices, instructions, and requests to the Registrar and Paying Agent or the Trustee or any other person named herein shall be in writing and shall be sent by personal delivery, courier, or registered mail with postage prepaid, confirmed facsimile to the addressees at its address, facsimile number, and secured electronic email address, and for the attention of the specified representative, as set forth below:

(a) To the Bank and Selling Agent

PHILIPPINE BANK OF COMMUNICATIONS

2nd Floor, PBCOM Tower, 6795 Ayala Avenue corner V.A. Rufino St.,
Makati City, Metro Manila Philippines 1226

Attention: Cherry Ann Vanessa B. Kimpo
FVP and Head, Treasury-Asset Liability Management Division
Tel. No.: (632) 8662-8451
E-mail: CAVBKimpo@pbcom.com.ph

ING BANK N.V., MANILA BRANCH

22nd Floor, Arthaland Century Pacific Tower,
5th Ave. cor. 30th St., Bonifacio Global City,
1634 Taguig City, Metro Manila

Attention: Lenin C. Dueñas, Jr.
Managing Director, Head of Corporate Sector Coverage and Financial Institutions
Tel. No.: (632) 8479 8888
Fax No.: (632) 8815 1116
Email: lenin.jr.duenas@asia.ing.com

(b) To the Registrar and Paying Agent

PHILIPPINE DEPOSITORY & TRUST CORP.

29th Floor, BDO Equitable Tower
8751 Paseo de Roxas, Makati City 1226

Attention: Josephine "Baby" F. Dela Cruz
Director
Tel. No: 8884 5025
Fax No: 8230 3346
E-mail: baby_delacruz@pds.com.ph

Attention: Patricia Camille R. Garcia
Registry Officer
Tel. No.: 8884 4413
Email: patricia.garcia@pds.com.ph

(c) To the Bondholders

All notices to the Bondholders shall be in writing and shall be sent by mail with postage prepaid to the name and last recorded address of the Bondholders as appearing in the Registry or by publication, at the Bank's expense, for two (2) consecutive days in two (2) newspapers of general circulation in Metro Manila in accordance with SEC Memorandum Circular No. 1 (2008).

(d) To the Sole Arranger

ING BANK N.V., MANILA BRANCH
22nd Floor, Arthaland Century Pacific Tower,
5th Ave. cor. 30th St., Bonifacio Global City,
1634 Taguig City, Metro Manila

Attention: Lenin C. Dueñas, Jr.
Managing Director, Head of Corporate Sector Coverage and Financial Institutions
Tel. No.: (632) 8479 8888
Fax No.: (632) 8815 1116
Email: lenin.jr.duenas@asia.ing.com

(f) To the Trustee

DEVELOPMENT BANK OF THE PHILIPPINES – TRUST BANKING GROUP
4/F DBP Building, Sen Gil J. Puyat Avenue corner Makati Avenue, 1200 Makati City

Attention: Maria Felicia S. Magtibay
SAVP & Head, Trust Marketing Department
Tel. No.: (632) 8818 9511 local 3408
E-mail: mfsmagtibay@dbp.ph; tmd@dbp.ph

(g) Effect of Notice

All notices, instructions, statements, and requests, where applicable, shall: (i) if delivered personally to the address as provided in this Condition 20(g), be deemed given upon delivery; (ii) if delivered by a courier, be deemed given upon delivery; (iii) if delivered by facsimile transmission to the facsimile number as provided in this section, be deemed given upon receipt in readable form and a full transmission report has been received by the sender; (iv) if delivered by registered mail in the manner described above to the address as provided in this Condition 20, be deemed given upon receipt, and in case of email if received in readable form (in each case regardless of whether such notice, request or other communication is received by any other person on behalf of such individual to whom a copy of such notice, request, or other communication is to be delivered pursuant to this Condition). The parties shall maintain any electronic data, message, communication, or mail received pursuant to the Electronic Commerce Act (Republic Act No. 8792) and these Master Terms and Conditions. The Parties may from time to time change its address, facsimile number, or other information for the purpose of notices hereunder by giving notice specifying such change to the other parties pursuant to the notice procedure under this Condition 20(g).

Any notice, report, or communication received on a non-working day or after business hours in the place of receipt will only be deemed given on the next working day in that place.

(h) Recording

For security and quality of service purposes, all telephone and other communications between the parties and the Bondholders may be recorded in any manner, and to the production of such recordings as evidence in any proceedings brought in connection with the Bonds.

(i) Regulatory Notices / Complaint Desk

For any concerns you may contact the Bank at 8777-2266. PBCom is a universal bank regulated and supervised by the Bangko Sentral ng Pilipinas with telephone number (02) 8811-1277 and email address consumeraffairs@bsp.gov.ph.

21. Waiver of Preference or Priority

In the event that a primary obligation for payment shall arise out of the Contracts, such as to constitute any of the Contracts as a contract for the payment of an indebtedness or a loan, then it is understood and expressly agreed by the parties hereto that the obligation created under such Contract/s shall not enjoy any priority, preference or special privileges whatsoever over any indebtedness or obligations of the Bank. Accordingly, whatever priorities or preferences that such Contract/s may have or any person deriving a right hereunder may have under Article 2244, paragraph 14 (a) of the Civil Code of the Philippines are hereby absolutely and unconditionally waived and renounced.

22. Venue

In the event of any legal action arising from, or by reason of, the interpretation and enforcement of the provisions of these Master Terms and Conditions, (a) the proper venue for such court action shall exclusively be any competent court of Makati City or Taguig City, and (b) the party adjudged by the court to be liable shall be obliged to pay the costs of litigation, as well as reasonable attorney's fees.

24. Prescription

Any action upon the Bonds shall prescribe within ten (10) years from the time the right of action accrues.

25. Severability

If any provision hereunder becomes invalid, illegal, or unenforceable under any law, the validity, legality, and enforceability of the remaining provisions of these Master Terms and Conditions shall not be affected or impaired. The Bank shall exert reasonable efforts to replace any invalid provision with a valid provision which most closely approximates the intent and economic effect of the illegal, invalid, or unenforceable provision.

26. Governing Law

These Master Terms and Conditions shall be governed by and construed in accordance with the laws of the Republic of the Philippines.

SECTION 4. FORM OF PRICING SUPPLEMENT



PHILIPPINE BANK OF COMMUNICATIONS
(A corporation duly organized and existing under Philippine laws)

PRICING SUPPLEMENT DATED [●] OFFER OF UP TO PHP [●] BONDS

Under its PHP 15,000,000,000 Bond Programme

consisting of

[●% P.A.] [Series/Tranche] [●] Bonds Due [●]

at an Offer Price of [100%] of Face Value

to be listed and traded through the Philippine Dealing and Exchange Corporation

Arrangers and Bookrunners

[●]

Selling Agents

[●]

This document constitutes the Pricing Supplement relating to [Series/Tranche] [●] Bonds being offered and described herein (the "Offer"). Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the "Master Terms and Conditions") set forth in the Trust Agreement and the Offering Circular dated [●] (the "Offering Circular"). This Pricing Supplement contains the final terms of this Offer and the [Series/Tranche] [●] Bonds and must be read in conjunction with the Offering Circular. Full information on the Bank and the Offer is contained in the Offering Circular and in this Pricing Supplement. All information contained in the Offering Circular are deemed incorporated by reference in this Pricing Supplement.

**OFFER OF SERIES [●] BONDS
BY PHILIPPINE BANK OF COMMUNICATIONS
UNDER ITS ₱15,000,000,000 BOND PROGRAMME**

This document constitutes the Pricing Supplement relating to the Series [●] Bonds being offered and described herein (the “Offer”). Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the “Terms and Conditions”) set forth in the Offering Circular dated [●]. This Pricing Supplement contains the final terms of this Offer and the Series [●] Bonds and must be read in conjunction with the Offering Circular. Full information on PBCOM and the Offer is only available on the basis of the combination of this Pricing Supplement and the Offering Circular. All information contained in the Offering Circular are deemed incorporated by reference in this Pricing Supplement.

| | |
|--------------------------------------|---|
| <i>Issuer</i> | Philippine Bank of Communications (“PBCOM”) |
| <i>Issuer Rating</i> | [●] |
| <i>Issue</i> | PHP-denominated [●] Bonds (the “Bonds”) |
| <i>Issue Amount</i> | [●] |
| <i>Manner of Distribution</i> | Public offering |
| <i>Use of Proceeds</i> | [●] |
| <i>Issue Price</i> | [●] |
| <i>Offer Period</i> | The offer of the Bonds shall commence at [●] on [●] and end at [●] on [●], or any other period as may be determined by the Issuer and the Arrangers and Bookrunners |
| <i>Issue Date</i> | [●] or such other date as may be agreed by the Issuer and the Arrangers and Bookrunners. |
| <i>Maturity Date</i> | [●] or [●] Years after Issue Date |
| <i>Maturity Value</i> | [●] |
| <i>Form and Denomination</i> | The Bonds shall be issued in scripless form in denominations of [●] each, as a minimum, and in multiples of [●] thereafter, and traded in denominations of [●] in the secondary market. |
| <i>Ranking</i> | The Series [●] Bonds constitute direct, unconditional, unsecured, and unsubordinated obligations of the Bank, enforceable according to the Terms and Conditions, and shall at all times rank pari passu and without any preference or priority among themselves and at least pari passu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Bank, except for any obligation enjoying a statutory preference or priority established under Philippine laws |
| <i>Interest Rate</i> | [●]% per annum payable on the Interest Payment Dates set out below [<i>to be adjusted if parties agree on floating rate</i>] |
| <i>Interest Period</i> | [●] |
| <i>Interest Payment Dates</i> | [●] |
| <i>Day Count Fraction</i> | 30/360 day count basis |
| <i>Governing Law</i> | Philippine Law |
| <i>Payment Account Name</i> | |

Listing

Other Terms and Conditions [●]
applicable to the Series [●]
Bonds

PARTIES TO THE TRANSACTION

Arrangers and Bookrunners [●]

Selling Agents PBCOM
[●]

Trustee [●]

Market Maker [●]

ADDITIONAL INFORMATION

Amendment or Supplement to the Offering Circular

[Changes or updates necessary to make the statements in the Offering Circular true and correct should be reflected here.]

RESPONSIBILITY

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

Philippine Bank of Communications
(PBCOM)

By:

[●]
[●]

SECTION 5. USE OF PROCEEDS

The purpose of the issuance is for general corporate purposes, including refinancing debt obligations, diversify funding sources and support loan growth.

SECTION 6. INVESTMENT CONSIDERATIONS

An investment in the Bonds issued under the Programme involves a number of investment considerations. Prospective investors should carefully consider all the information contained in this Offering Circular, including the investment considerations described below, before any decision is made to invest in the Bonds. The Bank's business, cash flows, financial condition, results of operations and prospects could be materially adversely affected by any of these investment considerations. The market price of the Bonds could decline due to any one of these risks, and all or part of an investment in the Bonds could be lost.

In making an investment decision, each investor must rely on its own examination of the Bank and the terms of the offering of any Bonds issued under the Programme. The following discussion is not intended to be a comprehensive description of the risks and other factors and is not in any way meant to be exhaustive as the risks which the Bank faces relate to events and depend on circumstances that may or may not occur in the future. In addition, some risks may be unknown to the Bank and other risks, currently believed to be immaterial, could turn out to be material. Prospective investors are encouraged to make their own independent legal, tax, financial, and business examination of the Bank, the Bonds, and the market. Neither the Bank nor the Joint Lead Arrangers and Joint Bookrunners and Selling Agents make any warranty or representation on the marketability or price on any investment in the Bonds.

6.1 CONSIDERATIONS RELATING TO THE PHILIPPINES

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

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

From 2020 to 2022, COVID-19 spread globally, with the number of reported cases and related deaths increasing daily, and in many countries, exponentially. As of 21 January 2024, there have been over 774 million confirmed cases and over seven million deaths. Countries have taken measures in varying degrees to contain the spread, including social distancing measures, community quarantine, suspension of operations of non-essential businesses and travel restrictions.

The disruption and uncertainty caused by COVID-19 has severely and adversely affected the Philippine economy, resulted in higher unemployment rates, closure of small businesses and significantly dampened outlook for large enterprises or conglomerates. These, together with the adverse effects on industries such as global airline, retail, tourism, real estate and logistics, and supply chains, led to slower deposit and loan growth in the banking industry and increased exposure of banks to greater credit risk, which led to higher NPLs particularly in the retail and tourism industries, SMEs, and unsecured borrowers. Further, Government stimulus policies such as interest rate cuts, the BSP moratorium on loan and interest repayments, waiver of late fees, and deferral of credit card payments, led to decreased margins for the banking industry and caused a decline in profitability. In addition, the measures implemented by the Philippine government to mitigate the negative impact of COVID-19 in the Philippine economy have caused disruption to businesses and economic activities. The Bank's business has been adversely affected by the COVID-19 pandemic and consequential economic downturn.

The Philippines has also experienced other public health epidemics or outbreaks of diseases, such as avian influenza or bird flu, African Swine Fever, dengue and polio, among others, which have adversely affected the local economy. For example, in 2019, the Department of Health declared a national dengue outbreak with 437,089 cases recorded for the year with 2,620 deaths. Furthermore, in September 2019, the Department of Health declared a polio epidemic after a case of the disease was recorded in Lanao del Sur after 19 years recording no cases in the country.

There can also be no assurance that the policies and controls for outbreak prevention and disease recurrence, will be successful in preventing disease outbreaks or recurrences or that any actual or suspected outbreak of bird flu, COVID-19 or any other contagious disease affecting the Philippines or elsewhere will not occur. There can also be no assurance that any current or future outbreak of contagious diseases will not have a material adverse effect on the Bank's business, financial condition, and results of operations. If the outbreak of the COVID-19 or any public health epidemic or pandemic becomes or continues to be widespread in the Philippines or increases in severity, it could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Bank's business, financial condition and results of operations.

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

The value of the Peso against the U.S. dollar and other currencies may be adversely affected by certain events and circumstances such as strengthening of the U.S. economy, rise of interest rates in the U.S., escalation of trade war between the U.S. and China, global uncertainties caused by the Russo-Ukrainian War, Israel-Palestine conflict, and COVID-19 pandemic, and other events affecting the global markets or the Philippines, causing investors to move out their investment portfolios/ funds/ capital from the Philippines. Such fund outflow from the Philippines may result in volatility in the value of the Peso against foreign currencies.

As at 31 December 2023, according to BSP data, the Peso has appreciated by 0.98% to ₱55.567 per U.S.\$1 from ₱56.120 per U.S.\$1 at the end of 2022. As at 24 September 2024, the Peso was at ₱55.790 against the U.S. dollar, per BSP data.

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

Substantially all of the Bank's business activities and assets are based in the Philippines, which exposes the Bank to risks associated with the country, including the performance of the Philippine economy. Historically, the Bank has derived substantially all of its revenues and operating profits from the Philippines and, as such, its businesses are highly dependent on the state of the Philippine economy. Demand for banking services, residential real estate, automotives, electricity and insurance are all directly related to the strength of the Philippine economy (including its overall growth and income levels), the overall levels of business activity in the Philippines as well as the amount of remittances received from OFWs and overseas Filipinos.

In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine currency and the imposition of exchange controls. The country's GDP growth also stagnated in 2020 as a result of the COVID-19 pandemic, as the Philippine Statistics Authority has announced that the Philippines' GDP in 2020 contracted by 9.5%. In 2021, the Philippine economy recovered and expanded by 5.7% year-on-year as the lifting of pandemic-related restrictions stimulated business activity. The growth, which put the economy on track to return to its pre-pandemic level, was driven by increased household consumption, government expenditure and public construction. The growth continued in 2022 when the country's GDP expanded to 7.6%, surpassing the government's projection of 6.5% to 7.5%. The expansion is among the strongest in Southeast Asia and was driven by the services and industry sectors, with production in most subsectors reverting to its pre-pandemic levels. The Philippines 2023 GDP growth was at 5.6%. This was driven by the strength in domestic demand given higher household consumption and investments, particularly public infrastructure. The government projects faster GDP growth of 6.5% to 7.5% in 2024 despite domestic and external headwinds.

Factors that may adversely affect the Philippine economy include:

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- exchange rate fluctuations and foreign exchange controls;
- rising inflation or increases in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government's fiscal and regulatory policies, including tax laws and regulations that impact or may impact inflation and consumer demand such as the Train Law or subsequent legislation;
- Government budget deficits;
- The COVID-19 pandemic including case surges and virus mutations, emergence of new variants, re-emergence of Middle East Respiratory Syndrome-Corona virus ("MERS-CoV"), SARS, avian influenza (commonly known as bird flu), H1N1, or the emergence of another similar disease (such as Zika) in the Philippines or in other countries in Southeast Asia;
- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other social, political or economic developments in or affecting the Philippines.

There can be no assurance that the Philippines will maintain strong economic fundamentals in the future. Changes in the conditions of the Philippine economy could materially and adversely affect the Bank's business, financial

condition and results of operations.

6.1.4 *Political instability in the Philippines could destabilize the country and may have a negative effect on the Bank's businesses.*

The Philippines has from time to time experienced political and military instability. In recent history, there has been political instability in the Philippines, including impeachment proceedings against two former presidents and a chief justice of the Supreme Court of the Philippines, a nullification of the appointment of another chief justice of the Supreme Court of the Philippines, hearings on graft and corruption issues against various government officials, and public and military protests arising from alleged misconduct by previous and current administrations. There can be no assurance that acts of election-related or other political violence will not occur in the future, and any such events could negatively impact the Philippine economy.

The Philippine general elections for national and local officials took place on 9 May 2022 with Ferdinand Marcos, Jr. being proclaimed President and Sara Duterte being proclaimed Vice-President. The mid-term national and local election, in which 12 senators, representatives of the House of Representatives and local officials will be elected, is set on 12 May 2025.

No assurance can be given that any changes in regulations or policies imposed by the Government from time to time or the future political environment in the Philippines will be stable or that current or future administrations will adopt economic policies conducive to sustaining economic growth. Political instability in the future could reduce consumer demand for retail and consumer goods to the Bank's disadvantage, or result in inconsistent or sudden changes in regulations and policies that affect the Bank's business operations, which could have a material adverse impact on the results of operations and financial condition of the Bank.

6.1.5 *Acts of terrorism could destabilize the country and could have a material adverse effect on the Bank's businesses, financial condition and results of operation.*

The Philippines has also been subject to a number of terrorist attacks and the Armed Forces of the Philippines has been in conflict with groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. For example, in May 2017, the city of Marawi in Lanao del Sur, Mindanao, was assaulted by the Maute Group, terrorists which were inspired by pledged allegiance to the Islamic State of Iraq and Syria (ISIS). Due to the clash between the Government forces and the terrorists and the risk of the armed conflict spilling over to other parts of Mindanao, martial law was declared in the entire island of Mindanao, Philippines. In October 2017, the city was declared liberated from the terrorists. Despite this, the Philippine Congress extended the imposition of martial law in Mindanao until the end of 2019, citing persistent threats of terrorism and rebellion and to ensure the total eradication of ISIS-inspired terrorists in the country. Martial law in Mindanao was lifted on 1 January 2020, however certain areas in Mindanao remain under a state of emergency and law enforcement groups are in heightened security as a measure against potential terror threats. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy. These armed conflict and terror attacks could lead to further injuries or deaths by civilians and members of the military, which could destabilize parts of the country and adversely affect the country's economy.

The Philippine legislature passed the Anti-Terrorism Act of 2020 (Republic Act No. 11479), which has drawn criticism from, and sparked protests by, various sectors because of its controversial provisions on warrantless arrests and its broad definition of terrorist acts, which may be used to target government critics. The Supreme Court, nevertheless, upheld the constitutionality of the said law, save for two provisions which exclude mass actions and similar exercise of civil and political rights from the definition of terrorism and requests by foreign agencies or bodies to designate persons as terrorists and terrorist organizations.

Continued conflicts between the government and separatist groups and attacks from terrorist groups could lead to further injuries or deaths by civilians and members of the police and military, which could destabilize parts of the country and adversely affect the country's economy. Any such destabilization could cause interruption to parts of the Bank's business and materially and adversely affect its financial conditions, results of operations and prospects. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines and adversely affect the country's economy.

No assurance can be given that the future political or social environment in the Philippines will be stable or that current and future governments will adopt economic policies conducive for sustaining economic growth. An unstable political or social environment, whether due to the imposition of emergency executive rule, martial law or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on the Bank's business, financial

condition and results of operations

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

International credit rating agencies issue credit ratings for companies with reference to the country in which they are resident. As a result, the sovereign credit ratings of the Philippines directly affect companies that are resident in the Philippines, such as the Bank. Historically the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. In June 2024, Fitch retained the sovereign rating of "BBB" with a "Stable" outlook, citing the Philippines strong medium-term growth, which supports a gradual reduction in government debt/GDP over the medium term and the large size of the economy relative to 'BBB' peers. In August 2024, Moody's affirmed the country's long-term local and foreign currency issuer and senior unsecured ratings at "Baa2" with a "stable" outlook, citing as key factors the country's reforms to liberalize the economy, fiscal consolidation efforts, and robust macroeconomic fundamentals. In November 2023, S&P affirmed the Philippine's investment-grade long-term credit rating of "BBB+" short-term rating of "A-2" with a "stable" outlook. The agency mentioned that the economic recovery for the Philippines post the pandemic has remained robust, but near-term risks presented by global conditions persist. The government is continuing its fiscal consolidation, with a lower deficit and stabilizing debt burden. The country's external position remains a rating strength, although current account deficits in recent years have decreased net external assets.

However, no assurance can be given that Fitch, Moody's, S&P Global Ratings or any other international credit rating agency, will not downgrade the credit ratings of the Government in the future and, therefore, of Philippine companies, including the Bank. Any such downgrade could have a material adverse effect on liquidity in the Philippine financial markets and the ability of the Philippine government and Philippine companies, including the Bank, to raise additional financing, and will increase borrowing and other costs.

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

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, floods, droughts, volcanic eruptions and earthquakes. For example, in January 2020, Taal Volcano, which is located approximately 50 kilometres south of Manila, erupted in mid-January 2020, spewing ashes across several towns and cities in Cavite, Laguna, Batangas, Rizal and Quezon, Metro Manila and even some parts of Central Luzon. The phreatic eruption caused the evacuation of nearby areas, and interrupted business operations as well as electricity and internet connectivity. Taal Volcano subsequently erupted in July 2020, November 2021 and most recently in March 2022. However, the volcano continues to spew high emissions of sulfur dioxide and remains under Alert Level 1.

Similarly, on 5 June 2023, the alert status of Mayon Volcano was raised to Alert Level 2 and then to Alert Level 3 three (3) days after, following a sharp increase in the incidence of rockfall from its summit lava dome. Alert Level 3 is maintained over Mayon Volcano, which means that it is currently in a relatively high level of unrest and risks of hazardous eruption remain present.

Moreover, the Philippines – ranked as one of the world's most vulnerable to the impacts of a warming planet – is hit by an average of 20 storms and typhoons every year, which typically wipe out harvests, homes and infrastructure in already impoverished areas. In November 2020, two typhoons, Super Typhoon Rolly/Goni and Typhoon Ulysses/Vamco, and in December 2021 and September 2022, Super Typhoon Odette/Rai and Super Typhoon Karding/Noru, respectively, brought strong winds and rain to the Philippines. In July 2023, Super Typhoon Egay/Doksuri likewise brought strong winds and rain causing destruction in the affected areas. More recently, in July 2024, Typhoon Carina brought relentless rain causing significant disruptions, including flight cancellations, suspended classes, flooding, landslides, and traffic jams in Metro Manila and parts of Luzon.

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

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

Although a principal objective of Philippine securities laws is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Bank, than is regularly made available by public companies in the U.S. and other countries. As a result, public shareholders of the Bank may not have access to the same amount of information or have access to information in as timely of a manner as may be the case for companies listed in the U.S. and many other jurisdictions. Furthermore, although the Bank complies with the requirements of the Philippine SEC with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. For example, the Securities Regulation Code of the Philippines requires the Bank to have at least two independent Directors or such number of independent Directors as is equal to 20.0% of the Board, whichever is the lower number. The Bank currently has five independent Directors. Many other jurisdictions may require more independent directors.

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

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

The Philippines, China and several Southeast Asian nations have been engaged in a series of longstanding territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. China claims historic rights to nearly all of the West Philippine Sea based on its so-called “nine-dash line” and in recent years dramatically expanded its military presence in the sea which has raised tensions in the region among the claimant countries. The Philippines maintains that its claim over the disputed territories is supported by recognised principles of international law consistent with the United Nations Convention on the Law of the Sea (UNCLOS). Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a group of small islands and reefs known as the Scarborough Shoal. Actions taken by both sides have threatened to disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports, a temporary suspension of tours to the Philippines by Chinese travel agencies and the rejection by China of the Philippines’ request for arbitral proceedings administered in accordance with the UNCLOS to resolve the disputes.

In 2013, the Philippines became the first claimant country to file a case before the Permanent Court of Arbitration, the international arbitration tribunal based at The Hague, the Netherlands, to legally challenge claims of China in the West Philippine Sea and to resolve the dispute under the principles of international law as provided for under the UNCLOS. In 2016, the Permanent Court of Arbitration ruled in favour of the Philippines against China over territorial disputes in the West Philippine Sea. The arbitral tribunal unanimously ruled, among others, that (a) China has “no historical rights” to the resources within the sea areas falling within the “nine-dash line;” (b) Chinese reclamation activity in the West Philippine Sea has caused irreparable damage to the environment, obligating the Chinese government to stop further activities in the West Philippine Sea; and (c) China has violated the Philippines’ sovereign rights in its exclusive economic zone by interfering with Philippine fishing and petroleum exploration, constructing artificial islands, and failing to prevent Chinese fishermen from fishing in the zone. However, China has said it will not recognise the ruling. With no formal enforcement mechanism in place, the territorial dispute in the West Philippine Sea remains contentious and unresolved.

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

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

Recent months have seen increased frequency of incidents as well as heightened intensity of confrontations between Chinese Coast Guard and Philippine personnel in the West Philippine Sea. These have resulted in public accusations and diplomatic protests from both countries. In August 2023, China Coast Guard vessels used water cannon against a Philippine resupply mission preventing one of the boats from delivering its cargo. On 24 September 2023, the Philippine Coast Guard reported that the Chinese Coast Guard has installed a floating barrier near the Bajo de Masinloc (Scarborough Shoal) in the West Philippine Sea in an attempt to prevent Filipino fishermen from entering

the Scarborough Shoal. In a special operation conducted the following day, the Philippine Coast Guard confirmed that it has removed and cut the floating barrier. In October 2023, the Philippines has lodged a diplomatic protest with China in response to maneuvers by Chinese vessels that led to collisions with Philippine ships on a resupply mission to the BRP Sierra Madre on Ayungin Shoal (international name: Second Thomas Shoal). On April 30, 2024, while Philippine government vessels were distributing fuel and food to the fisherfolk in the Scarborough Shoal, China coast guard vessels attacked them using high-pressure water cannons, causing damage to the vessels. This caused the Philippine government to file another diplomatic protest against China. As of April 30, 2024, the Philippines has filed total of 153 diplomatic protests against China during President Marcos' tenure, with 20 of these protests filed exclusively in 2024.

United States President Joe Biden has manifested that the United States would not be easing up its military operations in the West Philippine Sea. In February 2023, the Philippine and United States governments announced the designation of four new sites in connection with the implementation of the Enhanced Defense Cooperation Agreement. This expansion is viewed to make the alliance between the Philippines and the United States stronger and more resilient. South Asian nations and claimants involved in the West Philippine Sea dispute also continue to enforce their sovereign rights against China as well as other South Asian nations.

Should territorial disputes between the Philippines and other countries in the region continue or escalate further, the Philippines and its economy may be disrupted and the Bank's operations could be adversely affected as a result.

6.2 CONSIDERATIONS RELATING TO THE PHILIPPINE BANKING INDUSTRY

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

The Bank is subject to significant levels of competition from many other Philippine banks and local branches of international banks, including, in some instances, competitors that have greater financial and other capital resources, greater market share and greater brand name recognition than the Bank. According to data published by the BSP, there were a total of 44 domestic and foreign universal and commercial banks operating in the Philippines as of 30 June 2024.

In the future, the Bank may also face increased competition from financial institutions offering a wider range of commercial banking services and products than the Bank and having larger lending limits, greater financial resources and stronger balance sheets than the Bank. Increased competition may arise from:

- other large Philippine banking and financial institutions with significant presence in Metro Manila and large country-wide branch networks;
- foreign banks, due to, among other things, relaxed foreign bank ownership standards permitting large foreign banks to set up their own branches in the Philippines or expand their branch network through acquiring domestic banks;
- ability of the Bank's competitors to establish new branches in Metro Manila;
- domestic banks entering into strategic alliances with foreign banks with significant financial and management resources; and
- continued consolidation in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions.

The ongoing mergers and consolidations in the banking industry, as well as the liberalisation of bank foreign ownership restrictions, have allowed the emergence of foreign and bigger local banks in the market. This is expected to increase the level of competition both from Philippine and foreign banks and may impact the Bank's operating margins.

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

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

The Philippine banking industry may face significant financial and operating challenges. These challenges may include, among other things, a sharp increase in the level of NPLs, variations of asset and credit quality, significant compression in bank margins, low loan growth and potential or actual under-capitalisation of the banking system. Disruptions in the Philippine financial sector, or general economic conditions in the Philippines, may cause the Philippine banking industry in general, and the Bank in particular, to experience similar problems to those faced in the past, including substantial increases in NPLs, problems meeting capital adequacy requirements, liquidity problems and other challenges. As an example, the adverse effects of the pandemic in the general economy drove up the monthly gross NPL ratios exclusive of interbank loans to 3.6% - 4.7% levels from September 2020 to August 2021. With the reopening and improvement of the economy, these figures gradually moved back down to the 3.6% level as of August 2022. As of 30 June 2024, the gross NPL ratio was at the 3.59% level.

6.2.3 *The Bank has to comply with strict regulations and guidelines issued by banking regulatory authorities and other authorities in the Philippines, such as the BSP, the Anti-Money Laundering Council (“AMLC”), the Philippine Deposit Insurance Corporation (“PDIC”), the Securities and Exchange Commission (“SEC”), and the BIR, and international bodies, including the Financial Action Task Force (“FATF”).*

The Bank’s banking interests are regulated and supervised principally by the BSP, to which the Bank has reporting obligations. The Bank is also subject to banking, corporate, taxation, data privacy laws and other relevant laws and regulations in effect in the Philippines, administered by agencies such as the Bureau of Internal Revenue (the BIR), the Philippine SEC, the PSE, the National Privacy Commission (the NPC) and the Anti-Money Laundering Council (AMLC). The Bank is also subject to recommendations and pronouncements of international bodies such as the Financial Action Task Force (FATF) which have been adopted, incorporated, or referred to by the BSP in its regulatory issuances.

In recent years, existing BSP and BIR rules have been modified, new regulations and rules have been enacted and reforms have been implemented by the BSP and the BIR which are intended to provide tighter control and added transparency in the Philippine banking sector. Rules governing banks’ capital adequacy and reserve requirements, ceilings on loans to subsidiaries and affiliates, as well as limits on the amount of loans, credit accommodations and guarantees to a single borrower have also evolved over the years. Guidelines on the monitoring and reporting of suspected money laundering activities were incorporated into the BSP Manual. Institutions that are subject to the Anti-Money Laundering Act, as amended (AMLA) are required to establish and record the identities of their clients based on official documents. In addition, under the AMLA regulations, all records of customer identification and transaction documents are required to be maintained and stored for a minimum of five years from the date of a transaction. Records of closed accounts must also be kept for at least five years after their closure. The AMLA regulations also require covered institutions to report covered and suspicious transactions as defined under the relevant law.

The BSP has also ordered universal, commercial and thrift banks to conduct real estate stress tests to determine whether their capital is sufficient to absorb a severe shock. The Real Estate Stress Test Limit (REST Limit) combines a macro-prudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. Should a bank fail to comply with the prescribed REST Limits, it shall be directed to explain why its exposures do not warrant immediate remedial action. If the explanation is deemed insufficient, the bank shall be required to submit an action plan to meet the REST Limits within a reasonable time frame. If a bank fails to submit an action plan or persistently breaches the REST Limits due to non-compliance with the commitments in its submitted action plan, it may be considered to be engaging in unsafe or unsound banking which may subject it to appropriate sanctions.

In June 2016, the BSP implemented the interest rate corridor (IRC) which effectively narrowed the band among the BSP’s key policy rates. The pricing benchmark, which used to be the “special deposit account” prior to the implementation of the IRC, was replaced by the “overnight deposit facility” with a current rate of 5.75% (as of 16 August 2024) and forms the lower bound of the IRC. Meanwhile, the rate for the “overnight lending facility”, which replaced the previous repurchase facility, and forms the upper bound of the IRC, is currently at 6.75% (as of 16 August 2024). The BSP’s Target Reverse Repurchase (“RRP”) Rate currently stands at 6.25% (as of 16 August 2024). The BSP likewise introduced the “term deposit facility” to serve as the main tool for absorbing liquidity through weekly term deposit facility auctions, the frequency for which may be changed depending on the BSP’s liquidity forecasts. According to the BSP, the changes from IRC are purely operational in nature to allow it to conduct monetary policy effectively.

Universal and commercial banks are required to maintain reserves against deposits and deposit substitute liabilities, which, effective 6 January 2024, are imposed at the following rates: (a) 9.5% against demand deposits, negotiable order of withdrawal (NOW) accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable certificates of time deposits (CTDs), long-term non-negotiable tax-exempt CTDs, deposit substitutes, Peso deposits

lodged under due to foreign banks and Peso deposits lodged under due to head office/branches/agencies abroad of banks (Philippine branch of a foreign bank); (b) 0% against deposit substitutes evidenced by repurchase agreements; (c) 4.0% against long-term negotiable certificates of time deposits (LTNCDs); (d) 1.0% against green, social sustainable bonds as defined under the relevant regulations of the SEC or other relevant regional or international standards acceptable to the market issued within one year from 6 January 2024; (e) 0% for bonds mentioned in (d) issued one year after 6 January 2024, effective for another 12 months, (f) 3.0% against bonds other than those in (d) and (e); and (g) 0% against basic deposit accounts as defined under Section 213 of the MORB and for interbank call loan transactions (IBCL).

The Bank's failure to comply with current or future regulations and guidelines issued by regulatory authorities in the Philippines or significant compliance and monitoring costs resulting from current or future regulations and guidelines could have a material adverse effect on the Bank's business, financial condition and results of operations. In addition, as a result of a failure to comply with any current or future regulations and guidelines, the Bank may become subject to sanctions, warning or reprimand and incur monetary penalties.

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

On 15 January 2009, the BSP issued Circular No. 639 covering the Internal Capital Adequacy Assessment Process ("ICAAP") which supplements the BSP's risk-based capital adequacy framework under BSP Circular No. 538. The BSP requires banks to have in place an ICAAP that (i) takes into account not just the credit, market and operational risks but also all other material risks to which a bank is exposed (such as interest rate risk in the banking book, liquidity risk, compliance risk, strategic/business risk and reputation risk); (ii) covers more precise assessments and quantification of certain risks (i.e., credit concentration risk); and (iii) evaluates the quality of capital. In 2011, the BSP issued BSP Circular 709, which aligns with the Basel Committee on Banking Supervision ("BCBS") on the eligibility criteria on Additional Group Concern Capital and Tier 2 Capital to determine eligibility of capital instruments to be issued by Philippine banks/quasi-banks as Hybrid Tier 1 Capital and Lower Tier 2 Capital. Further, in January 2013, the BSP issued Circular No. 781 as the Basel III Implementing Guidelines on Minimum Capital Requirements, which took effect in January 2014, highlights of which include:

- adopting a new categorization of the capital base;
- adopting eligibility criteria for each capital category that is not yet included in Circular 709;
- as applicable, allowing the BSP to adopt regulatory deductions in Basel III;
- keeping minimum CAR at 10%, and prescribing:
- a minimum Common Equity Tier 1 ("CET1") ratio of 6.0%;
- a minimum Tier 1 CAR ratio of 7.5%;
- an additional capital conservation buffer ("CCB") of 2.5%;
- revaluation of certain AFS securities and the impairments that could arise from trading losses;
- if the Bank is classified as "systemically important", it may be required to hold additional capital reserves;
- by 1 January 2014, rendering ineligible existing capital instruments as of 31 December 2010 that do not meet eligibility criteria for capital instruments under the revised capital framework;
- by 1 January 2016, rendering ineligible regulatory capital instruments issued under Circulars No. 709 and 716 before the revised capital framework became effective; and
- by subjecting covered banks and quasi-banks to the enhanced disclosure requirements pertaining to regulatory capital.

On 29 October 2014, the BSP issued Circular No. 856, or the "Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks ("D-SIBs") under Basel III" to address systemic risk and interconnectedness by identifying banks which are deemed systemically important within the domestic banking industry. Banks that will be identified as D-SIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and CCB. Identified D-SIBs will need to put up an additional 1.5 — 3.5% common equity Tier 1 depending on their classification. Compliance with this requirement was phased-in starting 1 January 2017, with full compliance required by 1 January 2019. Under Circular No. 1024 issued in January 2019, the BSP adopted the Basel III countercyclical capital buffer that required UBs and KBs to maintain a countercyclical capital buffer (CCyB) of zero percent (0%) subject to upward adjustment to a rate determined by the Monetary Board when systemic conditions warrant, with respect to the minimum Common Equity Tier (CET) 1 requirement. Furthermore, banks face new liquidity requirements under Basel III's new liquidity framework (which was recently amended by BSP Circular Nos. 1034 and 1035), namely, the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). On 10 March 2016, the BSP issued Circular No. 905, or the "Implementation of Basel III Framework on Liquidity Standards — Liquidity Coverage Ratio and Disclosure Standards". The amendments introduced by BSP Circular No. 1035 provide enhancements to the LCR and Minimum Liquidity Ratio ("MLR") guidelines. In the LCR framework, the previous treatment of reporting expected cash flows for each derivative contract in gross amounts has been revised. Under the new policy, cash inflows and outflows from each derivatives contract shall now be recognized on a net basis consistent with valuation methodologies for derivatives contracts and the Basel III LCR framework. Likewise, the method for computing the MLR for Stand-Alone Thrift Banks, Rural Banks, Cooperative

Banks and Quasi-Banks was revised. The revised MLR computation converges with the LCR framework as interbank placements are now counted as eligible liquid assets. The LCR requires banks to hold sufficient level of high-quality liquid assets to enable them to withstand a 30 day-liquidity stress scenario, while the NSFR measures the ability of a bank to fund its liquidity needs over one year. Beginning 1 January 2018, the LCR threshold that banks will be required to meet will be 90% which will then be increased to 100% beginning 1 January 2019. During the observation period prior to 1 January 2018, banks are required to submit quarterly LCR reports for monitoring purposes. The observation period for LCR requirement for the subsidiary banks/quasi banks of universal and commercial banks was recently extended to 31 December 2019 by BSP Circular 1035 (Amendments to the Basel III Framework on Liquidity Coverage Ratio Framework and Minimum Liquidity Ratio Framework), during which the LCR floor of 70% will be applied. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. The observation period for NSFR for the subsidiary banks/quasi banks of universal and commercial banks was recently extended to 31 December 2019 by BSP Circular 1034 (Amendments to the Basel III Framework on Liquidity Standards – Net Stable Funding Ratio), during which the NSFR floor of 70% will be applied. Compliance with these ratios may also further increase competition among banks for deposits as well as high quality liquid assets.

These may result in an increase in the capital adequacy requirement of the Bank. Unless the Bank is able to access the necessary amount of additional capital, any incremental increase in the capital requirement due to the implementation of ICAAP and Basel III, may impact the Bank's ability to grow its business and may even require the Bank to withdraw from or to curtail some of its current business operations, which could materially and adversely affect the Bank's business, financial condition and results of operations. There can also be no assurance that the Bank will be able to raise adequate additional capital in the future at all or on terms favorable to it. In addition, the implementation of Basel III may require the Bank to divest itself of certain non-allied undertakings. If the Bank is forced to sell all or a portion of certain subsidiaries or associates, its business, financial condition or results of operations could be adversely affected. There can be no assurance that the Bank will be able to meet the requirements of Basel III as implemented by the BSP. In addition, the limitations or restrictions imposed by the BSP's implementation of Basel III could materially and adversely affect the Bank's business, financial condition and results of operations.

Whenever the capital accounts of a bank are deficient with respect to the prescribed risk-based CAR of 10%, the Monetary Board, may impose monetary and non-monetary sanctions. The Monetary Board will also prohibit opening of new branches whenever a bank's CAR falls below 12% on a non-consolidated and consolidated basis. Likewise, it will also prohibit the distribution of dividends whenever a bank's CET1 ratio and CAR falls below 8.5% and 10% respectively.

Based on latest available data dated 30 June 2024 from the BSP and under the Revised Basel III standards (Memorandum No. M-2013-056), the Philippine universal and commercial banking industry's capital adequacy ratio (CAR) was 16.08% on a solo basis. As a comparison, the Bank's Tier 1 capital ratio and CAR were at 14.14% and 16.39%, respectively as of 30 June 2024.

CCB will not be considered in breach of the Basel III risk-based capital adequacy framework. When the CCB is utilized, the covered bank/QB is restricted from making distributions in the form of dividends, profit remittance in the case of a foreign bank branch, share buybacks, discretionary payments on other Tier 1 capital instruments, or discretionary bonus payments to staff. Second, for the LCR, the covered bank/QB may draw on its stock of liquid assets to meet liquidity demands even if this may cause the bank to maintain an LCR below the 100% minimum requirement. However, a bank which has recorded a shortfall in the stock of its High-Quality Liquid Assets for three banking days within any two-week rolling calendar period, thereby causing the LCR to fall below 100%, must notify the BSP of such breach on the banking day immediately following the occurrence of the third liquidity shortfall. After the COVID-19 crisis, covered banks/QB are to be given a reasonable time period to restore their Basel III CCB and LCR. The Memorandum also provides that the noncompliance by a covered bank/QB with the minimum risk-based capital adequacy ratios and the minimum 100% NSFR as a result of the COVID-19 situation will be handled on a case-by-case basis by the BSP.

In addition, the BSP issued BSP Circular No. 855 (Series of 2014) regarding guidelines on sound credit risk management practices, including the amendment on loan loss provisions on loans secured by real estate mortgages. Under the new regulations, loans may be considered secured by collateral to the extent the estimated value of net proceeds at disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan, provided that such collateral has an established market and a sound valuation methodology. Under the new rules, the maximum collateral value for real estate collateral shall be 60% of the value of such collateral, as appraised by an appraiser acceptable to the BSP. While this maintains existing regulations already applicable to universal and commercial banks, the collateral value cap will be particularly relevant in securing directors, officers, stockholders and related interests ("DOSRI") transactions and in potentially accelerating the setting up of allowable loan for losses in case a loan account gets distressed.

The BSP also clarified that the collateral cap on real estate mortgages is not the same as a loan-to-value (“LTV”) ratio limit. Even under the new rules, the minimum borrower equity requirement remains a bank-determined policy (which, according to the BSP, averages 20% under current industry practice). Under the enhanced guidelines of the BSP however, the bank’s internal policy as to minimum borrower equity will be subject to closer regulatory scrutiny as to whether the borrower equity requirement of a bank is prudent given the risk profile of its target market.

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

On 13 December 2018, the Monetary Board approved the adoption of the Countercyclical Capital Buffer (“CCyB”) intended for universal and commercial banks as well as their subsidiary banks and quasi-banks. The CCyB will be complied with by the banks using their Common Equity Tier 1 (“CET1”) capital. During periods of stress, the Monetary Board can lower the CCyB requirement, effectively providing the affected banks with more risk capital to deploy. During periods of continuing expansion, the CCyB may be raised which has the effect of setting aside capital which can be used if difficult times ensue. The CCyB is set initially at a buffer of zero percent, which is line with global practice. The buffer, however, will be continuously reviewed by the BSP. Banks will be given a lead time of twelve (12) months in the event that the CCyB buffer is raised. However, when the buffer is reduced, it takes effect immediately.

Although intended to strengthen banks’ capital positions and thwart potential asset bubbles, the new BSP and Monetary Board regulations will add pressure to local banks to meet these additional capital adequacy requirements, which may effectively create greater competition among local banks for deposits and temper bank lending in the commercial property and home mortgage loan sectors given that banks’ ability to lend to these sectors depends on their exposure to the sector and the capital levels they maintain. This may also lead banks in the Philippines to conduct capital raising exercises. Through its compliance with these regulations, the Bank’s business, financial position and results of operations may be adversely affected.

On 9 March 2020, the BSP issued Circular No. 1078, approving the adoption of guidelines on correspondent banking relationships. Banks that engage in correspondent banking, which is the provision of banking services by one bank to another bank, whose relationship can either be foreign or domestic, are required to adopt policies and procedures to prevent correspondent banking activities from being used in money laundering or terrorism financing activities and must designate an officer responsible for ensuring compliance with these regulations and the bank’s policies and procedures. These required policies and procedures include risk assessment of the correspondent banking relationship and due diligence on the respondent bank. The BSP may deploy enforcement actions to promote adherence to these guidelines and bring about timely corrective action.

The BSP issued Memorandum No. M-2020-039 on 4 May 2020, allowing universal and commercial banks, and their subsidiary banks and quasi-banks which have built their capital conservation buffer and LCR buffer to utilize such during the state of health emergency. A covered bank which draws down its 2.5% minimum capital conservation buffer will not be considered in breach of the capital adequacy framework. A covered bank which utilizes its capital conservation buffer is restricted from making distributions in the form of dividends, share buybacks, discretionary payments on other Tier 1 capital instruments, or discretionary bonus payments to staff. A covered bank may draw on its stock of liquid assets to meet liquidity demand even if may cause to maintain an LCR that is below the 100% minimum requirement. However, a covered bank that has recorded a shortfall in the stock of its HWLA for three banking days within any two-week rolling calendar period, causing it to fall below the 100% must notify the BSP on the banking day immediately following the occurrence of the third liquidity shortfall. They will be given a reasonable time to restore their Basel III capital conservation and liquidity buffers after the COVID-19 pandemic.

As of June 30, 2024, the Bank had a CAR of 16.39% and a CET ratio of 14.14%. Compliance with these ratios may further increase competition among banks for deposits as well as high quality liquid assets.

Although intended to strengthen banks’ capital positions and avoid potential asset bubbles, the foregoing BSP and Monetary Board regulations will add pressure to local banks to meet the additional capital requirements, which may effectively create greater competition among local banks for deposits and temper bank lending. Stricter lending and prudential regulations may reduce the lending appetite of the Bank or cause the Bank to alter its credit risk management systems, which may adversely affect the Bank’s business, financial condition and results of operations.

Compliance with regulatory requirements may impact the Bank’s ability to grow its business and may even require the Bank to withdraw from or to curtail some of its current business operations, which could materially and adversely affect the Bank’s business, financial condition, and results of operations. Unless the Bank is able to access the necessary amount of additional capital, any incremental increase in the capital or liquidity requirement due to the implementation of Basel III may result in BSP-imposed monetary and non-monetary sanctions, including prohibition

on the declaration of dividends.

All Philippine banks, including the Bank, are required to comply with the requirements of Basel III and related standards, including ensuring that sound and robust capital management, recovery and resiliency plans are effectively in place and regularly stress-tested should there be a need to raise any adequate additional capital (or liquidity) in the future.

6.2.5 *The Bank's provisioning policies in respect of classified loans require significant subjective determinations, which may increase the variation of application of such policies.*

BSP regulations require that Philippine banks, including the Bank, classify NPLs based on four different categories corresponding to levels of risk: Loans Especially Mentioned, Substandard, Doubtful and Loss. Generally, classification depends on a combination of a number of qualitative as well as quantitative factors such as the number of months payment is in arrears, the type of loan, the terms of the loan and the level of collateral coverage. These requirements have in the past, and may in the future, be subject to change by the BSP. Periodic examination by the BSP of these classifications may also result in changes being made by the Bank to such classifications and to the factors relevant thereto. In addition, these requirements in certain circumstances may be less stringent than those applicable to banks in other countries and may result in particular loans being classified as non-performing later than would be required in such countries or being classified in a category reflecting a lower degree of risk.

The level of provisions currently recognized by the Bank in respect of their loan portfolios depends largely on the quality of the portfolio and estimated value of the collateral coverage for the portfolio. Although the Bank has a policy to test their loan portfolios for impairment ~~on a quarterly basis~~ in order to ensure adequacy of provisions as needed and in line with changing market conditions, the level of the Bank's provisions may not be adequate to cover increases in the amount of their NPLs, or any deterioration in the overall credit quality of the Bank's loan portfolios, including the value of the underlying collateral. In particular, the amount of the Bank's reported loan losses may be influenced by factors beyond their control. For instance, certain accounting standards have been adopted in the Philippines based on International Accounting Standards, which currently require the Bank's loan loss provisions to reflect the net present value of the cash flows of the loan and underlying collateral.

For the period ended 30 June 2024, the Bank booked provision for credit losses of ₱2.80 billion. Meanwhile, the Bank's net NPL ratio stood at 1.67% and 0.93% as of 30 June 2024 and 31 December 2023, respectively. Net NPL ratio is the result of total non-performing loans (NPLs) less specific loan loss reserves for NPLs divided by total loans inclusive of interbank loans receivables.

On 3 August 2020, Memorandum No. M-2020-061 was signed. This memorandum enjoined banks to adhere to the guidelines on credit risk management, besides being guided in the treatment of relief measures for the purposes of determining ECL, and treatment of relief measures granted by the BSP. The BSP said banks should have the same prudence in assessing the financial capacity of borrowers and in making credit decisions, under the credit risk management rules. Banks should be able to distinguish borrowers who are only facing temporary cash flow pressures from those with serious issues on capacity to repay the loan. BSFIs are also expected to review the assumptions in their ECL models in view of the impact of the pandemic. BSFIs should use reasonable and supportable information about past events, current conditions, and the forecast of future conditions/and or outlook, without undue cost or effort. BSFIs should exercise prudent judgment in determining the qualitative and quantitative factors that should be considered in measuring ECL as well as in applying overlays or adjustments to the model.

Furthermore, the introduction of new accounting standards may result in the Bank recognizing significantly higher provisions for loan loss in the future. While the Bank believes its current level of provisions and collateral position are more than adequate to cover its NPL exposure, an unexpected or significant increase in NPL levels may result in the need for higher levels of provisions in the future.

6.2.6 *Any future changes in PFRS may affect the financial reporting of the Bank's business.*

A discussion on the newly adopted PFRS and amendments to existing standards to be adopted or which will be effective after 2023 can be found in the Note 2 to the Interim Condensed Consolidated Financial Statements included elsewhere in this Offering Circular. The Bank believes that other amendments and improvement to PFRS issued effective after 31 December 2023 will not have material impact on the Bank's future financial statements.

The Bank, however, is unable to predict future changes in PFRS and its impact. Any future changes in PFRS may affect the financial reporting of the Bank's business.

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

The sovereign credit ratings of the Philippines directly affect companies that are resident and domiciled in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign.

The Philippines enjoys investment grade credit ratings from the following major agencies:

- Fitch Ratings – BBB (stable), which was affirmed on April 2024;
- Moody’s Investors Service – Baa2 (stable), which was affirmed on May 2024; and
- Standard & Poor’s – BBB+/A-2 (stable) which was affirmed on September 2023.

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

6.2.8 Interest rate volatility could significantly affect the Bank’s financial condition and results of operations.

A significant portion of the Bank’s assets consists of, and a significant portion of its revenue is derived from, assets that are monetary in nature. Although the Bank engages only in limited trading activities through positions in fixed income instruments and, to some extent, in financial derivative instruments, which are mostly to facilitate other banking services to its customers, these assets are subject to the normal risks associated with investing activities, including the risk that a change in market prices, rates, indices, volatility, correlations, liquidity or other factors may result in losses for a specific position or portfolio. Most recently, in 16 August 2024, the Monetary Board (“MB”) cut the BSP’s Target Reverse Repurchase (“RRP”) Rate by 25 basis points to 6.25%. Prior to this, the RRP has been at 6.50% since October 2023. This after the BSP hiked rates by 450 basis points since May 2022, when interest rates were eased to historically low levels at 2.00% RRP at the height of the COVID-19 pandemic. However, there is no assurance that interest rates in the Philippines will not increase in the future, including in response to inflationary pressures resulting from strong economic growth, tax reforms, geopolitical conflict, and global developments. Any new shocks to prices of some key commodities may shift BSP’s policy decision and may cause the MB to increase policy rates to ensure price stability.

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

6.2.9 The Philippine banking industry is generally exposed to higher credit risks and greater market volatility than that of more developed countries.

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

- The greater uncertainty associated with the Philippine regulatory, political, legal and economic environment;
- The vulnerability of the Philippine economy in general to a severe global downturn as it impacts on its export sector, employment in export-oriented industries, and OFW remittances
- The large foreign debt of the Government and the corporate sector, relative to the gross domestic product (“GDP”) of the Philippines; and
- Volatility of interest rates and U.S. Dollar/Peso exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including the Bank, to more potential losses and higher risks than banks in more developed countries. In addition,

higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on the Bank's financial condition, liquidity and results of operations. According to data from the BSP, the average NPL ratios exclusive of interbank loans in the Philippine banking industry were 3.25% and 3.32% as at 31 December 2022 and 2023, respectively, and 3.52% and 3.59% as at 30 June 2023 and 2024, respectively.

6.2.10 *Philippine banks' ability to assess, monitor and manage risks inherent in its business differs from the standards of its counterparts in more developed countries.*

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

However, BSP's early adoption of Basel III on 1 January 2014 a year ahead of the Basel Committee on Banking Supervision's recommended implementation timeline as well as the imposition of higher limits and stricter minimum requirements for regulatory capital relative to international standards, with no transition period, are seen as efforts to boost the Philippine banking industry's resiliency and enhance its ability to absorb risks. In addition, the BSP has been prudent and conservative in setting the minimum reserve requirement compared to other regulators in the region, with a minimum reserve requirement for Peso deposit balances of 17% to be held with the BSP by 31 May 2019, 16.5% by 28 June 2019, 16% by 26 July 2019, 15% by 1 November 2019, 14% by 6 December 2019, 12% by 3 April 2021, and 9.5% by 30 June 2023 (compared to, for example, Indonesia, where the minimum local currency reserve requirement is 9.0% of local currency deposit balances). On 29 June 2023, BSP Circular No. 1176 further amended the required reserves against deposit and deposit substitutes in local currency of banks effective 30 June 2023. For peso deposits lodged (i) under due to foreign banks and (ii) peso deposits lodged under due to head offices/branches/agencies abroad (Philippine branch of a foreign bank), it stands at 6% for digital banks and 9.5% for universal commercial banks.

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

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

During the 2008 global financial crisis, global GDP bottomed. After concerted monetary easing by central banks, global growth has picked up and is now on its 10th year of expansion. Many major developed markets and China's growth are now showing signs of weakness.

Exacerbating the situation is the US/China trade war. The US have accused China of unfair trade practices and former US President Trump imposed several rounds of additional tariffs on Chinese goods. This prompted China to retaliate with tariffs of their own. Both countries agreed to sit down and finalize "Phase 1" of their trade agreement, which reportedly state that China will purchase US\$40-50 billion in US agricultural products annually, strengthen intellectual property provisions and issue new guidelines on how to manage their currency.

There can be no assurance that the uncertainties affecting global markets will not negatively impact credit markets in Asia, including in the Philippines. The success of the Bank's banking business is highly dependent upon its ability to maintain certain minimum liquidity levels, and any rise in market interest rates could materially and adversely affect the Bank's liquidity levels and force it to reduce or cease its offering of certain banking and other financial services. These developments may adversely affect trade volumes with potentially negative effects on the Philippines.

6.2.12 Any future changes in Philippine taxation may materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank is subject to the taxation laws and regulations in effect in the Philippines. In the event of any changes to existing laws, the Bank's business, financial condition and results of operations could be materially affected.

The TRAIN Law, which was the first package of the Comprehensive Tax Reform Program (“**CTRP**”), brought about extensive changes to individual income taxation. Among the amendments from the TRAIN Law included increasing the rate of documentary stamp tax (“**DST**”) on the original issue of shares of stock and debt instruments. The original issue of shares is now subject to documentary stamp tax of ₱2.00 for each ₱200.00, or a fractional part thereof, of the par value of the shares issued. Meanwhile, all such affected debt instruments are generally subject to **DST** at the rate of ₱1.50 on each ₱200.00, or fractional part thereof, of the issue value of such instruments.

On 26 March 2021, the second package of the **CTRP**, Republic Act No. 11534, otherwise known as the **CREATE Act**, was signed into law, amending provisions of the Tax Code, relating to, among others, corporate income tax, lowering corporate income taxes and modernizing fiscal incentives in a bid to complement the expected incremental revenues from the first package.

The salient provisions of the **CREATE Act** include:

- (i) reduction in corporate income tax (“**CIT**”) from the current 30% to 20% for MSMEs and to 25% for other corporate taxpayers by 1 July 2020;
- (ii) reduction in the minimum corporate income tax rate to 1% effective 1 July 2020 until 30 June 2023;
- (iii) effective 1 July 2020, a period of four to seven years during which export enterprises may enjoy the 5% special corporate income based on the gross income earned in lieu of all national and local taxes;
- (iv) extension of the applicability of the net operating loss carryover for losses incurred during the first three years from the start of commercial operation by registered projects or activities, from the current three to five consecutive taxable years immediately following the year of such loss;
- (v) net capital gains derived by resident foreign corporations on the sale of shares of stock of domestic corporations not traded on the Philippine stock exchange will be subject to a final tax of 15%, increase from the current rate of 5% on the first ~US\$2,000 and 10% on the excess thereof;
- (vi) Regional Operating Headquarters will be subject to regular **CIT** rates effective 1 January 2022, increased from the current 10% rate on taxable income;
- (vii) Qualified Registered Business Enterprises (“**RBE**”) will be granted an income tax holiday for four to seven years, depending on the assigned **RBE** category level. After the income tax holiday period, a special corporate income tax rate of 5% beginning 1 July 2020 will be imposed on gross income earned in lieu of all national and local taxes. The duration of the special corporate income tax is five to ten years depending on the assigned Registered Business Enterprises tier level; and
- (viii) in lieu of the special corporate income tax, enhanced deductions may be granted for a period of five to ten years depending on the assigned **RBE** category level.

The other tax reform packages that the government hopes to implement include reforms to the taxation of passive income, financial intermediaries, and financial transactions. The fourth package under the **CTRP**, or the **Passive Income and Financial Intermediary Taxation Act (“PIFITA Bill”)** is a proposed tax reform measure relating to passive income and financial intermediaries and is currently pending before the Senate. The proposal, as approved on third reading by the House of Representatives, aims to, among others, impose: (i) a single final withholding tax rate of 15% on interest income regardless of currency, maturity, issuer and other differentiating factors, (ii) a single rate of 15% on interest income, dividends and capital gains, (iii) a single gross receipt tax of 5% on banks, quasi-banks, and certain non-bank financial intermediaries across all types of income (lending and non-lending), except dividends, equity shares and net income of subsidiaries, (iv) uniform taxation of 2% of premium for pre-need, pension, life and HMO insurance, (v) removal of IPO tax, and (vi) gradually reduce the stock transaction tax until it reaches zero by 2026 and removal of the transaction tax on listed and traded debt instruments by 2026, and exemption of non-monetary documents from **DST**. On 12 February 2024, the Department of Finance presented a refined proposal for the fourth package of **CTRP** before the Senate Committee on Ways and Means, which includes among others, a proposal to harmonize the interest income tax at 20% regardless of the maturity or term, issuer, and currency.

The Marcos administration urged Congress to support the following priority legislations on essential tax measures under the Medium-Term Fiscal Framework: (1) Excise tax on single-use plastics; (2) VAT on digital services; (3) Rationalization of the mining fiscal regime; (4) Motor vehicle user's charge/road users tax; (5) Military and Uniformed Personnel Pension; and (6) the fourth package of the **CTRP**.

On 5 January 2024, Republic Act No. 11976, known as the **Ease of Paying Taxes (“EOPT”)** Act, was signed into law and took effect on 22 January 2024. The **EOPT Act** aims to simplify tax filings, particularly for those classified as Micro and Small Taxpayers, by introducing the file-and-pay anywhere system and allowing most of the tax processes

to be done online. It also included the shift to an invoice system to improve the registration process as well as to accelerate the processing of VAT refunds. The following are the significant amendments to the Tax Code brought about by the EOPT Act:

- (i) Classification of the taxpayers into micro, small, medium, and large with special concessions for micro and small taxpayers (i.e., maximum of two pages for income tax returns; reduced penalties);
- (ii) Electronic or manual filing of returns and payment of taxes to the Bureau of Internal Revenue (“BIR”), or through any authorized agent bank or authorized tax software provider;
- (iii) Removal of the requirement that tax be deducted/withheld from income payments and remitted to the BIR for deductibility of income payments to apply;
- (iv) Withholding of taxes to apply when income payments become payable;
- (v) Imposition of value-added tax (VAT) on services to be based on gross sales;
- (vi) Requirement to issue a VAT invoice for every sale of goods and services;
- (vii) Use of a VAT invoice to substantiate input VAT claim from purchases of goods and services;
- (viii) Removal of the annual registration fee requirement of ₱500.00; and
- (ix) Preservation of books for a period of five years.

The BIR recently issued Revenue Regulations Nos. 8-2024 and 4-2024 to implement the EOPT Act. Moreover, the BIR issued Revenue Memorandum Circular Nos. 60-2024, 66-2024, and 77-2024 to guide taxpayers on the amendments introduced by the EOPT Act.

While the tax reform program ensures fiscal sustainability, the dampening impact of higher taxes on consumer demand and affected industries (in terms of added costs), could slow down the country’s growth pace and affect the Bank’s business. Further, the new regulations (such as the fourth package of the CTRP) may directly affect the business and results of operations of the Bank. If the Bank is unable to comply with existing and new rules and regulations applicable to it, it could incur penalties and its business reputation may suffer, which could have a material adverse effect on its business, financial position and results of operations.

6.2.13 *If the Bank were not to comply with FATCA, this may cause material and adverse impact on the Bank business, financial conditions and results of operations.*

The Foreign Account Tax Compliance Act (FATCA) was enacted into law in the U.S. on 18 March 2010 as part of the Hiring Incentives to Restore Employment Act. It is a new regime for finding income overseas as a response to a landmark court case in which a large international bank agreed to pay US\$780 million in fines for their role in assisting U.S. citizens in evading income taxes. The FATCA impacts a number of organisations and individuals. It first affects U.S. persons with income abroad. Secondly, foreign financial institutions (FFIs) that invest in U.S. markets will be impacted, as well as U.S. financial institutions that do business with FFIs. Additionally, local government and taxing authorities in each country will see the effects of the act as well. It also brought forth an expansion of tax reporting for non-resident aliens.

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

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

There is a requirement for PFFIs to withhold 30% of income from recalcitrant account holders in order to comply with the FATCA. A recalcitrant account holder is one who fails to comply with reasonable requests pursuant to IRS mandated verification and due diligence procedures to identify U.S. accounts, to provide a name, address and TIN or fails to provide a bank secrecy waiver upon request.

Specific to the Bank’s compliance with the FATCA, the Bank subsequently updated its FATCA status and registered as a Reporting Financial Institution under a Model 1 Intergovernmental Agreement (IGA). The Bank’s FATCA ID and Global Intermediary Identification Number is 6MPTMZ-99999.SL.608.

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

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

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

On 24 February 2022, Russia launched a full-scale invasion of Ukraine that is resulting in massive humanitarian casualties from both sides, especially Ukraine, and in destruction of infrastructure, roads, and physical properties in Ukrainian cities and in the Crimean region which was annexed by Russia since 2014. Trade and supply chain disruptions continue to cause political and economic tensions amongst member nations of the European Union, in the U.S. and, to some extent, in some Asian and African countries.

The ongoing Ukraine-Russia war has sparked energy and food price shocks globally, particularly in European countries as they were heavily dependent on oil and gas from Russia and in some African and Asian countries that were dependent on staples such as wheat and sunflower oil from Ukraine. The war has increased concerns relating to energy security and climate change, geopolitical tensions between Russia-NATO and China-Taiwan, and shifts in global structures and relationships, particularly among major superpowers such as the US, Europe, China. Following accumulated shocks from the pandemic and the war, most economies have seen rising sovereign debt levels and declining credit quality, and the number of sovereigns in default has increased. Exports also fell as the trend towards regionalization and global fragmentation continued.

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

The upcoming US Presidential Election will be held on November 2024, with Vice President Kamala Harris and former President Donald Trump as the candidates. The results will have profound implications for the global economy and financial markets, with potential shifts in trade policies, tax regulations, and geopolitical stability. Economic policy changes will influence global supply chains and investment patterns, while adjustments in U.S. monetary and regulatory frameworks will affect global capital flows and market stability.

These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets, which could in turn depress economic activity and have a ripple effect across sovereign states and the private sector in Europe and the rest of the world and possibly lead to a global economic crisis. These uncertainties and other future events related to this conflict could continue to adversely impact the political and monetary policies of major economies, which in turn could have a negative impact in the Philippine market. The success of the Bank's banking business is highly dependent upon its ability to maintain certain minimum liquidity levels, and any rise in market interest rates could materially and adversely affect the Bank's liquidity levels and force it to reduce or cease its offering of certain banking and other financial services.

6.3 CONSIDERATIONS RELATING TO THE BANK

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

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

For example, the exit of the UK from the European Union ("Brexit"), after certain challenges and negotiations on its exact terms, became effective on 1 February 2020. If certain other states within the Eurozone were to exit the European Union, or following the occurrence of such other reform as contemplated herein, such countries may not be

able to meet their existing debt obligations or may default on these obligations, which could have a ripple effect across sovereign states and the private sector in Europe and the rest of the world and possibly lead to a global economic crisis. Any changes to the euro currency could also cause substantial currency readjustments across Europe and other parts of the world, further exacerbating the credit crisis. These events and uncertainties could adversely impact the Bank's business, financial condition and results of operations.

The broad ramifications of Brexit to the UK, the EU and the global economy have yet to unravel, casting uncertainty to global prospects and possible volatility in financial markets. In addition, the uneven and divergent conditions across major economies and the resulting desynchronization in policy environment persist, with the US continuing to show firmer signs of economic growth and possible monetary tightening in the horizon, while Japan and the Eurozone require more economic stimulus and unconventional monetary measures (e.g., negative interest rates) to revive their economies. Likewise putting a downside risk to the global outlook are the "trade war" between the US and China, protracted economic slowdown in China, and other ongoing geopolitical crises that include among others, Syrian civil war and terrorist acts committed by ISIS. Moreover, the outbreak of the COVID-19 virus in 2020 has also contributed to market concerns and slowdowns in global airline, retail, tourism and other industries.

On 24 February 2022, Russia launched a full-scale invasion of Ukraine resulting humanitarian casualties and destruction of infrastructure, roads, and physical. Russia's initiation of a full-blown war prompted European nations, the US, Australia and some Asian countries to impose major and significant economic and financial sanctions against Russia. These sanctions were aimed at disrupting inflow of funds to Russia and prevent further financing of the war. However, the trade and supply chain disruptions have caused political and economic tensions amongst member nations of the European Union, in the US and, to some extent, in some Asian and African countries. As Russia is a major oil and gas exporter to Europe, many European countries, being mainly dependent on Russian oil and gas, are now facing foreseeable economic consequences should gas and oil trade with Russia get halted either partially or completely. Presently, the war has already contributed to rising oil and gas prices globally. In addition, since Ukraine is a major exporter of wheat (along with Russia) and sunflower oil, disruption in global trade with Ukraine is causing hunger and famine amongst populations of some African and Middle Eastern nations and further exacerbates inflation concerns. Apart from trade disruptions, the banning of some Russian banks from the Society for Worldwide Interbank Financial Telecommunication (or "SWIFT") system, a global network for transferring payments, in March 2022 also had adverse impacts on the business of international companies who are owed money by Russian entities, as such companies had to find alternative and possibly costlier channels to receive payments. As the war continues, the long-term effects on the global economy remain uncertain.

On March 2023, UBS Group AG ("UBS") bought out Credit Suisse Group AG ("Credit Suisse") for 3 billion Swiss francs (or around U.S. \$3.3 billion), to prevent the total collapse of Credit Suisse which had been the subject of a series of scandals, loss in key personnel, and losses in recent years. As a result of the buy-out, UBS now accounts for about 200% of the GDP of Switzerland, which imposes significant risk to the Swiss economy should UBS collapse in the future. As UBS and Credit Suisse are both Global Systemically Important Banks ("G-SIB"), their collapse may affect the global economy and trigger a global financial crisis.

More recently, on 7 October 2023, the militant group Hamas launched massive military operations into Israel territory resulting in human casualties and destruction of property. The Israeli government, in retaliation, launched a series of counter-attacks towards the Gaza territory with the intention of a complete siege of the area. Several foreign governments, including the United States of America, have expressed support and have pledged military aid in favor of Israel, while Arabic nations have condemned the attacks of Israel against Palestinians and continue to stage numerous anti-Israel protests.

There can be no assurance that the uncertainties affecting global markets will not negatively impact credit markets in Asia, including in the Philippines. The success of the Bank's banking business is highly dependent upon its ability to maintain certain minimum liquidity levels, and any rise in market interest rates could materially and adversely affect the Bank's liquidity levels and force it to reduce or cease its offering of certain banking and other financial services. These developments may adversely affect trade volumes with potentially negative effects on the Philippines.

6.3.2 The Bank's business is highly regulated and government policies could adversely affect the Bank's operations and profitability.

The Bank is regulated principally by, and has reporting obligations to, the BSP. The Bank is also subject to banking, corporate and other laws in effect in the Philippines from time to time. The regulatory and legal framework governing it differs in certain material respects from that in effect in other jurisdictions and may continue to change as the Philippine economy and commercial and financial markets evolve. For example, the BSP generally prohibits any bank from maintaining financial exposure to any single person or group of connected persons in excess of 25.0% of its net worth. The Government has also imposed an Agriculture, Fisheries and Rural Development Financing policy requiring Philippine banks to extend certain loan amounts to rural community beneficiaries, agrarian reform

beneficiaries, agricultural and fishery households among other sectors of the country. Failure to meet the specified level of loans may result in fines being assessed against a non-compliant bank. There can be no assurance that these fines will not be substantially increased, which may have an adverse impact on its results of operations.

Also, during the normal course of operations, the Bank may be subject to routine or special audits by regulators such as the Bureau of Internal Revenue (“**BIR**”), the Anti-Money Laundering Council (“**AMLC**”), Securities Exchange Commission (“**SEC**”) and international bodies, such as the Financial Action Task Force (the “**FATF**”). Any adverse findings resulting therefrom may lead to an assessment of additional liabilities and administrative proceedings, where warranted, or result in fines and penalties, or may materially impact the financial position of the Bank.

There can be no assurance that the outcome or results of these proceedings will not materially impact the Bank. In addition, there can be no assurance that the provisions made for the potential losses relating to these proceedings will be sufficient to cover any potential liabilities, the amounts of which can only be determined upon completion of due process.

In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented which are intended to provide tighter control and more transparency in the Philippine banking sector. These rules include new guidelines on the monitoring and reporting of suspected money laundering activities as well as regulations governing the capital adequacy of banks in the Philippines. The BSP also regulates banks’ open foreign exchange position (either overbought or oversold), which refers to the extent that bank’s foreign exchange assets do not match their foreign exchange liabilities. A bank’s consolidated net open foreign exchange position shall not exceed 25% of its qualifying capital or US\$150 million, whichever is lower. As of 30 June 2024, the Bank’s oversold position was US\$4.11 million. If additional rules or regulations are introduced, the Bank may incur substantial compliance and monitoring costs, and if it is unable to comply with existing and new rules and regulations applicable to it, it could incur penalties, face disruptions to its operations and face reputational damage, which could materially and adversely affect its business, financial condition and results of operations.

The BSP issued Memorandum No. M-2021-026 and M-2022-004 last 26 April 2021 and 17 January 2022, respectively as additional operational relief measures and increased the SBL from 25% to 30% effective until 31 December 2022. Based on the Bank’s monitoring of the Single Borrower’s Limit (SBL) set by the BSP, there is no breach in the 25% threshold as of 30 June 2024.

The Bank believes, to the best of its knowledge, that it has, at all relevant times, materially complied with all applicable laws, rules and regulations and has established a strong compliance culture to ensure that all requirements, permits, and approvals are obtained in a timely manner.

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

The Bank uses various strategies to manage its exposure to credit, market, operational and liquidity risk. In an event where these strategies are not effective, it may not be able to mitigate effectively its risk exposures, in particular to market environments or against particular types of risk. Its balance sheet growth will be dependent upon economic conditions, as well as upon its determination to securitize, sell, purchase or syndicate particular loans or loan portfolios. Its trading revenues and interest rate risk exposure are dependent upon its ability to properly identify and mark to market the changes in the value of financial instruments caused by changes in market prices or rates. Its earnings are dependent upon the effectiveness of its management of migrations in credit quality and risk concentrations, the accuracy of its valuation models and its critical accounting estimates and the adequacy of its allowances for credit losses. To the extent its assessments, assumptions or estimates prove inaccurate or not predictive of actual results, it could suffer higher than anticipated losses. The successful management of credit, market and operational risk is an important consideration in managing its liquidity risk because it affects the evaluation of its credit ratings by rating agencies. A failure by the Bank to effectively manage its credit, market, operational and liquidity risk could have a negative effect on its business, financial condition and results of operations.

The Bank believes this risk can be managed through the Bank’s strengths and strategies, including prudent balance sheet management, to manage credit, market, operational and liquidity risk of the business.

6.3.4 *The Bank may not be successful in implementing its growth strategies.*

The Bank’s business strategy includes growth through organic expansion and introduction of new products and services. It plans to increase its geographic footprint in select growth areas, while expanding the range of its products and services targeting the Small and Medium-sized enterprises as well as the retail segments. Expanding its reach and increasing the number of financial products and services that it offers expose it to a number of risks and challenges including, among others, the following:

- The Bank investments in technology may not achieve the same growth in customers as opening new branches;
- New and expanded business activities may require greater marketing and compliance costs than its traditional services;
- New and expanded business activities may have less growth or profit potential than it anticipates and there can be no assurance that new business activities will become profitable at the level it desires or at all;
- The Bank may fail to identify and offer attractive new services in a timely fashion, putting it at a disadvantage to competitors;
- The Bank's competitors may have substantially greater experience and resources for the new and expanded business activities and thus it may not be able to attract customers from its competitors;
- The Bank may need to further enhance the capability of its information technology systems to support a broader range of activities;
- Economic conditions, such as rising interest rates or inflation, could hinder its expansion, particularly in the consumer loan industry; and

The Bank may not be successful in relation to the introduction of new services and products. It is entering into new lines of business and expanding into new provincial areas in the Philippines in which it is likely to encounter significant competition from other banks already offering similar products and services being introduced. There can be no assurance that the Bank will be able to compete effectively against such existing banks. Furthermore, there may not be sufficient demand for such services and products, and they may not generate sufficient revenues relative to the costs associated with developing and introducing such services and products. Even if the Bank were able to introduce new products and services successfully, there can be no assurance that the Bank will be able to achieve its intended return on such investments.

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

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

The Bank has experienced growth in recent years and expects its business to further grow as a result of its expansion plans. It expects this growth to place significant demands on its resources, operations and management, and require it to continuously evolve and improve its operational, financial and internal controls across the organization. In particular, continued expansion increases the exposure to certain additional risks, including:

- Difficulties raising capital for expansion in light of financial market disruptions, which might increase leverage if equity funds are not available when needed;
- Difficulties arising from operating a significantly larger and more complex organization and expanding into new geographic areas and territories;
- Difficulties in the assimilation and seamless integration of the assets and operations of the expanded operations with the existing business;
- The diversion of management's attention;
- The failure to realize expected profitability or growth in new ventures;
- The failure to realize expected synergies and cost savings;
- Difficulties arising from coordinating and consolidating corporate and administrative functions, including integration of internal controls and procedures;
- Changes in technology;
- Unforeseen legal, regulatory, contractual, labor or other issues;
- An inability to attract new talent due to limited resources in the market; and
- Increased pressure on operating expenses in the near term.

The Bank believes this risk can be managed through the Bank's strengths and growth strategies. For a more detailed discussion please refer to the Section 8 of the Offering Circular. However, there is no assurance that the Bank can provide an effective mitigation to such risk.

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

The business of lending carries the risk of default by borrowers and the Bank may face increasing levels of NPLs and provisions for impairment and credit losses on loans.

Any lending activity is exposed to credit risk arising from the risk of default by borrowers. The Bank's results of operations may be negatively affected by the level of its NPLs. The Bank's total NPLs were ₱3.33 billion, ₱2.58 billion, ₱2.54 billion and ₱3.21 billion as of 31 December 2021, 2022, 2023, and as of 30 June 2024, respectively. A number of factors affect the Bank's ability to control and reduce its NPLs, such as volatile economic conditions in the Philippines, which may adversely affect many of the Bank's customers, and may cause uncertainty regarding their ability to fulfill their loan obligations, and in effect increase its exposure to credit risk. In addition, the Bank is seeking to grow its business, particularly its earnings asset base, which would likely entail extending more loans to customers. The Bank also focuses its lending business on the mid-market corporate and retail consumer segment, which may have a higher risk of default than other segments. While it believes that it has more than adequate loan provisions, these and other factors could result in an increased number of NPLs in the future and may require it to book additional provisions for impairment and credit losses on loans. While it regularly monitors its NPL levels and has strict credit processes in place, there can be no assurance that it will be successful in reducing its NPL levels or that the percentage of NPLs that it will be able to recover will be similar to its historical recovery rates or that the overall quality of its loan portfolio will not deteriorate in the future. If it is not able to control and reduce its NPLs or recover expected amounts from NPLs, if the quality of collateral is lower than estimated or if there is a significant increase in its provisions for loan losses, the Bank's operating costs, business, financial condition, results of operations and capital adequacy could be adversely affected.

The Bank believes this risk can be managed through the Bank's strengths and strategies. For a more detailed discussion please refer to the Bank's Strengths on Section 8 of the Offering Circular. However, there is no assurance that the Bank can provide an effective mitigation to such risk.

6.3.7 *Increased exposure to consumer debt could result in increased delinquencies in the Bank's loan portfolios.*

The Bank plans to continue to expand its consumer loan operations. Such expansions increase its exposure to consumer debt and changes in general economic conditions affecting Philippine consumers. Accordingly, economic difficulties in the Philippines that have a significant adverse effect on Philippine consumers could result in reduced growth and deterioration in the credit quality of its personal loan portfolios. For example, a rise in unemployment or an increase in interest rates could have an adverse impact on the ability of borrowers to make payments and increase the likelihood of potential defaults and NPLs, while reducing demand for consumer loans. In addition, the number of loan accounts may be negatively affected by declines in household income, public concerns about unemployment or other negative macroeconomic factors. The Bank's growth strategy results in significant increases in exposures to consumer loans, the effects of adverse changes in the economic environment on its financial condition and results of operations could be exacerbated, resulting in significant losses.

6.3.8 *The Bank may face increasing levels of non-performing loans ("NPLs") and provisioning expense for impairment of assets.*

The Bank's results of operations have been, and continue to be, affected by the level of its NPLs. For the years ended 31 December 2021, 2022, 2023 and the six months ended 30 June 2024, the Bank's provisioning for (recovery from) impairment losses amounted to ₱322.30 million, ₱287.69 million, (₱24.41 million), and (₱5.39 million), respectively, which represented 7.59%, 5.98%, (0.52%), and (0.20%), respectively, of net interest income in those periods, and 4.12%, 3.70%, 3.04%, and 3.11%, respectively, of gross loans in those periods. The continued effects of the pandemic and a slowdown in global growth have adversely affected the ability of the Bank's borrowers to finance their indebtedness and, as a result, the Bank may further experience an increase in NPLs and loan loss provisions.

The Bank's total gross NPLs were equal to ₱3.33 billion, ₱2.58 billion and ₱2.54 billion as of 31 December 2021, 2022 and 2023, respectively, and ₱3.21 billion as of 30 June 2024. As at 31 December 2021, 2022, 2023 and 30 June 2024, the Bank's NPL ratio was 4.89%, 3.23%, 2.77% and 3.54%, respectively. As at 31 December 2021, 2022, 2023 and 30 June 2024, the Bank's NPL coverage ratio was 79.94%, 110.82%, 110.16% and 87.06%, respectively. NPL ratio is the result of total gross NPLs divided by total loans inclusive of interbank loans receivables while NPL coverage ratio is total loan allowance divided by total NPLs. The Bank has experienced significant growth in its loan portfolio in recent years and it may experience problems in non-payment arising from these new loans in the future. Any significant increase in the Bank's NPLs would have a material adverse effect on its financial condition, capital adequacy and results of operations.

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

6.3.9 *The Bank's allowance for impairment and credit losses may be insufficient to cover future losses and to the extent the Bank increases such allowances, its financial performance will be adversely affected.*

The Bank uses the expected credit loss model provisioning as the basis for allowance for impairment. Its actual loan losses could prove to be materially different from its estimates and could materially exceed its recorded allowance for impairment and credit losses. If the Bank's actual loan losses are higher than it currently expects, its current allowance for impairment and credit losses would be insufficient. If general economic conditions in the Philippines deteriorate, causing it to change some of its assumptions and estimates, or if it is adversely affected by other factors to an extent worse than anticipated, it may have to provide an additional allowance for impairment and credit losses. If it must make additional provisions for losses it could adversely affect its business, financial condition and results of operations.

The Bank's provisioning policies in respect of classified loans require significant subjective determinations which may increase the variation of application of such policies and affect its financial condition and results of operations. Such policies may also be less stringent than those in other countries.

Regulations of the BSP require that Philippine banks classify loans that have a greater-than-normal risk into four (4) different categories corresponding to various levels of credit risk as follows: loans especially mentioned, substandard, doubtful and loss. In addition, the BSP requires banks to have in place a formal internal credit risk rating system for the underwriting and ongoing administration of corporate credit risk exposures. A bank's internal credit risk rating system must have a minimum of six (6) rating grades for unclassified accounts. Generally, the classification of loans depends on a combination of a number of qualitative and quantitative factors, such as the number of months that payment is in arrears, the type of loan, the terms of the loan and the level of collateral coverage. In compliance with these requirements, the Bank adopted its Internal Credit Risk Rating System in 2005 and continues to apply said rating system in granting all commercial loans. However, the BSP requirements regarding internal credit risk rating systems may change. Periodic examination by the BSP of these classifications in the future may also result in changes being made by the Bank to such classifications and to the factors relevant thereto.

With the implementation of PFRS 9 starting January 2018, banks are required to have an Expected Credit Loss ("ECL") model as the basis for allowance for impairment. The development of an ECL model may vary from bank to bank depending on a bank's portfolio mix and geographic footprint. Furthermore, considering early stages of implementation, models may change as banks are required to monitor and validate these models on a regular basis.

To mitigate this risk the Bank ensures close coordination with its external auditors and full compliance with PFRS.

6.3.10 *The Bank may incur significant losses from its trading and investment activities due to market fluctuations and volatility.*

The Bank engages in trading activities, primarily maintaining proprietary trading positions in Philippine and foreign government securities and some corporate debt securities. Trading and securities gain/(loss) and foreign exchange gain/(loss) contributed (₱184,767 million), (₱268.68 million), ₱229.75 million and ₱116.75 million of total operating income for the years ended 30 December 2021, 2022, and 2023, and the six months ended 30 June 2024, respectively. Its trading gains are inherently volatile as trading securities and currencies are subject to economic, political and other conditions that may fluctuate from time to time. There can be no assurance that, in the future, the Bank will be able to realize an amount of trading gains that is similar to the gains it realized historically, that it will not incur a loss from such trading or that it will not hold on to its trading and investment securities to realize interest income, any or all of which could have a material adverse effect on the Bank's future net income. Risks arising both from its trading and investment strategy and general market volatility, which are beyond its control, could expose the Bank to potential losses and may materially and adversely affect its business, financial condition and results of operations.

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

As of 30 June 2024, the Group's secured loans receivable represented 44.66% of its gross loans (receivables from customers), and 90.04% of the collateral on these secured loans consisted of real estate properties. This portfolio of secured real estate properties gives the Bank's significant exposure to the Philippine property market and provides it with holdings in repossessed and other properties acquired ("ROPA"). The recorded values of the Bank's collateral may not accurately reflect its liquidation value, which is the maximum amount it is likely to recover from a sale of collateral, less expenses of such sale. The Bank periodically disposes of its ROPA and other collateral in public

auctions and through negotiated sales at prevailing market prices, which are largely determined by purchasers. The Philippine property market is highly cyclical, and property prices in general have been volatile. There can be no assurance that the realized value of the collateral would be adequate to cover the Bank's loans. An economic downturn, in particular, a downturn in the real estate market, could result in a fall in relevant collateral values for the Bank. Some of the valuations in respect of its collateral may also be out of date or may not accurately reflect the value of the collateral. There are no assurances that the Bank will be able to easily liquidate these ROPA in the future or any liquidation of ROPA will result in gains rather than losses. In certain instances, where there are no purchasers for a particular type of collateral, there may be significant difficulties in disposing of such collateral at a reasonable price. Any decline in the value of the collateral securing the Bank's loans, including with respect to any future collateral taken by it, would mean that its provisions for impairment and credit losses may be inadequate and it may need to increase such provisions. There can be no assurance that the collateral securing any particular loan will protect it from suffering a partial or complete loss if the loan becomes non-performing. Any increase in the Bank's provisions for impairment and credit losses would adversely affect its business, its financial condition, results of operations and capital adequacy ratio.

In addition, the Bank may not be able to recover in full the value of any collateral or enforce any guarantee due, in part, to difficulties and delays involved in enforcing such obligations through the Philippine legal system. To foreclose on collateral or enforce a guarantee, banks in the Philippines are required to follow certain procedures specified by Philippine law. These procedures are subject to administrative and bankruptcy law requirements which may be more burdensome than in certain other jurisdictions. The resulting delays can last several years and lead to the deterioration in the physical condition and market value of the collateral, particularly where the collateral is in the form of inventory or receivables. In addition, such collateral may not be insured. These factors have exposed, and may continue to expose, the Bank to legal liability while in possession of the collateral. These difficulties may significantly reduce the Bank's ability to realise the value of its collateral and therefore the effectiveness of taking security for the loans it makes. Upon foreclosure, the Bank initially recognizes foreclosed properties (Real and Other Properties Acquired, or ROPA) at their fair value less cost to sell, in accordance with Philippine Financial Reporting Standards (PFRS). Subsequently, ROPA is measured at the lower of its carrying amount or fair value less cost to sell. The carrying amount of ROPA is not always the amount initially recognized, as it may be adjusted for depreciation or amortization. For example, buildings under the cost model are depreciated over a period of 10 years. Any subsequent write-downs or gains are recognized in profit or loss. While the Bank, at each balance sheet date, provides for impairment losses on its foreclosed properties in accordance with PFRS, it may incur further expenses to maintain such properties and to prevent their deterioration. In realising cash value for such properties, the Bank may incur further expenses such as legal fees and taxes associated with such realisation. There can be no assurance that the Bank will be able to realise the full value, or any value, of any collateral on its loans.

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

The Bank has credit exposure to various industry sectors. As of 31 December 2023 and 30 June 2024, its total exposure to borrowers (or outstanding loans and receivables) was ₱94.65 billion and ₱92.87 billion respectively. The ten largest performing borrowers in aggregate accounted for 30.03% and 30.76% of its gross loan and receivables portfolio as of 31 December 2023 and 30 June 2024, respectively. The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group, excluding Government-related entities, of connected persons in excess of 25% of its unimpaired capital. As of 30 June 2024, the Bank's single borrower limit was ₱4.98 billion. As of 31 December 2023, its single borrower limit was ₱4.74 billion. In determining whether it meets the single borrower limit of the BSP, it includes exposures to related accounts (including accounts of subsidiaries and parent companies of the borrower). Its largest corporate borrower as of 30 June 2024 accounted for 4.86% of its gross loan portfolio. Credit losses on these large single borrower and group exposures could adversely affect the business, financial position and results of operation of the Bank.

As at 30 June 2024, its five (5) largest industry exposures were to (1) Wholesale and retail trade, Repair of motor vehicles, Motorcycles at 23.29% (2) Real estate activities at 18.59%, (3) Manufacturing at 16.50%, (4) Other service activities at 7.65%, and (5) Construction at 7.18%, which together comprised an aggregate of ₱65.95 billion and constituted 73.21% of its gross loans. The global and domestic trends in these industries will therefore affect its financial position. Any significant deterioration in the performance of a particular sector, driven by events outside its control, such as regulatory action or policy announcements by the Government or the general condition of the domestic and global economies, would adversely impact the ability of borrowers in that industry to service their debt obligations to the Bank, and in turn would adversely affect its business and results of operations.

6.3.13 *If the Bank fails to maintain desired levels of customer deposits, its business operations may be materially and adversely affected..*

Customer deposits are the Bank's primary source of funding and the Bank intends to continue expansion of its deposit base, particularly low-cost sources such as demand and savings ("CASA") deposits to help fund its future loan growth. However, many factors affect the growth of deposits, some of which are beyond the Bank's control, such as economic and political conditions, availability of investment alternatives and retail customers' changing perceptions toward savings. For example, retail customers may reduce their deposits and increase their investment in securities for a higher return or increase their deposits in trust accounts, while small, mid-market and large corporate customers may reduce their deposits in order to fund projects in a favorable economic environment, or the Bank may need to increase the rates it offers to its customers to minimize deposit outflows, which would have an adverse impact on the Bank's cost of funding. If the Bank fails to maintain its desired level of deposits, the Bank's liquidity position, financial condition and results of operations may be materially and adversely affected. In such an event, the Bank may need to seek more expensive sources of funding (including external sources), and it is uncertain whether the Bank will be able to obtain additional funding on commercially reasonable terms as and when required, or at all. The Bank's ability to raise additional funds may be impaired by factors over which it has little or no control, such as deteriorating market conditions or severe disruptions in the financial markets.

6.3.14 *The Bank's dependency with the Lucio Group*

The strategic entry of the Lucio Co Group in 2014 has enabled the Issuer to access more opportunities in the ecosystem of Puregold Price Club, Inc. ("Puregold") and Cosco Capital, Inc. (Cosco). To maximize opportunities, the Issuer has focused on building its capabilities in order to leverage the more than 3,000 suppliers and trade partners and 1.1 million loyal customers of Puregold and 600,000 active members of S&R. The natural ecosystem brought about by the strategic partnership affords the Issuer an opportunity to expand in the vicinity of the more than 300-branch store network of the Lucio Co Group.

As of 30 June 2024, loans to the Lucio Co ecosystem account less than 9% of the Bank's loan portfolio. The Bank's exposure to the Lucio Co ecosystem is monitored on a regular basis. On top of this, performance of stress testing is done to assess the Bank's capacity to absorb potential negative impact from these exposures. Stress test results show that a significant deterioration of the Lucio Co ecosystem accounts can be absorbed by the Bank while still meeting its capital adequacy requirements.

Exposures coming from each entity included in the Lucio Co ecosystem are also evaluated to ensure that risks are managed appropriately.

6.3.15 *Increased enforcement by the BSP related to priority lending for the agrarian reform and agricultural sectors, could adversely affect the Bank's business, financial condition and results of operations.*

In support of government initiatives to strengthen rural development, Philippine banks, under Republic Act No. 10000 or the Agri-Agra Credit Act of 2009, are required to extend certain loan amounts, equivalent to a certain percentage of its total loan portfolio to agrarian beneficiaries and the agricultural sectors of the Philippines. Failure to meet the specified level of loans may result in fines being assessed against a non-compliant bank. These fines are calculated based on the relevant rate multiplied by the prescribed Agri-Agra loan amount shortfall. Historically, the Bank has incurred fines for not meeting the required exposure to the Agri-Agra sectors in line with its credit and risk management standards. However, following BSP Circular 1159 and 1174, the Bank has achieved compliance, and no further accruals of penalties were made since Q3 of 2023. While regulatory changes such as increased penalties for non-compliance cannot be entirely ruled out, there is currently no indication of any substantial increase in penalties. Should the Bank be required to adjust its lending practices to meet future regulatory demands that do not align with its credit and risk management policies, this could negatively impact its business, financial condition, and results of operations.

6.3.16 *The Bank may not be able to match the technology of its competitors.*

The prevalence of smartphones and other connectivity devices and mobile data applications has increased the number of platforms providing online payment solutions, electronic money and wallets, and other similar services and products. Banks compete with expanding financial technology (fintech) solutions covering (i) mobile payment or e-wallet applications such as but not limited to GCash and PayMaya and (ii) peer-to-peer lending platforms, among others. To date, the BSP has granted six digital bank licenses: (i) Overseas Filipino Bank, (ii) Tonik Digital Bank, Inc., (iii) UNObank, (iv) UnionDigital Bank, (v) GoTyme Bank, and (vi) Maya Bank. These are in addition to banks, notably CIMB Bank Philippines, offering no-branch banking services through their respective mobile apps which provide all-online retail banking services despite having existing commercial and universal banking licenses.

Any inability on the part of the Bank to recognize and quickly respond to changes in customer preferences by upgrading its existing infrastructure and systems may impact its competitiveness in the marketplace, which would in turn negatively impact its business, results of operations and financial condition. While the Bank invests substantially in technological upgrades and aims to remain up to date with banking technology in the Philippines, there are no significant barriers that prevent its competitors from adopting more advanced technology for their products and services. Accordingly, there can be no assurance that it will be able to maintain its technological competitiveness with its competitors. Furthermore, the Bank may need to incur a significant amount of research and development and/or capital expenditures to maintain its technological competitiveness. Failure to maintain its technological competitiveness or its brand image may have a material adverse impact on its fee-based revenue and its ability to attract new deposits from affluent retail and corporate customers, which in turn may lead to an increase in costs of funding and loss of business and result in a material adverse effect on its business, financial condition and results of operations.

6.3.17 *The Bank may fail to upgrade or effectively operate its information technology systems.*

The Bank's businesses are heavily dependent on the ability to timely and accurately collect and process a large amount of financial and other information across numerous and diverse markets and products at its various branches, at a time when transaction processes have become increasingly complex with increasing volume and at a time of increased disruption to the financial services sector from the emergence of financial technology firms. The proper functioning of the Bank's financial control, risk management, accounting or other data collection and processing systems, together with the communication networks connecting the Bank's various branches and offices is critical to its business and its ability to compete effectively. The Bank employs a core banking system with centralized database to support its domestic and international business operations. The core banking system is linked to the Bank's electronic channels including ATMs, internet banking, and mobile banking, which provides online real-time transaction processing. The data on the Bank's core banking system, centralized database and electronic channels are protected with real-time replication and media back-ups infrastructure. Any failure in the Bank's systems or to implement new systems, particularly for retail products and banking transactions could have a negative effect on its business, financial condition and results of operations.

The Bank believes this risk can be managed through the Bank's strengths and strategies. For a more detailed discussion please refer to Section 8 of the Offering Circular. However, there is no assurance that the Bank can provide an effective mitigation to such risk.

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

Technology is an enabler but also presents pervasive, potentially high-impact risk. Cyber risk in the form of data theft, compromised accounts, destroyed files, or disabled or degraded systems is "top-of-mind" these days. However, that is not the only IT risk that the Board and Management are concerned about. The Bank is facing a number of IT and security risks, which include among others, hardware and software failure, human error, cyber and malicious attacks, vulnerabilities due to a number of obsolescence. Risks associated with information and technology systems can also arise from the vendors from whom the technological systems are procured. Application risk also can lead to fraud, legal disputes and impairment of reputation. The risk of money laundering has increased due to the use of electronic cards and digital banking in the execution of transactions.

As the Bank continues to grow and expand its technology infrastructure, PBCOM also elevates its security control to manage its security related risks. The Board of Directors (BOD) and Senior Management are exercising effective information security governance to ensure ongoing alignment of information security with business needs and requirements. The Bank also manages its security risks and exposures within acceptable levels through a dynamic interplay of people, policies and processes, technologies and integrates an enterprise-wide risk management system.

The Bank has a sound information security risk assessment ensuring all foreseeable risks and threats are identified, categorized and evaluated. The Bank also puts in place adequate protection mechanisms and controls to prevent security incidents and risks from happening. These include measures ranging from baseline to advanced tools and approaches such as defense-in-depth, malware prevention, access controls, and cybersecurity awareness programs, among others. The Bank has defined policies, standards and procedures that guides the employees on the required, expected and prohibited behavior and/or activities. Physical security measures are also in place to protect the Bank's assets, computer facilities and equipment. Also, critical to the Bank is the implementation of a robust and multi-layered technical controls to ensure the confidentiality, integrity and availability of information assets from provisioning to retirement. The Bank also follows global standards and frameworks (e.g., NIST, ISO 27001, ITIL, COBIT) that guide PBCOM to execute the processes and technological controls in a standardized manner and aligned to best practices.

The Bank has implemented an effective detection controls over its network, critical systems and applications and confidential information. The Bank has a centralized 24x7 Security Operations Center (SOC), equipped with automated security monitoring tool (Security Incident and Event Management tool), defined SOC processes and highly trained SOC specialists, which enables the Bank to keep pace with the tactics of advanced threat actors. A quarterly vulnerability scanning is also being conducted to ensure timely detection of vulnerabilities and remediate them before these are exposed to malicious cyber threat actors.

The Bank has a Business Continuity and Disaster Recovery Plan to mitigate failures to its information technology systems. The plan covers the mission critical systems of the Bank and is tested annually.

The failure of the Bank to implement these controls on consistent basis may have a material negative impact on the Bank's overall achievement of its business objectives and mission.

6.3.19 The Bank is subject to interest rate risk.

The Bank realizes income from the margin between interest-earning assets (due from BSP, due from other banks, interbank loans receivable and securities purchased under resale agreement with BSP, trading and investment securities and loans and receivables), and interest paid on interest-bearing liabilities (deposit liabilities, bills payable and subordinated debt, and other forms of borrowings). The business of the Bank is subject to fluctuations in market interest rates as a result of mismatches in the re-pricing of assets and liabilities. These interest rate fluctuations are neither predictable nor controllable and may have a material adverse impact on the operations and financial condition of the Bank by affecting its interest income, cost of funding and general performance of its existing loan portfolio and other assets.

In a rising interest rate environment, if it is not able to pass along higher interest costs to its customers, it may negatively affect its profitability. If such increased costs are passed along to customers, such increased rates may make loans less attractive to potential customers and result in a reduction in customer volume and hence operating revenues. Increased interest rates on the Bank's customers' floating rate loans can also potentially negatively affect the Bank's business by increasing default rates among the Bank's borrowers, which could in turn lead to increases in the Bank's NPL portfolio and its real and other properties acquired. Likewise, rising interest rates may impact the value of the Bank's investment securities resulting in unrealized marked to market losses in its trading and FVOCI investment portfolios. Furthermore, the Bank may suffer trading losses as a result of the decline in value of these securities.

Most recently, in August 2024, the Monetary Board ("MB") cut the BSP's Target Reverse Repurchase ("RRP") Rate by 25 basis points to 6.25%. Prior to this, the RRP has been at 6.50% since October 2023. This after the BSP hiked rates by 450 basis points since May 2022, when interest rates were eased to historically low levels at 2.00% RRP at the height of the COVID-19 pandemic

Finally, continued volatility in market interest rates could adversely affect the liquidity levels of the Bank and the Philippine banking industry in general, which have in past years been supported by the relatively low interest rate environment in the Philippines. As a result, fluctuations in interest rates could have an adverse effect on its margins and volumes and in turn adversely affect its business, financial condition and results of operations.

6.3.20 The Bank is subject to foreign exchange risk.

As a financial organization, the Bank is exposed to foreign exchange risk. Movements in foreign exchange rates could adversely affect its business, financial condition and results of operations. The foreign exchange transactions of Philippine banks are subject to stringent BSP regulation. Under BSP guidelines, the Bank is required to provide 100.0% foreign asset cover for all foreign currency liabilities in its Foreign Currency Deposit Unit ("FCDU") books. As of 30 June 2024, the Bank had ₱23.24 billion of assets and ₱23.17 billion of liabilities in FCDU books, primarily in U.S. dollars. The decline in the value of the peso against foreign currencies, in particular, the U.S. dollar may affect the ability of the Bank's customers or the Government to service debt obligations denominated in foreign currencies and, consequently, increase NPLs. Conversely, increases in the value of the peso can depress the export market which can negatively affect the ability of the Bank's customers to repay their debt obligations or may reduce credit quality or demand. There can be no assurance that the peso will not fluctuate further against other currencies and that such fluctuations will not ultimately have an adverse effect on the Bank.

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

The Bank is exposed to the risk that fraud and other misconduct committed by employees or outsiders could occur. Such incidences may adversely affect banks and financial institutions more significantly than companies in other industries due to the large amounts of cash that flow through their systems. Any occurrence of such fraudulent events may damage the reputation of the Bank and may adversely affect its business, financial condition, results of operations and prospects. In addition, failure on the part of the Bank to prevent such fraudulent actions may result in administrative or other regulatory sanctions by the BSP or other Government agencies, which may be in the form of suspension or other limitations placed on the Bank's banking and other business activities. The Bank believes it has in place certain internal control procedures to prevent and detect fraudulent activities. However, these may be insufficient to prevent such occurrences from transpiring. There can be no assurance that it will be able to avoid incidents of fraud in the course of its business.

To effectively mitigate risks, the Internal Audit Group (IAG) employs a risk-based approach that includes assessing the Bank's MTPP, reviewing due diligence procedures during account opening, evaluating transaction monitoring system, evaluating the handling or disposition of alerts flagged by the monitoring system, reviewing the timeliness of regulatory reporting (CTR & STR), assessing AML/CTF training effectiveness, and reporting findings to the Audit Committee for oversight and timely resolution of issues.

On 11 July 2024, the Bank received a Freeze Order pertaining to Alice Guo and other related accounts. The Court of Appeals issued the said Freeze Order by virtue of an *ex parte* Petition for the Issuance of a Freeze Order (CA – G.R. AMLA No. 00382) filed by the Anti-Money Laundering Council under Section 20 of Republic Act No. 9160, or the Anti-Money Laundering Act. In compliance thereof, the Bank submitted/filed detailed written return for accounts covered by the Freeze Order on the same day. The Bank also froze the release of certain parcels of lots, which were mortgaged to the Bank for loans that have already been fully paid, that were included in the Freeze Order. A supplemental return was filed on July 22, 2024, representing an additional account that was discovered.

The Bank participated in an overseeing examination conducted by BSP Financial System Integrity Department (FSID), in relation to the account of Alice Guo, which was completed on 24 July 2024. From the BSP findings, the Bank has complied with the instructions of BSP for filing of reports and submitted action plans for other items. BSP further instructed the Bank to implement policies for the proper management of alerts as well as reporting of STR if warranted, which will be reiterated in the upcoming annual AML this Q4 2024. The particular issue without mentioning names will be among the sample scenario to be emphasized.

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

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

6.3.23 *The Bank's growth is dependent on its ability to attract and retain employees.*

A substantial portion of the Bank's business is conducted and obtained through its branch network. The Bank, as well as several other Philippine banks, intends to continually grow the size and scope of its branch network. As a result, competition for branch employees is intense. If the Bank is unable to attract new employees, its growth and expansion plans could be adversely affected. In addition, if the Bank is unable to retain its current group of well-trained employees, its business could be materially and adversely affected. Although there is significant competition for bank employees from other financial institutions in the Philippines, the Bank may be unable to increase the compensation of, or provide additional incentives to, its current or potential employees. Increased compensation rates paid to its employees will also increase its operating costs and reduce profitability. There can be no assurance that it will succeed in attracting and retaining employees in the future.

6.3.24 *Changes to regulations and guidelines issued by regulatory authorities in the Philippines, including the Bureau of Internal Revenue may have an adverse impact on the Bank.*

Philippine banks also face the threat of being assessed for documentary stamp tax upon their issue of passbooks for higher interest rate deposits. The Court of Tax Appeals has, in several cases against other Philippine banks, affirmed the BIR's position that passbooks for higher interest rate deposits having the essential features of a certificate of deposit are subject to the documentary stamp tax imposed on certificates of deposit. These proceedings are currently on appeal and if the BIR's position is upheld it could result in the Bank's taxation charge being increased.

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

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

The Bank uses various strategies to manage its exposure to credit, market, operational, and liquidity risk. In an event where these strategies are not effective, it may not be able to mitigate effectively its risk exposures, in particular to market environments or against particular types of risk. Its balance sheet growth will be dependent upon economic conditions, as well as upon its determination to securitize, sell, purchase, or syndicate particular loans or loan portfolios. Its trading revenues and interest rate risk exposure are dependent upon its ability to properly identify and mark to market the changes in the value of financial instruments caused by changes in market prices or rates. Its earnings are dependent upon the effectiveness of its management of migrations in credit quality and risk concentrations, the accuracy of its valuation models and its critical accounting estimates and the adequacy of its allowances for credit losses. To the extent its assessments, assumptions or estimates prove inaccurate or not predictive of actual results, it could suffer higher than anticipated losses. The successful management of credit, market, and operational risk is an important consideration in managing its liquidity risk because it affects the evaluation of its credit ratings by rating agencies. A failure by the Bank to effectively manage its credit, market, operational, and liquidity risk could have a negative effect on its business, financial condition, and results of operations.

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

The Bank is and may in the future be, implicated in lawsuits on an ongoing basis. Litigation could result in substantial costs to, and a diversion of effort by, the Bank or subject the Bank to significant liabilities to third parties.

There can be no assurance that the results of legal proceedings in which the Bank is involved will not materially harm the Bank's business, reputation or standing in the marketplace or that the Bank will be able to recover any losses incurred from third parties, regardless of whether the Bank is at fault. Further, there can be no assurance that: (i) losses relating to litigation will not be incurred beyond the limits, or outside the coverage, of bank insurance, or that any such losses would not have a material adverse effect on the results of the Bank's business, financial position or results of operation, or (ii) provisions made for litigation related losses will be sufficient to cover the Bank's ultimate loss or expenditure.

6.3.27 *New tax and other revenue raising measures, including those contemplated by the fourth package (Package 4) of the Comprehensive Tax Reform Program (CTRP) may have a material adverse impact on the results of operation of the Bank.*

On 09 September 2019, the House of Representatives approved House Bill (HB) No. 304, or Package 4 of the CTRP or otherwise known as the Passive Income and Financial Intermediary Taxation Act (PIFITA), on its third and final reading. However, HB No. 304 has not become a law. Nevertheless, on 14 November 2022, HB No. 4339 was approved by the House of Representatives on its third and final reading. However, before HB No. 4339 can become effective, it must be considered and approved by the Senate.

HB No. 4339 proposes certain changes to the taxation of passive income, financial intermediaries, and financial transactions. Among the changes proposed by HB No. 4339 is the removal of the preferential tax treatment of the expanded foreign currency deposit system.

Any increase in taxes will reduce the net income of the Bank, which may have a material and adverse effect on the Bank's business, results of operations and financial condition.

6.4 CONSIDERATIONS RELATING TO THE BONDS

6.4.1 *The Bonds may not be a suitable investment for all investors*

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

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular

financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Bonds and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

6.4.2 *No pre-termination by the Holders.*

Except as provided under the Master Terms and Conditions, Bondholders may not redeem or pre-terminate the Bonds before Maturity Date. The Holders may, however, negotiate or transfer the Bonds to purchasers who are not Prohibited Holders. In accordance with the MORB, as amended, negotiations/transfers from one Bondholder to another do not constitute pretermination. Any change in the interpretation of current tax laws subjecting the Bonds to deductions or withholdings of whatever nature shall, however, be for the account of the Holders.

6.4.3 *Unaudited interim financial statements deemed incorporated by reference.*

Any published unaudited interim financial statements of the Bank (whether prepared on a consolidated or a non-consolidated basis) which are, from time to time, deemed to be incorporated by reference in this Offering Circular will not have been audited or subject to a review by the auditors of the Issuer. Accordingly, there can be no assurance that, had an audit or a review been conducted in respect of such financial statements, the information presented therein would not have been materially different, and investors should not place undue reliance on them

6.4.4 *The Bonds have no preference under Article 2244(14) of the Civil Code.*

Under Philippine law, in the event of liquidation of a company, unsecured debt of the company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244(14)(a) of the Civil Code of the Philippines will rank ahead of unsecured debt of the company which is not so evidenced. Under Philippine law, a debt becomes evidenced by a public instrument when it has been acknowledged before a notary or any person authorised to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a jurat (which is a statement of the circumstances in which an affidavit was made) may be sufficient to constitute a debt evidenced by a public instrument.

No other loan or other debt facility currently or to be entered into by the Bank shall have preference of priority over the Bonds as accorded to public instruments under Article 2244(14) of the Civil Code of the Philippines, and all banks and lenders under any such loans or facilities that are notarized have waived the right to the benefit of any such preference or priority. However, should any bank or holder hereinafter have a preference or priority over the Bonds as a result of notarization, then the Bank shall at the Bank's option, either procure a waiver of the preference created by such notarization or equally and ratably extend such preference to the Bonds as may be practicable.

6.4.5 *Philippine Deposit Insurance Corporation (PDIC) Insurance Coverage of the Bonds*

The Bonds are not considered bank deposits, and as such are not insured with the PDIC.

6.4.6 *Limited Liquidity of the Bonds*

The Bank intends to list the Bonds for trading in PDEX. However, no assurance can be given that an active trading market for the Bonds will develop. Even if an active trading market for any Bonds does not develop or is not maintained, the market price and liquidity of such Bonds may be adversely affected. Even if such a market were to develop, the Bonds could trade at prices that may be higher or lower than the price at which the Bonds are issued depending on many factors, among them:

- prevailing interest rates,
- the Issuer's results of operations and financial condition,
- political development in the Philippines,

- market for similar securities, and
- financial condition and stability of the banking sector.

Thus, the lack of a liquid, active trading market for the Bonds may adversely affect the price of the Bonds or may otherwise impede a holder's ability to dispose of the Bonds. Upon listing of the Bonds with PDEX, investors shall course their secondary market trades through the trading participants of PDEX for execution in the PDEX Trading Platform in accordance with the PDEX Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and must settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEX Settlement Rules and Guidelines. These Settlement Rules and Guidelines include guidelines on minimum trading lots and record dates. The secondary trading of Bonds in PDEX may be subject to such fees and charges of PDEX, the trading participants of PDEX, and other providers necessary for the completion of such trades. The PDEX rules and conventions are available in the PDEX website (www.pds.com.ph). An investor Frequently Asked Questions (“FAQ”) discussion on the secondary market trading, settlement, documentation and estimated fees are also available in the PDEX website.

As with other fixed income securities, the Bonds trade at prices higher or lower than the initial offering price due to prevailing interest rates, the Bank’s operations, and the overall market for debt securities, among others. It is possible that a selling bondholder would receive sales proceeds lower than his initial investment should bondholder decide to sell his Bonds prior to maturity.

6.4.7 Secondary Transfers

All transfers or assignments of the Bonds shall be coursed through a PDEX Trading Participant, subject to PDEX Rules. Consequently, the parties to a transfer may be subject to the guidelines of Exchange and the payment to the relevant fixed income exchange and the Registrar and Paying Agent of any reasonable fees and applicable taxes. There is no assurance that the secondary trading of the Bonds may not be affected given these restrictions.

Any transfer between investors with a different tax status with respect to the Bonds will be subject to applicable rules as may be issued from time to time by the Exchange.

6.4.8 The Bank may be unable to redeem the Bonds.

At maturity, the Bank will be required to redeem all of the Bonds. The Bank may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem the Bonds by the Bank would constitute an event of default under the Bonds, which may also constitute a default under the terms of other indebtedness of the Bank.

6.4.9 Issuance and Transfer Restrictions

The Bonds may not be issued or transferred to any Prohibited Bondholders. The Registrar is authorized to refuse any transfer or transaction in the Registry Book that may be in violation of these restrictions. There is no assurance that the secondary trading of the Bonds may not be affected given these restrictions.

6.4.10 New tax legislation could result in the removal of the existing tax exemption and/or the imposition of a different tax rate for instruments such as the Bonds, both of which could affect the expected yield of holders.

As of September 2023, the Philippine legislature is deliberating upon amendments to tax statutes which may affect the tax treatment of the Bonds. See the section on *Philippine Taxation*.

6.4.11 The Bonds are subject to tax.

The Marcos administration is working with Congress to pass priority tax reform measures to recalibrate and further improve revenue mobilization aimed at propelling economic growth.

Among the tax reforms which are considered priority by the present administration are the value-added tax on non-resident digital service providers; the imposition of excise tax on single-use plastics; the rationalization of the mining fiscal regime; the reform on the motor vehicle users’ charge; and Package 4 of the Comprehensive Tax Reform Program (“CTRP Package 4”)

CTRP Package 4 or House Bill (“HB”) No. 4339, also known as the Passive Income and Financial Intermediary Taxation Act (“PIFITA”), has introduced reforms to the taxation of passive income, financial intermediaries, and financial transactions. The goal of CTRP Package 4 is to redesign financial sector taxation to be simpler, fairer, more efficient, and regionally more competitive. When it was approved on third reading by the House of Representatives,

one of the reforms introduced is the unification of the tax rates of passive income through the imposition of a uniform rate of 15 percent (which would be a reduction from the prevailing 20%) on interest income, dividends, and royalties. However, on 12 February 2024, the Department of Finance (“**DOF**”) presented a refined proposal for CTRP Package 4 before the Senate Committee on Ways and Means. Under the revised proposal, interest income tax will be harmonized at 20% regardless of the maturity or term, issuer, and currency. Before HB No. 4339 can become effective, it needs to be considered and approved by the Senate, which may impose revisions and consider the refined proposal presented by the DOF. Currently, HB 4339 is undergoing committee hearings at the Senate.

Under the terms of the Bonds, if any payments of principal and/or interest under the Bonds shall be subject to deductions or withholding for or on account of any taxes, duties, assessments, or governmental charges of whatever nature (including any additional or new taxes, duties, assessments, or governmental charges arising from changes in tax laws (e.g., PIFITA) and regulations or from changes in the interpretation thereof) that may be levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having the power to tax, including but not limited to documentary stamp, income, value-added or similar taxes, including interest, surcharges, and penalties thereon then all such taxes shall be for the account of the relevant Bondholder. Currently, interest income derived by Philippine residents from the Bonds is generally subject to a final withholding tax of 20% (the applicable tax rate depends on the circumstances of the recipient, and is subject to certain exceptions – see “Philippine Taxation” section for a discussion on the taxation of the Bonds). In the event that CTRP Package 4 imposes a different rate of tax for instruments such as the Bonds, the Bondholders’ expected yield may be affected.

There is no assurance that HB No. 4339 will be passed into law, or in what form such a law may take. HB No. 4339 is not final and it may be superseded or amended in such a manner that may impose a different rates or different means or measures of taxation, entirely and no assurance can be given that any final tax measures enacted into law would be favourable to the Bondholders. All sums payable by the Bank to tax-exempt persons shall be paid in full without deductions for Taxes or government charges, subject to the submission by the relevant Holder claiming the exemption of reasonable and acceptable evidence of such exemption to the Bank through the Registrar and Paying Agent (see “Philippine Taxation” section for a discussion on the taxation of the Bonds).

As issuer of the Bonds, the withholding of final tax on the interest due on the Bonds is the responsibility of the Bank pursuant to Section 57 of the National Internal Revenue Code, as amended, Section 2.57 of Revenue Regulations No. 2-98, as amended, and BIR Revenue Regulations No. 11-2018.

6.4.12 *The credit ratings assigned to the Bank or the Bonds may not reflect all risks.*

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

6.5 CONSIDERATIONS RELATING TO THE STRUCTURE OF A PARTICULAR ISSUE OF BONDS

Under the Programme, Bonds with varying features may be issued, each presenting specific risks to investors. Set out below is a description of certain such features of the Bonds and associated risks.

6.5.1 *Bonds subject to optional redemption by the Bank*

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

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

6.5.2 *Fixed/Floating Rate Bonds*

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

6.5.3 *Bonds issued at a substantial discount or premium*

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

6.6 CONSIDERATIONS RELATING TO THE MARKET GENERALLY

6.6.1 *The value of the Bonds may be adversely affected by movements in market interest rates.*

Investment in the Bonds involves the risk that if market interest rates subsequently increase above the rate paid on the Bonds, this will adversely affect the value of the Bonds.

6.6.2 *Legal investment considerations may restrict certain investments.*

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Bonds are legal investments for it; (2) Bonds can be used as collateral for various types of borrowing; and (3) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

SECTION 7. CAPITALIZATION AND INDEBTEDNESS

The following table sets out the reviewed indebtedness and capitalization of the Bank as of 30 June 2024. This table should be read in conjunction with the Bank's reviewed financial statements as of and for the period ended 30 June 2024, included in this Offering Circular.

| | As of 30 June 2024 (unaudited) (Amounts in Thousands) |
|--|--|
| Liability Accounts | |
| Deposit Liabilities | 112,272,788 |
| Bills Payable | 14,671,928 |
| Outstanding Acceptances | 125,181 |
| Manager's Checks | 572,976 |
| Accrued Interest, Taxes, and Other Expenses | 1,436,867 |
| Income Tax Payable | 125,985 |
| Other Liabilities | 1,065,534 |
| Total Liabilities | <u>130,271,259</u> |
| Equity Accounts | |
| Common Stock | 12,016,129 |
| Additional paid-in capital | 2,262,246 |
| Surplus reserves | 454,283 |
| Surplus | 4,144,268 |
| Unrealized losses on financial assets carried at fair value through other comprehensive income | (357,462) |
| Cumulative translation adjustments | (96,027) |
| Remeasurement losses on retirement liability | (47,164) |
| Total Equity | <u>18,376,273</u> |
| Total Liabilities and Equity | <u>₱ 148,647,532</u> |

SECTION 8. DESCRIPTION OF THE BANK

8.1 OVERVIEW

Philippine Bank of Communications (the “**Bank**”) is a commercial bank based in the Philippines. PBCOM offers a broad suite of financial solutions, ranging from deposit products and cash management solutions, corporate and consumer loans, investment services, as well as trust and wealth management. PBCOM mostly caters to the middle market segment and small and medium-sized enterprises (“SMEs”). The Bank’s total assets stood at ₱148.65 billion, ₱147.48 billion, ₱124.88 and ₱109.23 billion as of 30 June 2024, 31 December 2023, 31 December 2022 and 31 December 2021, respectively. Total equity was ₱18.38 billion ₱17.66 billion, ₱15.57 billion, and ₱14.18 billion as of 30 June 2024, 31 December 2023, 31 December 2022 and 31 December 2021, respectively.

As of 30 June 2024, the Bank has network of 89 regular branches and 4 branch lite units across Metro Manila, Luzon, Visayas and Mindanao. PBCOM also has 166 ATMs which 91 are onsite and 75 offsite, and 3 CRMs nationwide.

The Bank has been listed in the Philippine Stock Exchange (“PSE”) since 2015. As of 30 June 2024, the Bank has a market capitalization of ₱6.98 billion.

The Philippine Bank of Communications started operations on September 4, 1939 at the Trade and Commerce Building on Juan Luna Street, Binodo, Manila. A branch of the Bank of Communications headquartered in Taiwan, it was one of the first non-American foreign commercial banks to operate in the Philippines.

PBCOM came under Filipino ownership when Ralph Nubla and company purchased majority of the Bank’s outstanding capital stock on June 21, 1974. In February 1988, PBCOM was listed in the Makati and Manila Stock Exchanges. In December 1995, in order to finance its information Technology and Branch Expansion Program, the Bank offered 1 million of its common shares to the public for the first time.

In 2000, PBCOM began to take bolder steps towards becoming a modern and competitive commercial bank. Major shareholders displayed their commitment to the Bank by pouring P2.6 billion in fresh equity, making PBCOM one of the biggest capitalized commercial banks. That year, PBCOM also acquired Consumer Savings Bank, a 19-branch thrift bank with a strong presence in retail market. In 2001, PBCOM transferred its Head Office from Binodo to the PBCOM Tower, then the country’s tallest building, located in the heart of Makati City.

In 2011, ISM communication Corporation (the “ISM Group”) signed on as a Strategic Third-Party investor to PBCOM. The ISM Group is a listed Philippine holding company with investments in the production and sale of media information systems for the hospitality industry and development of software and hardware internet solutions under its associate, Acentic Holdings Limited. The ISM Group is led by its Chairman, Mr. Eric O. Recto. It is owned by Monfortino Holdings Inc., Dennison Holdings Corporation, Accion Common Development Fund SPC and as well as other strategic partners.

Eric Recto was elected as the Bank’s Chairman on 8 May 2012.

In September 2014, the entry of Mr. Lucio Co as the Bank’s strategic investor placed PBCOM in a unique position for growth. The Bank is focused on building its capabilities in order to leverage the more than 3,000 suppliers and trade partners 1.1 million royal customers of Puregold Price Club Inc. and 600,000 active members of S&R.

With Chairman Eric O. Recto and President and CEO Patricia May T. Siy at the helm, PBCOM embarks on the next phase of its growth and development as it strives to deliver world-class customer service, expand its distribution network to bring banking services, and introduce new products and services. The Bank is poised to expand its suite of financial solutions, which ranges from Deposits and Investment Services to Cash Management Solutions, as well as Commercial and Personal Loans.

8.2 RECENT DEVELOPMENTS

8.2.1 *Obtaining Universal Banking License*

On 1 December 2022, the Bank started operating as a Universal Bank after its license was granted by the Bangko Sentral ng Pilipinas. This marks the return of the bank to its former status after having successfully completed its capital buildup and enhanced profitability programs since the entry of Mr. Lucio Co as an investor. It is a testament to PBCOM's business model which is pinned on the pillars of strong compliance and risk management procedures, customer-service centered practices and a highly independent governance structure. With the Universal Banking license, PBCOM can invest in non-allied enterprises and expand its product and service offerings, joining the likes of BDO Unibank Inc. and Metropolitan Bank and Trust Company.

8.2.2 *Highlights for the Six (6)-Month Period Ended 30 June 2024 and Fiscal Year Ended 31 December 2023*

The Bank registered a net income of ₱1.03 billion as of the 1st half of the year 2024, ₱28.5 million or 2.8% higher than the ₱1.0 billion earned during the same period last year. This is attributable to ₱311.3 million higher operating income mainly from ₱316.9 million improvements in net interest income. This is partially offset by higher operating expenses by ₱224.8 million.

Interest income expanded by 28.4% or ₱1.0 billion due to higher asset growth and yields in both loan and securities portfolios. To fund this growth, deposits and REPO volumes increased despite higher cost of funds due to current high interest rates environment, causing interest expense to increase by ₱705.3 million. Likewise, total operating expenses went up by ₱224.8 million mainly because of higher volume-driven costs - higher GRT, higher DST and PDIC insurance, manpower costs, and higher occupancy and other equipment related costs. Income taxes also increased by ₱58.2 million, mainly due to higher taxable income and higher final taxes on interest income on peso government securities and onshore income

Total Assets of the Bank increased by ₱1.2 billion from ₱147.5 billion as of December 2023 to ₱148.6 billion at the end of the 2nd quarter of 2024. This is primarily due to growth in debt securities by ₱3.5 billion and increase in foreclosed properties by ₱1.0 billion, partially offset by decline in loan volume by ₱3.9 billion, and decrease in due from BSP by ₱1.6 billion.

The Bank's gross NPL ratio is 3.54%, 0.77% higher than the 2.77% ratio at the end of 2023.

Total Liabilities increased by ₱441.7 million, 0.35% higher than last year's end level of ₱129.8 billion. This resulted mostly from ₱5.0 billion increase in bills payable, partially offset by ₱4.4 billion decline in deposits, mainly because of the maturity of the Bank's LTNCD in the 2nd quarter. Total Capital is now at ₱18.4 billion from ₱17.7 billion last 31 December 2023. This 4.1% increase in Capital was mainly contributed by the earnings of the Bank as of the first half of the year.

On quarter on quarter basis, the Bank registered a net income of ₱532.3 million for the second quarter of 2024, ₱73.7 million or 16.1% higher than the ₱458.6 million earned in the same period last year. This is largely due to ₱216.7 million higher operating income this quarter resulting mainly from growth in net interest income, partially offset by ₱92.5 million or 11.0% higher operating expense mainly because of higher volume-driven costs - higher GRT, higher DST and PDIC insurance, ₱50.5 million or 30.2% higher income tax and lower trading gains by ₱27.4 million.

The Bank's consolidated Risk-Based Capital Adequacy ratio is 16.39% under BASEL 3 and is well above the 10% minimum requirement. The ratio covers credit, market, and operational risks for the first six (6) months of 2024.

8.2.3 *Digital Transformation of the Bank*

Over the last 5 years, PBCOM's digital transformation has centered on the implementation of a cloud-based core banking system, which has enabled the bank to operate with dual-core systems. This shift allowed for the rapid development and deployment of digital products and services, enhanced by APIs that facilitated seamless integration with partners. The bank has also created dedicated innovation and R&D teams to drive product and technology advancements, collaborating with external vendors to expand their offerings.

8.2.4 Launch of PBCOMobile Application

On the backdrop of the 2020 pandemic, PBCOM launched a new mobile application, PBCOMobile in its efforts to move to a more hybrid retail banking system. It experienced a significant shift toward digital banking, with over a 40% increase in customer enrollment in its online channels, and a 230% surge in financial transactions. The PBCOMobile app gained traction quickly, adding over 13,000 new customers by November of the same year. The app enables users, including non-PBCOM customers, to open accounts with just a valid ID image, and offers services like check deposits, debit card management, online fund transfers, bill payments, and account maintenance. The PBCOMobile Concierge feature further allows customers to request specific transactions, with the app's features continually evolving based on user feedback.

8.2.5 Impact of COVID-19 on Operations and Strategies

The pandemic brought about significant changes in the way PBCOM operates and its strategies moving forward. To mitigate the risks brought forth by COVID-19, PBCOM implemented several measures such as remote work, digital banking, and loan deferrals. The shift to digital channels and investment in other technology infrastructure was accelerated, making it easier for the bank's customers to manage their finances remotely while ensuring that cybersecurity risks are addressed. Cognizant of the impact on borrowers, the bank encouraged affected clients to avail of the Bayanihan Relief (loan relief) provided by BSP. PBCOM has demonstrated its commitment to supporting its customers during difficult times, creating lasting relationships with its clients in the long term

8.3 CORPORATE HISTORY AND MILESTONES

| | |
|------|--|
| 1939 | PBCOM is established as one of the Philippines's first non-American foreign banks. |
| 1947 | PBCOM open its Cebu branch, its first outside Manila. |
| 1974 | The Bank goes under full Filipino ownership with Mr Ralph Nubla and company. |
| 1981 | PBCOM is accredited as a government securities dealer by the Central Bank of the Philippines. |
| 1988 | PBCOM shares are listed in the Makati and Manila Stock Exchanges. |
| 1995 | PBCOM and Filinvest Asia Corp. sign an agreement to develop the PBCOM Tower along Ayala Ave. |
| 2000 | To expand its network, PBCOM acquires Consumer Savings Bank, a 19-branch thrift bank. |
| 2011 | The ISM Group becomes a strategic third-party investor in PBCOM. |
| 2014 | Mr. Lucio Co enters as the Bank's strategic investor. |
| 2017 | PBCOM launches POP (PBCOM Online Platform). |
| 2019 | PBCOM celebrates 80 years in the banking industry and its new banking systems in the cloud. |
| 2022 | PBCOM has secured its Certificate of Authority to operate a Universal Bank from the Bangko Sentral ng Pilipinas. |

8.4 COMPETITION

The Bank faces competition in all its principal areas of business. Philippine domestic and foreign banks are the Bank's main competitors, followed by finance companies, mutual funds, and trust companies.

Mergers, acquisitions and closures reduced the number of players in the Philippine banking system from a high of 785 banks in 2009 to 478 banks as of June 2024. However, with the entry of foreign banks under new and liberalized banking laws and regulations, the number of universal and commercial banks stood at 44 as of June 2024. Lending from universal and commercial banks posted a quarter-on-quarter growth of 4.58% in the quarter ended 30 June 2024 based on statistics of the BSP.

The extensive competition for large ticket corporate loans prompted banks to venture more extensively into middle-market, SME and consumer lending. The Bank, being a well-entrenched, long-term player in the commercial and retail banking space, enjoys the advantage of having experience that includes origination, credit selection, collection and asset recovery activities.

8.5 STRENGTHS

PBCOM has identified several key competitive advantage that underpins its success in the Philippine market.

- **Strong Ecosystem and Expertise:** PBCOM benefits from the synergies within the Lucio Co Group of Companies as well as the companies owned by the other members of the Board. The bank likewise leverages the expertise of its Board of Director to develop innovative financial solutions, allowing PBCOM to cater to the specific needs of its customers.
- **Loyal Customer Base:** PBCOM has cultivated a strong relationship with its Filipino-Chinese customer base, building on the years of trust and exceptional service. By employing targeted marketing strategies, the bank can continue to nurture this loyalty and expand its reach to the next generation of the Filipino-Chinese customers.
- **Exception Leadership:** The bank's commitment to having a strong succession plan and investment in leadership development fosters a culture of excellence, innovation and talent retention. This ensures a solid future for the bank and its ability to adapt to changing market dynamics.
- **Universal Bank License:** PBCOM's universal banking license empowers the bank to offer a wider range of financial products and services, enabling it to expand into new market segments and provide comprehensive solutions to its customers.
- **Legacy of Resilience:** PBCOM's 85 years history of resilience demonstrates its ability to withstand economic challenges and navigate future challenges.

8.6 STRATEGIES

The Bank's aim to become a stronger, simpler and highly synergistic bank will be achieved through

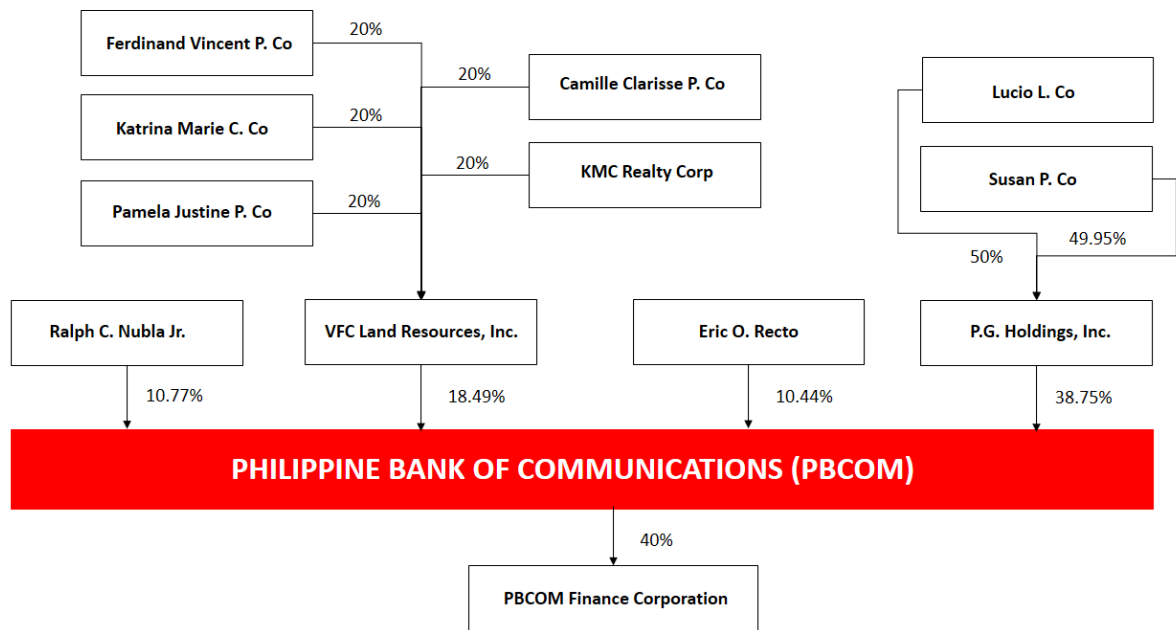
1. Asset expansion in sustainable industries and markets
2. Growing a Capital-Light, Fee-Based business by diversifying revenue streams beyond the traditional interest based income resulting to reduced risk and enhanced profitability. This can be achieved by developing innovative fee based products and services that cater to the evolving needs and preferences of our customers.
3. Pursuing a Two-pronged approach to Net Income growth by improving the low-cost funding mix and scaling operations to achieve scale and improve unit economics.
4. Simpler operations that provides a seamless customer experience through integrated distribution channels and a comprehensive suite of financial products and services and partnership
5. Leveraging the Bank's data assets to provide personalized offerings.

8.7 GROUP AND ORGANIZATIONAL STRUCTURE

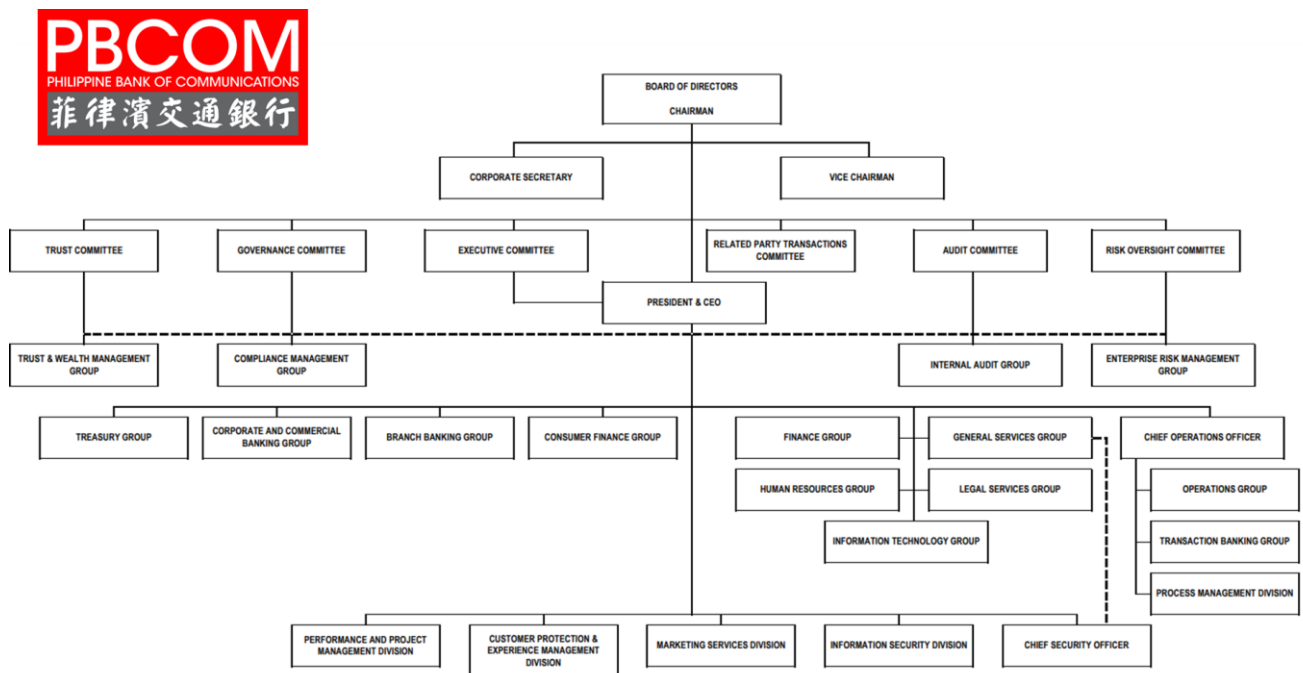
The following shows the shareholding structure of the Bank and its associates as of 30 June 2024:

SHAREHOLDING STRUCTURE

Based on Public Ownership Report dated 30 June 2024



The following chart sets forth an overview of the organizational structure of the Bank and its principal activities as of 30 June 2024:



8.8 SUBSIDIARY AND ASSOCIATE

The Bank has one subsidiary which is PBCOM Insurance Agency, Inc. The Bank has an equity investment in PBCOM Finance Corporation in which it holds shares amounting to 40% of the outstanding capital stock as of 30 June 2024. The Bank does not have control and participation in the operations of the aforementioned entity.

PBCOM Insurance Services Agency, Inc. (PISAI)

PBCOM Insurance Services Agency, Inc. (PISAI) was incorporated and registered with the Securities and Exchange Commission on May 9, 2014 to engage primarily in the business of soliciting and promoting insurance products. The company offers a range of insurance agency services specific to life and investment-linked products to meet customers' wealth management and risk protection needs.

On January 11, 2021, the Board of Directors of the Parent Company approved the dissolution and liquidation of PISAI, which had been inactive since the termination of its general agency agreement with Pru Life UK in September 2017. Subsequently, on March 4, 2021, PISAI's Board of Directors resolved to shorten the company's corporate term to June 30, 2021.

Considering several requirements for the termination of business that had to be complied with, the effectivity of the PISAI's corporate term was extended until April 2024. PISAI submitted its application for amending its Articles of Incorporation on November 15, 2023. The SEC approved this amendment on April 3, 2024, extending the corporate term until April 30, 2024.

On May 3, 2024, PISAI completed the settlement of its liabilities and liquidated its remaining assets for distribution to its stockholders. Following this, the Parent Company received the release of PISAI's remaining assets and derecognized its investment in PISAI. As a result, the Parent Company no longer consolidates PISAI's financial statements.

PBCOM Finance Corporation

PBCOM Finance Corporation was incorporated and registered with the SEC on January 9, 1980 to provide, grant, and/or extend credit facilities to any person, business, juridical or otherwise. It is 40% owned by the Bank while the remaining 60% is owned by various individual shareholders. Its principal place of business is located at 7th floor, PBCOM Building, 214-216 Juan Luna St. Binondo, Manila.

8.9 BANKING PRODUCTS AND ACTIVITIES

8.9.1 Overview

The Bank's principal areas of business consist of the retail banking group which composes of two major segments, the branch banking and consumer finance groups, and other business groups such as corporate and commercial banking, trust and wealth management, treasury and transaction banking. These products and services are delivered through various channels such as branches, internet banking, ATM machines, and through agent partners. The list of products and services is below.

8.9.2 Retail Banking Products (Branch Banking and Consumer Finance Group)

- Branch Banking
 - Basic Deposit
 - Choice Saver Savings Account
 - Choice Saver Checking Account
 - Modern Hero Savings Account
 - Modern Hero Checking Account
 - SSS Pensioner
 - Regular Savings Payroll
 - Regular Checking Payroll
 - US Dollar Savings Account
 - Euro Savings Account
 - Regular Time Deposit
 - Build-up Time Deposit
 - Premium Time Deposit (2&3 Years)

- Sure Earner 5-Year Time Deposit
- US Dollar Time Deposit
- Maxi Dollar Time Deposit
- Dollar Plus (2 Years & 3 Years)
- Acceptance of BIR and Bureau of Customs
- Demand Draft
- Manager's Checks
- Purchase and Sale of Foreign Currency
- Safe Deposit Boxes
- Consumer Finance
 - Auto Loans
 - Home Loans
 - Personal Loans

8.9.3 Corporate and Commercial Banking

- Short-Term Loan
 - Working Capital Loan
 - Trade Check Discounting
 - Trade Finance Receivable
 - Letter of Credit/Trust Receipt
 - Export Bills Purchase/ Export Packing Credit
 - Standby Letter of Credit
- Term Loan
 - Real Estate Development
 - Project Financing

8.9.4 Trust & Wealth Management

- Unit Investment Trust Funds
 - PBCOM PHP Money Market Fund
 - PBCOM USD Money Market Fund
 - PBCOM PHP Multi-Asset Fund
 - PBCOM Value Equity Fund
- Investment Management Accounts
- Personal Management Trust Services
- Retirement and Provident Fund Management Services
- Escrow Agency Arrangements
- Loan Facility Agency Services
- Mortgage Trust Indenture

8.9.5 Treasury Products

- Promissory Notes
- Repurchase Agreements
- Sovereign Bonds
 - PHP (Treasury Bills, Retail Treasury Bonds, Fixed Rate Treasury Notes)
- ROPs
- US Treasuries
- Corporate Bonds
- Foreign Exchange (FX Spot and FX Forward Contracts)

8.9.6 Transaction Banking

- Retail Transaction Services
 - POP Personal - Retail Internet and Mobile Banking Facility
 - PBCOMobile – Mobile Banking facility with online account opening feature
 - 3D Secure enabled Debit Cards/Cash Cards

- Institutional (Business/Corporate)
 - POP Business – Corporate Online Cash Management Facility
 - Payroll Services
 - Post Dated Check (PDC) Warehousing
 - Corporate Check Printing
 - Manager’s Check Printing
 - Bills Payment Collections Service
 - Remote Cash Deposit Machine
 - Remote Check Deposit Machine
 - Cash Collection and Delivery Service
 - POS BancNet Debit Card Acquiring
 - eGOV Facilities via BancNet
 - BIR eFPS
 - SSS via eGov Facility
 - Pag-ibig via eGov Facility

- Remittance Services
 - Domestic PESO Transfer (RTGS, PESONET and INSTAPAY)
 - Domestic US Dollar Transfer
 - Incoming and Outgoing International Telegraphic Transfer

8.9.7 Corporate and Commercial Banking Group

Corporate and Commercial Banking Group (“**CCBG**”) supports clients ranging from small to medium enterprises and large corporates, with tailored financial products and services to enable them to reach their full potential in the industries and communities within which they operate. The Group provides short-term loans, term loan, domestic and international trade facilitation, and foreign exchange services, as well as, develop customized financial solutions that include project financing for medium and large corporates.

The market for CCBG is dynamic and is highly influenced by changes in the macro and micro economic conditions and competition is intense given the major players from other banks and specialized financial institutions vying for market share through competitive pricing, product offerings and customer service.

CCBG’s future is promising driven by factors such as economic growth, infrastructure projects, digital transformation and regulatory reforms. However, challenges such as rising interest rates, geopolitical tensions and competition from non-traditional financial institutions may impact growth in the Corporate and Commercial segment. PBCOM will need to adapt its strategies to navigate these challenges and capitalize on emerging opportunities.

CCBG’s loan portfolio grew 14.83% from ₱73.7 billion in 31 December 2023 to ₱84.6 billion as of June 2024, driving most of the bank’s net income with contribution of ₱768.45 million as of the first half of 2024.

8.9.8 Retail Banking Group

Retail Banking Group (“**RBG**”) is composed of two (2) major business groups: The Branch Banking Group (“**BBG**”) and Consumer Finance Groups (“**CFG**”) over 94 branches and 160 ATMs across Philippines.

8.9.8.1 Branch Banking

Branch Banking Group “BBG” is one of the Retail Banking arm of the bank with focus on generating funds to support the Bank’s asset expansion. Branch Banking is present in 94 different locations, all strategically located, providing customers with convenient access to banking services. BBG’s performance has been characterized by steady growth in key metrics, having achieved a healthy 11.7% deposit growth from the period of 2020 to 2023. June 2024 total deposits reached ₱112.3 billion benefiting from its strong customer relationships and competitive pricing. BBG’s strategy is focused on deposit growth and customer satisfaction, with the following as key strategic initiatives:

Leverage Cash Management to deepen relationship: BBG is strategically utilizing its Cash Management capabilities to attract and retain customers. By offering anytime-anywhere banking, BBG can position itself as the preferred partner for businesses seeking to optimize their cash position.

Product Innovation: BBG is continually developing new products and services to meet the evolving needs of its customers. This includes expanding its offerings in areas such as wealth management, investment products and bundled insurance products.

Branch Network Optimization: BBG aims to optimize its network, making sure it remains relevant in the digital age. This involves identifying opportunities to consolidate branches and expanding its presence in high-growth areas

8.9.8.2 Consumer Finance Group

The Consumer Finance Group (“CFG”) offers a comprehensive range product tailored to meet the changing financial needs of its customers. PBCOM’s suite of CFG products includes the following:

- Auto loan to finance purchase of new or used vehicles
- Home Loans to help individuals purchase or refinance a residential property with the property serving as the collateral for the loan
- Small Business Loans caters to the financial needs of business owners to finance operations, expand or purchase of equipment
- Personal Loans is a flexible financing solution used for various purposes such as medical expenses, payment of school fees, etc.

CFG has reported a slight decline in its loan portfolio compared to previous period reflecting its strategic decision to prioritize lending to deposit and ecosystem customers. This targeted approach aligns with the company’s broader goal of deepening relationships with its existing customers to drive long-term value creation. While this approach may temporarily impact overall portfolio growth, it is anticipated to yield significant benefits in the long run as the Bank’s deposit and ecosystem customers widen. CFG expects a gradual increase in loan portfolio driven by the strengthening of relationships with said clients, likewise, it will continue to look for opportunities to expand following the target markets set by the Bank.

8.9.9 Transaction Banking Group

Transaction Banking Group (“TBG”) manages the Bank’s digital banking lines of business and creates technology driven products and services that support the needs of the Bank’s retail and corporate clients. It provides cash management solutions and other products that extend corporate customers’ capability to perform banking transactions across alternative channels. TBG’s core strategy is to leverage on the Bank’s corporate clients’ natural cash inflows and outflows. It oversees non-branch points of presence such as ATMs, cash recycler machines (CRMs), remote (bulk) cash deposit machines, and remote check deposit machines. Through its digital banking platforms and remote deposit machines, the Bank was able to tap the deposits of the top 10,000 corporations of the Philippines, contributing 10% of total deposit base. For the retail base, the Bank continues to leverage on POP and PBCOMOBILE apps to extend its presence. More than 80,000 deposit accounts have been opened through the Bank’s PBCOMOBILE app and 40% of retail branch clients on-boarded to the POP Personal app.

TBG expects client base to grow continuously as client behavior and preference shift towards digital banking applications.

8.9.10 Treasury Management Group

Treasury Management Group (“TMG”) has 3 main functions. First and foremost is the management of the bank’s assets and liabilities ensuring adequate liquidity in the most optimal way. Second, Treasury is responsible for formulating and executing trading strategies in the Fixed Income Securities and Foreign Exchange markets. Lastly,

Treasury provides qualified client access to financial products for their investment and/or hedging requirements to manage their Foreign Exchange or Interest Rate Risks.

For the first half of 2024, Treasury Management Group generated a securities trading income of ₱70 million. The period was characterized by volatility in global interest rates as central banks struggled to define the start and pace of monetary easing. Initial expectations for central banks to start cutting rates in the first quarter were pushed all the way back into the 2nd half of the year after inflation, although easing, remained on the high end of target ranges. However, sentiment gradually improved as economic data and continued easing of inflation ensured that rate cuts would remain on the table unlike in 2023. As of the end of June 2024, 5y and 10y UST yields had risen by 53bps and 52bps, respectively, since the start of the year while the 5y and 10y local BVAL rates had risen as well by 49bps and 65bps, respectively. Despite the increase in rates, however, the group was still able to generate a respectable gain as it was able to take advantage of the volatility during this period.

Meanwhile, the FX Market was not unaffected by the timing and magnitude of monetary easing by central banks. Much of the volatility was brought about by when and how much central banks would ease relative to the US Federal Reserve. The Fed’s stance early in the year to keep rates higher for longer brought significant strength to the US Dollar for the entire first half. However, the group was still able to generate an income of ₱32 million in FX Trading gains.

The still elevated interest rates in the first half of 2024 have posed challenges for banks, primarily through higher cost of funds, which can compress net interest margins. However, as the BSP and other Central Banks are anticipated to start their easing cycle in the third quarter of 2024, the Bank expects funding costs to begin to decline. Lower interest rates would likely reduce the costs of obtaining funds, allowing the Bank to benefit from better margins on its investment portfolios.

8.9.11 Trust & Wealth Management

Trust and Wealth Management Group (“**TWMG**”) is organizationally, operationally, administratively and functionally separate and distinct from the other departments and/or businesses of the Bank.

TWMG offers a range of trust and investment services suitable for retail and corporate customers depending on their trust, investment and fiduciary needs.

There are wide range of investment solutions like Unit Investment Trust Funds for the retail investors who are looking at maximizing their earnings potential according to their risk appetite; Personal Management Trusts for those who want to plan for the future and current needs; and, Investment Management Account (IMA) for the more sophisticated investors who want to accumulate their portfolio and maximize returns.

While institutional customers may take advantage of PBCOM’s portfolio management services for retirement funds and institutional IMAs. Escrow Arrangements and other fiduciary services like Loan Agency and Mortgage Trust Indenture (MTI) are also available to support other financial arrangements or structures.

TWMG’s Assets Under Management (AUM) grew from ₱5.43 billion as of December 31, 2018 to ₱12.95 billion as of June 30, 2024, an increase of 139%.

For the last three (3) years, the business focuses on three (3) core products and services: Investment Management Account; Retirement Fund Management Services; and Unit Investment Trust Funds to support scale and growth while strengthening its presence and building stronger relationship with distribution partners; innovating products and services; and managing process and cost.

In the next five (5) years, TWMG is poised to leverage on the strong Lucio Co ecosystem to deepen trust corporate services and synergy with the Bank to further grow wealth management services for its high net worth individuals and loyal Filipino-Chinese customers.

The following table sets out the amounts for statement of income items generated by each of these businesses in the year ended 31 December 2023, and six-month period ended 30 June 2024.

| | | | | | | | 30 June 2024 | | |
|-------------------------|--|----------------------------|---------------------|-----------------------------|--|--|--|---------------------------|-------|
| | | | | | | | Consolidated | | |
| | | | | | | | Trust and Wealth Management Segment | Head office and Rental | Total |
| Branch Banking Group | | Corporate Banking Group | Treasury Segment | Consumer Finance Segment | | | | | |
| (Amounts in Thousands) | | | | | | | | | |
| Revenue | | | | | | | | | |

Revenue, net of interest expense

| | | | | | | | |
|--|--------------|-------------|-------------|------------|-----------|------------|--------------|
| Third party | (P1,686,896) | P3,391,516 | P773,358 | P143,613 | P2,791 | P3,617 | P2,627,999 |
| Intersegment | 2,663,276 | (2,235,671) | (793,067) | (87,091) | (4,076) | 456,629 | - |
| | 976,380 | 1,155,845 | (19,709) | 56,522 | (1,285) | 460,246 | 2,627,999 |
| Other operating income | 63,273 | 188,280 | 106,337 | 24,514 | 19,766 | 260,339 | 662,509 |
| Total operating income | 1,039,653 | 1,344,125 | 86,628 | 81,036 | 18,481 | 720,585 | 3,290,508 |
| Compensation and fringe benefits | 359,177 | 143,557 | 44,318 | 46,074 | 20,194 | 40,462 | 653,782 |
| Taxes and licenses | 175,238 | 155,741 | 71,206 | 5,565 | 1,619 | 13,550 | 422,919 |
| Depreciation and amortization | 86,271 | 29,071 | 6,501 | 20,833 | 2,059 | 30,315 | 175,050 |
| Provision for (reversal of) credit and impairment losses | - | 56,396 | - | (60,902) | - | (881) | (5,387) |
| Occupancy and other equipment-related costs | 73,872 | 7,441 | 1,741 | 4,028 | 1,034 | 4,113 | 92,229 |
| Other operating expenses | 348,670 | 45,243 | 55,649 | 37,164 | 6,535 | 45,150 | 538,411 |
| Net operating income (loss) before income tax | (3,575) | 906,676 | (92,787) | 28,274 | (12,960) | 587,876 | 1,413,504 |
| Segment results | | | | | | | |
| Net interest income | 976,380 | 1,155,845 | (19,709) | 56,522 | (1,285) | 460,246 | 2,627,999 |
| Rent income | - | - | - | - | - | 178,008 | 178,008 |
| Service charges, fees, and commissions | 46,788 | 159,045 | 2,920 | 9,920 | - | 11,101 | 229,774 |
| Foreign exchange gain - net | 12,917 | 1,150 | 32,443 | - | - | - | 46,510 |
| Trading and securities gain (loss) - net | - | - | 70,242 | - | - | - | 70,242 |
| Gain on asset exchange | - | - | - | - | - | 29,279 | 29,279 |
| Income from trust operations | - | - | - | - | 19,766 | - | 19,766 |
| Profit from asset sold | - | - | - | - | - | 12,675 | 12,675 |
| Miscellaneous | 3,568 | 28,085 | 732 | 14,594 | - | 29,276 | 76,255 |
| Total operating income | 1,039,653 | 1,344,125 | 86,628 | 81,036 | 18,481 | 720,585 | 3,290,508 |
| Compensation and fringe benefits | 359,177 | 143,557 | 44,318 | 46,074 | 20,194 | 40,462 | 653,782 |
| Taxes and licenses | 175,238 | 155,741 | 71,206 | 5,565 | 1,619 | 13,550 | 422,919 |
| Depreciation and amortization | 86,271 | 29,071 | 6,501 | 20,833 | 2,059 | 30,315 | 175,050 |
| Provision for (reversal of) credit and impairment losses | - | 56,396 | - | (60,902) | - | (881) | (5,387) |
| Occupancy and other equipment-related costs | 73,872 | 7,441 | 1,741 | 4,028 | 1,034 | 4,113 | 92,229 |
| Other operating expenses | 348,670 | 45,243 | 55,649 | 37,164 | 6,535 | 45,150 | 538,411 |
| Total operating expenses | 1,043,228 | 437,449 | 179,415 | 52,762 | 31,441 | 132,709 | 1,877,004 |
| Segment profit (loss) | (3,575) | 906,676 | (92,787) | 28,274 | (12,960) | 587,876 | 1,413,504 |
| Provision for income tax | - | (138,222) | (171,460) | - | - | (75,730) | (385,412) |
| Share in net income of associate | - | - | - | - | - | 340 | 340 |
| Net income | (P3,575) | P768,454 | (P264,247) | P28,274 | (P12,960) | P512,486 | P1,028,432 |
| Segment assets | | | | | | | |
| Property and equipment | P370,271 | P- | P- | P- | P- | P448,092 | P818,363 |
| Investment properties | - | - | - | - | - | 3,578,153 | 3,578,153 |
| Other allocated assets | 11,201,016 | 84,580,576 | 43,339,747 | 3,232,894 | 147,898 | 1,748,885 | 144,251,016 |
| Total segment assets | P11,571,287 | P84,580,576 | P43,339,747 | P3,232,894 | P147,898 | P5,775,130 | P148,647,532 |
| Total segment liabilities | P116,891,486 | P218,647 | P11,555,452 | P2,502 | P147 | P1,603,025 | P130,271,259 |

31 December 2023

Consolidated

| | Branch Banking Group | Corporate Banking Group | Treasury Segment | Consumer Finance Segment | Trust and Wealth Management Segment | Head office and Rental | Total |
|----------------------------------|----------------------|-------------------------|------------------|--------------------------|-------------------------------------|------------------------|-----------|
| (Amounts in Thousands) | | | | | | | |
| Revenue | | | | | | | |
| Revenue, net of interest expense | | | | | | | |
| Third party | (2,549,990) | 5,762,452 | 1,321,129 | 288,405 | 2,973 | 6,048 | 4,831,017 |
| Intersegment | 4,006,110 | (3,340,902) | (1,184,451) | (150,985) | (6,541) | 676,769 | - |
| | 1,456,120 | 2,421,550 | 136,678 | 137,420 | (3,568) | 682,817 | 4,831,017 |
| Other operating income | 122,897 | 342,129 | 78,718 | 52,851 | 37,349 | 498,233 | 1,132,177 |
| Total operating income | 1,579,017 | 2,763,679 | 215,396 | 190,271 | 33,781 | 1,181,050 | 5,963,194 |

(Forward)

| | | | | | | | |
|--|-------------|------------|------------|-----------|----------|-----------|-------------|
| Compensation and fringe benefits | 684,274 | 261,350 | 87,455 | 75,075 | 37,376 | 62,534 | 1,208,064 |
| Taxes and licenses | 297,284 | 271,798 | 137,535 | 10,212 | 3,019 | 28,324 | 748,172 |
| Depreciation and amortization | 171,360 | 51,474 | 14,681 | 34,811 | 4,400 | 65,739 | 342,465 |
| Provision for (reversal of) credit and impairment losses | - | 5,394 | - | (25,975) | - | (3,828) | (24,409) |
| Occupancy and other equipment-related costs | 129,147 | 11,603 | 3,022 | 5,387 | 1,332 | 9,010 | 159,501 |
| Other operating expenses | 578,112 | 176,743 | 103,089 | 65,740 | 13,680 | 52,589 | 989,953 |
| Net operating income (loss) before income tax | (281,160) | 1,985,317 | (130,386) | 25,021 | (26,026) | 966,682 | 2,539,448 |
| Segment results | | | | | | | |
| Net interest income | 1,456,120 | 2,421,550 | 7,902 | 137,420 | (3,568) | 682,817 | 4,702,241 |
| Rent income | - | - | - | - | - | 395,768 | 395,768 |
| Service charges, fees, and commissions | 95,657 | 282,981 | 2,294 | 25,756 | - | 20,790 | 427,478 |
| Trading and securities gain (loss) - net | - | - | 128,776 | - | - | - | 128,776 |
| Foreign exchange gain - net | 18,185 | 7,267 | 75,522 | - | - | - | 100,974 |
| Profit (loss) from assets sold | - | - | - | - | - | 22,260 | 22,260 |
| Income from trust operations | - | - | - | - | 37,349 | - | 37,349 |
| Loss on assets exchange - net | - | - | - | - | - | 11,824 | 11,824 |
| Miscellaneous | 9,055 | 51,881 | 902 | 27,095 | - | 47,591 | 136,524 |
| Total operating income | 1,579,017 | 2,763,679 | 215,396 | 190,271 | 33,781 | 1,181,050 | 5,963,194 |
| Compensation and fringe benefits | 684,274 | 261,350 | 87,455 | 75,075 | 37,376 | 62,534 | 1,208,064 |
| Taxes and licenses | 297,284 | 271,798 | 137,535 | 10,212 | 3,019 | 28,324 | 748,172 |
| Depreciation and amortization | 171,360 | 51,474 | 14,681 | 34,811 | 4,400 | 65,739 | 342,465 |
| Provision for (reversal of) credit and impairment losses | - | 5,394 | - | (25,975) | - | (3,828) | (24,409) |
| Occupancy and other equipment-related costs | 129,147 | 11,603 | 3,022 | 5,387 | 1,332 | 9,010 | 159,501 |
| Other operating expenses | 578,112 | 176,743 | 103,089 | 65,740 | 13,680 | 52,589 | 989,953 |
| Total operating expenses | 1,860,177 | 778,362 | 345,782 | 165,250 | 59,807 | 214,368 | 3,423,746 |
| Segment profit (loss) | (281,160) | 1,985,317 | (130,386) | 25,021 | (26,026) | 966,682 | 2,539,448 |
| Provision for income tax | - | (250,650) | (281,616) | - | - | (111,239) | (643,505) |
| Share in net income of associate | - | - | - | - | - | 1,628 | 1,628 |
| Net income | (281,160) | 1,734,667 | (412,002) | 25,021 | (26,026) | 857,071 | 1,897,571 |
| Segment assets | | | | | | | |
| Property and equipment | 390,317 | - | - | - | - | 424,173 | 814,490 |
| Investment properties | - | - | - | - | - | 2,580,978 | 2,580,978 |
| Other allocated assets | 11,854,345 | 86,361,907 | 40,483,546 | 3,245,374 | 133,733 | 2,003,317 | 144,082,222 |
| Total segment assets | 12,244,662 | 86,361,907 | 40,483,546 | 3,245,374 | 133,733 | 5,008,468 | 147,477,690 |
| Total segment liabilities | 116,896,282 | 430,255 | 11,195,470 | 17,862 | 150 | 1,281,920 | 129,821,939 |

8.10 EMPLOYEES

As of 30 June 2024, the Bank had a total of 1,086 employees, 868 of which are engaged in a professional management capacity and classified as bank officers, and 218 were classified as rank-and-file employees.

The Bank fosters positive relations with and among its employees. It ensures that appropriate training and employee relations activities are available to employees at all levels.

The Bank has a Collective Bargaining Agreement (“CBA”) that governs the terms and conditions of employment of the staff. The existing CBA is valid until expired on December 31, 2025.

None of the Bank’s employees are on strike or have been on strike in the past three (3) years. To the best knowledge of the Bank, as of the date of this Offering Circular, there are no outstanding threats to strike from the employees or any outstanding dispute with them.

The following table presents the number of employees by category as of the dates indicated:

| | As of 31 December | | | As of 30 June |
|--------------|-------------------|--------------|--------------|---------------|
| | 2021 | 2022 | 2023 | 2024 |
| Staff | 236 | 226 | 216 | 218 |
| Officers | 769 | 780 | 875 | 868 |
| Total | 1,005 | 1,006 | 1,091 | 1,086 |

8.10.1 Significant Employees

While the Bank values the contribution of each employee, the Bank believes that there is no employee as of the date of this Offering Circular that whose resignation or loss would have a material adverse impact on the business.

8.10.2 Retirement Plan

The Bank has a retirement policy in place for its officers, managers and rank and file employees. Retirement pay is computed based on the applicable percentage of employee's monthly salary, as shown below multiplied by the number of years in service.

LENGTH OF SERVICE

| | |
|----------------|------|
| 5 to 10 years | 100% |
| >10 – 15years | 110% |
| >15 – 20 years | 120% |
| >20 – 25 years | 130% |
| >25 – 30 years | 140% |
| >30 years | 150% |

There are (2) categories of retirement, namely: voluntary and compulsory. Voluntary retirement is applied to any regular employee hired before February 1, 2016 who has rendered at least five (5) years of continuous service, and ten (10) years for officers hired on February 1, 2016 onwards. Compulsory retirement, on the other hand, is applicable to employees who reach the age of sixty (60) years, irrespective of their length of service.

8.10.3 Compensation Policy

The Bank provides a commensurate and rational salary structure depending on the scope of responsibilities/functions of each employee, which is reviewed periodically to align with the current regulatory provisions and industry trends. It complies with the wage orders or government mandated pay adjustments issued by the Department of Labor and Employment, the Tripartite Wage Boards and applicable provisions of the existing Collective Bargaining Agreement.

8.10.4 Insurance Policy

PBCOM offers Group Life Insurance and HMO coverage for all employees, with the extent of coverage determined by their rank

8.11 BRANCH NETWORK

As of 30 June 2024, the Bank has a total branch network of 93 branches nationwide, 48 in Metro Manila and 45 across various cities and provinces. Some branches have been renovated to reflect the Bank's new standard look and feel, while some branches were strategically repositioned to sites that have more business potential and market accessibility.

The following table illustrates the coverage of the Bank's network in recent years and sets forth the number of branches and ATMs as of 31 December 2021, 2022, 2023, and 30 June 2024:

| | As of 31 December | | | As of 30 June |
|----------------------------|-------------------|-----------|-----------|---------------|
| | 2021 | 2022 | 2023 | 2024 |
| Metro Manila | 50 | 50 | 50 | 48 |
| Luzon | 25 | 25 | 25 | 25 |
| Visayas | 10 | 10 | 10 | 10 |
| Mindanao | 10 | 10 | 10 | 10 |
| Total Bank branches | 95 | 95 | 95 | 93 |
| Regular branch | 91 | 91 | 91 | 89 |
| Branch-lite unit | 4 | 4 | 4 | 4 |

Moving forward, the Bank aims to expand its reach, gain more market share, and defend its customer base through a "physical" (physical + digital) strategy which uses relevant, cost-effective technologies to enable a more segment-driven delivery of branch banking services.

8.12 ATM NETWORK

| | As of 31 December | | | As of 30 June |
|---------------------|-------------------|------------|------------|---------------|
| | 2021 | 2022 | 2023 | 2024 |
| Metro Manila | 73 | 71 | 73 | 71 |
| Luzon | 54 | 56 | 60 | 62 |
| Visayas | 13 | 13 | 14 | 14 |
| Mindanao | 20 | 20 | 19 | 19 |
| Total ATMs | 160 | 160 | 166 | 166 |

8.13 PROPERTIES

The Bank's head office is located at PBCOM Tower, 6795 Ayala Avenue corner V.A. Rufino St. 1226 Makati City. Its Main Office Branch is located in the same building.

The Bank leases the premises occupied by most of its branches and area offices. The lease contracts are for periods ranging from 3 to 5 years and are renewable upon mutual agreement between the Bank and the lessors. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 3% to 10%.

The Bank leases out some properties as office space. These non-cancellable have remaining lease terms ranging from 6 months to 4 years.

| Location | As of 31 December 2021 | As of 31 December 2022 | As of 31 December 2023 | As of 30 June 2024 |
|------------------------|------------------------|------------------------|------------------------|--------------------|
| <i>Owned Branches</i> | | | | |
| Metro Manila | 5 | 5 | 5 | 5 |
| Luzon | 0 | 0 | 0 | 0 |
| Visayas | 4 | 4 | 4 | 4 |
| Mindanao | 6 | 6 | 6 | 6 |
| TOTAL | 15 | 15 | 15 | 15 |
| <i>Leased Branches</i> | | | | |
| Metro Manila | 46 | 46 | 46 | 44 |
| Luzon | 24 | 24 | 24 | 24 |
| Visayas | 6 | 6 | 6 | 6 |
| Mindanao | 4 | 4 | 4 | 4 |
| TOTAL | 80 | 80 | 80 | 78 |

8.14 INFORMATION TECHNOLOGY

8.14.1 Digital Initiatives

As embracing digital processes became the norm in a new hybrid environment, the Bank launched its mobile app, PBCOMobile during the pandemic in 2020. This was in addition to its POP Personal application which was released in 2017 that facilitated the retail internet and mobile banking facility for its retail customers. PBCOMobile acted as a mobile banking facility with online account opening features for its retail customers.

8.14.2 Security Measures

The Bank continues to deliver an on-going structured protection to information and system resources following the four components of PBCOM cybersecurity pillars:

1. **Manage and Protect** – The ability of the Bank to identify, assess, and manage risks. This is the extent where the Bank implements and deploys technologies, processes and controls designed to adequately protect systems, networks and data from cyberattacks and security breaches.
2. **Identify and Detect** – The ability of the Bank to timely identify and detect anomalies and potential cyber security incidents before they can cause any significant damage. The extent to which the Bank is implementing continuous 24x7 security monitoring and active detection controls.
3. **Respond and Recover** – The extent to which the Bank is demonstrating its agility in incident response and recovery. PBCOM mitigates attacks, ejects intruders, analyzes attacker actions, operates even if hit by a cyberattack, and gets back to business-as-usual as quickly and efficiently as possible.
4. **Govern and Assure** – Information security programs, initiatives and activities aligned with the Bank's business objectives and is overseen from the top of the organization and built into business as usual. The extent to which the Bank takes action to achieve cyber security governance and oversight.

8.14.3 Anti-Money Laundering Systems

To improve its systems for money laundering monitoring, the Bank provided its employees with rigorous and comprehensive AML education program to consistently comply with all obligations under the AMLA Rules. From 18 September 2023 to 29 September 2023, all employees completed a Computer-based training (CBT) course on AML, including Money Laundering and Terrorist Financing Prevention Program (MTTP).

8.15 INTELLECTUAL PROPERTY

The Bank secured Certificates of Registration from the Intellectual Property Office of the Philippines for the brand names "PHILIPPINE BANK OF COMMUNICATIONS" and "PBCOM", the latter being the short name of the Bank. This covers the following products and services: Banking Services; Banking and financing services; Banking; Banking services relating to the deposit of money; Online banking services; Investment banking services; Electronic banking services; and ATM banking services.

The Bank secures its intellectual property through various security strategies and practices. Among these are the following:

1. Access control and authentication
2. Encryption
3. USB locked down as part of the overall DLP strategy
4. Network security
5. Endpoint Security
6. Auditing and Monitoring
7. Employee training and policies

8.16 IT SECURITY, DISASTER RECOVERY, AND BUSINESS CONTINUITY PROGRAM

The Bank recognizes the importance of information security as a key element of maintaining a resilient business. As the Bank continues to expand its business and respond to the evolving threat landscape, we adopted a risk-centric approach to information security and is committed to continuously enhance its efforts through:

- Proactive security practices – PBCOM uses multiple layers (defense-in-depth) of security measures and controls to protect Bank's information assets and resources. This improves our visibility and establishing further transparency into cyber threats through maturing security monitoring capabilities and existing toolsets. The Bank consistently monitors, develops and improves its information technology networks and security infrastructure to prevent, deter, detect and timely mitigate risks of security threats to Bank's information and information systems.
- Security governance and compliance – We have our established framework, policies, procedures, guidelines and standards, which are the solid foundation of the Bank. Information security programs, initiatives and activities are aligned with the Bank's business objectives and is overseen from the top of the organization and built into business as usual. Furthermore, validation of PBCOM's security posture is periodically conducted by independent internal and external organizations to assess the effectiveness of our control environment. Issues are prioritized based on PBCOM's established risk criteria and track to remediation.
- People Culture and Awareness – Our people is our human firewall and act as the first line of defense to maintain good security posture. PBCOM is committed to delivering continuous education and awareness training to its people designed to help protect the confidentiality, availability, and integrity of the Bank's information and information systems. The Bank also recognizes the need to institute a cybersecurity culture within PBCOM; thus, constantly promote expanded security awareness to PBCOM customers

The Bank has Enterprise Business Continuity Framework and Plan, as well as Disaster Recovery Plan that addresses the continuity of its operations. It employs various recovery strategies and technologies, such as:

1. Our critical systems are set up in a Primary Data Center and in a Secondary Data Center Sites for redundancy
2. We have the capability to switch to secondary Data Center through automated technologies such as Site Recovery Manager and database replication
3. In terms of Network redundancy, Branch Offices have redundant connections to both Primary and DR Data Centers via 2 different telecommunication providers. The network is designed to automatically failover to the secondary telco line if the primary line fails.

As an additional backup measure, we also have the capability to recover using back up media

8.17 INSURANCE

The Bank reviews cash requirements where it maintains insurance for operational risk through loss or theft by obtaining insurance from third party providers. The Bank has ensured that all its material assets and properties has adequate insurance protection against all applicable risks and any unforeseen circumstances. This is to enough to cover and protect the bank and its operation from equivalent financial losses.

8.18 LEGAL PROCEEDINGS

The Bank is a party to various legal proceedings, claims, and tax assessments which arise in the ordinary course of its operations. Details of material legal proceedings involving the Bank are described below. None of these legal proceedings, claims and tax assessments either individually or in the aggregate, are expected to have a material adverse effect on the Bank's status, consolidated financial condition, or operational capabilities in the future.

PCC Case No. M-2020-003 Mergers and Acquisitions Office vs. Producers Savings Bank Corporation, Philippine Bank of Communications, Inc. and PBCOM Rural Bank.

PBCOM and Producers Savings Bank Corporation (“**Producers**”) with the conformity of PBCOM Rural Bank, Inc. (“**PRBI**”), entered into the Memorandum of Agreement for the sale by PBCOM of ninety-nine and 99/100 percent (99.99%) shares of PBCOM in PRBI to Producers (the “subject transaction”). The subject transaction was approved by the Bangko Sentral ng Pilipinas (“**BSP**”).

The Mergers and Acquisitions Office (“**MAO**”) of the Philippine Competition Commission (“**PCC**”) filed before the PCC a complaint against Producers, PBCOM and PRBI, for alleged violation of the compulsory notification requirement under Section 17 of the Philippine Competition Act (“**PCA**”) and Rule 4, Section 3(g) of its Implementing Rules and Regulations (“**IRR**”) in connection with the subject transaction.

Proceedings were conducted before the PCC during which PBCOM and Producers presented their respective witnesses and submitted documents in support of their defenses that the subject transaction is not covered by the compulsory notification requirement as the transaction value falls below the notification threshold of the PCA and its IRR. The case was submitted for decision in April 2022, after PBCOM and Producers submitted their respective Memoranda.

In view of the foregoing, there is no assurance that the matter will be resolved in favour of PBCOM and Producers notwithstanding the approval by the BSP and Securities and Exchange Commission (“**SEC**”) of the subsequent merger of PRBI and Producers. In such an event, the penalties that could be imposed include a monetary penalty which may not be material or adverse to the status, consolidated financial condition, or operational capabilities of PBCOM and /or a declaration that the subject transaction is void in accordance with Section 17 of the PCA. Any decision of the PCA may still be further questioned on appeal.

8.19 PERMITS

The Bank believes that it has all the applicable and material permits and licenses necessary to operate its business as currently conducted and such permits and licenses are valid, subsisting, or pending renewal.

SECTION 9. ASSETS AND LIABILITIES

9.1 FUNDING

9.1.1 Overview

The Bank's funding is primarily provided by savings, demand, and time deposits. Of the total amount of deposits of ₱112.27 billion as of 30 June 2024, these amounted to 36.70%, 10.35%, and 52.95%, respectively. The Bank also sources part of its funding requirements from the interbank market, particularly in periods of high liquidity which generally results in lower overall funding cost.

9.1.2 Sources of Funding

The Bank's principal source of deposits is private corporations, non-individual accounts. As of 30 June 2024, these accounted for 49.99% of total deposit liabilities.

The Bank has been successful in attracting and retaining its low-cost deposit base. While the cost of deposits has largely been driven by interest rate movements, the average cost of deposits is also bolstered by the continued rise in the share of savings and time deposits to total deposits. The Bank will continue to emphasize growth in its savings and time deposits through the launching of differentiated deposit products geared towards the retail, middle market, and corporate customers. The maturities of the Bank's funding portfolio enable it to achieve funding stability and liquidity while achieving its desired profile of loan and deposit maturities. The Bank's depositors typically roll over their deposits at maturity, effectively providing the Bank with a base of core liquidity.

The following table sets out an analysis of the Bank's principal sources of funding for the periods indicated:

| | As of December 31 | | As of June 30 | |
|--|------------------------|-------------------|--------------------|--------------------|
| | 2021 | 2022 | 2023 | 2024 |
| | (Amounts in Thousands) | | | |
| <u>Deposits by type</u> | | | | |
| Demand..... | 41,166,107 | ₱45,499,687 | 41,395,954 | 41,202,362 |
| Savings..... | 11,359,112 | 12,667,907 | 13,314,707 | 11,617,120 |
| Time..... | 31,531,570 | 38,382,737 | 59,089,567 | 59,453,306 |
| LTNCD..... | 2,889,116 | 2,893,897 | 2,900,016 | - |
| Total..... | 86,945,905 | 99,444,228 | 116,700,244 | 112,272,788 |
| <u>Deposits by currency</u> | | | | |
| Peso..... | 72,542,238 | 85,537,395 | 101,455,278 | 95,020,441 |
| Foreign..... | 14,402,668 | 13,906,833 | 15,244,966 | 17,252,347 |
| Total..... | 86,945,905 | 99,444,228 | 116,700,244 | 112,272,788 |
| <u>Bills Payable</u> | | | | |
| Private Firms and Individuals..... | 5,203,348 | 4,992,538 | 8,530,857 | 8,755,790 |
| Banks and other Financial Institutions | 807,640 | 2,601,481 | 1,155,898 | 5,916,138 |
| Total..... | 6,010,988 | 7,594,019 | 9,686,755 | 14,671,928 |

As of 30 June 2024, 100% of the Bank's outstanding demand and savings deposits can be withdrawn on demand without any prior notice from the customer. The table below summarizes the maturity profile of the Bank's deposit liabilities:

| | As of June 30, 2024 | | | Total |
|----------------------------|-----------------------|-------------------|-----------------|----------------|
| | Less than 3 Months | 3 to 12 Months | 1 to 5 Years | |
| | (P millions) | | | |
| Deposit Liabilities | | | | |
| Demand..... | 41,202 | - | - | 41,202 |
| Savings..... | 11,617 | - | - | 11,617 |
| Time..... | 42,260 | 15,526 | 1,667 | 59,453 |
| LTNCD..... | - | - | - | - |
| Total | 95,079 | 15,526 | 1,667 | 112,273 |

The Bank also maintains credit lines with domestic commercial banks and financial institutions in the interbank market primarily for treasury management purposes. Interbank borrowings are typically for short-term duration of between one day and a few weeks. Interbank deposits do not usually form a significant part of the Bank's funding base but, together with the Philippine government bond market, are important in the management of the Bank's liquidity. The BSP is a lender of last resort to the Philippine banking industry. The Bank has not had to resort to this facility but has managed its liquidity through its participation in the interbank market in the Philippines.

The Bank manages its liquidity to meet financial liabilities arising from the withdrawal of deposits, repayments of deposits at maturity and working capital needs. Funds are required to create assets in the form of loans and extensions of other forms of credit, investment in securities, trade financing, and capital investments. The Bank seeks to ensure sufficient liquidity through a combination of active management of liabilities, a liquid asset portfolio, the securing of ample money market lines and swap lines, and the maintenance of repurchase facilities.

9.1.3 Liquidity

Pursuant to regulations of the BSP, universal and commercial banks are required to maintain a reserve of 9.5% of Peso demand deposits and deposit substitutes starting 29 June 2023. The required reserves shall be kept in the form of deposits placed in the bank's demand deposit accounts with the BSP. The Bank has complied with the reserve requirements for its Peso books.

As of 30 June 2024, the Bank's liquid assets amounted to P27.46 billion, representing 18.47% of the Bank's total assets. Liquid assets include cash and other cash items, due from BSP, due from other banks, interbank loans receivable, and securities purchased under resale agreement, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

The following table sets out information with respect to the Bank's liquidity position as of the dates indicated:

| | As of December 31 | | As of June 30 | |
|---|--|------------|---------------|------------|
| | 2021 | 2022 | 2023 | 2024 |
| | (Amounts in Thousands, except percentages) | | | |
| Liquid Assets ⁽¹⁾ | 23,890,531 | 21,288,856 | 22,973,472 | 27,461,535 |
| Financial Ratios: | | | | |
| Liquid assets to total assets..... | 21.87% | 17.05% | 15.58% | 18.47% |
| Liquid assets to total deposits..... | 27.48% | 21.41% | 19.69% | 24.46% |
| Net loans ⁽²⁾ to total deposits..... | 71.33% | 75.00% | 76.34% | 77.74% |

Notes:

1. Liquid assets as at year-end include cash and other cash items, due from BSP, due from other banks, interbank loans and receivables and securities purchased under resale agreements, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.
2. Receivables from customers net of allowance for credit losses and unearned discounts.

9.2 LOAN PORTFOLIO

9.2.1 Overview

As of 30 June 2024, the Bank's gross loans amounted to ₱90.14 billion, representing 60.64% of total assets. As of 30 June 2024, loans to corporates represented 84.94% of the Bank's total loans, 3.71% composed of consumer lending while 11.35% composed of trade-related lending, respectively.

The following table sets out, for the periods indicated, the allocation of the gross loans held by the Bank among its principal lending units.

| | As of December 31 | | | As of June 30 |
|---------------------------------------|------------------------|-------------------|-------------------|-------------------|
| | 2021 | 2022 | 2023 | 2024 |
| | (Amounts in Thousands) | | | |
| Corporate and commercial lending..... | 60,277,746 | 73,725,593 | 88,529,696 | 86,795,366 |
| Consumer lending..... | 4,447,920 | 3,772,251 | 3,421,970 | 3,348,268 |
| TOTAL..... | 64,725,666 | 77,497,844 | 91,951,666 | 90,143,634 |

The Bank's consumer lending amounted to ₱3.35 billion as of 30 June 2024, representing 3.71% of the gross loans of the Bank. As of June 30, 2024, housing loans represented 85.58% of the Bank's consumer lending loans, 13.27% composed of auto loans, and 1.14% composed of salary and personal loans.

The following table indicates total consumer lending as of the dates indicated:

| | As of December 31 | | | As of June 30 |
|--------------------------------|------------------------|------------------|------------------|------------------|
| | 2021 | 2022 | 2023 | 2024 |
| | (Amounts in Thousands) | | | |
| Housing loans..... | 3,636,663 | 3,244,432 | 2,927,020 | 2,865,554 |
| Auto loans..... | 598,106 | 460,417 | 454,138 | 444,397 |
| Salary and personal loans..... | 213,151 | 67,402 | 40,812 | 38,317 |
| TOTAL..... | 4,447,920 | 3,772,251 | 3,421,970 | 3,348,268 |

9.2.2 Industry Concentration

The following table sets forth, for the periods indicated, an analysis of the Bank's gross loans by economic activity, as defined and categorized by the BSP:

| | As of December 31 | | | | | | As of June 30 | | |
|---|--|-------|------------|-------|------------|-------|---------------|-------|--|
| | 2021 | | 2022 | | 2023 | | 2024 | | |
| | Amount | % | Amount | % | Amount | % | Amount | % | |
| | (Amounts in Thousands, except percentages) | | | | | | | | |
| Wholesale and retail trade, repair of motor vehicles, motorcycles | 16,838,594 | 26.03 | 19,654,028 | 25.38 | 20,988,322 | 22.84 | 20,977,963 | 23.29 | |
| Real estate activities | 14,509,091 | 22.43 | 17,365,606 | 22.42 | 16,320,087 | 17.76 | 16,741,728 | 18.59 | |
| Manufacturing..... | 14,427,907 | 22.31 | 14,300,797 | 18.47 | 13,940,456 | 15.17 | 14,866,972 | 16.50 | |
| Accommodation and food Service activities..... | 2,426,168 | 3.75 | 4,431,192 | 5.72 | 8,483,286 | 9.23 | 4,735,524 | 5.26 | |
| Other service activities | 1,306,726 | 2.02 | 2,691,754 | 3.48 | 6,995,824 | 7.61 | 6,894,955 | 7.65 | |
| Construction..... | 3,373,605 | 5.22 | 4,989,487 | 6.44 | 6,693,140 | 7.28 | 6,463,808 | 7.18 | |
| Transportation and Storage.... | 1,984,339 | 3.07 | 3,104,517 | 4.01 | 5,449,476 | 5.93 | 5,315,919 | 5.90 | |
| Electric, gas, steam and air-conditioning supply | 3,784,547 | 5.85 | 4,182,143 | 5.40 | 4,593,527 | 5.00 | 5,244,886 | 5.82 | |
| Financial and insurance activities | 2,144,958 | 3.32 | 2,995,333 | 3.87 | 4,424,364 | 4.81 | 4,690,965 | 5.21 | |
| Agriculture, forestry and fishing..... | 1,360,235 | 2.10 | 1,372,749 | 1.77 | 1,310,108 | 1.43 | 1,222,891 | 1.36 | |
| Human health and social work activities..... | 1,260,617 | 1.95 | 1,246,041 | 1.61 | 1,297,628 | 1.41 | 1,205,062 | 1.34 | |
| Mining and quarrying..... | 167,562 | 0.26 | 119,897 | 0.15 | 107,519 | 0.12 | 966,705 | 1.07 | |

| | As of December 31 | | | | | | As of June 30 | |
|---|-------------------|--------------|------------------|--------------|-------------------|--------------|-------------------|--------------|
| | 2021 | | 2022 | | 2023 | | 2024 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| (Amounts in Thousands, except percentages) | | | | | | | | |
| Activities of households as employers and undifferentiated goods and services-producing activities of households for own use..... | 161,709 | 0.25 | 197,100 | 0.25 | 103,977 | 0.11 | 78,316 | 0.09 |
| Education..... | 72,292 | 0.26 | 54,558 | 0.07 | 78,941 | 0.09 | 79,933 | 0.09 |
| Others..... | 862,560 | 1.33 | 738,464 | 0.95 | 1,103,016 | 1.20 | 592,801 | 0.66 |
| Total..... | 64,680,910 | 100.0 | 77,443,66 | 100.0 | 91,889,671 | 100.0 | 90,078,428 | 100.0 |

As of 30 June 2024, Wholesale and retail trade, repair of motor vehicles, motorcycles, represented the largest sectors of the Bank's gross loans at 23.29%. The majority of lending to these sectors takes the form of residential mortgage loans and working capital loans for corporate and commercial customers. The Bank has no specific limits with respect to portfolio mix, except for the regulatory limits for loans to the real estate sector and credit concentration limit to a particular industry or economic activity.

The internal limits are expressed as a percentage of the Bank's net worth. These vary across industries depending on the prospects of the Bank. For the regulatory limits, loans to real estate business are limited by BSP regulations to 25.0% in the aggregate of the Bank's total loan portfolio. Excluded from this ceiling are loans extended to individual households to finance the acquisition or improvement of residential units, regardless of amount, loans extended to land developers/construction companies for the purpose of development and/or construction of socialised and low cost residential properties, loans to the extent guaranteed by the Home Guaranty Corporation, loans to the extent collateralised by non-risk assets, and loans to finance the construction, rehabilitation, and improvement of infrastructure projects intended for public use. The trust departments of universal and commercial banks are also exempt from the said loan ceiling. The BSP also imposes a credit concentration limit of 30.0% of total loan portfolio to any industry or economic activity.

Banks are required to allocate 25.0% of their loanable funds for agriculture and agrarian reform credit in general, of which at least 10.0% must be made available for agrarian reform beneficiaries. Alternatively, a bank may meet all or a portion of the mandatory agriculture and agrarian reform credit by investing in eligible government securities, and loans and other credits under certain conditions. Likewise, banks are also required to set aside at least 8.0% for small enterprises and 2.0% for medium-sized enterprises (altogether, the "SMEs"), of their total loan portfolio.

9.2.3 Loan Maturity Profile

As of 30 June 2024, loans due within one (1) year represented 49.87% of the Bank's total loans. Short-term loans principally comprise loans to corporates for working capital and loans to consumers and SMEs. Medium-and long-term loans are typically granted to corporations and businesses to finance capital expenditures and mortgages advanced for property purchases.

The following table sets out an analysis of the Bank's gross loans by maturity:

| | As of December 31 | | | | | | As of June 30 | |
|--|-------------------|--------------|-------------------|--------------|-------------------|--------------|-------------------|--------------|
| | 2021 | | 2022 | | 2023 | | 2024 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| (Amounts in Thousands, except percentages) | | | | | | | | |
| Within one year..... | 40,102,875 | 61.96 | 42,353,574 | 54.65 | 50,910,461 | 55.37 | 44,957,805 | 49.87 |
| More than one year... | 24,622,791 | 38.04 | 35,144,270 | 45.3 | 41,041,206 | 44.63 | 45,185,828 | 50.13 |
| Total..... | 64,725,666 | 100.0 | 77,497,844 | 100.0 | 91,951,667 | 100.0 | 90,143,634 | 100.0 |

9.2.4 Loan Currencies

The Bank provides loans to customers in peso and certain foreign currencies. The Bank maintains its practice of extending foreign currency loans primarily to exporters who have an identifiable source of foreign currency earnings from which to repay the loans or otherwise hedged, and to importers who have authorization from the BSP to purchase foreign currency to service their foreign currency obligations.

As of 30 June 2024, 94.86% of the Bank's gross loans was denominated in Philippine Peso with 5.14% being denominated in foreign currency, U.S Dollars.

The following table sets out an analysis of the Bank's gross loans by currency:

| | As of December 31 | | | | As of June 30 | | | |
|----------------------|------------------------|--------------|-------------------|--------------|-------------------|--------------|-------------------|--------------|
| | 2021 | | 2022 | | 2023 | | 2024 | |
| | (Amounts in Thousands) | | | | | | | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Philippine Peso..... | 62,442,959 | 96.47 | 73,398,230 | 94.71 | 87,665,558 | 95.34 | 85,508,093 | 94.86 |
| U.S. Dollars..... | 2,282,707 | 3.53 | 4,099,614 | 5.29 | 4,286,108 | 4.66 | 4,635,540 | 5.14 |
| Total..... | 64,725,666 | 100.0 | 77,497,844 | 100.0 | 91,951,666 | 100.0 | 90,143,634 | 100.0 |

9.2.5 Interest Rates

As of 30 June 2024, 92.32% of the Bank's total gross loans were subject to periodic interest repricing. The Bank sets interest rates for Peso-denominated loans based on market rates for Philippine Government Securities and for U.S.\$-denominated loans based on U.S.\$ LIBOR. The Bank follows a prudent policy on managing its assets and liabilities to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

The Bank monitors the mismatches in the repricing of its assets and liabilities through the interest rate gap reports presented on a monthly basis. To ensure that the Bank's net interest income is preserved, the Bank has set a limit for the maximum repricing gap, either positive or negative, for tenors up to one (1) year. These limits are reviewed annually and form part of the Bank's risk appetite statements.

The following table shows the total amount of the Bank's gross loans that have fixed interest rates and variable or adjustable interest rates:

| | As of December 31 | | | | As of June 30 | | | |
|---------------------|------------------------|--------------|-------------------|--------------|-------------------|--------------|-------------------|--------------|
| | 2021 | | 2022 | | 2023 | | 2024 | |
| | (Amounts in Thousands) | | | | | | | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Fixed rates..... | 28,013,268 | 43.28 | 14,120,107 | 18.22 | 13,765,164 | 14.97 | 6,920,424 | 7.68 |
| Variable rates..... | 36,712,398 | 56.72 | 63,377,737 | 81.78 | 78,186,502 | 85.03 | 83,223,210 | 92.32 |
| Total..... | 64,725,666 | 100.0 | 77,497,844 | 100.0 | 91,951,666 | 100.0 | 90,143,635 | 100.0 |

9.2.6 Size and Concentration of Loans

The Bank monitors its financial exposure to its customers in order to ensure that concentration risk is prudently managed. Specific risk metrics are applied for this purpose and designed to identify concentration by internally-defined segments as well. As of 30 June 2024, the loan exposure to the Bank's single largest corporate borrower group amounted to ₱4.38 billion or 21.99% of the Bank's unimpaired capital. As of 30 June 2024, the Bank's 10 largest borrower groups accounted for ₱27.05 billion, or approximately 135.85% of the Bank's unimpaired capital. There are no NPLs in the Bank's top 10 loan accounts.

The BSP generally disallows any bank from maintaining a financial exposure to any single person or group of connected persons in excess of 25% of the Bank's unimpaired capital as defined by the BSP. The Bank is in compliance with the 25% single borrower's limit as of 30 June 2024.

9.2.7 Secured and Unsecured Loans

The Bank principally focuses on cash flows in assessing the creditworthiness of borrowers. However, it will secondarily seek to minimize credit risk with respect to a loan by requiring borrowers to pledge or mortgage collateral to secure the payment of loans.

The following table sets out the breakdown of the Bank's total gross loan by security:

| | As of December 31 | | | | | | As of June 30 | |
|----------------------------|---|--------------|-------------------|--------------|-------------------|--------------|-------------------|--------------|
| | 2021 | | 2022 | | 2023 | | 2024 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Loans secured by: | (Amounts in Thousands, except percentages) | | | | | | | |
| Real Estate..... | 21,590,618 | 33.36 | 30,026,966 | 38.75 | 37,837,308 | 41.15 | 36,223,731 | 40.18 |
| Chattel..... | 930,246 | 1.44 | 1,334,263 | 1.72 | 1,565,470 | 1.70 | 2,801,418 | 3.11 |
| Deposit hold-out.. | 1,176,120 | 1.82 | 1,785,051 | 2.30 | 1,321,244 | 1.44 | 1,155,883 | 1.28 |
| Securities and Others..... | 4,873,531 | 7.53 | 496,461 | 0.64 | 53,277 | 0.06 | 48,239 | 0.05 |
| Total Secured..... | 28,570,515 | 44.15 | 33,642,741 | 43.41 | 40,777,299 | 44.35 | 40,229,271 | 44.63 |
| Unsecured..... | 36,155,151 | 55.86 | 43,855,103 | 56.59 | 51,173,367 | 55.65 | 49,914,363 | 55.37 |
| Total..... | 64,725,666 | 100.0 | 77,497,844 | 100.0 | 91,951,666 | 100.0 | 90,143,634 | 100.0 |

As of 30 June 2024, 55.37% of the Bank's total loans are unsecured.

9.2.8 Credit Rating/ Scoring System

Banking regulations mandate the implementation of an Internal Credit Risk Rating System that is consistent with global ratings standards, compliant with Basel II requirements, and appropriate to a bank's nature, complexity, and scale of activities. For purposes of measuring credit risk for every exposure in a consistent and accurate manner to support business and financial decision making, the Bank uses several solutions systems. For the corporate loan portfolio, the Group has an Internal Credit Risk Rating System (ICRRS) for the purpose of measuring credit risk for every exposure in a consistent manner that is as accurate as possible and uses the risk information for business and financial decision making. The ICRRS shall cover all companies regardless of asset size, except those whose facilities are purely 1:1 which will be given a default Borrower Risk Rating of 1. The system has two components, namely: (a) Borrower Risk Rating (BRR), which provides an assessment of the creditworthiness of a borrower without considering the type of facility or its security arrangements, and (b) Composite Risk Rating (CRR), an assessment considering two (2) risk factors, the Facility Risk Factor (FRF) taking into account the inherent risks tied up to a specific credit facility; and the Collateral Risk Factor (CRF) which measures the collateral value risk securing the transaction. The Borrower Risk Rating consists of 14 grades, ten of which fall under unclassified accounts while the remaining four are considered classified accounts according to regulatory provisioning guidelines. For consumer loans, the Bank uses the Minimum Risk Acceptance Criteria (MRAC) as basis for approval of loan application. The MRAC is based on the basic characteristics of a loan borrower to make a sound credit decision and prudent judgment.

The Bank regularly engages external entities to review and validate the various rating models. The outcomes of these validation processes are communicated to the management, the Risk Oversight Committee (ROC), and the Board of Directors.

9.2.9 Credit Approval Process

To guarantee that the Bank adheres to a robust credit granting process, the approval of new credits, as well as the amendment, renewal, and refinancing of existing exposures, is structured to align with its credit risk management framework and is detailed in its approved credit policy. This framework covers the approval of new credits as well as the amendment, renewal, and refinancing of existing exposures, considering varying levels of approving authority and their limits based on credit risks. An escalation process ensures that approvals for credit restructuring, policy deviations, or breaches of internal limits are reviewed by higher authorities or committees.

Credit approving authority limits are sanctioned by the Board of Directors. Each level of authority is empowered to act on proposals and transactions within its assigned limits and in accordance with the policies, limitations, and restrictions set by management and approved by the Board. Credit proposals requiring committee approvals, such as from the Credit and Collection Committee, the Executive Committee, and the Board of Directors, are presented by lending officers during the regular en banc meetings of each committee.

Lending officers present credit proposals via a Credit Application (CA) or Offering Ticket (OT) only after a comprehensive evaluation of the borrower's needs, financial capabilities, and external factors surrounding the client. In line with sound banking practices, the Bank provides credits only in amounts and for periods necessary to complete the financed activity, confirming the borrower's capacity to meet their obligations.

Since credit is generally not granted based on the judgment of one officer alone, a collaborative effort from all involved officers is necessary for effective and responsible decision-making. The Bank maintains effective coordination among relevant units and individuals, coupled with sufficient controls, to ensure high credit quality at origination.

9.2.10 Credit Monitoring, Review Process, and DOSRI

In accordance with the mandate from the Bangko Sentral ng Pilipinas (BSP) for banks to rigorously monitor the health and quality of their individual and collective credit portfolios, the Bank has devised and put into operation a comprehensive framework comprising processes, procedures, and information systems designed to fulfill this mandate. Key components of this framework include criteria that identify and flag problem credits, ensuring they are subjected to meticulous monitoring, administration, and provisioning. Any exceptions, breaches, or potential issues identified are promptly reported to management for appropriate corrective actions, potential reclassification, or provisioning, and enhanced monitoring.

To reinforce this framework, the Bank has established an independent unit tasked with reviewing the corporate and commercial account portfolio, identifying both existing and potential deterioration areas, and assessing associated risks. This unit is also tasked with the ongoing identification and assessment of risks related to credit exposures, as well as to ensuring the effectiveness and robustness of the associated controls and processes in place.

The Bank also maintains regular monitoring of both individual and aggregate exposures to ensure compliance with prudential and internal limits. This includes limits to loans and other transactions with its directors, officers, stockholders, and related interests (DOSRI). Loans to DOSRI must be secured at a minimum of 70% and should not exceed the amount of their deposits and book value of their investments in the Bank. In aggregate, loans to DOSRI are limited to the lesser of the Bank's total capital funds or 15% of the Bank's total loan portfolio. These transactions must be conducted in the regular course of business and on terms not less favorable than those offered to other individuals and businesses.

The Bank's DOSRI loans and receivables are summarized as follows:

| | As of 31 December | | As of 30 June | |
|-------------------------|-------------------|-------|---------------|-------|
| | 2021 | 2022 | 2023 | 2024 |
| Amount | 1,782 | 6,193 | 8,257 | 7,215 |
| % to total loans | 0.00% | 0.01% | 0.01% | 0.01% |

9.2.11 Impairment of Loans and Other Financial Assets

The Bank complies with the requirements of PFRS 9, *Financial Instruments*, in measuring the required allowance for impairment on financial assets.

9.3 EXPECTED CREDIT LOSS (ECL) METHODOLOGY

The Bank recognizes ECL for loan and other debt financial assets at amortized cost and at FVOCI, together with loan commitments and financial guarantee contracts. No impairment loss is recognized on assets designated as FVPL.

The Bank measures ECL in a way that reflects an unbiased and probability-weighted amount which is based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions, and the time value of money. The objective is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition. The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the next 12 months after the reporting date. Lifetime ECLs are credit losses that result from all possible default events over the expected life of a financial instrument.

9.3.1 Stage Assessment

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the

risk of default occurring over the remaining life of the instrument. Based on this process, the Group categorizes its credit exposures into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: When loans are first recognized, the Group recognizes an allowance based on the 12-month ECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a SICR since origination, the Group records an allowance for lifetime ECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered as credit-impaired or non-performing. The Group records an allowance for lifetime ECL.

9.3.2 Significant Increase in Credit Risk

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a 30-day backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's internal credit risk assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses. For exposures without internal grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

For other credit risk exposures such as cash in banks, interbank loans and receivables, and debt securities at amortized cost and at FVTOCI, the Group applies the low credit risk simplification. The Group considers a debt financial asset to have low risk when its credit rating is equivalent to the definition of investment grade. The Group evaluates whether the debt financial asset, on an individual basis, is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort.

9.4 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

The credit quality of financial assets is monitored and managed by the Bank using internal credit ratings and where available, external ratings. The Bank's Internal Credit Risk Rating System (ICRRS) is an established tool used to evaluate the Credit Risk associated with each borrower. The ICRRS assigns a score to each account based on a combination of quantitative and qualitative factors. The scores assigned to each obligor is equivalent to the risk associated to each individual. The scoring model is reviewed and validated by external parties regularly to ensure that the model is risk ranking properly. The risk rating is used as one of the measures of the Bank's risk appetite and as a factor in impairment calculation.

The table below shows the Bank's gross loans, net of unearned interest income, as of 30 June 2024 classified according to credit quality (amounts in ₱ thousands):

| | CORPORATE LOANS | HOUSING LOANS | AUTO LOANS | PERSONAL LOANS | Grand Total |
|---------------------------|--------------------|------------------|----------------|-------------------|-------------------|
| (Amounts in Thousands) | | | | | |
| Stage 1 | | | | | |
| High Grade | 77,519,585 | 2,535,612 | 426,196 | 27,750 | 80,509,144 |
| Standard Grade | - | - | - | - | - |
| | 77,519,585 | 2,535,612 | 426,196 | 27,750 | 80,509,144 |
| Stage 2 | | | | | |
| Standard Grade | 1,921,035 | 18,525 | - | - | 1,939,560 |
| Past Due but not Impaired | 23,098 | 28,811 | 595 | 0 | 52,505 |
| | 1,944,133 | 47,336 | 595 | 0 | 1,992,065 |
| Stage 3 | | | | | |
| Past Due but not Impaired | - | 24,017 | 888 | 9 | 24,914 |
| Impaired | 7,266,441 | 258,588 | 16,717 | 10,559 | 7,552,305 |
| | 7,266,441 | 282,605 | 17,605 | 10,567 | 7,577,219 |
| Grand Total | 86,730,160 | 2,865,554 | 444,397 | 38,318 | 90,078,428 |

9.5 IMPAIRMENT – REGULATORY REPORTS

On 14 August 2018, BSP issued Circular No. 1011 *Guidelines in the Adoption of the Philippine Financial Reporting Standard (“PFRS”) 9 – Financial Instruments* requiring banks to adopt the expected credit loss (“ECL”) model in measuring credit impairment in accordance with the provisions of PFRS 9, with certain exceptions as follows:

- For non-retail corporate counterparties when any of its material exposure is subjected to lifetime ECL (i.e., at least one of its exposures is classified as Stage 2 or 3), all of the exposures with the counterparty will be subjected to lifetime ECL. In such case, additional expense and allowance shall be recorded for accounts subjected to 12-month ECL to recognize lifetime ECL of these accounts.
- For loan accounts under Stage 1 whose computed ECL is less than 1%, appropriation of retained earnings is required for an amount necessary to bring the ECL to 1%.

9.6 REMEDIAL MANAGEMENT

The Remedial Management Team directly supervises the management of past due loans that are referred to it. For PBCom, remedial management of problematic past due corporate/commercial loans and consumer loans are handled separately. For problematic accounts, it is assigned to a remedial unit which evaluates, determines, proposes and implements the best appropriate remedial recourse available to the Bank.

Recovery may be voluntary or involuntary. Voluntary mode is cost-efficient and is always preferred if the borrower is cooperative in the settlement. This type of recovery is usually in the form of full or partial payments, restructuring, assignment or assumption of credit, or *dacion en pago* (payment in kind).

In case voluntary recovery is not possible, the Bank resorts to legal action by referring the past due account to the Bank’s Legal Services Group, for filing of the appropriate legal cases like foreclosure of the loan collaterals or filing of civil collection suits or criminal actions, if there are grounds.

The remedial officers also regularly review and continually assess the impairment values of each account. Booked loss provisions are increased or reduced based on the assessment of the remedial officers.

All remedial actions require approval of the Bank’s Asset Disposal and Special Accounts Committee (ADSAC) or Executive Committee depending on the amount of outstanding obligation and/or complexity of remedial action, as stated in the Bank’s Credit Policy Manual.

9.7 NON-PERFORMING LOANS (NPL) AND ROPA

The table below sets forth details of the Bank’s NPLs, non-accruing loans, ROPA, non-performing assets (as described below), restructured loans and write-offs for loan losses for the specified periods:

| | For the Year Ended 31 December | | For the Period | |
|--|--------------------------------|-----------|----------------|-----------|
| | (Amounts in Millions) | | 30 June | |
| | 2021 | 2022 | 2023 | 2024 |
| Gross non-performing loans | 3,332.13 | 2,584.85 | 2,537.28 | 3,214.09 |
| Performing Loans | 61,393.53 | 74,913.00 | 89,414.38 | 86,929.54 |
| Total loans including interbank loans ⁽¹⁾ | 68,196.56 | 80,063.52 | 91,951.67 | 91,043.63 |
| Gross non-performing loans to total loans including interbank loans (%) ⁽²⁾ | 4.89% | 3.23% | 2.77% | 3.54% |
| Total non-performing loans to total loans – excluding interbank loans (%) ⁽³⁾ | 5.15% | 3.34% | 2.76% | 3.57% |
| ROPA-Net | 869.29 | 983.08 | 983.12 | 2,014.68 |
| Non-performing assets ⁽⁴⁾ | 4,505.04 | 3,926.18 | 3,926.19 | 5,660.32 |
| Non-performing assets as percentage of total assets (%) ⁽⁵⁾ | 4.12% | 3.14% | 2.66% | 3.81% |
| Allowance for impairment of assets ⁽⁶⁾ | 2,822.57 | 3,026.95 | 2,960.29 | 2,956.78 |
| Allowance for loan impairments | 2,663.63 | 2,864.49 | 2,795.14 | 2,798.24 |
| Allowance for ROPA impairments | 65.23 | 55.77 | 53.40 | 52.12 |
| Allowance for loan impairments as a percentage of total non-performing loans (NPL coverage ratio) (%) ⁽⁷⁾ | 79.94% | 110.82% | 110.16% | 87.06% |
| Allowances for impairment of assets as a percentage of non-performing assets (%) ⁽⁸⁾ | 62.65% | 77.10% | 75.40% | 52.24% |
| Total restructured loans | 963.53 | 1,263.42 | 1,111.58 | 1,081.07 |
| Current | 61,287.56 | 74,884.04 | 89,368.99 | 86,877.04 |
| Past due | 105.98 | 28.96 | 45.39 | 52.51 |

| | For the Year Ended 31 December | | | For the Period |
|--|--------------------------------|----------|----------|----------------|
| | (Amounts in Millions) | | | 30 June |
| | 2021 | 2022 | 2023 | 2024 |
| NPL | 2,843.63 | 1,916.71 | 1,642.51 | 2,316.17 |
| In litigation | 488.50 | 668.14 | 894.78 | 897.92 |
| Restructured loans as percentage of total loans (%) ⁽⁹⁾ | 1.49% | 1.63% | 1.21% | 1.20% |
| Loans – written off | 77.13 | 88.31 | 36.35 | - |

Notes

- 1) Loans including interbank-loans and before allowance for ECL
- 2) Total non-performing loans divided by total loans excluding interbank loans.
- 3) Total non-performing loans divided by total loans including interbank loans.
- 4) Non-performing assets comprise of ROPA (gross) and non-performing loans
- 5) Total non-performing loans divided by total assets.
- 6) Allowances for impairment of assets comprise of allowances in loans, investment securities, investment properties and other assets.
- 7) Total allowance for loan impairments divided by total non-performing loans
- 8) Total allowance for impairment of assets divided by total non-performing assets
- 9) Total restructured loans divided by total loans, excluding interbank loans

The Bank classifies loans as past due upon the occurrence of certain non-payment events, and then reclassifies such loans as “non-accruing” or “non-performing” upon continuing non-payment or payment default, in accordance with BSP guidelines. In the case of loans requiring repayment of principal at maturity or scheduled payment of principal or interest due quarterly (or longer), failure to make such payment on the due date triggers non-performing classification. In the case of loans requiring payment of principal or interest on a monthly basis, continued failure to make payment for three months from the due date triggers non-performing classification.

As of 30 June 2024, the Bank’s ten largest NPLs amounted to ₱1.85 billion or approximately 2.05% of the Bank’s total loans.

9.8 SECTORAL ANALYSIS OF NON-PERFORMING LOANS (NPLS)

The following table sets forth, as of the dates indicated, the Bank’s gross NPLs by the respective borrowers’ industry or economic activity and as a percentage of the Bank’s gross NPLs:

| | For the year ended 31 December | | | | | For the period ended | | |
|--|--------------------------------|--------------|-----------------|--------------|-----------------|----------------------|-----------------|--------------|
| | (Amounts in Millions) | | | | | 30 June | | |
| | 2021 | % | 2022 | % | 2023 | % | 2024 | % |
| Wholesale and retail trade, repair of motor vehicles, motorcycles | 887.18 | 26.63 | 895.89 | 34.66 | 1,040.00 | 40.99 | 1,039.72 | 32.34 |
| Real estate activities | 1,222.68 | 36.69 | 699.77 | 27.07 | 300.79 | 11.85 | 910.87 | 28.29 |
| Manufacturing | 827.08 | 24.82 | 704.36 | 27.25 | 1,091.16 | 43.01 | 1,098.75 | 34.25 |
| Construction | 35.26 | 1.06 | 48.20 | 1.86 | 44.51 | 1.75 | 106.02 | 3.29 |
| Accommodation and food service activities | 0.58 | 0.02 | 0.16 | 0.01 | - | - | - | - |
| Transportation and storage | 115.67 | 3.47 | 120.79 | 4.67 | - | - | - | - |
| Other service activities | 10.96 | 0.33 | 9.32 | 0.36 | 5.11 | 0.20 | 5.11 | 0.16 |
| Agriculture, forestry and fishing | 0.09 | 0.00 | 0.00 | 0.00 | 1.82 | 0.07 | 1.82 | 0.06 |
| Human health and social work activities | 0.23 | 0.01 | - | - | - | - | - | - |
| Activities of households as employers and undifferentiated goods and services-producing activities of households for own use | 15.53 | 0.47 | 3.96 | 0.15 | 1.42 | 0.06 | 2.42 | 0.08 |
| Others | 216.87 | 6.51 | 102.40 | 3.96 | 52.46 | 2.07 | 49.38 | 1.53 |
| Total Non-Performing Loans | 3,332.13 | 100.0 | 2,584.85 | 100.0 | 2,537.28 | 100.0 | 3,214.09 | 100.0 |

Loans that are subsequently foreclosed or transferred to the Bank's ROPA account are removed from the non performing category. Accrued interest arising from a loan account is classified according to the classification of the corresponding loan account. In accordance with BSP guidelines, loans and other assets in litigation are classified as non-performing assets. The Bank's non-performing assets principally comprise ROPA and NPLs.

9.9 FORECLOSURE AND DISPOSAL OF ASSETS

The Bank's preferred strategy for managing its exposure to NPLs that are secured is either accept cash payments or to restructure the payment terms of such loans. The Bank will only foreclose on an NPL if restructuring is not feasible or practical, or if the borrower cannot or will not repay the loan on acceptable terms., The Bank may also consider accepting a *dacion en pago* arrangement whereby properties are transferred as payment instead of cash.

Foreclosed and dacioned assets are transferred to the Property Management Group which is tasked to manage and dispose the acquired properties of the Bank. The Property Management Group consists of Sales & Marketing & Asset Administration, among others. The Sales & Marketing team is responsible for the disposal of properties booked under ROPA. The main channel for disposal are the account officers, accredited brokers, branch network and bank website. They handle coordination with buyers, monitoring of payments, preparation of sale documents or cancellation of sale for those properties sold under installment. The Asset Administration team handles the monitoring of redemption, possession, consolidation, and payment of association dues / taxes / insurance premium. They also ensure maintenance of assets and safekeeping of account documents.

Disposition of the Bank's acquired assets, depending on the amount, requires approval of the Bank's Management namely: the ADSAC.

In the six months ended June 30, 2024 the Bank sold ₱25.74 million of acquired assets in ROPA. The Bank had a net ROPA of ₱983.12 million, ₱983.07 million and ₱869.29 million as of 31 December 2023, 2022, and 2021, respectively, consisting of various real estate properties and shares of stock in several companies. As of 30 June 2024, the Bank's net ROPA amounted to ₱2,014.68 million.

Under the current regulations, the Bank is required to conduct impairment testing on its acquired assets, which becomes the basis for the provisioning levels. The Bank's valuation reserves on ROPA amounted to ₱52.12 million as of 30 June 2024, and ₱53.39 million, ₱55.77 million, and ₱65.23 million, as of 31 December 2023, 2022, and 2021, respectively.

SECTION 10. RISK MANAGEMENT

10.1 OVERALL RISK MANAGEMENT CULTURE AND PHILOSOPHY

Enterprise Risk Management (ERM) is the framework of policies, processes, and systems, effected by an entity's Board of Directors, management, and other personnel, applied in strategy setting across the enterprise. It is designed to identify potential events that may affect the entity, to manage risk to be within its risk appetite and to provide reasonable assurance regarding the achievement of entity objectives. PBCOM applies risk management across the entire organization — from the Board of Directors, Senior Management, business segments and groups, branches, support units, and to individual employees, as well as in specific functions, programs, projects, and activities. Implementation of the framework contributes to strengthening management practices, decision making, and resource allocation, and increasing shareholder value while protecting the interest of its clients, maintaining trust and confidence, and ensuring compliance with regulations.

The Bank's overall goal is to optimize and protect its enterprise value and generate a steady return. PBCOM recognizes that enterprise risk management is fundamental for its safe and sound operation and sustainable growth. It ensures business success through balanced risk and reward, operational excellence and conformance to the highest ethical standards and regulatory requirements. Enterprise Risk Management in PBCOM is aligned to its business objectives and strategies. It operates at all levels and in all units of PBCOM that continually manage risk in an environment fostered by an appropriate governance structure, a strong "control culture" and a proactive process of identification, understanding, assessment and mitigation of all its material risks.

10.2 RISK APPETITE AND STRATEGY

PBCOM recognizes that having an appropriate level and quality of capital is necessary for the achievement of its business objectives. The Bank regards capital as the primary defense against any potential losses that may arise from various risks taken in the course of its operations over its strategy for profitability and balance sheet growth. Hence, it is the Bank's view that it should hold capital not merely to meet minimum regulatory requirement, but should maintain capital adequate to cover other material risks that the Bank is exposed to.

Upon exposure, the Bank's capital becomes inherently vulnerable to various risks. The Bank's risk appetite is defined as the extent and nature of risk it is willing to undertake, accept, or endure to achieve its business goals. This appetite is informed by the Bank's capacity to absorb risks based on its capital, liquidity, borrowing capabilities, and statutory limitations.

The Bank's Risk Appetite Statements, which can be either quantitative or qualitative, are crafted to guide the management of various risk exposures, including credit, market, liquidity, and operational risks.

To manage these risks, the Bank may adopt strategies to mitigate, avoid, accept, or transfer risk. It is the responsibility of the management to exercise due diligence, expertise, and prudence in conducting business transactions, aiming to optimize and protect capital value against adverse events. All employees are expected to consistently adhere to and apply the Bank's established risk appetite parameters in their daily operational decision-making processes.

10.3 RISK MANAGEMENT OVERSIGHT

The Board of Directors, directly or through Board Committees, ensures alignment of business decisions with the Bank's strategies and its risk appetite. It approves key risk policies, limits, strategies, and the Bank's risk appetite. It is responsible for establishing and maintaining a sound risk management system and is ultimately accountable for risks taken within the bank.

The Risk Oversight Committee (ROC) has been established by the Board of Directors to assist it in the effective discharge of its function in overseeing the risk management program of the Bank, its subsidiaries and its trust unit. It assists the Board in its risk oversight function by:

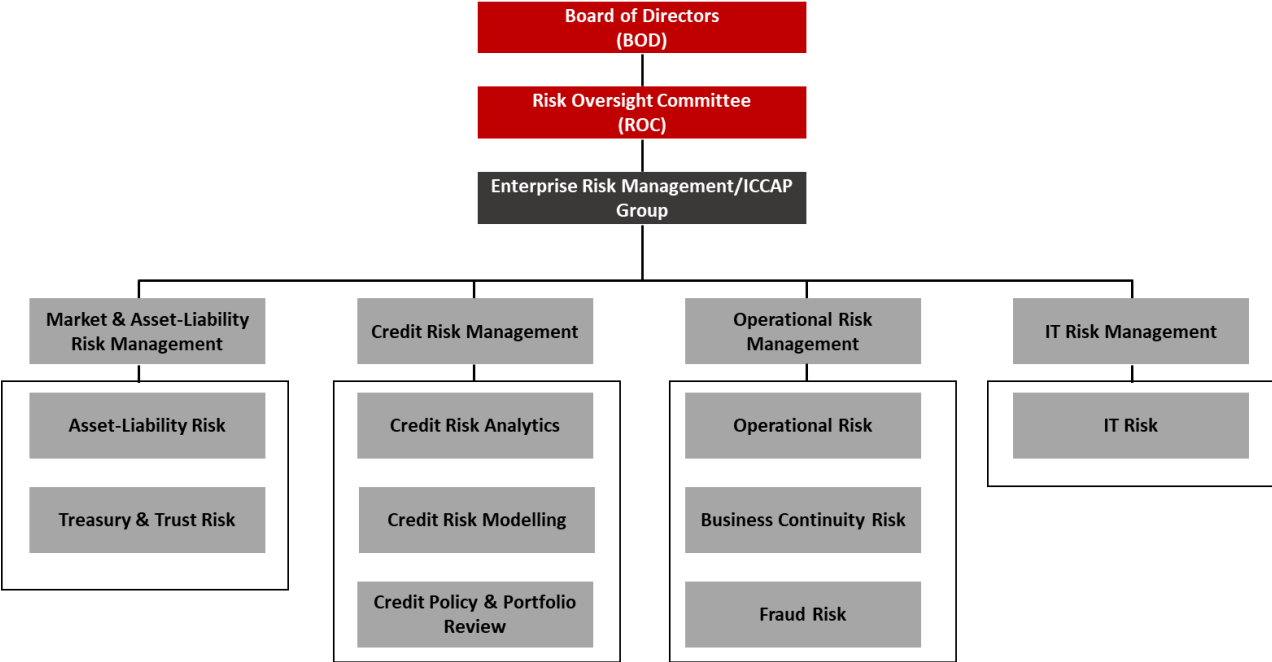
- Overseeing the risk management framework;
- Overseeing the adherence to risk appetite;
- Overseeing the risk management function.

The Enterprise Risk Management | ICAAP Group (ERMG) serves the Bank's Board of Directors and Management by assisting the Bank accomplish its objectives by bringing a systematic and disciplined approach to promoting risk management practices consistent with the type and complexity of operation of the Bank and its subsidiaries. It shall

assist the management of risk that is a direct responsibility of the business and support units. ERMG provides assistance to the Bank’s units, subsidiaries and affiliates for them to effectively:

- Identify and assess risks associated with their objectives;
- Define controls to address the identified risks; and,
- Set up monitoring mechanism to ensure that controls are effectively addressing the risks.

The ERMG reports to the Board through the ROC and is independent from the risk-taking business units of the Bank. Headed by the Chief Risk Officer, it manages the following key risk areas:



10.4 CREDIT RISK MANAGEMENT

The Credit Risk Management Team (CRM) is tasked with formulating and advocating for policies to effectively manage credit risk within the Bank's asset portfolios. Additionally, CRM is responsible for the development, maintenance, and updating of the Bank's credit risk models, including risk rating systems and scorecards. The department monitors credit risk exposures against predefined limits and reports on portfolio performance, highlighting significant changes, asset quality, and concentration levels to the ROC in a timely manner. Furthermore, CRM conducts quality and process reviews of the loan portfolio post-approval to identify, assess, and mitigate any emerging risks.

CRM also ensures that the Bank remains compliant with the evolving credit risk landscape within the banking sector. The department monitors credit exposures at both counterparty and portfolio levels to maintain asset quality and adherence to the Bank’s risk appetite. Credit risk thresholds encompass regulatory requirements, internal limits, and industry benchmarks. The asset quality of corporate accounts is evaluated using the Bank’s Internal Credit Risk Rating System (ICRRS), which CRM regularly monitors and validates. Regular monitoring and reporting of concentration risks and large exposures to the ROC and Management are conducted, with concentrations identified across counterparty, industry, and product categories. Regulatory and internally developed stress tests are performed to assess the Bank's capacity to withstand credit losses.

With the introduction of PFRS 9, the Bank has adopted the Expected Credit Loss (ECL) estimation methodology for impairment. CRM is responsible for the development, maintenance, and updating of the Bank's ECL models, as well as the monthly estimation of ECL figures.

10.5 CREDIT APPROVALS

10.5.1 Credit Rating/ Scoring System

Banking regulations mandate the implementation of an Internal Credit Risk Rating System that is consistent with global ratings standards, compliant with Basel II requirements, and appropriate to a bank's nature, complexity, and scale of activities. For purposes of measuring credit risk for every exposure in a consistent and accurate manner to support business and financial decision making, the Bank uses several solutions systems. For the corporate loan portfolio, the Group has an Internal Credit Risk Rating System (ICRRS) for the purpose of measuring credit risk for every exposure in a consistent manner that is as accurate as possible and uses the risk information for business and financial decision making. The ICRRS shall cover all companies regardless of asset size, except those whose facilities are purely 1:1 which will be given a default Borrower Risk Rating of 1. The system has two components, namely: (a) Borrower Risk Rating (BRR), which provides an assessment of the creditworthiness of a borrower without considering the type of facility or its security arrangements, and (b) Composite Risk Rating (CRR), an assessment considering two (2) risk factors, the Facility Risk Factor (FRF) taking into account the inherent risks tied up to a specific credit facility; and the Collateral Risk Factor (CRF) which measures the collateral value risk securing the transaction. The Borrower Risk Rating consists of 14 grades, ten of which fall under unclassified accounts while the remaining four are considered classified accounts according to regulatory provisioning guidelines. For consumer loans, the Bank uses the Minimum Risk Acceptance Criteria (MRAC) as basis for approval of loan application. The MRAC is based on the basic characteristics of a loan borrower to make a sound credit decision and prudent judgment.

The Bank regularly engages external entities to review and validate the various rating models. The outcomes of these validation processes are communicated to the management, the Risk Oversight Committee (ROC), and the Board of Directors.

10.5.2 Credit Approval Process

To guarantee that the Bank adheres to a robust credit granting process, the approval of new credits, as well as the amendment, renewal, and refinancing of existing exposures, is structured to align with its credit risk management framework and is detailed in its approved credit policy. This framework covers the approval of new credits as well as the amendment, renewal, and refinancing of existing exposures, considering varying levels of approving authority and their limits based on credit risks. An escalation process ensures that approvals for credit restructuring, policy deviations, or breaches of internal limits are reviewed by higher authorities or committees.

Credit approving authority limits are sanctioned by the Board of Directors. Each level of authority is empowered to act on proposals and transactions within its assigned limits and in accordance with the policies, limitations, and restrictions set by management and approved by the Board. Credit proposals requiring committee approvals, such as from the Credit and Collection Committee, the Executive Committee, and the Board of Directors, are presented by lending officers during the regular en banc meetings of each committee.

Lending officers present credit proposals via a Credit Application (CA) or Offering Ticket (OT) only after a comprehensive evaluation of the borrower's needs, financial capabilities, and external factors surrounding the client. In line with sound banking practices, the Bank provides credits only in amounts and for periods necessary to complete the financed activity, confirming the borrower's capacity to meet their obligations.

Since credit is generally not granted based on the judgment of one officer alone, a collaborative effort from all involved officers is necessary for effective and responsible decision-making. The Bank maintains effective coordination among relevant units and individuals, coupled with sufficient controls, to ensure high credit quality at origination.

10.5.3 Credit monitoring, Review Process, and DOSRI

In accordance with the mandate from the Bangko Sentral ng Pilipinas (BSP) for banks to rigorously monitor the health and quality of their individual and collective credit portfolios, the Bank has devised and put into operation a comprehensive framework comprising processes, procedures, and information systems designed to fulfill this mandate. Key components of this framework include criteria that identify and flag problem credits, ensuring they are subjected to meticulous monitoring, administration, and provisioning. Any exceptions, breaches, or potential issues identified are promptly reported to management for appropriate corrective actions, potential reclassification, or provisioning, and enhanced monitoring.

To reinforce this framework, the Bank has established an independent unit tasked with reviewing the corporate and commercial account portfolio, identifying both existing and potential deterioration areas, and assessing associated risks. This unit is also tasked with the ongoing identification and assessment of risks related to credit exposures, as well as to ensuring the effectiveness and robustness of the associated controls and processes in place.

The Bank also maintains regular monitoring of both individual and aggregate exposures to ensure compliance with prudential and internal limits. This includes limits to loans and other transactions with its directors, officers, stockholders, and related interests (DOSRI). Loans to DOSRI must be secured at a minimum of 70% and should not exceed the amount of their deposits and book value of their investments in the Bank. In aggregate, loans to DOSRI are limited to the lesser of the Bank's total capital funds or 15% of the Bank's total loan portfolio. These transactions must be conducted in the regular course of business and on terms not less favorable than those offered to other individuals and businesses.

The Bank's DOSRI loans and receivables are summarized as follows:

| | As of 31 December | | As of 30 June | |
|-------------------------|-------------------|--------|---------------|--------|
| | 2021 | 2022 | 2023 | 2024 |
| Amount | ₱1,782 | ₱6,197 | ₱8,257 | ₱7,215 |
| % to total loans | 0.00% | 0.01% | 0.01% | 0.01% |

10.6 MARKET AND ASSET-LIABILITY RISK MANAGEMENT

10.6.1 Market Risk in the Trading Book

Market risk is the risk of loss with respect to future earnings, fair value, or future cash flows, which may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, commodity prices, equity prices, and other market changes.

The trading business of the Bank centers on exposures to interest rates from the portfolio of debt securities and from the currency mismatches on and off the balance sheet. Market risk in the trading book proceeds from the potential impact of adverse movements in market conditions either eroding asset values or increasing liabilities resulting in financial losses. These principally include:

- Changes in prevailing interest rates eroding the values of securities and foreign exchange contracts; and
- Changes in prices affecting the values of positions in foreign currency.

Management of market risk in the trading book begins at the level of the portfolio managers in the Treasury Group that execute trading strategies. The portfolio managers are responsible for the results of their execution, including financial performance, adherence to limits, and compliance with regulation. The Treasurer discusses the condition and performance of trading books exposures at the meetings of the Bank's ALCO.

Risk control functions ensure that the exposures taken on the trading books remain consistent with those approved by and acceptable to the Board of Directors. The Bank utilizes an internally developed Value-at-Risk (VAR) model, in conjunction with other sensitivity metrics, to assess and monitor potential declines in the market value of its trading portfolio. The Market and Asset-Liability Risk Management Team (MALRM) conducts daily VAR simulations on the trading book, and the outcomes are measured against limits sanctioned by the Board. Beyond the VAR risk appetite, the trading portfolio is also governed by restrictions on aggregate exposures, sensitivity metrics, as well as daily, monthly, and annual losses, and undergoes stress testing. These controls offer insight into potential strategies for hedging or mitigating market risk associated with the trading book.

10.6.2 Interest Rate Risk in the Banking Book

The core business of the Bank is to source funding and extend credit. Exposures in the banking book arise from mismatches in the structure of its transactions that result in assets and liabilities re-pricing at differing times.

The MALRM also regularly monitors the mismatches in the repricing of the Bank's assets and liabilities through the interest rate gap reports to the Asset Liability Management team (ALM) and the ROC. It monitors its exposure to fluctuations in interest rates by measuring the impact of interest rate movements on its interest income. This is done by modeling the impact of various changes in interest rates to the Bank's interest-related income and expenses.

The method by which the Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of interest rate analysis. This analysis provides the Bank with a measure of the impact of changes in interest rates on the actual portfolio, that is, the risk exposure of future accounting income. The repricing gap is calculated by distributing the financial assets and financial liabilities into tenor buckets according to the time remaining to maturity or next repricing date and then obtaining the difference between the total of the repricing (interest rate sensitive) assets and repricing (interest rate sensitive) liabilities.

A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of

interest rate sensitive liabilities. Accordingly, during a period of rising interest rates, a bank with a positive gap would be better positioned than one with a negative gap to invest in or hold higher yielding assets more quickly than it would need to refinance its interest-bearing liabilities. During a period of falling interest rates, a bank with a positive gap would tend to see its assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

10.6.3 Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet its short-term financial obligations due to the inability to convert assets into cash without significant loss of value. To mitigate this risk, management diversifies its funding while it strengthens its core deposit base and actively monitors future cash flows and liquidity position daily.

MALRM measures liquidity risk using the Maximum Cumulative Outflow (MCO) metric. Utilization against the Board-approved MCO limit is monitored on a monthly basis and is reported to the ALCO and ROC. The ALCO meets weekly to discuss, among others, the liquidity state of the Bank.

The Bank maintains a portfolio of highly marketable securities that can be easily monetized in the event of an unforeseen interruption of cash flows. It also ensures that it complies with LCR and NSFR regulatory liquidity risk limits. This includes an assessment of the liquidity characteristics of its portfolio of assets that will provide necessary liquidity support during periods of liquidity stress as required.

In managing Intraday liquidity, the Bank performs its Intraday Liquidity Monitoring in accordance with regulatory requirements. It monitors the levels and trends of intraday liquidity risk exposures vis-a-vis the ability of the Parent Company to meet immediate payment and settlement obligations on a timely basis. Apart from monitoring compliance with regulatory ratios, it also utilizes internal Liquidity Ratios that allows the it to easily gauge its readily available liquidity based on its holdings of high quality liquid assets as well as estimated unsecured funding, against deposit liabilities on a daily basis. These ratios also aid in the management of substantial liability outflows and funding for new loans.

10.7 OPERATIONAL RISK MANAGEMENT

Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. The primary tool in managing operational risk is an effective system of internal controls effected by the Board and participated in by each and every employee of the Bank. Operational risk is inherent in PBCOM's activities and can manifest itself in various ways, including fraudulent acts, business interruptions, inappropriate behavior of employees, failure to comply with applicable laws and regulations or failure of vendors to perform in accordance with their arrangements. These events could result in financial losses, litigation and regulatory fines, as well as reputational damage to PBCOM. The goal is to keep operational risk within approved tolerance limits, in light of PBCOM's financial strength, the characteristics of its businesses, and the competitive and regulatory environment in which we operate.

The PBCOM's Operational Risk Management (ORM) Framework, which provides for a strengthened foundation and guidance on how the Bank should effectively manage its operational risks, is regularly reviewed by the Board to ensure that ORM policies, processes, and systems are implemented effectively at all decision levels.

ORM tools include the Risk Control Self-Assessment, Key Risk Indicators, Incident Reports, and the Internal Operational Loss Database, results of which are regularly reported by the ORM Team to the Risk Oversight Committee (ROC). Operational risk reports such as Profile of Complaints, Legal Case Profile, Monthly Litigation Report, Bank Security Assessment, Media Coverage Report, Vendor Performance Evaluation Results, and Large & Enterprise Projects Monitoring report are likewise regularly reported by the concerned banking groups to the ROC. Moreover, a system for reporting of crimes and operational losses, and policies on whistleblowing and handling of administrative cases are in place.

To instill risk awareness and a strong operational risk control environment, the Bank's ERMG, Compliance Management Group (CMG), and subject-matter experts (e.g. Chief Information Security Officer, Data Privacy Officer) conduct regular in-house seminars and trainings, like the orientation for newly hired employees and computer-based training (CBT) for all employees, with due focus on risk management and regulatory compliance. The groups continuously develop and implement risk management and compliance policies while holding interactive meetings with operating units to address risk issues and implement process enhancements.

10.8 INFORMATION TECHNOLOGY RISK MANAGEMENT

The Bank's Information Technology Risk Management Framework provides a foundation and guidance on how the Bank should effectively manage emerging technology risks. The IT Risk Management Team (ITRM) under the ERMG regularly updates the framework by incorporating the existing BSP regulatory requirements. It considers that strategic, operational, compliance, and reputational risks are periodically reviewed and updated to ensure that all risks in the Bank's technology-enabled products, services, delivery channels, and processes are effectively managed and that any gaps are regularly monitored and addressed.

A comprehensive risk assessment and profiling methodology for both IT functions and application systems are in place. Risk identification and assessments over project management were enhanced from project initiation to implementation. Control validation process was incorporated in technology risk assessments to ensure the effectiveness of established risk mitigation strategies. Corrective action plans are periodically monitored and reported by ITRM to ensure that risk issues are timely addressed and proactively managed. The Bank's risk management team continues to play an active role in providing risk insights and assessments during the launch of new products, technologies, and services; development of risk management policies; and imbuing a culture of risk awareness in the organization through the conduct of training and seminars for Bank employees.

10.9 TRUST RISK MANAGEMENT

Trust Risk Management is conducted by the Market and Asset Liability Risk Management (MALRM) team. MALRM is responsible for managing risks within the Trust and Wealth Management Group's business operations and reporting to the Trust Committee (TIC) and the Risk Oversight Committee (ROC). MALRM develops and refines policies and procedures for managing operational, credit, liquidity, and market risks in accordance with the Bank's risk management framework. This ensures that risk management practices remain effective and pertinent to the evolving trust business. The team oversees the implementation of approved strategies and ensures that controls related to business activities are in place to mitigate fiduciary risks and maintain compliance with relevant laws and regulations.

10.10 BUSINESS CONTINUITY MANAGEMENT

The Bank has a Business Continuity Management Framework that ensures continuous operations in the event of any disruptions. The framework specifies proactive mechanisms designed to prevent interruptions to critical business functions and improve the Bank's resiliency. The Business Continuity Risk Management Unit under the ERMG follows a robust business continuity planning process that involves conducting a business impact analysis/risk assessment, periodic review and updating of business continuity plans, and the conduct of BCP test exercises and corresponding evaluation.

Crisis Management and Emergency Preparedness, Pandemic, Cyber Resiliency, and Bankwide Business Continuity Plans are in place. These documents detail the step-by-step procedures to be taken to respond to the threat or impact of a crisis and how the Bank will respond to emergencies to protect life, property, and the environment and are addressed in a timely manner.

10.11 ANTI-MONEY LAUNDERING GOVERNANCE AND CULTURE

The Bank has adopted and implemented a sound AML and terrorist financing risk management system to ensure risks associated with money laundering and terrorist financing such as counterparty, reputational, and compliance risks among others are identified, assessed, monitored, mitigated, and controlled, as well as to ensure effective implementation of these regulations, to the end that PBCOM shall not be used as a vehicle to legitimize proceeds of unlawful activity or to facilitate or finance terrorism.

In consonance to the policy of the State:

- To protect and preserve the integrity of the Philippine financial system, including the confidentiality of bank accounts.
- To ensure that the Philippines, in general, and the covered persons, in particular, shall not be used as money laundering sites and conduit for the proceeds of unlawful activities.
- To protect life, liberty, and property from acts of terrorism and to condemn terrorism and those who support and finance it and reinforce the fight against terrorism by criminalizing the financing of terrorism and related offenses.
- To recognize terrorism and terrorist financing as inimical and dangerous to national security and the welfare of the people and make the financing of terrorism a crime against the Filipino people, against humanity, and against the law of nations.

- To adhere to international commitments to combat financing of terrorism, specifically, the International Convention for the Suppression of the Financing of Terrorism, as well as other binding terrorism related resolutions of the United Nations Security Council.
- To enforce effective measures to establish domestic controls to prevent the proliferation of Weapons of Mass Destruction (WMD) and their means of delivery.
- To maintain international peace and security, and promote economic growth by facilitating trade and investment through the responsible management of strategic goods and the provision of related services,

The Bank has adopted the following principles to combat money laundering and terrorist financing:

- PBCOM shall ensure that business is conducted in conformity with high ethical standard in order to protect the safety and soundness as well as the integrity of the national and financial system.
- To ensure that PBCOM's reputation is not compromised, it is the Bank's guiding principle that our employees will not aid or abet money laundering and terrorist financing activities and will protect the integrity and confidentiality of bank accounts.
- PBCOM shall not allow the opening of anonymous accounts, accounts under fictitious names, and all other similar accounts.
- PBCOM shall extend full cooperation with the AntiMoney Laundering Council (AMLC) Secretariat, the Philippine's Financial Intelligence Unit.
- PBCOM shall not allow itself to be used as an intermediary for the deposit, investment, or transfer of money derived from unlawful activities.
- Officers and Employees especially frontliners are expected to be conversant with the Anti-Money Laundering and Terrorist Financing rules to provide information and guidance to existing and prospective clients, as part of the Bank's Anti-Money Laundering and Terrorist Financing educational campaign.
- PBCOM shall cooperate fully with the Anti-Money Laundering Council (AMLC) and the BSP within limits allowed by law.

10.12 RISK MEASUREMENT AND REPORTING SYSTEM

The Bank's capital adequacy is assessed by quantifying credit, market, and operational risk exposures, employing standardized or basic methodologies as sanctioned by the BSP. These risk exposures are quantified both individually and in aggregate. The respective risk-taking personnel and groups undertake the risk measurements, which are then independently validated, analyzed, and reported by ERMG. When risk measurement is conducted by the ERMG, an additional independent party, whether internal or external, performs the validation.

The quality of credit is evaluated using an Internal Credit Risk Rating System, which incorporates BSP risk classifications for borrowing accounts. The Bank's front office is responsible for recommending the credit risk rating and classifications for borrowing accounts, including any necessary adjustments. All risk data is processed, analyzed, and consolidated for accurate reporting to the BOD through the ROC, Management, and various management committees of the Bank.

Market risks are quantified by mark-to-market and Value-at-Risk analyses at the overall exposure, portfolio level, and for each individual financial instrument. These exposures are also rigorously stress-tested using various historical and hypothetical scenarios.

Comprehensive reports on actual and estimated risk exposures and losses across Treasury, Corporate and Commercial Banking, Consumer Finance, Operations, and Branches are prepared regularly. These reports encompass portfolio composition, liquidity and maturity alignment, interest rate matching, trading gains and losses, sensitivity and back-testing results, top borrowers, non-performing assets and loans, industry exposures, large exposures, fines and penalties, employee fraud cases, status of legal cases, and the service level of major IT systems and ATMs.

ERMG enhanced the efficiency of reporting of the Bank's enterprise-wide risk profile by regularly presenting and publishing the Risk Reports. This tool offers an accessible overview that underscores risk concerns across principal business risk areas, including Market, Asset and Liability, Credit, Corporate, Commercial and Consumer Lending, Operations, Information Technology, and Trust.

10.13 COMPLIANCE RISK

Compliance risk management is an integral part of the culture and risk governance framework of PBCOM. In this respect, all Bank personnel, officers and the Board of Directors commit themselves to the compliance policies and procedures of the Bank not just for compliance purposes with regulators but also for the efficient and effective Compliance System of the Bank.

Compliance function, through the Compliance Management Group, assists management in ensuring observance of applicable provisions in order to identify at an early stage the risk associated with regulations which could harm the Bank's reputation, to avert such risk as far as possible and to guarantee the Bank's irreproachable business conduct.

Compliance function has a formal status within the Bank. It has the right to obtain access to information necessary to carry out its responsibilities, conduct investigations of possible breaches of the compliance policy, and directly report to and have direct access to the Governance Committee and the Board of Directors. Compliance function shall facilitate effective management of compliance risk by:

- a. Advising the Board of Directors and Senior Management on relevant laws, rules and standards, including keeping them informed on developments in the area;
- b. Apprising Bank personnel on compliance issues, and acting as a contact point within the Bank for compliance queries from Bank personnel;
- c. Establishing written guidance to staff on the appropriate implementation of laws, rules and standards through policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines;
- d. Identifying, documenting and assessing the compliance risks associated with the Bank's business activities, including new products and business units;
- e. Assessing the appropriateness of the Bank's compliance procedures and guidelines, promptly following up any identified deficiencies, and where necessary, formulating proposals for amendments;
- f. Monitoring and testing compliance by performing sufficient and representative compliance testing;
- g. Maintaining a constructive working relationship with the BSP and other regulators

10.14 REPUTATIONAL RISK

Reputational risk refers to the risk to earnings, capital, and liquidity arising from negative perception on the Bank of its customers, shareholders, investors, and employees, market analysts, the media, and other stakeholders such as regulators and other government agencies, that can adversely affect the Bank's ability to maintain existing business relationships, establish new businesses or partnerships, or continuously access varied sources of funding.

Reputational risk is a serious matter for the Bank. In September 2022, PBCOM has developed a Reputational Risk Management Framework, which provides for a strengthened foundation and guidance on how the Bank should holistically and effectively manage its reputational risk.

The Bank has a low tolerance for reputational risk, therefore, it implements all reasonable precautions to avoid situations that may result to negative publicity.

10.15 LEGAL RISK

Legal risk is the risk of financial loss due to non-existent, incomplete, incorrect, and unenforceable documentation used by the Bank to protect and enforce its rights under contracts and obligations. It includes the kind of conduct that can lead to unspecified erosion in the Bank's value as an institution. Closely related to legal risk are fiduciary and reputational risk.

Legal Risk Management is the process of establishing and maintaining procedures for identifying and avoiding the consequences of legal risks. The Bank believes that failure to manage legal risks effectively can result in litigation, civil, and/or criminal sanctions that impact its reputation. To ensure consistent management of legal risk, the Bank's Legal Services Group (LSG) maintains and regularly updates the Bank's Legal Risk Management Manual, which applies to all employees and all branches and units of the Bank. LSG also covers regular review of the status of cases, assessing potential outcomes, and reports the same to the Risk Oversight Committee on a periodic basis.

10.16 MODEL RISK

The Bank engages external entities to validate its internal models used for assessing credit risk, market risk, asset and liability risk, and liquidity risk. The findings from these validation exercises are communicated to Management, the ROC, and the Audit Committee.

SECTION 11. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the Bank’s financial condition and results of operations should be read in conjunction with the audited financial statements and the related notes included elsewhere in this Offering Circular and the sections entitled “Selected Financial Information” and “Description of the Bank”. The selected financial information presented below as of and for the years ended 30 June 2024, 31 December 2023, 2022, and 2021 were derived from the financial statements prepared in accordance with PFRS and audited by SyCip Gorres Velayo & Co. in accordance with PSA. Some additional selected financial information presented below as of and for the period ended 30 June 2024 were derived from the financial statements prepared in accordance with PFRS and reviewed by SyCip, Gorres, Velayo and Co. in accordance with the Philippine Standards on Auditing (PSA) and Philippine Standard on Review Engagements (PSRE). This Offering Circular contains forward-looking statements largely based on the Bank’s current expectations and projections about future events and financial trends affecting its business. The Bank’s actual results may differ materially from those discussed in any forward-looking statements. Investors should therefore be cautioned when relying on the incomplete financial information presented herein when making an investment decision regarding the Bonds.

11.1 FINANCIAL CONDITION & RESULTS OF OPERATIONS: 1H 2024

The Bank registered a net income of ₱1.03 billion as of the 1st half of the year 2024, ₱28.5 million or 2.9% higher than the ₱1.0 billion earned during the same period last year. This is attributable to ₱311.3 million higher operating income mainly from ₱316.9 million improvements in net interest income. This is partially offset by higher operating expenses by ₱224.8 million.

Interest income expanded by 28.4% or ₱1.0 billion due to higher asset growth and yields in both loan and securities portfolios. To fund this growth, deposits and REPO volumes increased despite higher cost of funds due to current high interest rates environment, causing interest expense to increase by ₱705.3 million. Likewise, total operating expenses went up by ₱224.8 million mainly because of higher volume-driven costs - higher GRT, higher DST and PDIC insurance, manpower costs, and higher occupancy and other equipment related costs. Income taxes also increased by ₱58.2 million, mainly due to higher taxable income and higher final taxes on interest income on peso government securities and onshore income

Total Assets of the Bank increased by ₱1.2 billion from ₱147.5 billion as of December 2023 to ₱148.6 billion at the end of the 2nd quarter of 2024. This is primarily due to growth in debt securities by ₱3.5 billion and increase in foreclosed properties by ₱1.0 billion, partially offset by decline in loan volume by ₱3.9 billion, and decrease in due from BSP by ₱1.6 billion.

The Bank’s gross NPL ratio is 3.54%, 77 bps higher than the 2.77% ratio at the end of 2023.

Total Liabilities increased by ₱441.7 million, 34bps higher than last year’s end level of ₱129.8 billion. This resulted mostly from ₱5.0 billion increase in bills payable, partially offset by ₱4.4 billion decline in deposits, mainly because of the maturity of the Bank’s LTNCD in the 2nd quarter. Total Capital is now at ₱18.4 billion from ₱17.7 billion last December 2023. This 4.0% increase in Capital was mainly contributed by the earnings of the Bank as of the first half of the year.

On quarter on quarter basis, the Bank registered a net income of ₱532.3 million for the second quarter of 2024, ₱73.7 million or 16.0% higher than the ₱458.6 million earned in the same period last year. This is largely due to ₱216.7 million higher operating income this quarter resulting mainly from growth in net interest income, partially offset by ₱92.5 million or 11.0% higher operating expense mainly because of higher volume-driven costs - higher GRT, higher DST and PDIC insurance, ₱50.5 million or 30.2% higher income tax and lower trading gains by ₱27.4 million.

The Bank’s consolidated Risk-Based Capital Adequacy ratio is 16.39% under BASEL 3 and is well above the 10% minimum requirement. The ratio covers credit, market, and operational risks for the first six (6) months of 2024.

11.2 FINANCIAL CONDITION & RESULTS OF OPERATIONS: 2023 (CONSOLIDATED)

The Group registered a net income of ₱1.90 billion for 2023. This is ₱265.88 million or 16.3% improvement from 2022’s net income of ₱1.63 billion. This is mainly attributable to ₱400.86 million (7.2%) higher operating income largely from ₱495.1 million better trading performance.

Interest income expanded by 41.6% or ₱2.3 billion due to higher asset yields and growth in both loan and securities portfolios. Interest expense, however, also increased on the account of higher cost of funds due to current high interest rates environment and caused ₱2.4 billion decline in net interest income. Total operating expenses slightly

went up by ₱18.4 million (0.54%) primarily because of volume-driven costs such as GRT, DST and PDIC insurance, and higher manpower costs, offset by lower provision for impairment losses, management and professional fees, and depreciation and amortization. Income taxes also increased by ₱117.9 million, mainly from higher final taxes on interest income on peso government securities and onshore income and lower DTA recognized.

Total Assets of the Group increased by ₱22.6 billion (18.1%) from ₱124.9 billion as of December 2022 to ₱147.5 billion at the end of December 2023. This is primarily due to growth in loan volume by ₱14.9 billion (19.3%), increases in inventories of debt securities carried at HTC and FVOCI by ₱6.1 billion and ₱3.4 billion, respectively, offset by decline in interbank receivables and SPURA by ₱2.1 billion.

The Group's gross NPL ratio for the year ended at 2.77%, 0.46 % points lower than the 3.23% ratio at the end of 2022. PBCOM's liquidity position continued to remain stable as the Bank comfortably met all its financial obligations and loan commitments, and likewise has fully complied with the regulatory reserve requirements on continuing basis at an optimum funding mix during the course of the year.

Total Liabilities increased by ₱20.5 billion, 18.8% higher than last year's end level of ₱109.3 billion. This resulted mostly from ₱17.3 billion increase in deposit liabilities, mainly from higher time deposits partially offset by lower demand deposits, and ₱2.1 billion increase in bills payable. Total Capital is now at ₱17.7 billion from ₱15.6 billion last December 2022. This 13.4% increase in Capital was mainly contributed by the earnings of the Bank during the year. The Bank's Risk Based Capital Adequacy Ratio of 16.55% under BASEL III reporting standards covering credit, market and operational risk as of report date is well above the 10% minimum requirement

11.3 FINANCIAL CONDITION & RESULTS OF OPERATIONS: 2022 (CONSOLIDATED)

The Group registered a net income of ₱1.63 billion for 2022. This is ₱58.62 million or 3.7% improvement from 2021's net income of ₱1.57 billion. This is mainly attributable to ₱477.75 million (9.4%) higher operating income largely due to ₱565.72 million or 13.3% growth in net interest income, ₱58.38 million higher fees & commission mainly from penalty fees in corporate loans, ₱40.82 higher foreign exchange gains, mostly realized, and ₱47.48 million higher net gains from ROPA sales. These increases were partially offset by ₱124.73 million higher net trading losses, reflecting the adverse effects of a rising interest rate environment on the Bank's Peso and USD bond portfolios, and ₱85.23 million reduction in rental income due to pre-terminations & re-negotiated contracts of tenants as a result of the COVID-19 crisis. ₱269.02 million higher income taxes and ₱150.13 million higher operating expenses further offset the increase in operating income.

Growth in net interest income is attributable to ₱485.23 million increase in interest income from loans due to higher average loan volume, mainly from the growth in corporate loan portfolio, ₱393.81 million increase in interest income from investments due to higher yields and higher average volume, partially offset by from ₱294.33 million increase in interest expense mainly due to rise in cost of funds and higher average volume of Time Deposits & Repos. Income taxes increased by ₱269.02 million or 104.8% as a result of lower deferred tax assets recognized, higher final taxes, and higher taxable income from growth in interest income from loans during the current year. Total operating expenses went up by ₱150.13 million or 4.6%, mainly because of higher manpower costs, higher accruals for professional fees and higher taxes & licenses from rise in GRT and DST, partly offset by ₱34.62 million lower provision requirements for credit and impairment losses in the current period.

Total Assets of the Group grew by ₱15.65 billion (14.3%) from ₱109.23 billion as of December 2021 to ₱124.88 billion as of the end of December 2022. This is primarily due to ₱12.14 billion increase in Loans and Other Receivables, mostly from expansion of corporate loans, and ₱6.14 billion increase in Held to Collect Securities, partially offset by ₱1.60 billion lower Interbank loans receivable and ₱1.48 billion decline in Financial assets at Fair Value through Other Comprehensive Income.

The Group's gross NPL ratio is at 3.23%, 1.06 % points lower than the 4.89% ratio at the end of 2021. PBCOM's liquidity position continued to remain stable as the Bank comfortably met all its financial obligations and loan commitments, and likewise has fully complied with the regulatory reserve requirements on continuing basis at an optimum funding mix during the course of the year.

Total Liabilities increased by ₱14.26 billion, 15.0% higher from last year's end level of ₱95.06 billion. This resulted mostly from ₱12.50 billion increase in deposit liabilities mainly from ₱6.85 billion & ₱4.33 billion growths in time and demand deposit volume, respectively.

Total Capital is now at ₱15.57 billion from ₱14.18 billion last December 2021. This 9.8% improvement in capital was mainly contributed by the earnings of the Bank during the year. The Bank's Risk Based Capital Adequacy Ratio of 17.07% under BASEL III reporting standards covering credit, market and operational risk as of report date is well above the 10% minimum requirement.

11.4 FINANCIAL CONDITION & RESULTS OF OPERATIONS: 2021 (CONSOLIDATED)

The Bank registered a net income of ₱1.57 billion for 2021. This is ₱404.15M or 35% improvement from 2020's net income of ₱1.17 billion. This is mainly attributable to ₱1.24 billion decline in total operating expenses (28%) as a result of ₱1.10 billion lower provision requirements for credit and impairment losses in the current period.

Total operating income declined by ₱807.60 million (14%) mainly due to net trading losses as the Bank recognized ₱241.60 million in losses, lower rent income due to vacancies of leased floors, pre-terminations, and re-negotiated contracts of tenants brought about by the COVID 19 pandemic, and lower fees & commission earned during the year due to decline in penalty fees in corporate loans, partly offset by ₱319.29 million (8%) improvement in net interest income primarily due to decline in interest expense from lower cost of funds. Due to lower interest rates, interest income also fell by ₱255.21 million (5%) despite the growth in loan and investments average volume during the year.

Total assets of the Group reached ₱109.23 billion in December 2021, up by ₱8.0 billion from the ₱101.23 billion as of December 2020. This is primarily due to ₱13.26 billion increase in Investment Securities at Amortized Cost, ₱5.87 billion increase in Loans and Other Receivables, mostly from corporate loans, and ₱1.35 billion increase in Financial assets at Fair Value through Other Comprehensive Income, partially offset by ₱10.3 billion decline in Due from BSP due to lower investment in Overnight Deposit Facility (ODF) and lower reserve requirement.

The Group's gross NPL ratio is at 4.89%, 0.82% points lower than the 5.71% ratio at the end of 2020. PBCOM's liquidity position continued to remain stable as the Bank comfortably met all its financial obligations and loan commitments, and likewise has fully complied with the regulatory reserve requirements on continuing basis at an optimum funding mix during the course of the year.

Total Liabilities increased by ₱6.35 billion, 7.16% higher from last year's level of ₱88.70 billion. This resulted mostly from ₱3.83 billion increase in bills payable, and ₱3.16 billion growth in deposit liabilities. Low-cost deposit ratio improved as the Bank's demand and savings deposit average volume increased by ₱12.0 billion, or 30%.

Total Capital is now at ₱14.18 billion from ₱12.53 billion last December 2020. This 13% improvement in capital was mainly contributed by the earnings of the Bank during the year. The Bank's Risk Based Capital Adequacy Ratio of 18.18% under BASEL III reporting standards covering credit, market and operational risk as of report date is well above the 10% minimum requirement.

11.5 Discussion of various key indicators:

11.5.1 Key Performance Indicators

| Ratio | June 2024 | June 2023 | Remarks |
|---|-----------|-----------|---|
| Net Profit Margin (Net income divided by Gross income, Gross income includes Net interest income and other operating income)) | 31.25% | 33.57% | 2.31 % pts decrease in the ratio primarily from higher operating expenses |
| Return on Average Asset (Net income divided by Average assets. Average is sum of asset this period and prior period divided by 2) | 1.39% | 1.55% | The ratio slightly decreased by 16 bps, mainly from higher operating expenses and slower improvement in NIM due to higher effective COF |
| Return on Average Equity (Net income divided by Average equity. Average is sum of equity this period and prior period divided by 2) | 11.42% | 12.44% | Decline by 1.02 % pts., mainly from higher operating expenses and slower improvement in NIM due to higher effective COF |
| Capital Adequacy Ratio (Basel 3) (Qualifying capital divided by the total of risk-weighted assets that include credit, market, and operational risk) | 16.39% | 17.27% | Decline due to higher total risk-weighted assets, partially offset by higher total qualifying capital |
| Basic Earnings per share (Net income divided by average no. of common shares) | 2.14 | 2.08 | Increase in basic earnings per share by PHP0.06 from higher net income during the current period |

| Ratio | December 2023 (Consolidated) | December 2022 (Consolidated) | Remarks |
|---------------|------------------------------|------------------------------|--|
| Profit Margin | 31.82% | 29.33% | Increased by 2.49 % pts due to impact of net trading |

| | | | |
|--|--------|--------|---|
| (Net income divided by Gross income, Gross income includes Net interest income and other operating income)) | | | gains (net trading loss in 2022) and lower provision for impairment losses, reduced by impact of higher interest expenses this year due to higher cost of funds |
| Return on Average Asset (Net income divided by Average assets. Average is sum of asset this period and prior period divided by 2) | 1.39% | 1.39% | Ratio maintained at a consistent level as the impact of higher volume-driven expenses and employee compensation & benefits was offset by lower provision for impairment |
| Return on Average Equity (Net income divided by Average equity. Average is sum of equity this period and prior period divided by 2) | 11.42% | 10.97% | Return on average equity increased by 45 bps from higher net income driven by net trading gains and lower provision for impairment losses. |
| Capital Adequacy Ratio (Qualifying capital divided by total of risk-weighted assets that include credit, market and operational risk) | 16.55% | 17.07% | The capital ratio decreased by 52 bps due to higher total credit risk-weighted assets offset by higher total qualifying capital |
| Basic Earnings per share (Net income divided by average no. of common shares) | 3.95 | 3.39 | Increase in basic earnings per share by ₱0.55 from higher net income for the current period |

| Ratio | December 2022 (Consolidated) | December 2021 (Consolidated) | Remarks |
|--|---------------------------------|---------------------------------|---|
| Profit Margin (Net income divided by Gross income, Gross income includes Net interest income and other operating income)) | 29.33% | 30.94% | Net profit margin decreased by 1.6 % pts mainly due to higher provision for income tax from lower recognition of DTA, higher final taxes, and higher taxable income in 2022 |
| Return on Average Asset (Net income divided by Average assets. Average is sum of asset this period and prior period divided by 2) | 1.39% | 1.49% | Decreased by 10 bps as the impact of increase in average assets exceeded the impact of growth in net income |
| Return on Average Equity (Net income divided by Average equity. Average is sum of equity this period and prior period divided by 2) | 10.97% | 11.78% | Return on average equity decreased by 81 bps from higher provision for income taxes and total operating expense from the results of the current operations |
| Capital Adequacy Ratio (Qualifying capital divided by total of risk-weighted assets that include credit, market and operational risk) | 17.07% | 18.18% | The capital ratio decreased by 1.11% due to higher total credit risk-weighted assets |
| Basic Earnings per share (Net income divided by average no. of common shares) | 3.39 | 3.27 | Increase in basic earnings per share by ₱0.12 from higher net income during the current period |

| Ratio | December 2021 (Consolidated) | December 2020 (Consolidated) | Remarks |
|---|---|---|--|
| Profit Margin <i>(Net income divided by Gross income, Gross income includes Net interest income and other operating income)</i> | 30.94% | 19.84% | Increase in ratio by 11.10 % pts. primarily due to decline in operating expenses from lower provision for credit and impairment losses in 2021 |
| Return on Average Asset <i>(Net income divided by Average assets). Average is sum of asset this period and prior period divided by 2</i> | 1.49% | 1.15% | Higher by 35 bps due to increase in net income primarily due to lower provision for credit and impairment losses, offset by impact of higher average assets. |
| Return on Average Equity <i>(Net income divided by Average equity. Average is sum of equity this period and prior period divided by 2)</i> | 11.78% | 9.79% | Return on average equity increased by 1.99 % pts from higher net income mainly driven by lower operating expenses |
| Capital Adequacy Ratio <i>(Qualifying capital divided by total of risk-weighted assets that include credit, market and operational risk)</i> | 18.18% | 18.87% | Decrease by 69bps due to increase in credit risk-weighted assets arising from higher loans and receivables in 2021 |
| Basic Earnings per share <i>(Net income divided by average no. of common shares)</i> | 3.27 | 2.43 | Increase in basic earnings per share by ₱0.84 from higher net income |

11.5.2 Financial Soundness

| Ratio | June 2024 | December 2023 | Remarks |
|--|-----------|---------------|---|
| Liquidity Ratio (Liquid Assets to Total Deposits) <i>Liquid Assets include cash, due from banks, interbank loans, and trading and inv. Securities Total deposit refers to the total of the peso and foreign currency deposits.</i> | 24.46% | 19.69% | Increased by 4.77 % pts driven by higher level of liquid assets mainly financial assets at FVOCI & FVPL ,offset by lower Due from BSP. This is supplemented by decrease in total deposits (maturity of LTNCD, and lower low-cost deposits (savings and demand)) |
| Debt Ratio (Total Liability to Total Assets) <i>Debt refers to the total liabilities, while assets refer to total Assets</i> | 87.64% | 88.03% | Ratio slightly decreased due to higher total assets driven by higher debt securities (FVOCI & FVPL) and increase in ROPA due to dacion in 2024, offset by decrease in financials assets at HTC and total receivables from customers |
| Asset to Equity Ratio (Total Asset to Total Equity) | 8.09 | 8.35 | Ratio decreased as a result of the growth in equity due to reinvestment of net income, offset by the impact of higher total assets driven by higher financial assets at FVOCI & FVPL |
| Interest Rate Coverage Ratio (Earnings before interest & taxes to Interest Expense) | 170.93% | 203.03%* | Bank's interest rate coverage decreased due to impact of increase in interest expense from rising cost of funds |
| Net Interest Margin Net interest income over Average Earning assets. <i>Earning assets consists of Overnight Deposit Facility (ODF), and Term Deposit Facility (TDF) with BSP, Due from banks, interbank loans receivable and SPURA, Loans and receivable and Debt securities under Financial assets at FVTPL, Financial assets at FVOCI and Investment securities at amortized cost.</i> | 4.03% | 4.07%* | Ratio is slightly lower as increase in average COF rates outweighed the increase in average asset yields |

| Ratio | December 2023 (Consolidated) | December 2022 (Consolidated) | Remarks |
|---|------------------------------|------------------------------|--|
| Liquidity Ratio (Liquid Assets to Total Deposits) <i>Liquid Assets include cash, due from banks, interbank loans, and trading and inv. Securities. Total deposit refers to the total of peso and foreign currency deposits.</i> | 19.69% | 21.41% | Ratio decreased by 1.72 % pts as the increase in total deposits, mainly time deposits, has outweighed the increase in liquid assets (from higher financial assets, particularly FVOCI offset by lower Interbank loans) |
| Debt Ratio (Total Liability to Total Asset) <i>Debt refers to the total liabilities while assets is the total assets</i> | 88.03% | 87.54% | Increased by 49 bps due to increase in total liabilities, mainly in deposit liabilities and bills payable, to fund the increase in loans and receivables and investment securities at amortized cost and FVOCI. |
| Asset to Equity Ratio (Total Asset to Total Equity) | 8.35 | 8.02 | Ratio is higher by 33 bps mainly as result of higher growth in assets in relation to the increase in equity |
| Interest Rate Coverage Ratio (Earnings before interest & taxes to Interest Expense) | 179% | 374% | Bank's interest rate coverage decreased by 194.8 % pts. due to impact of increase in interest expense from rising cost of funds |
| Net Interest Margin Net interest income over Average Earning assets. <i>Earning assets consists of Overnight Deposit Facility (ODF) Term Deposit Facility (TDF) with BSP, Due from banks, interbank loans receivable and SPURA, Loans and receivable and Debt securities under Financial assets at FVTPL, Financial assets at FVOCI and Investment securities at amortized cost.</i> | 3.96% | 4.80% | Ratio is slightly lower as increase in average COF rates outweighed the increase in average asset yields |

| Ratio | December 2022 (Consolidated) | December 2021 (Consolidated) | Remarks |
|---|------------------------------|------------------------------|---|
| Liquidity Ratio (Liquid Assets to Total | 21.41% | 28.96% | Ratio decreased by 7.55 % pts due to lower liquid |

| | | | |
|---|--------|--------|---|
| Deposits) <i>Liquid Assets include cash, due from banks, interbank loans, and trading and inv. Securities. Total deposit refers to the total of peso and foreign currency deposits.</i> | | | assets (from lower Interbank loans & financial assets, particularly FVOCI) in relation to higher total deposits, mainly time and demand deposits |
| Debt Ratio (Total Liability to Total Asset) <i>Debt refers to the total liabilities while assets is the total assets</i> | 87.54% | 87.02% | Decreased by 1 bp as the increase in total assets slightly exceeded the increase in total liabilities. Increase in assets is mostly from investment securities at amortized cost and loans and other receivables, mostly from corporate loans |
| Asset to Equity Ratio (Total Asset to Total Equity) | 8.02 | 7.71 | Ratio is higher by 31 bps mainly as result of higher growth in assets in relation to the increase in equity |
| Interest Rate Coverage Ratio (Earnings before interest & taxes to Interest Expense) | 374% | 470% | Bank's interest rate coverage decreased by 96.72 % pts. due to impact of increase in interest expense from rising cost of funds & higher time deposit volume, partially offset by impact of higher earnings before interest & taxes |
| Net Interest Margin Net interest income over Average Earning assets. <i>Earning assets consists of Overnight Deposit Facility (ODF) and Term Deposit Facility (TDF) with BSP, Due from banks, interbank loans receivable and SPURA, Loans and receivable and Debt securities under Financial assets at FVTPL, Financial assets at FVOCI and Investment securities at amortized cost.</i> | 4.80% | 4.83% | Ratio is slightly lower as the impact of increase in average total yields is offset by increase in average COF rates |

| Ratio | December 2021 (Consolidated) | December 2020 (Consolidated) | Remarks |
|---|------------------------------|------------------------------|--|
| Liquidity Ratio (Liquid Assets to Total Deposits) <i>Liquid Assets include cash, due from banks, interbank loans, and trading and inv. Securities. Total deposit refers to the total of peso and foreign currency deposits.</i> | 28.96% | 43.40% | Decreased by 14.44 % pts due to lower liquid assets from lower placement in ODFs |
| Debt Ratio (Total Liability to Total Asset) <i>Debt refers to the total liabilities while assets is the total assets</i> | 87.02% | 87.62% | Decline by 60 bps as the increase in total assets exceeded the increase in total liabilities. Increase in assets is mostly from investment securities at amortized cost and loans and other receivables, mostly from corporate loans |
| Asset to Equity Ratio (Total Asset to Total Equity) | 7.71 | 8.08 | Ratio is lower by 37 bps mainly as result of lower growth in assets in relation to the increase in equity |
| Interest Rate Coverage Ratio (Earnings before interest & taxes to Interest Expense) | 470% | 231% | Increased by 239 % pts. primarily due to lower interest expense mainly from lower cost of funds and drop in ave. volume, mostly TDs |
| Net Interest Margin Net interest income over Average Earning assets. <i>Earning assets consists of Overnight Deposit Facility (ODF) and Term Deposit Facility (TDF) with BSP, Due from banks, interbank loans receivable and SPURA, Loans and receivable and Debt securities under Financial assets at FVTPL, Financial assets at FVOCI and Investment securities at amortized cost.</i> | 4.83% | 4.64% | Ratio went up by 20 bps primarily from lower interest expense due to drop in cost of funds |

11.6 STATEMENT OF CONDITION

11.6.1 Statement of Condition: June 2024 vs. December 2023

| (thousands) | Increase (Decrease) | Percentage Change | Remarks |
|---|------------------------|----------------------|--|
| Cash and Other Cash Items | (636,620) | -40.74 | Decline in cash in cash machines (due to update in classification), lower cash on hand, and lower cash in ATMs |
| Due from BSP | (1,592,918) | -13.05 | Lower mainly due to lower statutory reserve requirements and ODF |
| Due from Other Banks | 148,007 | 30.48 | Lower funds mainly with foreign banks |
| Interbank Loans Receivable | 591,470 | 120.13 | Higher interbank call loans |
| Financial assets at Fair Value through Profit or Loss | 479,697 | 100.00 | Purchase of investments in FVTPL |
| Financial assets at Fair Value through Other Comprehensive Income | 5,509,336 | 65.47 | Purchase of investments in FVOCI |
| Investment securities at Amortized Cost | (2,501,745) | -9.01 | Maturity of HTC investments |
| Loans and Receivables | (1,781,598) | -1.94 | Decrease in outstanding receivables, mainly in commercial loans, partially offset by higher import bills |
| Investment in a subsidiary and associate | 340 | 2.08 | Share in net income for the 1st half of the year |
| Property and Equipment | 3,873 | 0.48 | Increase due to PBCOM Tower improvements, offset by decline from depreciation recognized for the period |
| Investment Properties | 997,175 | 38.64 | Increase from higher ROPA foreclosures than ROPA sale, offset by depreciation recognized for the period |
| Intangible Assets | (6,228) | -1.19 | Decline due to amortization recognized for the period, offset by software-related purchases made throughout the year |
| Deferred tax assets | (1,528) | -0.38 | Lower DTA movement for the period |
| Other Assets | (39,419) | -9.29 | Lower mainly due to miscellaneous assets-withholding taxes on deposits paid in advance to BIR and lower DST on hand |
| Demand Deposits | (193,592) | -0.47 | Lower deposits volume in CASA, offset by higher time deposits volume |
| Savings Deposits | (1,697,587) | -12.75 | |
| Time Deposits | 363,739 | 0.62 | |
| Long-term negotiable certificates of deposits | (2,900,016) | -100.00 | LTNCD maturity |
| Bills Payable | 4,985,173 | 51.46 | Increase in Deposit substitutes - REPO |
| Outstanding Acceptances | 19,771 | 18.76 | Increase due to higher bills of exchange accepted by the Bank |
| Manager's Checks | (59,082) | 9.35 | Lower un-negotiated MC's as of the period |
| Accrued Interest, Taxes and Other Expenses Payable | (112,272) | -7.25 | Decline mainly due to lower Deposits & Bills payable interest accrual |
| Income Tax payable | 25,401 | 25.25 | Higher income tax payable for the period |
| Other Liabilities | 17,785 | 1.70 | Higher mainly due to increase in finance lease payables |

11.6.2 Statement of Condition: December 2023 vs. December 2022 (consolidated)

| (thousands) | Increase/ (Decrease) | Percentage Change | Explanation |
|--|-------------------------|----------------------|---|
| Cash and Other Cash Items | 158,533 | 11.29% | Higher cash on hand, higher cash on atm, & higher cash on cash center |
| Due from Bangko Sentral ng Pilipinas | 868,509 | 7.66% | Higher mainly from regular deposits under statutory reserve requirements |
| Due from Other Banks | (603,660) | -55.42% | Lower funds mainly with foreign banks |
| Interbank Loans Receivable | (2,108,226) | -81.07% | Lower mainly from lower GS Repo offset by higher interbank call loans |
| Financial Assets at Fair Value through Profit or Loss | - | - | |
| Financial Assets at Fair Value through Other Comprehensive Income | 3,406,963 | 68.02% | Purchase of Peso debt investments in FVOCI |
| Investment Securities at Amortized Cost | 6,114,566 | 28.23% | Purchase of securities at amortized cost |
| Loans and Receivables | 14,850,435 | 19.31% | Increase in outstanding receivables, mainly in corporate loans and import bills |
| Property and Equipment | 10,652 | 1.33% | Increase due to reclassification of Investment Property to Bank Premises, higher leasehold rights and improvements, and additional right of use assets for the period, offset by depreciation recognized for the period |
| Investment Properties | | | |
| Condominium Units for Lease | (88,564) | -5.23% | Decrease due to reclassification of Investment Property to Bank Premises and depreciation recognized for the period |
| Foreclosed properties | 13,756 | 1.42% | Higher ROPA foreclosures offset by ROPA sales and depreciation recognized for the period |
| Office units for lease | (350) | -14.97% | Decline due to depreciation recognized for the period |
| Deferred Tax Assets | 13,756 | 3.52% | Increase mainly due to higher RBU loan allowance and ROPA accumulated depreciation, offset by lower lease liability, advance rental, right of use assets & Unamortized past service cost |
| Other Assets | (38,312) | -8.28% | Decline mainly due to lower retirement assets, lower prepaid expenses, lower DST, and lower tax credits, and offset by higher prepaid taxes on deposits |
| Deposit Liabilities | | | |
| Demand | (4,103,734) | -9.02% | Lower volume of demand deposits |
| Savings | 646,800 | 5.11% | Higher volume of savings deposits |
| Time | 20,706,830 | 53.95% | Higher volume of time deposits |
| Bills Payable | 2,092,736 | 27.56% | Increase in bills payable - REPO |
| Outstanding Acceptances | 55,192 | 109.90% | Increase due to higher bills of exchange accepted by the Bank |
| Manager's Checks | 410,523 | 185.31% | Higher un-negotiated MC's as of report date |
| Accrued Interest, Taxes and Other Expenses | 684,739 | 79.22% | Increase mainly due to Deposits & Bills payable interest accrual, other operating expense and GRT accruals |
| Income Tax Payable | (18,229) | -15.34% | Lower income tax payable for the period |
| Other Liabilities | 28,510 | 2.80% | Higher due to increase in payables to Bancnet bills payment & IBFT, offset by decrease in advance rentals, and finance lease payables |
| Surplus reserves | 241,445 | 113.44% | Increase mainly due to additional RE appropriation to cover deficiency on 1% minimum GLLP requirement |
| Retained Earnings | 1,656,126 | 113.46% | Increase is from net income for the period partially offset by RE appropriation to cover deficiency on 1% minimum GLLP requirement |
| Unrealized gain/(loss) on equity securities carried at fair value through other comprehensive income | 276,431 | 87.87% | Lower net MTM losses from FCDU debt investments in FVOCI |
| Cumulative translation adjustment | 1,419 | 1.34% | Higher downward CTA mainly due to exchange rate differential |
| Remeasurement gains (losses) on retirement liability | (82,878) | -232.06% | Higher actuarial loss recognized on retirement fund |

11.6.3 Statement of Condition: December 2022 vs. December 2021 (consolidated)

| (in thousands) | Increase/ (Decrease) | Percentage Change | Explanation |
|--|-------------------------|----------------------|---|
| Cash and Other Cash Items | (111,700) | -7.37% | Lower cash on hand |
| Due from Bangko Sentral ng Pilipinas | 1,064,985 | 10.37% | Higher mainly from ODF |
| Due from Other Banks | 430,597 | 65.38% | Higher funds with foreign banks |
| Interbank Loans Receivable | (1,595,267) | -38.02% | Lower GS Repo and foreign interbank loans |
| Financial Assets at Fair Value through Profit or Loss | (886,291) | -100.00% | Sale of investments in FVTPL |
| Financial Assets at Fair Value through Other Comprehensive Income | (1,480,691) | -22.82% | Sale of investments in FVOCI |
| Investment Securities at Amortized Cost | 6,141,545 | 39.57% | Increase due to purchase of securities at amortized cost |
| Loans and Receivables | 12,138,486 | 18.74% | Increase in outstanding receivables, mainly in corporate loans |
| Property and Equipment | (78,380) | -8.88% | Decline due to depreciation recognized for the period |
| Investment Properties | | | |
| Foreclosed properties | 127,809 | 15.32% | Higher ROPA foreclosures, offset by depreciation recognized for the period |
| Office units for lease | (351) | -13.05% | Decline due to depreciation recognized for the period |
| Deferred Tax Assets | 64,953 | 19.95% | Increase mainly due to set-up of tax assets on additional provision for credit losses |
| Other Assets | (116,652) | -20.17% | Lower largely due to decline in tax credits and CWT carry-over |
| Deposit Liabilities | | | |
| Demand | 4,333,580 | 10.53% | Higher volume of demand deposits |
| Savings | 1,308,795 | 11.52% | Higher volume of savings deposits |
| Time | 6,851,167 | 21.73% | Higher volume of time deposits |
| Bills Payable | 1,583,031 | 26.34% | Increase in bills payable - REPO |
| Outstanding Acceptances | (21,391) | -29.87% | Decrease due to lower bills of exchange accepted by the Bank |
| Manager's Checks | 49,288 | 28.61% | Higher un-negotiated MC's as of report date |
| Accrued Interest, Taxes and Other Expenses | 183,666 | 26.98% | Increase in expense and interest payable accruals as of the period |
| Income Tax Payable | 51,990 | 77.80% | Higher income tax payable for the period |
| Other Liabilities | (85,957) | -7.79% | Lower mainly from lower advance rentals and rental security deposit |
| Surplus reserves | 105,916 | 99.06% | Increase mainly due to additional RE appropriation to cover deficiency on 1% minimum GLLP requirement |
| Retained Earnings | 1,525,772 | -2309.62% | Increase mostly from net income for the period |
| Unrealized gain/(loss) on equity securities carried at fair value through other comprehensive income | (368,094) | -687.91% | Higher net MTM losses |
| Cumulative translation adjustment | 131,663 | 55.40% | Lower downward CTA mainly due to exchange rate differential |
| Remeasurement gains (losses) on retirement liability | (5,027) | -12.34% | Cumulative amount of actuarial loss in 2022 |

11.6.4 Statement of Condition: December 2021 vs. December 2020 (consolidated)

| (in thousands) | Increase/ (Decrease) | Percentage Change | Explanation |
|---|-------------------------|----------------------|---|
| Cash and Other Cash Items | 126,419 | 9.10% | Higher cash on hand |
| Due from Bangko Sentral ng Pilipinas | (10,326,382) | -50.13% | Lower placement in ODF |
| Due from Other Banks | (837,892) | -55.96% | Lower funds with foreign banks |
| Interbank Loans Receivable | (1,858,608) | -30.70% | Lower foreign interbank loans and GS Repo |
| Financial Assets at Fair Value through Profit or Loss | 167,997 | 23.39% | Higher investments in FVTPL |
| Financial Assets at Fair Value through Other Comprehensive Income | 1,351,471 | 26.30% | Purchase of investments in FVOCI |
| Investment Securities at Amortized Cost | 13,256,923 | 585.72% | Higher due to additional inventory purchase in 2021 |
| Loans and Receivables | 6,083,795 | 10.36% | Increase in outstanding loans and receivables, mainly in corporate loans/import bills/CTS |

| (in thousands) | Increase/ (Decrease) | Percentage Change | Explanation |
|---|-------------------------|----------------------|--|
| Property and Equipment | (12,400) | -1.39% | Decline mainly due to depreciation recognized for the period |
| Investment Properties | | | |
| Foreclosed properties | 224,228 | 36.75% | ROPA foreclosures in 2021 partially offset by depreciation recognized for the period |
| Office units for lease | (234) | -8.01% | Decline due to depreciation recognized for the period |
| Intangible Assets | (86,023) | -14.02% | Lower mostly due to amortization of software during the period, partially offset by acquisitions |
| Deferred Tax Assets - net | 155,006 | 90.86% | Increase in allowance probable loss |
| Other Assets | (198,103) | -25.48% | Lower primarily from creditable withholding taxes |
| Deposit Liabilities | | | |
| Demand | 10,300,825 | 33.37% | Higher volume of demand deposits |
| Savings | 1,694,167 | 17.53% | Higher volume of savings deposits |
| Time | (8,835,947) | -21.89% | Lower volume of time deposits |
| Bills Payable | 3,828,144 | 175.37 | Higher due to higher bills payable - REPO, partly offset by lower BP- deposit substitute |
| Outstanding Acceptances | (426,204) | -85.62% | Lower bills of exchange accepted by the Bank |
| Manager's Checks | (15,853) | -8.43% | Lower un-negotiated MC's as of report date |
| Accrued Interest, Taxes and Other Expenses | (122,051) | -15.20 | Lower mainly from lower retirement obligation (net retirement asset in 2021) and lower accrued interest for deposits due to decline in cost of funds |
| Income Tax Payable | (80,043) | -54.50% | Lower due to change from MCIT to RCIT in Q4 2020. |
| Retained Earnings | 1,572,560 | 95.97% | Net income for the period |
| Unrealized gain on equity securities carried at fair value through other comprehensive income | (46,584) | -46.54% | Lower unrealized gain on FVOCI |
| Cumulative translation adjustment | (26,204) | 12.39% | Lower CTA |
| Remeasurement gains (losses) on retirement liability | 145,864 | -138.76 | Cumulative amount of actuarial gains in 2021 |

11.7 STATEMENT OF INCOME AND EXPENSES

11.7.1 Statement of Income and Expenses: January-June 2024 vs. January-June 2023

| (thousands) | Increase (Decrease) | Percentage Change | Remarks |
|--|------------------------|----------------------|--|
| Interest Income on investment securities | 234,141 | 29.74 | Higher interest income due to higher average volume mainly from FVOCI & FVPL and higher yields |
| Interest Income on Loans and receivable | 787,102 | 28.42 | Higher interest income due to higher average volume and higher yields mainly from corporate loans |
| Interest Income on IBCL | (1,446) | -4.65 | Lower interest income due to lower average volume, offset by higher yields |
| Interest Income on Deposit with other Banks and others | 2,335 | 20.96 | Higher interest income due to higher yields, partially offset by lower average volume |
| Interest Expense on Deposit Liabilities | 565,936 | 56.61 | Higher interest exp due to higher average volume and higher cost of funds mainly from TDs |
| Interest Expense on Bills payable, borrowings and others | 139,331 | 48.31 | Higher interest exp due to higher average volume and higher cost of funds, mainly from Repos |
| Trading and Securities Gain – net | (24,990) | -26.24 | Lower net trading gain, mostly realized |
| Rent Income | (31,276) | -14.94 | Lower due to the impact of lease terminations, offset by lease commencements from new tenants |
| Service Charges, Fees & Commissions | 17,502 | 8.25 | Increase primarily from higher corporate loan penalty fees and higher TFR fees |
| Foreign Exchange Gain (Loss) –Net | 3,084 | 7.10 | Higher realized foreign exchange gains, partially offset by lower unrealized gains |
| Gain on asset exchange | 19,115 | 188.07 | Higher net gain on foreclosure |
| Profit/(Loss) from Assets Sold | 6,023 | 90.54 | Higher ROPA gain on sale in 2024 |
| Income from Trust Operations | 1,532 | 8.40 | Increase is mainly due to impact of higher ADB assets under management |
| Miscellaneous Income | 3,477 | 4.78 | Increase mainly due to gain from sale of bank-owned property, gain on derecognition of investment in PISAI, offset by lower PBCOM Tower income from aircon extension |
| Compensation and Fringe Benefits | 72,320 | 12.44 | Higher manpower costs for the period due to higher headcount and salary adjustments |
| Taxes and Licenses | 82,589 | 24.27 | Increase mainly due to higher DST costs from deposits |

| (thousands) | Increase (Decrease) | Percentage Change | Remarks |
|---|---------------------|-------------------|---|
| | | | and higher GRT costs |
| Depreciation and Amortization | 6,979 | 4.15 | Increase mainly due to higher ROPA depreciation, higher ROU asset depreciation, and higher branches' LRI amortization, offset by fully-depreciated office equipment and computers |
| Occupancy and other equipment-related costs | 9,642 | 11.67 | Increase mainly due to higher electricity & water costs, and higher rent expense, offset by lower repairs |
| Provision for (recovery from) impairment losses | 12,027 | 69.07 | Increase from lower net release of allowance (from ROPA foreclosures) during the period |
| Miscellaneous | 41,271 | 8.30 | Increase mainly due to higher PDIC insurance from higher volume of deposits, higher IT costs, higher contractual services from higher volume of transactions, and higher messengerial services from higher basic wage |
| Provision for income tax | 58,214 | 17.79 | Increase mainly due to higher taxable income and higher final taxes on interest income on peso government securities and onshore income |

11.7.2 Statement of Income and Expenses: Jan-Dec 2023 vs Jan-Dec 2022 (consolidated)

| (in thousands) | Increase (Decrease) | Percentage Change | Remarks |
|---|---------------------|-------------------|--|
| INTEREST INCOME | | | |
| Loans and receivables | 1,521,905 | 33.12% | Higher interest income is primarily derived from increased yields and the growth in average volume, driven by new loan availments, mainly from corporate loans |
| Investment securities | 742,543 | 81.87% | Higher interest income is attributed to increased yields, primarily from HTC and FVOCI, as well as from a higher average volume, primarily in HTC |
| Interbank loans receivable and securities purchased under resale agreements | 62,697 | 93.38% | Higher interest income from higher yields |
| Deposits with other banks | (785) | -2.65% | Lower interest income is primarily attributed to a decrease in average volume, mainly in ODF with BSP, offset by higher yields |
| INTEREST AND FINANCE CHARGES | | | |
| Deposit liabilities | 1,916,276 | 319.73% | The increase is primarily due to a higher cost of funds and an increase in the volume of high-cost deposits |
| Bills payable, borrowings and others | 518,340 | 274.28% | The increase is mainly attributed to higher cost of funds and average volume, driven by new repos during the year |
| OTHER INCOME | | | |
| Rent income | (24,239) | -5.77% | Lower due to the impact of lease terminations, offset by lease commencements from new tenants |
| Trading and securities gain (loss) – net | 495,103 | 135.15% | Higher net trading gain, mostly realized, compared to the net trading loss in the same period last year |
| Service charges, fees and commissions | 37,368 | 9.58% | Higher primarily due to higher trade finance receivables charges, insurance fees income, and loan booking fees (mainly from corporate loans and home loans). This increase is partially offset by lower corporate loan penalty fees and processing fees. |
| Profit (loss) from assets sold | (38,783) | -63.53% | Lower ROPA gain on sale in 2023 |
| Foreign exchange gain - net | 3,322 | 3.40% | Higher realized foreign exchange gains were partially offset by unrealized foreign exchange losses |
| Income from trust operations | 5,593 | 17.61% | Increase is mainly due to impact of higher ADB of assets under management |
| Gain (loss) on assets exchange – net | 15,300 | 440.16% | Net gain on asset exchange compared to net loss in prior year |
| Miscellaneous | 15,453 | 12.76% | Higher mainly from other income from loans and higher recovery on written-off accounts, partially offset by the impact of income from the forfeiture of security deposits of lessees resulting from the pre-termination of lease contracts in the prior year |
| OPERATING EXPENSE | | | |
| Provision for credit and impairment | (312,095) | -108.48% | Lower loan provision requirements during the period |

| (in thousands) | Increase (Decrease) | Percentage Change | Remarks |
|--|------------------------|----------------------|---|
| losses - net | | | |
| Compensation and fringe benefits | 92,596 | 8.30% | Increase is mainly due to salary adjustments and higher contributions |
| Insurance | 18,527 | 10.08% | Higher PDIC insurance from higher volume of deposits |
| Occupancy and other equipment-related costs | 23,368 | 17.17% | Higher mainly from repairs & maintenance and electricity costs, partially offset by lower rent expense |
| Management and professional fees | (63,743) | -38.33% | Decrease is primarily due to lower professional fees |
| Security, clerical, messengerial and janitorial services | 24,800 | 23.55% | Higher security and janitorial costs primarily due to increase in minimum wage |
| Entertainment, amusement and recreation | 3,710 | 4.74% | Higher expenses incurred in 2023 |
| Communications | (7,634) | -13.36% | Decrease in commercial leased lines |
| Miscellaneous | 34,208 | 8.79% | Increase is primarily due to higher employee and travel expense reimbursements, IT relate expenses, and brokerage fees |
| Share In Net Income Of An Associate | 1,315 | 420.13% | Net income from PBCOM Finance |
| Provision For Income Tax | 117,859 | 22.43% | Increase mainly due to higher final taxes on interest income on peso government securities and onshore income and lower DTA recognized, partly offset by lower taxable income as of Dec23 |

11.7.3 Statement of Income and Expenses: Jan-Dec 2022 vs Jan-Dec 2021 (consolidated)

| (in thousands) | Increase (Decrease) | Percentage Change | Remarks |
|---|------------------------|----------------------|--|
| INTEREST INCOME | | | |
| Loans and receivables | 485,232 | 11.81% | Higher interest income from growth in average volume (from impact of new loan availments, mainly from corporate loans), partially offset by drop in yields |
| Investment securities | 405,262 | 85.72% | Higher interest income due to higher yields (mainly from HTC & FVOCI, and from higher average volume, mainly HTC) |
| Interbank loans receivable and securities purchased under resale agreements | (7,073) | -11.77% | Lower interest income from lower volume |
| Financial Assets at Fair Value through Profit or Loss | (11,469) | -28.43% | Decrease from lower volume, partially offset by higher yields |
| Deposits with other banks | (26,052) | -46.78% | Lower interest income mainly from decrease in average volume mainly in ODF |
| INTEREST AND FINANCE CHARGES | | | |
| Deposit liabilities | 164,444 | 37.81% | Increase is primarily from higher cost of funds and from higher CASA volume |
| Bills payable, borrowings and others | 129,886 | 219.78% | Increase is mainly from higher cost and average volume due to new repos during the year |
| OTHER INCOME | | | |
| Rent income | (85,234) | -16.87% | Lower mainly due to downward impact of pre-terminations and re-negotiated contracts of tenants as a result of the COVID-19 crisis |
| Trading and securities gain (loss) – net | (124,729) | 51.63% | Higher net trading loss, mostly realized |
| Service charges, fees and commissions | 58,381 | 17.60% | Increase is mainly from higher penalty on corporate loans |
| Profit (loss) from assets sold | 47,476 | 349.94% | Higher gain on sale of foreclosed ROPA assets |
| Foreign exchange gain - net | 40,821 | 71.83% | Higher foreign exchange gain, mostly realized |
| Income from trust operations | 2,525 | 8.64% | Increase is mainly due to impact of higher ADB of assets under management |
| Gain (loss) on assets exchange – net | (10,936) | -146.60% | Net loss on asset exchange compared to net gain in prior year |
| Miscellaneous | (16,275) | -11.85% | Decrease primarily due to lower recovery on charged-off asset |
| OPERATING EXPENSE | | | |
| Provision for credit and impairment losses - net | (34,615) | -10.74% | Lower loan provision requirements during the period |
| Compensation and fringe benefits | 98,909 | 9.73% | Higher manpower costs for the period due to higher headcount and salary adjustments |
| Insurance | 20,984 | 12.89% | Higher PDIC insurance from higher volume of deposits |

| (in thousands) | Increase (Decrease) | Percentage Change | Remarks |
|--|---------------------|-------------------|--|
| Occupancy and other equipment-related costs | 17,614 | 14.86% | Higher mainly from increase in electricity costs |
| Management and professional fees | 66,772 | 67.08% | Increase is primarily due to higher professional fees |
| Security, clerical, messengerial and janitorial services | 16,445 | 18.51% | Higher security and janitorial costs primarily due to increase in minimum wage |
| Entertainment, amusement and recreation | (42,151) | -35.02% | Lower expenses incurred in 2022 |
| Communications | 7,463 | 15.02% | Increase in commercial leased lines |
| Miscellaneous | (22,172) | -5.39% | Decrease is primarily due to lower ROPA related expenses |
| Share In Net Income Of An Associate | 26 | 9.06% | Net income from PBCOM Finance |
| Provision For Income Tax | 269,020 | 104.83% | Increase is mainly due to lower DTA recognized, from higher final taxes, and due to higher taxable income for the period |

11.7.4 Statement of Income and Expenses: Jan-Dec 2021 vs Jan-Dec 2020 (consolidated)

| (in thousands) | Increase (Decrease) | Percentage Change | Remarks |
|---|---------------------|-------------------|---|
| INTEREST INCOME | | | |
| Loans and receivables | (215,326) | -4.98% | Lower interest income primarily from drop in yields, partially offset by higher ADB volume |
| Investment securities | 109,178 | 30.03% | Higher due to volume, mainly due to HTC & FVOCI |
| Interbank loans receivable and securities purchased under resale agreements | (32,677) | -35.23% | Lower volume of GS with repurchase agreement |
| Financial Assets at Fair Value through Profit or Loss | (39,662) | -49.57% | Decrease from lower volume and lower yields |
| Deposits with other banks | (76,722) | -57.94% | Lower income from decrease in average volume mainly in ODF, and lower yields |
| INTEREST AND FINANCE CHARGES | | | |
| Deposit liabilities | (486,560) | -52.80% | Decline from lower cost of funds and lower volume, mostly TDs |
| Bills payable, borrowings and others | (87,935) | -59.81% | Lower cost of funds, and lower volume mainly in Repo |
| OTHER INCOME | | | |
| Rent income | (168,173) | -24.97% | Lower mainly due to downward impact of pre-terminations and re-negotiated contracts of tenants as a result of the COVID-19 crisis |
| Service charges, fees and commissions | (57,367) | -14.74 | Lower mostly due to decrease in penalties on corporate loans |
| Trading and securities gain (loss) - net | (896,329) | -136.90% | Higher trading loss, mostly realized |
| Profit (loss) from assets sold | 6,788 | 100.13% | Higher gain on sale of ROPA |
| Income from trust operations | 3,542 | 13.79% | Increase due to higher average volume of assets under management |
| Gain (loss) on assets exchange - net | 10,617 | -336.30% | Higher due to net gain on ROPA foreclosures for the year |
| Gain on sale of investment securities at amortized cost | (2,552) | -100.00% | Gain on sale of HTC for the period |
| Miscellaneous | (21,056) | -13.29% | Decrease primarily due to lower pre-termination penalty income from lease contracts |
| OPERATING EXPENSE | | | |
| Provision for credit and impairment losses - net | (1,095,927) | -77.27% | Lower provision requirement in 2021 |
| Taxes and licenses | (162,618) | -25.41% | Lower GRT and business taxes |
| Insurance | 9,058 | 5.89% | Higher PDIC insurance from higher volume of deposits |
| Occupancy and other equipment-related costs | 17,185 | 16.96% | Higher electricity and water costs |
| Management and professional fees | (40,458) | -28.90 | Lower professional fees |
| Security, clerical, messengerial and janitorial services | 5,424 | 6.5% | Higher security and janitorial costs |
| Share In Net Income Of An Associate | 21 | 7.89% | Net income from PBCOM Finance offset by net loss from PISAI |

| (in thousands) | Increase (Decrease) | Percentage Change | Remarks |
|--------------------------|------------------------|----------------------|-----------------------|
| Provision For Income Tax | 26,503 | 11.52 | Higher taxable income |

Notes: Interest income on non-discounted loans is recognized based on the accrual method of accounting, while unearned discounts are amortized to income over the terms of the loans. As such, there are no seasonal aspects that materially impact the Bank's interest revenues.

11.8 OTHER MATERIAL EVENTS AND/OR UNCERTAINTIES:

- The Bank does not have any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), or other relationships of the company with unconsolidated entities or other persons created during the reporting period. As of June 30, 2024, the unspent amount from the approved capital expenditures budget on projects involving technology enhancement and facilities improvement amounted to ₱673.3 million.
- The Bank has taken prudent steps to mitigate the risk through a more careful credit process and tighter credit policies. More importantly, it continues its assessment of its portfolio by regularly doing the stress test exercise.
- There is no recorded significant quarterly income or losses that did not come from the Bank's regular operations.
- Interest income on the non-discounted loan is recognized based on the accrual method of accounting, while unearned discounts are amortized to income over the term of the loans. As such, no seasonal aspect has a material impact on the Bank's interest revenues. Non-interest revenues, on the other hand, are primarily dependent on market dynamics and economic trends rather than seasonal factors.

SECTION 12. BOARD AND MANAGEMENT

12.1 BOARD OF DIRECTORS

The Board of Directors of the Bank (the “**Bank’s Board**”) is the body ultimately responsible for the management of the Bank. The Bank’s Board is composed of 15 directors, five of whom are independent directors. The Board is a healthy mix of individuals with diverse experiences, backgrounds, and perspectives. The membership of the Board is a combination of executive and non-executive directors such that no director or small group of directors dominates the decision-making process. All directors were chosen based on their qualifications, namely, integrity, probity, market reputation, conduct and behavior, relevant education and training, physical and mental fitness, knowledge, and experience. All directors possess such qualifications and stature that enable each of them to effectively participate in the deliberations of the Board. Directors are elected by the shareholders for a period of one year. Generally, there are no restrictions on re-election. However, beginning on 2 January 2012, the Philippine SEC set a limit on the term of independent directors serving in listed, public, and mutual fund companies. An independent director may only serve as such for a maximum cumulative period of nine years after which the independent director shall be barred perpetually from being elected as independent director in the same company. The chairman has a casting vote in resolutions of the Bank’s Board which must be passed by majority vote.

The following table sets forth the persons who currently serve on the Board of Directors, with their corresponding positions and number of years of service as of 30 June 2024. Each member of the Board of Directors holds one (1) qualifying share each in the Bank as of the same date. The succeeding sections present the brief profiles of the Board Members

| Name | Position | Years of Service As of 30 June 2024 |
|------------------------------|---|---|
| Board of Directors | | |
| Eric O. Recto | Chairman, Director | 12 yrs. & 11 mons. as Director and Vice Chairman, and Chairman since May 23, 2012 |
| Leonardo B. Dayao | Vice-Chairperson, Director | 9 yrs & 9 mons. |
| Lucio L. Co | Executive Committee Chairman, Director | 9 yrs & 9 mos. |
| Patricia May T. Siy | President and CEO, Director | 9 yrs. |
| Bunsit Carlos G.Chung | Director | 27 yrs. |
| Susan P. Co | Director | 9 yrs & 9 mons. |
| Jack Ekian T. Huang | Director | 5 yrs. |
| Levi B. Labra | Director | 9 yrs. & 8 mons. |
| Hans Brinker M. Sicat | Director | 1 yrs. |
| Gregorio T. Yu | Director | 12 yrs. & 11 mons. |
| Paolo Benigno A. Aquino IV | Independent Director | 6 mons. |
| Stephen Anthony T. Cuunjieng | Independent Director | 1 yrs & 11 mons. |
| Conrado A. Gloria, Jr | Independent Director | 5 yrs. |
| Teresita J. Herbosa | Independent Director | 1 yrs. & 7 mons |
| Gilda E. Pico | Independent Director | 6 yrs. & 6 mons. |
| Board Appointees | | |
| Henry Y. Uy | Board Advisor | 9 yrs. |
| Emmanuel Y. Mendoza | Board Advisor | 6 mons. |
| Michael Stephen H. Lao | Corporate Secretary | 9 yrs, 7 mons as Assistant Corporate Secretary, and Secretary since June, 4 2019 |

ERIC O. RECTO, *Chairman of the Board and Director*

Mr. Recto, Filipino, 60 years old, was elected Director and Vice Chairman of the Board on July 26, 2011, appointed Co-Chairman of the Board on January 18, 2012 and Chairman of the Board on May 23, 2012.

He is presently Chairman and President of Bedfordbury Development Corporation; Chairman of the Board and Chief Executive Officer of Alphaland Corporation; Chairman of the Board and Chief Executive Officer of Atok-Big Wedge Co., Inc.; He is Lead Independent Director of Aboitiz Power Corporation; Independent Director of Manila Water Company, Inc.; and holds board positions in a few other publicly-listed companies. He was recently appointed Senior Advisor of Stonepeak Infrastructure Partners in the US and Director of Miescor Infrastructure Development Corporation.

Prior to his current roles, he was President of Petron Corporation, the largest oil refining and marketing company in the Philippines. He also previously served as Undersecretary of Finance of the Republic of the Philippines from 2002 to 2005.

Eric has an undergraduate degree in Industrial Engineering from the University of the Philippines and has an MBA from Cornell University's Johnson Graduate School of Management.

LEONARDO B. DAYAO, *Vice Chairman and Director*

Mr. Dayao, Filipino, 80 years old, was elected Director on September 29, 2014 and Co-Vice Chairman on October 24, 2014. Mr. Dayao currently holds the following positions in publicly listed companies: President of Cosco Capital, Inc. and Director of Puregold Price Club, Inc.

He also holds various positions in the following privately-owned companies: Chairman and President of Fertuna Holdings Corp., Chairman of Catuiran Hydropower Corporation, Grass Gold Renewable Energy (G2REC) Corporation, Karayan Hydropower Corporation, League One Finance and Leasing Corporation, Pamana Water Corporation, PSMT Philippines, Inc., S&R Pizza (Harbor Point), Inc., S&R Pizza, Inc.; Vice-Chairman of Ayagold Retailers, Inc.; President of Alcorn Petroleum Minerals Corporation, K4 Water Resources Corporation, NE Pacific Shopping Centers Corporation, Puregold Duty Free (Subic), Inc., Puregold Finance, Inc., San Jose City I Power Corp., Southern Utility Management Services, Incorporated (SUMSI), Union Energy Corporation; Vice-President of Alerce Holdings Corp., Bellagio Holdings, Inc., KMC Realty Corporation, Puregold Properties, Inc., Union Equities, Inc.; and Director of Canaria Holdings Corporation, Entenso Equities Incorporated, Kareila Management Corporation and Puregold Realty Leasing & Management, Inc.

Mr. Dayao received a Bachelor of Science Degree in Commerce from Far Eastern University. He is a Certified Public Accountant and has completed Basic Management Program at Asian Institute of Management and earned units in MBA from University of the Philippines-Cebu.

LUCIO L. CO, *Chairman of the Executive Committee and Director*

Mr. Co, Filipino, 69 years old was elected Director on September 29, 2014. Mr. Co currently holds the following positions in other publicly listed companies: Director and Chairman of Puregold Price Club, Inc., Chairman of Cosco Capital, Inc. and Chairman of The Keepers Holdings, Inc. (formally Da Vinci Capital Holdings, Inc.).

He is also the Chairman of the following privately-owned companies: Alcorn Petroleum & Minerals Corporation, Bellagio Holdings, Inc., Canaria Holdings Corporation, Ellimac Prime Holdings, Inc., Entenso Equities Incorporated, Invescap Incorporated, Makabayan Holdings Incorporated, NE Pacific Shopping Centers Corporation, P.G. Holdings, Inc., Pajusco Holdings Corporation, Puregold Duty Free (Subic), Inc., Puregold Duty Free, Inc., Puregold Finance, Inc., Puregold Properties, Inc., Puregold Realty Leasing & Management, Inc., San Jose City I Power Corp., Union Energy Corporation, and Union Equities, Inc., Mr. Co is also a Director of the following privately-owned companies: Catuiran Hydropower Corporation, Cleangreen Energy Corporation, Forbes Corporation, Grass Gold Renewable Energy (G2REC) Corporation, Karayan Hydropower Corporation, Kareila Management Corp., LCKK & Sons Realty Corporation, League One Finance and Leasing Corporation, Meritus Prime Distributions, Inc., Montosco, Inc., Pamana Water Corporation, PPCI Subic Inc., Patagonia Holdings Corp., Premier Wine & Spirits, Inc., S&R Pizza (Harbor Point), Inc., and S&R Pizza, Inc., Tower 6789 Corporation and VS Gripal Power Corporation. He is a member of the Board of Trustees of Adamson University and Luis Co Chi Kiat Foundation, Inc.

Mr. Co has been an entrepreneur for the past 40 years.

PATRICIA MAY T. SIY, *President & CEO and Director*

Ms. Siy, Filipino, 63 years old, was elected Director, President and Chief Executive Officer on June 1, 2015. She is also a Director of PBCOM Finance Corporation and Chairman of PBCOM Insurance Services Agency, Inc.

Immediately before joining PBCOM, she served as Chief Corporate Planning Officer of Travellers International Hotel Group from 2012 and as Chief Finance Officer of Rustan's Supercenter Inc. from 2011 to 2012. Her banking experience spanned 39 years. She was with Security Bank Corporation where she held various positions from 2000 to 2011 in Middle Market Lending and Corporate Lending leading to the Executive Vice President post for the Commercial and Retail Banking Segment. She held senior positions in Standard Chartered Bank from 1994 to 2000 in the fields of Regional and Philippine Consumer Credit, Group Special Asset Management, and Corporate Banking in Cebu and Head Office. Her first Bank was Private Development Corporation of the Philippines where she stayed from 1983 to 1994 as Project Analyst, Cebu Lending Head, Visayas Lending Head, and then Branch Lending Head.

Ms. Siy graduated from De La Salle University with a Bachelor of Science degree in Industrial Management Engineering minor in Chemical Engineering.

BUNSI CARLOS G. CHUNG, *Director*

Mr. Chung, Filipino, 73 years old, was elected Director on June 17, 1997. He is Chairman & President of Supima Holdings, Inc., and Director of La Suerte Cigar & Cigarette Factory, Century Container Corporation, Bicutan Container Corporation, Tosen Foods Corporation, PBCOM Finance Corporation, State Investment House, Inc. and State Properties, Inc. He is an Advisory member of the Board of Trustees of Xavier School Inc., and a member of the Board of Trustees of Immaculate Conception Academy (Greenhills) Scholarship Foundation, Seng Guan Temple, Angelo King Foundation Inc. and Kim Siu Ching Family Association, Vice-Chairman & President of Tiong Se Academy.

Mr. Chung has a degree in AB (Economics) & Business Administration from De La Salle University as well as an MBA from the University of Southern California.

SUSAN P. CO, *Director*

Mrs. Co, Filipino, 66 years old, was elected Director on September 29, 2014. She currently holds the positions of Vice-Chairman of Puregold Price Club, Inc. and Vice-Chairman and Treasurer of Cosco Capital, Inc., both publicly listed companies.

Mrs. Co is the Chairman and President of Cosco Price, Inc., Chairman of Kareila Management Corporation and Tower 6789 Corporation, President of Makabayan Holdings Incorporated and Director of the following privately-owned companies: Bellagio Holdings, Inc., Blue Ocean Holdings, Inc., Canaria Holdings Corporation, Ellimac Prime Holdings, Inc., KMC Realty Corp., Meritus Prime Distributions, Inc., Montosco, Inc., NE Pacific Shopping Center Corporation, P.G. Holdings, Inc., Patagonia Holdings Corp., PPCI Subic Inc., Premier Wines and Spirits, Inc., Puregold Duty Free (Subic), Inc., Puregold Duty Free, Inc., Puregold Finance, Inc., Puregold Properties, Inc., Puregold Realty Leasing & Management, Inc., S&R Pizza (Harbor Point), Inc., S&R Pizza, Inc., San Jose City I Power Corp., Union Energy Corporation and Union Equities, Inc. and Treasurer of Forbes Corporation.

Mrs. Co received a Bachelor of Science Degree in Commerce from the University of Santo Tomas.

JACK EKIAN T. HUANG, *Director*

Mr. Huang, Filipino, 69 years old, was elected Director on June 4, 2019. He currently holds the positions of Director of Puregold Price Club Inc. and Cebu Business Continuous Forms, Vice President of Abacus Securities Corporation and Director and Treasurer of Richmedia Network Inc. Mr. Huang also serves as Member of the Board of Trustees and Member of the Finance Committee of Sacred Heart School (Ateneo de Cebu).

In the past, he was Assistant Vice President of the Bank of the Philippine Islands and Branch Manager of Ayala Investment & Development Corporation.

Mr. Huang obtained his Bachelor of Arts in Economics at the Ateneo de Manila University.

LEVI B. LABRA, *Director*

Mr. Labra, Filipino, 65 years old, served as an Independent Director from October 24, 2014 until his election as a regular member of the Board of Directors on February 22, 2017. Mr. Labra is also a Director of Cosco Capital, Inc., a publicly listed company.

He obtained his Bachelor of Science in Business Administration (Cum Laude) at the University of San Carlos, Cebu City.

HANS BRINKER M. SICAT, Director

Mr. Sicat, Filipino, 63 years old, was elected Director on June 13, 2023. He currently holds the position of Independent Director of Arthaland Corporation, a publicly listed company, Skycable Corporation and Transnational Diversified Group. He is also the Chairman of Projuris Business Services, Inc. and holds various positions in the following firms: Executive in Residence at Asian Institute of Management, Mentor at Endeavor (Philippines, Chapter Chair and Excom Member at Young Presidents Organization Gold (YPO) Gold) Philippine Chapter, Regional Engagement Officer at Young Presidents Organization Gold (YPO) Gold) Southeast Asia Regional Board and Managing Director and Country Head of Crescent Point.

Mr. Sicat is the former Country Manager and Head of Clients of ING Bank N.V. Manila, Philippines and President of the Investment House Association of the Philippines.

A trained mathematician and economist, Mr. Sicat has been involved with the global capital market for about three decades. He was a member of the PSE Board of Directors from 2018-2019; he was also the Chairman of the Risk Management Committee of the Bankers Association of the Philippines, during the period he was a Board Director from March 2018 to March 2019. Mr. Sicat was the PSE CEO since 2011, making him the longest-serving CEO of the Exchange. He also served as PSE Chairman & Independent Director for about 18 months since 2009 while concurrently President and CEO of the Securities Clearing Corporation of the Philippines, a subsidiary of the PSE.

For over two decades, he was an investment banker with Citigroup and its predecessor firms (Salomon Brothers & Citicorp Securities) in various roles in New York, Hong Kong, and the Philippines.

Mr. Sicat finished his coursework for a PhD in Economics at the University of Pennsylvania, and earned his Master of Arts in Economics and Bachelor of Science in Mathematics at the University of the Philippines. He was conferred an Honorary Doctorate Degree in Business Administration by the Western University of Thailand.

GREGORIO T. YU, Director

Mr. Yu, Filipino, 65 years old, was elected Director on July 26, 2011 and is presently the Chairman of Auto Nation Group, Inc., Cats Automobile Corp and Nexus Technologies, Inc. Mr. Yu also sits as Director in various companies, among which are CATS Asian Cars, Inc., American Motorcycles, Inc., Unistar Credit and Finance Corporation, Glyph Studios, Inc., Prople BPO Inc., WSI Corporation, and Jupiter Systems Corporation.

He is concurrently an Independent Director of Alphaland Corporation, Glacier Megafridge, EEI Corporation, APO Agua Infraestructura Inc., Philequity Management Inc., Vantage Financial Corporation (formerly E-business Services, Inc. and Vantage Equities Inc. He also serves as Board Member of The Manila Symphony Orchestra since 2009.

He received his MBA from the Wharton School of the University of Pennsylvania in 1983 and his Bachelor of Arts in Economics (Honors Program) Summa Cum Laude from De La Salle University in 1978.

PAOLO BENIGNO A. AQUINO IV, Independent Director

Mr. Paolo Benigno “Bam” A. Aquino IV, Filipino, 46 years old, was elected Independent Director of the Bank on January 31, 2024. Currently, he holds core positions in various private institutions like Kaya Natin! Movement for Good Governance and Ethical Leadership, Inc. as Chairperson, Pasajob Inc. as Director, AtIndahan Inc. as Director, Mee Games Inc. as Director, and Ryt Brain Tech Solutions Inc. as Director.

Prior to his current roles, Bam served as Senator of the Republic of the Philippines from 2013 to 2019. He also served as Chairperson and Commissioner-at-Large of the National Youth Commission from 2003 to 2006 and 2001 to 2003, respectively. He was also President of other private institutions like Microventures Inc. and Megamobile Inc., and was a Special Project Manager of ABS-CBN Foundation.

Bam earned his Bachelor of Science in Management Engineering degree from the Ateneo de Manila University in 1999 and attended Executive Education Program on Public Policy and Leadership at the Kennedy School of Government, Harvard University.

STEPHEN ANTHONY T. CUUNJIENG, *Independent Director*

Mr. CuUnjieng, Filipino, 64 years old, was elected Independent Director of the Bank on July 1, 2022. He concurrently serves as an Independent Director of First Philippine Holdings Corporation since 2018 and Century Properties Group since 2015. In 2023, he was likewise elected as an Independent Director of Century Pacific Food Inc. and Greenergy Holdings Inc.

He was a Senior Managing Director at Evercore and Chairman at Evercore Asia Limited from 2009 to 2022. He was previously an Independent Director of Aboitiz Equity Ventures (2010 to 2018), an Adviser to the Board of SM Investments Corporation (2008-2017) and Director of Manila North Tollways Corporation (2008-2013). He was Vice Chairman, ASEAN of Macquarie (Hong Kong) Limited from 2007 to 2009.

Mr. CuUnjieng holds a degree in Bachelor of Arts (1980) and also has a Bachelor's Degree in Law (with honors) (1984) from the Ateneo de Manila University and the Ateneo Law School. He also has a Master's Degree in Business Administration (Finance) from Wharton School of Business (1986).

CONRADO A. GLORIA, JR, *Independent Director*

Mr. Gloria, Filipino, 64 years old, was elected Independent Director on June 4, 2019. He currently holds the positions of President & CEO of GIV Capital Holdings Corporation and Corporate Secretary of Miguel and Maria Group of Restaurants, Inc. Mr. Gloria is an Independent Director of PBCOM Insurance Services Agency, Inc. and Scheirman Construction Consolidated Inc.

In the past, he served as President & COO of Investment & Capital Corporation of the Philippines, Executive Vice President and Managing Director of SB Capital Investment Corporation, President of SB Equities, Inc., Senior Vice President of Southeast Asia Cement Holdings Inc. and Senior Finance Officer of International Finance Corporation.

Mr. Gloria obtained his Bachelor of Arts in Economics at the University of the Philippines and his Master's in Business Administration at the Asian Institute of Management.

TERESITA J. HERBOSA, *Independent Director*

Ms. Herbosa, Filipino, 73 years old, was elected as Independent Director on November 2, 2022. She currently serves as a Director of the Board of Telecommunications Connectivity, Inc., and also sits as an Independent Director of mutual fund companies under the Sunlife Group: Sunlife of Canada Prosperity Bond Fund, Inc., Sunlife Prosperity Peso Starter Fund, Inc., Sunlife Prosperity Dollar Starter Fund, Inc., Sunlife Prosperity Peso Voyager Feeder Fund Inc., Sunlife Prosperity World Income Fund, Inc., Sunlife Prosperity Achiever Fund 2028, Inc., and Sunlife Prosperity Achiever Fund 2038, Inc. and under the Grepalife Group: Grepalife Balanced Fund Corporation, Grepalife Dollar Bond Fund Corporation and Grepalife Fixed Income Fund Corporation

Ms. Herbosa is likewise a professorial lecturer at DLSU Tanada Diokno School of Law (Rufino Campus) and Lyceum of the Philippines College of Law Makati. She is the former Chairperson of the Philippine Securities and Exchange Commission or SEC from April 2011 up to June 2018.

Prior to government service, Ms. Herbosa was with Angara Abello Concepcion Regala & Cruz Law Offices ("ACCRALAW") where she headed its prestigious Litigation and Dispute Resolution Department for more than 10 years during which it was consistently recognized as the best in that area of practice. She retired from ACCRALAW in 2011 as a Senior Partner/Co-Managing Partner.

Ms. Herbosa finished AB Political Science cum laude at the University of the Philippines (UP) Diliman, and Bachelor of Laws cum laude and class salutatorian from the UP College of Law. She has a master's degree from the University of Michigan.

GILDA E. PICO, *Independent Director*

Ms. Pico, Filipino, 77 years old, was elected Independent Director on February 22, 2017. She is currently Chairman of the Board of Producers Savings Bank Corporation. Ms. Pico is also connected with Marinor Development Corporation as Director/Treasurer, Gilart Holdings Corporation as President and PayMaya Philippines as Independent Director.

In the past, Ms. Pico was President and CEO of Land Bank of the Philippines from November 2006 to July 2016. She was Land Bank's Acting President from July 2005 to November 2006 and Trustee of Land Bank

Countryside Development Fund from 2005 to 2015. She also served as Chairman/Director in various government and private institutions engaged in leasing, realty, insurance, guarantees, microfinancing, rural and development banking from 1985 to 2016 such as LBP Insurance Brokerage, Inc., LBP Leasing and Finance Corporation, Landbank Realty Corp., Masaganang Sakahan, Inc., National Livelihood Development Corporation, Peoples Credit and Finance Corporation, Philippine Crop Insurance Corporation, among others.

Ms. Pico obtained her Bachelor of Science Degree in Commerce in 1966 from the College of the Holy Spirit where she graduated Magna Cum Laude and earned units in Masters in Business Administration from the University of the East. Ms. Pico is a Certified Public Accountant.

12.2 SENIOR EXECUTIVE TEAM

The members of senior executive team, subject to control and supervision of the Board, collectively have direct charge of all business activities of the Bank. They are responsible for the implementation of the policies set by the Board of Directors. The following is a list of the Bank's executive officers as of 30 June 2024:

JOHN HOWARD D. MEDINA, *Executive Vice President and Chief Operations Officer*

Mr. Medina, Filipino, 54 years old, joined PBCOM in 2017 and has over 26 years of experience in the banking industry as a senior executive in the Philippines and as an adviser to large banks in the United States. Mr. Medina obtained his Bachelor of Science in Industrial Engineering degree from the University of the Philippines, Diliman and Master of Business Administration degree from the Shidler College of Business at the University of Hawai'i at Manoa. He was also awarded Graduate Certificates in Leadership from The East-West Center, International Management from the Pacific Asian Management Institute, and European Management from the European Summer School for Advanced Management held in Marseilles, France.

ALAN E. ATIENZA, *Executive Vice President – Treasurer*

Mr. Atienza, Filipino, 53 years old, joined PBCOM in 2015 and has over 26 years of banking experience in Trading and Treasury Operations. He has been a recipient of numerous industry awards for Fixed Income Trading and has been a board member of Money Market Association of the Philippines (MART). Mr. Atienza obtained his Bachelor of Arts in Economics and holds a Master of Business Administration degree, both from San Sebastian College.

VICTOR O. MARTINEZ, *Executive Vice President – Corporate and Commercial Banking Group Head*

Mr. Martinez, Filipino, 58 years old, joined PBCOM in 2020 and has 31 years of experience in Corporate Lending, Loan Syndication and Project Finance across major industries gained from local and foreign banks. Mr. Martinez obtained his Bachelor of Science in Commerce major in Management of Financial Institutions from De La Salle University and holds a Master of Management degree from Willamette University, Salem Oregon.

ERICO C. INDITA, *Executive Vice President – Branch Banking Group*

Mr. Indita, Filipino, 55 years old, joined PBCOM in 2020 and has over 30 years of extensive management and banking experience in Branch and Retail Banking. Mr. Indita, obtained his Bachelor of Science Degree in Commerce major in Management from San Beda College and holds a Master in Business Administration Degree from Ateneo De Manila University Graduate School of Business. He also has a Diploma in Strategic Negotiations from Asian Institute of Management.

JANE K. GOCUAN, *Executive Vice President and Chief Strategy & Implementation Officer*

Ms. Gocuan, Filipino, 53 years old, joined PBCOM in February 2024 and has over 31 years of broad experience in the areas of customer service, relationship management, branch and management, investments, treasury, loans, and brand recognition building honed by holding various roles in multinational, government and local banks. Ms. Gocuan graduated with a Masters in Business Management and Bachelor in Business Management (magna cum laude) at the University of the Philippines Cebu in 1997 and 1992, respectively.

ARLENE M. DATU, *Senior Vice President and Comptroller*

Ms. Datu, Filipino, 65 years old, joined PBCOM in 2013 and has over 43 years of banking experience gained from Local and Foreign Banks as well as a Credit Card Company. She has extensive exposure on Financial Accounting, Management Profitability Reporting and Analysis, Regulatory Compliance, Operations, Risk and Audit. Ms. Datu obtained her Bachelor of Science major in Accounting from Polytechnic University of the Philippines.

EXPEDITO G. GARCIA, *Senior Vice President – Transaction Banking Group*

SVP Mr. Garcia, Filipino, 56 years old, joined PBCOM in 2015 with over 33 years of extensive Management and Banking experience, with the last 19 years spent in a senior supervisory role. He has strong background in Corporate Cash Management and Managing and Developing Electronic Banking Channels with exposure to both Corporate and Retail Markets. Mr. Garcia obtained both his Bachelor of Science in Industrial Management Engineering minor in Mechanical Engineering and Master's Degree in Business Administration from De La Salle University. He also holds a Certificate in International Cash Management from the Association of Corporate Treasurers, United Kingdom.

JANE LIM-LARAGAN, *Senior Vice President – General Services Group*

Atty. Laragan, Filipino, 56 years old, joined PBCOM in 2016 and has 21 years of experience in various departments: Legal, Human Resources, General Services, Compliance and Risk. Atty. Laragan obtained both her Bachelor's Degree in Commerce Major in Economics, and Bachelor's Degree in Law from the University of Santo Tomas.

MINA F. MARTINEZ, *Senior Vice President – Human Resources Group Head*

Ms. Martinez, Filipino, 61 years old, joined PBCOM in 2015 with 40 years of Human Resource Management experience gained from the Construction, Manufacturing, Banking and Retail industries. She specializes in Policy Development and Documentation, Employee and Labor Relations, Workforce Planning, Performance Management, Training and Development. Ms. Martinez obtained her Bachelor of Arts in Mass Communications from Far Eastern University and completed all academic units for her Master of Business Administration from Colegio de San Juan de Letran, Manila.

GREG L. ROMERO, *Senior Vice President - Information Technology Group*

Mr. Romero, Filipino, 55 years old, joined PBCOM in 2023 and has over 37 years of Information and Communications Technology experience gained from Banking, Telecommunications, and Credit Card industries. He obtained his Bachelor of Science Degree in Mathematics major in Computer Science from Ateneo De Manila University.

JO-ANNE R. LEGASPI, *First Vice President - Legal Services Group*

Atty. Legaspi, Filipino, 44 years old, joined PBCOM in 2020 and has over 19 years of Legal experience in Banking, Retail, Service, Real Estate, and Manufacturing industries. Atty. Legaspi obtained her Bachelor of Arts Degree in Political Science from the Ateneo de Manila University, and Juris Doctor Degree from the Ateneo de Manila University School of Law.

DREDA TERESA D. MENDOZA, *First Vice President - Trust and Wealth Management Group*

Ms. Mendoza, Filipino, 51 years old, joined PBCOM in February, 2021. She brings with her 29 years of experience in Trust banking in the areas of operations, portfolio management and sales and marketing gained from her stints in both local and foreign owned Trust institutions. She is currently serving as Director in the Trust Officers Association of the Philippines (TOAP) and as Board of Trustee in the Trust Institute Foundation of the Philippines (TIFP). Ms. Mendoza obtained her Bachelor of Science in Business Administration major in Accounting, Cum Laude, at the Mindanao State University, Marawi City.

MAILENE V. MUNGICAL, *First Vice President and Chief Audit Executive*

Ms. Mungical, Filipino, 43 years old, joined the Bank on the first working day of 2024, with more than 22 years of banking experience in auditing/internal audit. She obtained her Bachelor of Science in Accountancy from the University of Santo Tomas. She is a Certified Public Accountant.

RONALD PAUL D. SAN DIEGO, *First Vice President and Chief Risk Officer*

Mr. San Diego, Filipino, 37 years old, joined PBCOM in July of 2023 and has 12 years of experience in Credit and Operational Risk Management. Mr. San Diego obtained his Bachelor of Science in Statistics minor in Sociology from the University of the Philippines, Los Baños, Laguna. He has MBA Units from SMC-Ateneo Leadership and Management Development Program. He is also a Certified Risk Analyst (CRA).

ANGELITA U. EGALIN, *Vice President and Chief Compliance Officer*

Ms. Egalin, Filipino, 58 years old, joined PBCOM in 1988 with over 31 years' experience in banking. Fields of specialization include Compliance, Governance, AML, Branch Banking and Loan Operations. Ms. Egalin obtained her Bachelor of Science in Business Administration major in Accounting from the University of East. She is also a Certified Public Accountant (CPA).

MICHAEL STEPHEN H. LAO, Corporate Secretary

Mr. Lao, Filipino, 40 years old, was elected Corporate Secretary on June 4, 2019. He was the Bank's Assistant Corporate Secretary from November 30, 2014 up to his election as Corporate Secretary. He is currently a Partner at Zambrano Gruba Caganda and Advincula Law Offices.

Mr. Lao received his Bachelor of Science degree in Business Administration from College of Saint Benilde and his Juris Doctor degree from Ateneo de Manila School of Law in 2012. He was admitted to the Philippine Bar in 2013.

12.3 FAMILY RELATIONSHIPS AMONG MANAGEMENT

No family relationship among management.

12.4 INVOLVEMENT IN LEGAL PROCEEDINGS

The Bank is not aware of any of the following events having occurred during the past five (5) years up to the date of this Offering Circular that are material to an evaluation of the ability or integrity of any Director, nominee for election as Director, Senior Executive, underwriter or controlling person of the Bank:

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

12.5 COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE BANK

Information as to the aggregate compensation during the last three fiscal years and to the Bank's executive officers and directors as a group is as follows:

12.5.1 Key Management of the Bank

| (Amounts in Thousands) | Period ended June 30 2024 | FY2023 | FY2022 | FY2021 |
|------------------------------|------------------------------|-----------------|-----------------|-----------------|
| Short-term Employee Benefits | P 87,337 | P151,673 | P150,513 | P141,574 |
| Post Employment Benefits | 3,774 | 5,600 | 6,339 | 8,282 |
| | P 91,111 | P157,273 | P156,852 | P149,856 |

The directors receive fees, bonuses and allowances that are already included in the amounts stated above. Aside from the said amounts, they have no other compensation plan or arrangement with the Bank.

12.5.2 All Officer and Directors

| (Amounts in Thousands) | Salary | Bonuses | Other Annual Compensation |
|----------------------------------|----------|----------|------------------------------|
| Period ended June 30 2024 | P417,191 | P139,064 | P- |
| FY 2023 | 824,971 | 274,990 | - |
| FY 2022 | 648,154 | 216,051 | - |

| (Amounts in Thousands) | Salary | Bonuses | Other Annual Compensation |
|------------------------|---------|---------|---------------------------|
| FY 2021 | 624,600 | 193,915 | - |

The senior executive team officers receive salaries and bonuses that are included in the amounts stated above.

The Bank has a salary structure in place that is used in determining the remuneration of all employees. Remuneration of executive officers is determined by their current pay, performance, the Bank's performance, and salary scale. Aside from the foregoing, they have no other compensation plan or arrangement with the Bank.

12.6 CORPORATE GOVERNANCE

12.6.1 Board Committees

As part of its increasing focus on corporate governance, the Bank has established a number of Board committees

Executive Committee

The Executive Committee shall be composed of at least five (5) members of the Board of Directors as may be elected by the Board. In case of lack of quorum, the Chairman may designate any officer or member of the Board to fill the vacancy temporarily. The Secretary of the Board of Directors shall act as Secretary of the Executive Committee. Said Committee shall have the power to exercise functions and prerogatives of the Board of Directors during intervals between meetings of said Board except as to such matters as the Board may have specifically reserved for itself by appropriate resolution. The Committee shall adopt its own rules and procedures. Minutes of all meetings of the Executive Committee shall be kept and carefully preserved as a record of the business transacted at such meeting and shall be submitted, together with a report of all matters acted upon by this Committee, at the regular meetings of the Board of Directors. (As amended on June 15, 2021)

A quorum at any meeting of the Executive Committee shall consist of a majority of all members thereof, and a majority of such quorum shall decide any question that may come before the meeting.

In case of any vacancy in the Executive Committee, whether such vacancy shall be filled or not, shall be left to the discretion of the Board. However, should vacancies occur reducing the number of Executive Committee members to less than the required quorum, the Chairman may designate any officer or member of the Board to fill such vacancy, and the Executive Committee member chosen shall serve only for the unexpired portion of the vacated term to be confirmed by the Board of Directors. The Corporate Secretary shall act as the Secretary.

Audit Committee

The Audit Committee shall be composed of at least three (3) members of the Board of Directors, as may be elected by the Board, who shall all be non-executive directors, majority of whom shall be Independent Directors, including the chairperson. The chairperson of the Audit Committee shall not be the chairperson of the Board of Directors or any of the board-level-committees.

The Audit Committee shall (a) oversee the financial reporting framework; (b) monitor & evaluate the adequacy and effectiveness of the internal control system; (c) oversee the internal audit function; (d) oversee the external audit function; (e) oversee the implementation of corrective actions; (f) investigate significant issues/ concerns raised; & (g) establish whistleblowing mechanism.

Risk Oversight Committee

The Risk Oversight Committee shall be composed of at least three (3) members of the Board of Directors as may be elected by the Board, majority of whom shall be independent directors, including the chairperson. The chairperson of the Risk Oversight Committee shall not be the chairperson of the Board of Directors or any of the board-level-committees.

The Risk Oversight Committee shall advise the Board of Directors on the Bank's overall current and future risk appetite, oversee senior management's adherence to the risk appetite statement, and report on the state of the risk culture of the Bank. The Risk Oversight Committee shall (a) oversee the risk management framework; (b) oversee adherence to risk appetite; and (c) oversee the risk management function.

Governance Committee

The Governance Committee shall be composed of at least three (3) members of the Board of Directors as may be elected by the Board, who shall all be Non-Executive Directors, majority of whom shall be Independent Directors, including the chairperson.

Governance Committee shall assist the Board of Directors in fulfilling its corporate governance responsibilities. The Governance Committee shall oversee (a) the nomination process for members of the Board of Directors and for positions appointed by the Board of Directors; (b) the continuing education program for the Board of Directors; (c) the performance evaluation process; (d) the design and operation of the remuneration and other incentives policy; and (e) the Bank's compliance function and the performance of the Chief Compliance Officer including the Compliance Management Group.

The Corporate Governance function ensures that accountability is enforced at all levels and that the Bank always acts in the best interest of the company, its shareholders and stakeholders. The Committee ensures that such purposes are met by creating a climate of transparency in the Bank where shareholders are fully informed of business decisions and long-term business plans.

One of the primary responsibilities of the Committee is to evaluate and recommend amendments to the Articles of Incorporation and By-Laws, as well as to set up Corporate Governance guidelines including, but not limited to:

- Size (number of members) of the Board
- Criteria for membership (e.g. Qualifications, Stock Ownership, Diversity)
- Mix of management and Independent Directors
- Prevention of conflicts of interest
- Compensation and benefits program of managing and non-managing members of the Board and Senior Management
- Structure and charter of Board committees
- Rotation of committee members and chairs
- Performance evaluation of CEO and members of the Board
- Succession planning and development program for Senior Management and Directors
- Continuing education program for Board of Directors

In addition, the Governance Committee oversees the Bank's compliance system and oversees the programs of the following sub-committees: Nomination Sub-Committee, Compensation and Remuneration Sub-Committee, Performance Evaluation Sub-Committee

Trust Committee

The Trust Committee shall be composed of five (5) members; three (3) Directors who are appointed by the Board of Directors on a regular rotation basis and who are not operating officers of the Bank; the President; and the Trust Officer. Three of its members shall constitute a quorum for the transaction of business. The Chairman of the Trust Committee shall be one of the three directors. No member of the Trust Committee shall also sit as member of the Audit Committee.

The Trust Committee acts within the authorities and powers delegated by the Board of Directors and as provided in the Trust Committee charter, and in compliance with the requirements under the BSP Manual of Regulations for Banks for the practices on investment management activities, Trust and other fiduciary business. The Trust Committee is responsible for the oversight of the all Trust business activities. Further, the Committee also ensures that Trust policies and procedures remain relevant to ensure that proper risk management framework, compliance programs and internal controls are sound and enforceable for the prudent administration and management of Trust activities.

Related Party Transactions Committee

The Related Party Transactions Committee shall be composed of at least three (3) members of the Board of Directors and two (2) of whom shall be Independent Directors, including the chairperson, as may be elected by the Board. The committee shall at all times be entirely composed of Independent Directors and Non-Executive Directors, with Independent Directors comprising of majority of the members. The Compliance Officer is the committee secretariat.

The Related Party Transactions Committee shall (a) evaluate on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, monitored, and subsequent changes are captured; (b) evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms to such related parties than similar transactions with non-related parties under similar circumstances, that no corporate or business resources of the Bank are misappropriated or misapplied, and continuous

determination on the relevant potential reputational risk; (c) ensure that appropriate disclosure is made and/or information is provided to regulating and supervising authorities relating to the Bank's RPT exposures and policies on conflict of interest; (d) report to the Board of Directors on a regular basis the status of exposures to each related party; (e) ensure transactions with related party are subject to periodic review; and (f) oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including periodic review of RPT policies and procedures.

Management Committees

The Bank has also established the following management committees.

ADSAC

The Asset Disposal Committee (ADSAC) manages the disposal of the bank's assets, specifically Real and Other Properties Owned or Acquired (ROPOA), and is responsible for the following:

- Deliberating and deciding on matters related to the disposal of ROPOA assets, ensuring they meet specific preconditions.
- Formulating bank-wide policies for the ROPOA portfolio, subject to approval by the Executive Committee (ExCom).
- Submitting monthly summary reports of asset sales to the Executive Committee.

Asset Liability Committee

The Asset Liability Committee (ALCO) is responsible for managing the overall assets and liabilities of the bank. Its mandate includes:

- **Liquidity and Capital:** Ensuring the bank maintains adequate liquidity and sufficient capital to meet all business and regulatory requirements.
- **Risk Management:** Establishing policies and strategies to manage risks such as liquidity risk, market risk, and interest rate risk.
- **Balance Sheet Management:** Building a stable, competitively priced, and well-diversified balance sheet by managing the short-term and long-term profiles of the bank's assets and liabilities.

BAMLC

The Bank's Anti-Money Laundering Committee (BAMLC) is responsible for implementing the Bank's compliance with Anti-Money Laundering (AML) laws and is likewise responsible for:

- Ensuring the Bank complies with AML laws and reports covered and suspicious transactions timely.
- Providing guidance on the implementation of the Bank's Money Laundering and Terrorist Financing Program (MLPP).
- Promoting awareness of the need to comply with AML laws.
- Recommending amendments to existing policies to align with BAMLC's direction and objectives.

ICAAP Steering Committee

The Internal Capital Adequacy Assessment Process (ICAAP) Committee is a Management-Level Committee that assists the Board of Directors in accomplishing the following:

- Ensuring that the Bank has a sound internal capital adequacy assessment process that is both comprehensive and forward-looking, and one that is integrated with the Bank's risk management and strategic management frameworks.
- Ensuring that there is a mechanism for risk appetite articulation that is closely related to the Bank's business strategy and that is translatable into a comprehensive and workable risk limit system.
- Ensuring that the Bank has a documented process for assessing risks and has adequate methodologies and approaches for assessing the internal capital adequacy relative to the Bank's risk profile, operating environment, and strategic/business plans.

- Ensuring that the assessment process is a continuing one and is done in accordance with the ICAAP guidelines set out in the MORB. As necessary, the Committee shall make proposals and/or recommendations on ICAAP matters to the Risk Oversight Committee.

Incident Committee (IC)

The Incident Committee (IC) is a sub-committee of the Operations Committee (OpCom) established to quickly respond to and act on incident reports (IRs) filed by operations units by:

- Assessing incidents and recommending management courses of action (e.g., restitution, legal action, administrative due process, etc.).
- Recommending process changes based on gaps/control failures noted in incidents assessed.
- Recommending strategies and organizational quick response procedures in case of crisis.

Information and Technology Steering Committee (ITSC)

The IT Steering Committee acts as the governing body to oversee the implementation of technology-enabled projects to support the Bank's strategic business plans and objectives and ensure compliance with the Bank's Technology Risk Management Framework developed in accordance with regulatory requirements. The Committee shall ensure that an Information Systems Plan is in place and is current, and that this Plan is aligned with the Bank's business plans and projects. The Committee shall likewise ensure policies and procedures are in place to implement these plans and projects in a timely, cost-effective, and efficient manner.

The Committee shall monitor IT performance and institute appropriate actions to ensure the achievement of desired results and regularly provide adequate information to the Board regarding IT performance, the status of major IT projects, or other significant issues to enable the Board to make well-informed decisions about the Bank's IT operations.

Management Committee (MANCOM)

The Management Committee (ManCom) is a Management-Level Committee responsible for ensuring alignment of the bank's strategic objectives, financial plans, and overall performance across all key performance elements. Its main responsibilities include:

- Informing relevant units about the bank's financial performance and updates on initiatives.
- Discussing compliance, new products, technology, operations, and other matters.
- Disseminating board-approved initiatives impacting the bank's strategic direction.
- Formulating responses to changes in the business environment.
- Reviewing and tracking performance against the annual business plan.

Operations Committee (OPCOM)

The Operations Committee (OpCom) is a Management-Level Committee responsible for overseeing and improving the bank's process environment to enhance agility and operational performance. Its main responsibilities include:

- **Oversight:** Providing management oversight over the bank's policies, processes, and procedures.
- **Operational Excellence:** Promoting a culture of operational excellence and continuous improvement.
- **Process Review:** Reviewing and approving all documented bank processes and procedures.
- **Performance Evaluation:** Evaluating performance problems and recommending new policies or revisions.
- **Compliance:** Ensuring processes comply with applicable laws and regulations.

Products and New Initiatives Committee (PNIC)

The Projects and New Initiatives Committee (PNIC) is responsible for overseeing ongoing projects and balancing change initiatives with day-to-day operations to ensure optimized return on investments. Its main responsibilities include:

- **Review and Endorsement:** Reviewing business cases for technology and non-technology projects and endorsing them for approval.

- **Project Oversight:** Monitoring resources, performance, risks, and issues of ongoing projects.
- **Compliance:** Ensuring projects comply with the Enterprise Project Management Framework and Project Management Guidelines.
- **Conflict Resolution:** Providing conflict resolution as needed.
- **Reporting:** Apprising the Board on new initiative proposals and providing periodic status updates on ongoing projects.

Products Committee (PRODCOM)

The Products Committee (PRODCom) is a management committee established to oversee the bank's products and services, with the following key responsibilities:

- Ensuring proper management and development of the bank's products.
- Reviewing and approving new products, modifications, and product profitability.

Management Disciplinary Committee (MDC)

The Management Disciplinary Committee (MDC) is responsible for investigating administrative cases involving suspected fraud, gross negligence, and other serious violations. It renders judgments and enforces sanctions based on its findings. The MDC also handles cases that cannot be resolved at the line level, which may result in termination of employment on the first offense.

Retirement Fund Board

The Retirement Fund Board reviews and approves how the retirement funds are being invested.

Provident Fund Board

The Provident Fund Board reviews and approves how the provident funds are being invested.

SECTION 13. RELATED PARTY TRANSACTIONS

The Bank, in its regular conduct of business, has entered into transactions with its associate and other related parties principally consisting of credit accommodation, lease arrangement sale of real and other properties acquired (ROPA) among others, which were all done in the regular course of business and are on arms-length basis. Handling of related party transactions follow the regulatory framework enunciated in MORB Section 136. The Bank has constituted a Related Party Transactions Committee (RPTCom) which meets quarterly or whenever necessary, has a board-approved RPT policy, has identified and maintained a database of all its related parties, monitors outstanding exposures to RPs on a monthly basis and renders reports to the BSP as required. For a description of the related party transactions of the Bank, see also the respective note on Related Party Transactions in the Bank's financial statements.

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. It is the policy of the Bank that Related Party Transactions (RPT) between the Bank and Related Parties are identified and subjected to review and approval to ensure that they are at arm's length, the terms are fair and they will inure to the best interest of the Bank and its depositors, creditors, fiduciary client, and other stakeholders. RPTs shall be disclosed, reviewed and approved in accordance with this policy consistent with the principles of transparency and fairness and in accordance with applicable law, rules and regulations. The policy requires that any transaction with related parties is made on terms equivalent to those that prevail in an arm's length transaction. The Bank and its subsidiaries or affiliates shall enter into any RPT solely in the ordinary course of business and on ordinary commercial terms subject to appropriate corporate approvals and actions of the Bank. In addition, the Bank shall exercise appropriate oversight and implement control systems for managing potential exposures brought about by RPTs as these may lead to abuses that are disadvantageous to the Bank and its depositors, creditors and other stakeholders. Related parties may be individuals or corporate entities.

The Bank has business relationships with related parties. Transactions with such parties are conducted in the regular course of business and not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such Related Parties than similar transactions with non-related parties under similar circumstances (fair terms). The Bank shall implement a price discovery system to determine a fair price for RPTs and are engaged in terms that promote the best interest of the Bank and its stakeholders.

The Bank's loan transactions are conducted in the regular course of business. Its loan transactions with certain DOSRIs follow the approval process for loans to DOSRI which include vetting by the RPT Committee (if they fall under the materiality threshold). DOSRI loans and other credit accommodations regardless of amount, are still subject to approval by the Board of Directors. Further, the outstanding balance of these loans, other credit accommodations and guarantees to each of the bank's DOSRI are limited to the amount of their unencumbered deposits and book value of their paid-in capital contribution in the Bank and subject to secured and unsecured ceilings pursuant to existing banking regulations.

As of 30 June 2024, there were no unsecured direct or indirect loans to DOSRI.

MORB Section 342 provides the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks. Under the said Circular, the total outstanding loans, other credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank; and the subsidiaries and affiliates of the lending bank are not related interest of any director, officer and/or stockholder of the lending bank.

Further, Loans, other credit accommodations and guarantees granted by a bank to an entity (often a special purpose entity or SPE) that is a subsidiary or affiliate of that bank for the purpose of project finance as defined under Sec. 344 (Exclusion from the thirty percent (30%) unsecured individual ceiling for project finance) shall be subject to a separate individual limit of twenty-five percent (25%) of the net worth of the lending bank, subject to conditions as provided in MORB.

Total interest income on the DOSRI loans for the years ended 31 December 2023 and 2022 amounted to ₱0.65 million and ₱0.11 million, respectively, and for quarter ended 30 June 2024 amounted to ₱0.29 million for the Bank.

The year-end balances as of 31 December 2021, 2022, and 2023 and as of 30 June 2024 included in the Bank's financial statements are as follows (amounts in ₱ thousands):

| 2021 | 2022 | 2023 | 30 June 2024 |
|------|------|------|--------------|
|------|------|------|--------------|

| | (Amounts in Thousands) | | | |
|----------------------------|-------------------------------|------------|-----------|-----------|
| Loans and receivables, net | 71,415 | 464,526 | 349,924 | 493,659 |
| Deposit liabilities | 5,828,815 | 11,412,778 | 9,057,095 | 4,922,905 |

The accrued interest receivable and accrued interest payable for the years ended of 31 December 2021, 2022, and 2023 and as of 30 June 2024 included in the Bank's financial statements are as follows (amounts in ₱ thousands):

| | 2021 | 2022 | 2023 | 30 June 2024 |
|-----------------------------|-------------------------------|-------------|-------------|---------------------|
| | (Amounts in Thousands) | | | |
| Accrued interest receivable | 222 | 1,432 | 1,576 | 2,161 |
| Accrued interest payable | 761 | 9,200 | 11,355 | 15,086 |

The effects of the foregoing transactions are shown under the appropriate accounts in the Bank's financial statements. Other significant related party transactions of the Bank are discussed in Note 30 to the Bank's audited financial statements as of and for the years ended 31 December 2023 and 2022.

SECTION 14. SHAREHOLDERS

Based on its Public Ownership Report dated 30 June 2024, the Bank has a total outstanding and listed common shares of 480,645,163 of which 327,729,039 is non-public shares and the remaining 152,916,124 is owned by the public. This results to public float of 31.81%. In the same report, the following are indicated as key shareholders:

| Class of Securities | Key Shareholder | Citizenship | Total Direct & Indirect Shares | % of Ownership |
|--|--------------------------|-------------|--------------------------------|----------------|
| Principal/ Substantial Shareholders | | | | |
| Common | P.G. Holdings, Inc. | Filipino | 186,241,408 | 38.75% |
| Common | VFC Land Resources, Inc. | Filipino | 88,883,602 | 18.49% |
| Subtotal | | | 275,125,010 | 57.24% |

14.1 OWNERSHIP OF DIRECTORS AND MANAGEMENT

The following table sets out the shareholding interests of the Bank's directors and senior management as of 30 June 2024:

| | Direct | Indirect | Total Direct & Indirect Shares | % of the Total Outstanding Shares |
|--|-------------------|--------------------|--------------------------------|-----------------------------------|
| A. Directors | | | | |
| 1. Eric O. Recto - Chairman | 50,159,424 | 0 | 50,159,424 | 10.44% |
| 2. Leonardo B. Dayao | 11,001 | 0 | 11,001 | 0.00% |
| 3. Lucio L. Co - Vice-Chairman | 1 | 93,120,704 | 93,120,705 | 19.37% |
| 4. Susan P. Co | 1 | 93,027,584 | 93,027,585 | 19.35% |
| 5. Ma. Patricia May T. Siy | 100 | 0 | 100 | 0.00% |
| 6. Bunsit Carlos G. Chung | 550,716 | 449,294 | 1,000,010 | 0.21% |
| 7. Gregorio T. Yu | 1,432,692 | 0 | 1,432,692 | 0.30% |
| 8. Levi B. Labra | 100 | 0 | 100 | 0.00% |
| 9. Jack Ekian T. Huang | 100 | 0 | 100 | 0.00% |
| 10. Hans Brinker M. Sicat | 100 | 0 | 100 | 0.00% |
| 11. Gilda E. Pico (Independent) | 100 | 0 | 100 | 0.00% |
| 12. Conrado A. Gloria, Jr. (Independent) | 100 | 0 | 100 | 0.00% |
| 13. Stephen Anthony T. Cuunjieng (Independent) | 100 | 0 | 100 | 0.00% |
| 14. Teresita J. Herbosa (Independent) | 100 | 0 | 100 | 0.00% |
| 15. Paolo Benigno A. Aquino IV (Independent) | 100 | 0 | 100 | 0.00% |
| Subtotal | 52,154,735 | 186,597,582 | 238,752,317 | 49.67% |

| | Direct | Indirect | Total Direct & Indirect Shares | % of the Total Outstanding Shares |
|---|----------|----------|--------------------------------------|--|
| B. Officers | | | | |
| 1. John Howard D. Medina, EVP, Chief Operating Officer | 0 | 0 | 0 | - |
| 2. Alan E. Atienza, EVP & Treasurer | 0 | 0 | 0 | - |
| 3. Victor O. Martinez, EVP, Corporate & Commercial Banking Group | 0 | 0 | 0 | - |
| 4. Erico C. Indita, EVP, Head of Branch Banking Group | 0 | 0 | 0 | - |
| 5. Jane K. Gocuan, EVP, Chief Strategy and Implementation Officer | 0 | 0 | 0 | - |
| 6. Arlene M. Datu, SVP & Comptroller | 0 | 0 | 0 | - |
| 7. Expedito G. Garcia, Jr., SVP, Head CITBG | 0 | 0 | 0 | - |
| 8. Jane Lim-Largan, SVP & Head of General Services Division | 0 | 0 | 0 | - |
| 9. Mina F. Martinez, SVP, Human Resources Group Head | 0 | 0 | 0 | - |
| 10. Greg L. Romero, SVP, Chief Information Officer & Head of ITG | 0 | 0 | 0 | - |
| 11. Dreda Teresa D. Mendoza, FVP, Trust Officer and TWMG Head | 0 | 0 | 0 | - |
| 12. Jo-Anne R. Legaspi, FVP, Legal Services Group Head | 0 | 0 | 0 | - |
| 13. Ronald Paul D. San Diego, FVP, Chief Risk Officer | 0 | 0 | 0 | - |
| 14. Mailene V. Mungcal, FVP, Chief Audit Executive & Head of Internal Audit Group | 0 | 0 | 0 | - |
| 15. Angelita U. Egalin, VP, Chief Compliance Officer | 0 | 0 | 0 | - |
| 16. Michael Stephen H. Lao, Corporate Secretary | 0 | 0 | 0 | - |
| <i>Subtotal</i> | 0 | 0 | 0 | 0% |

14.2 VOTING TRUST HOLDERS OF 5% OR MORE

The Bank is not aware of shareholders holding any Voting Trust Agreement for shares constituting 5.0% or more of the outstanding capital stock, or any such similar agreement.

14.3 CHANGE IN CONTROL OF THE REGISTRANT SINCE BEGINNING OF LAST FISCAL YEAR

There has been no change in the control of the Bank since the beginning of its last fiscal year.

SECTION 15. PHILIPPINE TAXATION

The information provided below does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Bonds. In particular, the information does not consider any specific facts or circumstances that may apply to a particular purchaser. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Bonds or of any person acquiring, selling or otherwise dealing with the Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Bonds. The statements do not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules.

Prospective purchasers of Bonds are advised to consult their own tax advisers as to the particular tax consequences of the purchase, ownership and disposition of Bonds, including the effect of any national or local taxes, under the tax laws or regulations relevant thereto, and applicable in the Philippines and any other country of which they may be nationals or residents.

The following is a general description of certain Philippine tax aspects of the Bonds. It is based on the present provisions of the National Internal Revenue Code of 1997, as amended (the Tax Code), the regulations promulgated thereunder and judicial and ruling authorities in force as of the date of this Offering Circular, all of which are subject to changes occurring after such date, which changes could be made on a retroactive basis. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds. Each prospective Bondholder should consult with his own tax advisors as to the laws of other applicable jurisdictions and the specific tax consequences of acquiring, holding and disposing of the Bonds.

As used herein, the term “resident alien” refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a “non-resident alien” is an individual who is neither a citizen nor a resident of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a “non-resident alien doing business in the Philippines,” otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a “non-resident alien not doing business in the Philippines.” A “domestic corporation” is a corporation created or organized in the Philippines or under its laws while a “foreign corporation” is a corporation that is not domestic. A “resident foreign corporation” is a foreign corporation engaged in trade or business in the Philippines; and a “non-resident foreign corporation” is a foreign corporation not engaged in trade or business in the Philippines.

The Tax Reform for Acceleration and Inclusion (TRAIN) Law, effective 01 January 2018, amended various provisions of the Tax Code, including those on ordinary income tax of individuals, capital gains tax on the sale and disposition of shares of stock, estate tax, donor’s tax, and documentary stamp tax.

The Corporate Recovery and Tax Incentives for Enterprises (CREATE) Law, effective 11 April 2021 (with effective dates on specific provisions), included the salient provisions as follows: (1) reduction of regular corporate income tax rate from 30% to 25% (or 20% for corporations with net taxable income not exceeding ₱5,000,000 and with total assets not exceeding ₱100,000,000 excluding land on which the office, plant, and equipment are situated) effective 01 July 2020; (2) reduction of minimum corporate income tax rate from 2% to 1% for 01 July 2020 until 30 June 2023, thereafter, the rate will revert to 2%; (3) repeal of improperly accumulated earnings tax (IAET). On 14 November 2022, the proposed fourth package of the Comprehensive Tax Reform Program (CTRP) through HB No. 4339 was approved by the House of Representatives on its third and final reading under the 19th Congress as part of the Marcos administration’s Medium Term Fiscal Framework (MTFF). HB No. 4339 introduces reforms to the taxation of passive income, financial intermediaries, and financial transactions.

However, before HB No. 4339 can become effective, it must be considered and approved by the Senate.

Documentary Stamp Taxes

Pursuant to Section 179 of the Tax Code, a documentary stamp tax is imposed upon every original issue of debt instruments such as bonds and notes, at the rate of ₱1.50 on each ₱200, or fractional part thereof, of the issue price of such debt instruments. The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted or transferred when the obligation or right arises from Philippine sources, the property is situated in the Philippines, or where the object of the contract is located or used in the Philippines.

No documentary stamp tax is imposed on a subsequent sale or disposition of the Bonds if there is no change in the maturity date or remaining term of the Bonds.

Interest on the Bonds

The Tax Code defines “deposit substitutes” as an alternative form of obtaining funds from the public, other than deposits, through the issuance, endorsement, or acceptance of debt instruments for the borrower’s own account, for the purpose of relending or purchasing of receivables and other obligations, or financing their own needs or the needs of their agent or dealer. Obtaining funds from the “public” in this instance means borrowing from twenty (20) or more individual or corporate lenders at any one time.

Interest Income on Short-Term Bonds

The Bonds may be considered as deposit substitutes issued by Philippine residents with a maturity period of less than five (5) years. As such, interest income arising from the Bonds are considered as Philippine sourced income subject to final withholding tax at the following rates:

- Philippine citizens and resident alien individuals 20%
- Non-resident aliens doing business in the Philippines 20%
- Non-resident aliens not doing business in the Philippines 25%
- Domestic corporations 20%
- Resident foreign corporations 20%
- Non-resident foreign corporations 25%

The aforementioned final withholding tax rates applicable to non-resident aliens not doing business in the Philippines and non-resident foreign corporations may be reduced by applicable provisions of tax treaties in force between the Philippines and the tax residence country of the non-resident Bondholder. Most tax treaties to which the Philippines is a party provide for a preferential reduced tax rate of 15% where Philippine sourced interest income is paid to a resident of the other contracting state. However, tax treaties would also normally qualify that the preferential reduced tax rates will not apply if the recipient of the interest income, even if considered a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected to such permanent establishment.

In any case, all Bondholders are required to submit to the Bank, through the Paying Agent, their respective BIR-issued Taxpayer Identification Numbers (**TIN**).

Interest Income on Long-Term Bonds

A. Individuals

Interest income on bonds with maturities of five (5) or more years (long-term bonds), may qualify as long-term deposit or investment, in which case, pursuant to RR No. 14-2012, RMC No. 77-2012, and RMC No. 81-2012, as may be amended, interest income derived by qualified individuals may be exempt from the 20% final withholding tax provided that the following characteristics or conditions are present:

- a) The investor is an individual citizen (resident or non-resident) or resident alien or non-resident alien engaged in trade or business in the Philippines (“Individual”);
- b) The long-term bonds should be under the name of the Individual;
- c) The long-term bonds must be in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts, and other investments evidenced by certificates in such form prescribed by the BSP;
- d) The long-term bonds must be issued by banks only and not by other entities or individuals;
- e) The long-term bonds must have a maturity period of not less than five (5) years;
- f) The long-term bonds must be in denominations of Ten Thousand Pesos (P10,000) and other denominations as may be prescribed by the BSP;
- g) The long-term bonds should not be terminated by the original investor before the fifth (5th) year, otherwise they shall be subjected to the graduated rates of 5%, 12%, or 20% on interest income earnings; and

- h) Except those specifically exempted by law or regulations, any other income such as gains from trading, foreign exchange gain shall not be covered by income tax exemption.

For interest income derived by individuals investing in common or individual trust funds or investment management accounts, the following additional characteristics/conditions must all be present:

- a) The investment must be actually held/managed by the bank for the named individual at least five (5) years without interruption;
- b) The underlying investments of the common or individual trust account or investment management accounts must comply with the requirements of Section 22 (FF) of the Tax Code, as well as the requirements mentioned above; and
- c) The common or individual trust account or investment management account must hold on to such underlying investment in continuous and uninterrupted period for at least five (5) years.

The exemption of interest income from long-term bonds by the Individuals is dependent on full compliance with the above conditions and characteristics; otherwise, a final tax of 20% shall be imposed or, if the long-term bond is pre-terminated before maturity, a final tax shall be imposed on the entire income and shall be deducted and withheld by the depository bank from the proceeds of the long-term bonds based on the remaining maturity of the bonds:

| | |
|---|-----|
| Four (4) years to less than five (5) years | 5% |
| Three (3) years to less than four (4) years | 12% |
| Less than three (3) years | 20% |

Interest income received by non-resident aliens not engaged in trade or business in the Philippines shall generally be subject to a final withholding tax of 25%. However, the foregoing rate may be reduced under an applicable tax treaty.

B. Corporations

Interest income derived by domestic and resident foreign corporations from deposit substitutes, offered to the public, is subject to final withholding tax at the rate of twenty percent (20%) pursuant to Sections 27(D) (1) and 28 (A) (6) (a) of the Tax Code. While interest income received by domestic and resident foreign corporation from the long-term bonds, which are not offered to the public, shall be subject to regular income tax at the rate of twenty-five percent (25%) pursuant to Sections 27 (A) and 28 (A) (1) of the Tax Code.

For non-resident foreign corporations, interest income received from long-term bonds, shall be subject to a final withholding tax at the rate of twenty-five percent (25%) pursuant to Section 28 (B)(1) of the Tax Code.

The aforementioned final withholding tax rates may be reduced by applicable provisions of tax treaties in force between the Philippines and the tax residence country of the non-resident Bondholder. Many tax treaties to which the Philippines is a party provide for a preferential reduced rate of 15% where Philippine sourced interest income is paid to a resident of the other contracting state. However, tax treaties generally provide that the preferential rate will not apply if the recipient carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected to such permanent establishment. Bondholders are required to submit to the Bank, through the Paying Agent, their respective BIR-issued TIN.

Change in Tax Rates or New Tax Rates

In the event there is a change in the tax treatment of the long-term bonds or on the tax rates applicable to a Bondholder of long-term bonds because of new, or changes or repeal in, tax laws, or interpretations thereof, as a result of which, a Bondholder previously exempt from tax shall be made subject to tax on income earned from the long-term bonds or there is an increase in the applicable withholding tax rate, or any payments of principal and/or interest under the long-term bonds shall be subject to deductions or withholdings for or on account of any taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed within the Philippines by any authority therein or thereof having power to tax, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes, duties, assessments, or government charges, including interest, surcharges, and penalties thereon (the "New Taxes"), then such New Taxes imposed shall be for the sole account of the Bondholders. Consequently, the Paying Agent, on behalf of the Issuer, as applicable, shall make the necessary withholding or deduction for the account of the Bondholders concerned. All sums payable by the Bank to tax-exempt persons (upon qualification as such and presentation of acceptable proof of tax exemption) shall be paid without deductions for taxes, duties, assessments, or government charges.

Tax Exempt Status

Bondholders who are exempt from, are not subject to final withholding tax, or are subject to a lower rate of final withholding tax on interest income may avail of such exemption or preferential withholding tax rate by submitting the necessary documents. Said Bondholder shall submit the following requirements, in form and substance prescribed by the Bank, to the Registrar or the Selling Agents (together with their completed Application to Purchase) who shall then forward the same to the Registrar:

(a) For (1) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (2) cooperatives duly registered with the Cooperative Development Authority; and (3) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed “valid, current and subsisting” if it has not been more than 3 years since the date of issuance thereof;

(b) For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder’s current, valid and subsisting Certificate of Accreditation as PERA Administrator;

(c) For all other tax-exempt entities (including, but not limited to, (1) non-stock, non-profit educational institutions; (2) government-owned or -controlled corporations; and (3) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax;

(d) For entities claiming tax treaty relief pursuant to RMO 14-2021, prior to the payment of interest due: (1) three (3) originals of the BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder or, if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries; (2) one (1) original of the valid and existing tax residency certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws; (3) the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Issuer; (4) three (3) originals of the duly notarized, consularized, or apostilled (as the case may be), if executed outside of the Philippines, Special Power of Attorney executed by the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, in favor of its authorized representative (if the Application Form for Treaty Purposes and other documents are accomplished by an authorized representative) and confirmation acceptable to the Issuer that the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, is/are not doing business in the Philippines to support the applicability of a tax treaty relief; and (5) an original or certified true copy of the Certificate of Entitlement (**COE**) issued by the BIR International Tax Affairs Division (**ITAD**) certifying the Bondholder’s entitlement to tax treaty relief in connection with the Bonds. The Bondholder shall be responsible for filing a tax treaty relief application (**TTRA**) with the BIR ITAD to prove its entitlement to tax treaty relief, and in relation thereto, the Issuer shall, upon request of the Bondholder, provide the relevant documents which are required to be submitted for purposes of filing a TTRA. For avoidance of doubt, in order for the preferential rate to apply, the Bondholder must submit the COE issued by the BIR and the Tax Residency Certificate (**TRC**), together with their Application to Purchase, to the Sole Selling Agent. In order for the Issuer to apply the preferential rate for the succeeding taxable years, the Bondholder must submit an updated TRC before the last day of the first month of the taxable year or at least ten (10) business days before the first interest payment for the taxable year, whichever is earlier. The Issuer shall withhold regular tax rates in its interest payments for the ensuing taxable year if the Bondholder fails to provide the updated TRC within the prescribed deadline; and

(e) Any other document that the Bank or PDTC may require from time to time; (ii) a duly notarized declaration and undertaking, in prescribed form, executed by (ii.a) the Corporate Secretary or any authorized representative, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases the Bonds for its account, or (ii.b) the Trust Officer, if the Applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting that the same Bondholder named in the tax exemption certificate described in (i) above, is specifically exempt from the relevant tax or is subject to a preferential tax rate for the relevant tax, undertaking to immediately notify the Bank and the Registrar and Paying Agent of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Bank and Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities, or any tax or charge arising from the non-withholding of the required tax; and (iii) if applicable, such other documentary requirements as may be reasonably required by the Bank or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities; provided further that, all sums payable by the Bank to tax-exempt entities shall be paid in full without deductions for taxes, duties, assessments, or government

charges, subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar and Paying Agent.

Transfers taking place in the Register of Bondholders after the Bonds are listed in PDEX may be allowed between taxable and tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when allowed under, and are in accordance with the relevant rules, conventions and guidelines of PDEX and PDTC. A selling or purchasing Bondholder claiming tax-exempt status is required to submit the following documents to the Registrar, together with the supporting documents specified under the Master Registry and Paying Agency Agreement upon submission of Account Opening Documents to the Registrar: (i) a written notification of the sale or purchase, including the tax status of the transferor or transferee, as appropriate; and (ii) an indemnity agreement wherein the new Bondholder undertakes to indemnify the Bank for any tax that may later on be assessed on the Bank on account of such transfer.

Value-Added Tax

Gross receipts derived by dealers in securities from the sale of the Bonds in the Philippines, equivalent to the gross selling price less the acquisition cost of the Bonds sold, shall be subject to value-added tax of 12%.

“Dealer in securities” means a merchant of stock or securities, whether an individual partnership or corporation, with an established place of business, regularly engaged in the purchase of securities and their resale to customers, that is, one who as a merchant buys securities and sells them to customers with a view to the gains and profits that may be derived therefrom.

Gross Receipts Tax

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines at the following rates:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

| | |
|---------------------------------------|----|
| Maturity period is five years or less | 5% |
|---------------------------------------|----|

| | |
|---|----|
| Maturity period is more than five years | 1% |
|---|----|

In case the maturity period is shortened by virtue of pretermination, then the maturity period shall be reckoned to end as of the date of pretermination for purposes of classifying the transaction and the correct tax rate shall be applied accordingly.

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

| | |
|---------------------------------------|----|
| Maturity period is five years or less | 5% |
|---------------------------------------|----|

| | |
|---|----|
| Maturity period is more than five years | 1% |
|---|----|

Provided, however, that in case the maturity period is shortened thru pretermination, then the maturity period shall be reckoned to end as of the date of pretermination for purposes of classifying the transaction and the correct rate of tax shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds by banks and nonbank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

Sale or other Disposition of the Bonds

Income Tax

Gains realized from the sale, exchange, or retirement of the Bonds with a maturity period of five (5) years or less are subject to income tax.

If the Bonds are considered ordinary assets of individual Bondholders (except non-resident aliens not doing business in the Philippines), gains from the sale or disposition of such Bonds are included in the computation of taxable income, which is subject to the following graduated tax:

| | |
|---|--|
| Not over ₱250, 000 | 0% |
| Over ₱250, 000 but not over ₱400, 000 | 15% of the excess over ₱250,000 |
| Over ₱400, 000 but not over ₱800,000 | ₱22, 500 + 20% of the excess over ₱400,000 |
| Over ₱800,000 but not over ₱2,000,000 | ₱102, 500 + 25% of the excess over ₱800,000 |
| Over ₱2,000,000 but not over ₱8,000,000 | ₱402 500 + 30% of the excess over ₱2,000,000 |
| Over ₱8,000,000 | ₱2,202,500 + 35% of the excess over ₱8,000,000 |

For non-resident aliens not doing business in the Philippines, the gain shall be subject to the 25% final withholding tax.

Gains derived by domestic or resident foreign corporations on the sale or other disposition of the Bonds are included in the computation of taxable income which is subject to 25% income tax (or 20% for domestic corporations with net taxable income not exceeding ₱5,000,000 and with total assets not exceeding ₱100,000,000, excluding land on which the particular business entity's office, plant, and equipment are situated during the taxable year for which the tax is imposed). Gains derived by non-resident foreign corporations on the sale or other disposition of the Bonds shall form part of their gross income which is subject to a 25% final withholding tax unless a preferential rate is allowed under a tax treaty subject to such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief.

Gains realized by individual or corporate Bondholders on the sale or exchange or retirement of Bonds with a maturity period of more than five (5) years are excluded from gross income; hence, exempt from income tax.

Capital Gains Tax

If the Bonds are considered as capital assets of individual Bondholders, gains from the sale or disposition of such Bonds shall be subject to the same rates of income tax as if the Bonds were held as ordinary assets, except that if the gain is realized by an individual who held the Bonds for a period of more than twelve (12) months prior to the sale, only 50% of the gain will be recognized and included in the computation of taxable income. If the Bonds were held by an individual for a period of twelve (12) months or less, 100% of the gain will be included in the computation of the taxable income.

Estate and Donor's Tax

The Bonds will be considered as intangible personal property situated in the Philippines and will form part of the gross estate of any individual holder. As such, the transfer of the Bonds upon the death of an individual holder to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at a fixed rate of 6% of the net estate. Estate taxation is governed by the statute in force at the time of the death of the decedent and so the tax rate may vary in the future. Individual and corporate holders, whether or not citizens or residents of the Philippines, who transfer the Bonds by way of gift or donation are liable to pay Philippine donors' tax at the fixed rate of 6% based on the total gifts in excess of ₱250,000 exempt gifts made during the calendar year, whether the donor is a stranger or not.

Estate and gift taxes will not be collected in respect of intangible personal property such as the Bonds (i) if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (ii) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

In case the Bonds are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Bonds exceeded the value of the consideration may, unless made in the ordinary course

of business (i.e., a transaction which is *bona fide*, at arms' length, and free from any donative intent), be deemed a gift and may be subject to donor's taxes.

Taxation outside the Philippines

The tax treatment of a non-resident holder of any of the Bonds by jurisdiction outside the Philippines will vary depending on the tax laws applicable to such holder by reason of domicile or business activities and may vary depending upon such holder's situation. Each holder of any of the Bonds should consult its own tax adviser as to the particular tax consequences on such holder acquiring, owning and disposing of the Bonds, including the applicability and effect of any state, local and national laws.

SECTION 16. THE PHILIPPINE BANKING INDUSTRY

This section contains information concerning the banking industry in the Philippines, including certain financial information of certain competitors of the Bank, which is sourced from their respective public filings, and which includes certain unaudited and unreviewed financials. Neither the Bank, the Sole Arranger and Sole Bookrunner, and Selling Agents, or any of their advisors makes any representation as to the accuracy or completeness of this information. This information has not been independently verified by the Bank, the Sole Arranger and the Sole Bookrunners, Selling Agents, or any of the advisors and should not be unduly relied on.

The banking industry in the Philippines is composed of universal banks, commercial banks, rural banks, thrift banks (including savings and mortgage banks, private development banks and stock savings and loan associations), cooperative banks, Islamic banks, and digital banks.

According to BSP's Directory of Banks and Non-Bank Financial Institutions, as of 27 August 2024, the commercial banking sector, comprising universal and commercial banks, consisted of 44 banks, of which 22 were universal banks and 22 were commercial banks. Among the 22 commercial banks, 2 are private domestic banks, 2 are foreign bank subsidiaries, and 18 are foreign bank branches. From the 22 universal banks, 13 were private domestic banks, 3 were government banks and 6 were branches of foreign banks.

Commercial banks are organized primarily to accept drafts and to issue letters of credit, discount and negotiate promissory notes, drafts, bills of exchange, and other evidence of indebtedness, receive deposits, buy and sell foreign exchange and gold and silver bullion, and lend money on a secured or unsecured basis. Universal banks are banks that have authority, in addition to commercial banking powers, to exercise the powers of investment houses, to invest in the equity of business not related to banking, and to own up to 100% of the equity in a thrift bank, a rural bank, or a financial allied or non-allied enterprise. A publicly-listed universal or commercial bank may own up to 100% of the voting stock of only one other universal or commercial bank.

Thrift banks primarily accumulate the savings of depositors and invest them, together with capital loans secured by bonds, mortgages in real estate and insured improvements thereon, chattel mortgage, bonds and other forms of security or in loans for personal and household finance, secured or unsecured, or in financing for home building and home development; in readily marketable debt securities; in commercial papers and accounts receivables, drafts, bills of exchange, acceptances or notes arising out of commercial transactions. Thrift banks also provide short-term working capital and medium- and long-term financing for businesses engaged in agriculture, services, industry, and housing as well as other financial and allied services for its chosen market and constituencies, especially for SMEs and individuals. As of 27 August 2024, there were 42 thrift banks (including microfinance-oriented banks).

Rural banks are organized primarily to make credit available and readily accessible in the rural areas on reasonable terms. Loans and advances extended by rural banks are primarily for the purpose of meeting the normal credit needs of farmers and fishermen, as well as the normal credit needs of cooperatives and merchants. As of 27 August 2024, there were 385 rural and cooperative banks.

Specialized government banks are organized to serve a particular purpose. The existing specialized banks are the Development Bank of the Philippines (“**DBP**”), Land Bank of the Philippines (“**LBP**”), and AI-Amanah Islamic Investment Bank of the Philippines (“**AAIIB**”). DBP was organized primarily to provide banking services catering to the medium- and long-term needs of agricultural and industrial enterprises, particularly in rural areas and preferably for small- and medium-sized enterprises. LBP primarily provides financial support in all phases of the Philippines' agrarian reform program. In addition to their special functions, DBP and LBP are allowed to operate as universal banks. AAIIB was organized to promote and accelerate the socio-economic development of the Autonomous Region of Muslim Mindanao through banking, financing and investment operations and to establish and participate in agricultural, commercial and industrial ventures based on Islamic banking principles and rulings.

As of 27 August 2024, six digital banks have been granted a Certificate of Authority by the BSP to operate in the Philippines; namely, Tonik Digital Bank Inc., Maya Bank Inc., Overseas Filipino Bank Inc., the digital bank subsidiary of state-owned Land Bank of the Philippines (“**LANDBANK**”), UNObank Inc., UnionDigital Bank Inc., and GoTyme Bank Corporation. According to the BSP's latest Status of Digital Payments report, the value of digital payments amounted to a total of \$110.5 billion towards the end of 2023. Furthermore, the share of digital payments to total retail payment transactions in the Philippines grew to 52.8% in 2023 from 42.1% in 2022.

Foreign bank entry was liberalized in 1994, enabling foreign banks to invest in up to 60% of the voting stock of an existing bank or a new banking subsidiary, or to establish branches with full banking authority. This led to the establishment of 10 new foreign bank branches in 1995. Republic Act No. 8791 or the General Banking Law of 2000

(the “**General Banking Law**”) further liberalized the industry by providing that the Monetary Board may authorize foreign banks to acquire up to 100% of the voting stock of one domestic bank. Under the General Banking Law, any foreign bank, which prior to the effectiveness of the said law availed itself of the privilege to acquire up to 60% of the voting stock of a domestic bank, may further acquire voting shares of such bank to the extent necessary for it to own 100% of the voting stock thereof. The subsequent enactment of Republic Act No. 10641 and BSP Circular No. 858 further liberalized foreign bank entry by allowing foreign banks to own up to 100% of the voting stock of an existing bank, a branch, or a subsidiary. See “*Banking Regulation and Supervision – Regulations with Respect to Branches.*”

The liberalization of foreign ownership regulations in banks has allowed the emergence of foreign and local banks with foreign ownership in the market. This has led to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea, Shinhan Bank, Yuanta Bank, United Overseas Bank and Hua Nan Commercial Bank being granted new licenses, and also equity investments by Bank of Tokyo-Mitsubishi UFJ into Security Bank, Cathay Life into Rizal Commercial Banking Corporation and Woori Bank into Wealth Development Bank.

The following table sets out a comparison, based on publicly available data, of the five largest Philippine private domestic commercial banks in terms of assets:

| <u>Name</u> | <u>Market Capitalization¹</u> | <u>Total Equity²</u> | <u>Total Assets²</u> | <u>Loans and Receivables-net²</u> | <u>Deposit Liabilities²</u> | <u>No. of Branches³</u> |
|--|--|---------------------------------|---------------------------------|--|--|------------------------------------|
| (in ₱ millions, except number of branches) | | | | | | |
| BDO Unibank, Inc. | 675,467 | 547,330 | 4,712,455 | 3,027,245 | 3,737,273 | 1,720 |
| Metropolitan Bank & Trust Company | 303,800 | 365,479 | 3,280,153 | 1,625,343 | 2,429,722 | 699 |
| Bank of the Philippine Islands | 627,907 | 408,681 | 3,109,984 | 2,029,477 | 2,451,780 | 709 |
| China Banking Corp. | 107,654 | 151,913 | 1,544,931 | 797,245 | 1,283,261 | 648 |
| Rizal Commercial Banking Corp. | 56,012 | 152,104 | 1,260,898 | 667,222 | 959,918 | 458 |

Notes:

(1) Market Capitalization as of 30 June 2024.

(2) Financial data taken from each bank’s unaudited interim financial statements as of 30 June 2024.

(3) From BSP directory of banks, filings with the PSE.

According to the results of the Senior Bank Loan Officers’ Survey conducted by BSP, majority of the participating banks maintained their credit standards for loans to businesses and consumers, as well as maintained overall credit standards for commercial real estate loans (“**CRELs**”) in Q1 2024. The diffusion index approach indicated a net tightening of overall credit standards for commercial real estate loans largely due to banks’ reduced tolerance for risk, and a deterioration in borrowers’ profiles and profitability of banks’ portfolios.

The BSP issued Circular No. 839 which adopts a prudential real estate stress test (“**REST**”) limit for U/KBs, TBs on a solo and consolidated basis on their aggregate real estate exposures. The REST limit combines macro prudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response.

The prudential REST limits, which shall be complied with at all times by UBs/KBs, are 6% of CET1 capital ratio and 10% of risk-based capital adequacy ratio, on a solo and consolidated basis, under the prescribed write-off rate. For TBs, the prudential REST limits, which shall be complied with at all times, are 6% of CET1 capital, for TBs that are subsidiaries of UBs/KBs, 6% of Tier 1 capital, for stand-alone TBs, and 10% of risk-based capital adequacy ratio for all TBs.

By virtue of BSP Circular No. 854, the minimum capital requirement for all bank categories, namely universal banks, commercial banks, thrift banks, rural banks, and cooperative banks, increased in order to strengthen the banking system. In 2022, BSP issued Circular No. 1151 which amended the minimum capitalization for rural banks in the Philippines. Below are the amended minimum capital requirements for banks as of 2024:

| Bank Category/Network Size | Existing Minimum Capitalisation (₱) | Reviewed Minimum Capitalisation (₱) |
|-----------------------------------|--|--|
|-----------------------------------|--|--|

| Bank Category/Network Size | Existing Minimum Capitalisation (₱) | Reviewed Minimum Capitalisation (₱) |
|--|--|--|
| Universal Banks | 4.95 billion** | |
| Head Office only | | 3.00 billion |
| Up to 10 branches * | | 6.00 billion |
| 11 to 100 branches* | | 15.00 billion |
| More than 100 branches* | | 20.00 billion |
| Commercial Banks | 2.40 billion** | |
| Head Office only | | 2.00 billion |
| Up to 10 branches* | | 4.00 billion |
| 11 to 100 branches* | | 10.00 billion |
| More than 100 branches* | | 15.00 billion |
| Thrift Banks | | |
| Head Office in: | | |
| Metro Manila | 1.00 billion** | |
| Cebu and Davao cities | 500 million** | |
| Other Areas | 250 million** | |
| Head Office in the National Capital Region (NCR) | | 500 million |
| Head Office only | | 750 million |
| Up to 10 branches* | | 1.00 billion |
| 11 to 50 branches* | | 2.00 billion |
| More than 50 branches* | | |
| Head Office in All Other Areas Outside NCR | | 200 million |
| Head Office only | | 300 million |
| Up to 10 branches* | | 400 million |
| 11 to 50 branches* | | 800 million |
| More than 50 branches* | | |
| Rural and Cooperative Banks | | |
| Head Office in: | | |
| Metro Manila | 100 million** | |
| Cebu and Davao cities | 50 million** | |
| Other cities | 25 million** | |
| 1st to 4th class municipalities | 10 million** | |
| 5th to 6th class municipalities | 5 million** | |
| Head Office in NCR | | 50 million |
| Head Office only | | 50 million |
| Up to 5 branches* | | 120 million |
| 6 to 10 branches* | | 200 million |
| More than 10 branches* | | |
| Head Office in All Other Areas Outside NCR (All Cities up to 3rd Class Municipalities) | | 20 million |
| Head Office only | | 30 million |
| Up to 10 branches* | | 40 million |
| 11 to 50 branches* | | 80 million |
| More than 50 branches* | | |

| Bank Category/Network Size | Existing Minimum Capitalisation (₱) | Reviewed Minimum Capitalisation (₱) |
|--|-------------------------------------|-------------------------------------|
| Head Office in All Other Areas Outside NCR (4th to 6th Class Municipalities) | | 10 million |
| Head Office only | | 15 million |
| Up to 10 branches* | | 20 million |
| 11 to 50 branches* | | 40 million |
| More than 50 branches* | | |

* Inclusive of Head Office

** With no distinction for network size

COMPETITION

The Bank faces competition from both domestic and foreign banks, in part, as a result of the liberalization of the banking industry by the Government. Since 1994, a number of foreign banks, which have greater financial resources than the Bank, have been granted licenses to operate in the Philippines. Such foreign banks have generally focused their operations on the larger corporations and selected consumer finance products, such as credit cards. The foreign banks have not only increased competition in the corporate market, but have as a result caused more domestic banks to focus on the commercial middle-market, placing pressure on margins in both markets.

The BSP has also been encouraging mergers and consolidations in the banking industry, seeing this as a means to create stronger and more globally competitive banking institutions. To encourage this trend, the BSP offered various incentives to merging or consolidating banks through the issuance of BSP Circular No. 771 for investors who purchase a controlling stake in a bank. Accordingly, the coverage of relief incentives for mergers and consolidations includes the purchase and acquisition of a majority of all the outstanding shares of stock of a bank.

As a result, there have been an increasing number of mergers, acquisitions and consolidations of banks. However, while recent mergers have increased market concentrations, BSP studies have shown that they were insufficient to pose a challenge to overall competition levels since market share still remains relatively well dispersed among the remaining players.

In the pursuit of liberalization, and to sustain the mergers and consolidations, BSP Circular No. 902 was issued to implement the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks. The suspension of the grant of new banking licenses or the establishment of new banks under the Manual of Regulations for Banks is lifted under a two-phased approach. Under Phase 1, the grant of new universal and commercial banking licenses was allowed in connection with the upgrading of an existing domestic thrift bank. Under Phase 2, the moratorium on the establishment of new domestic banks was fully lifted and locational restrictions were fully liberalized starting 01 January 2018.

In recent years, as foreign banks in the Philippines continue to strengthen their respective positions in the market, strategic partnerships have been formed with domestic banks for certain types of consumer products and services. In 2016, the migration of the retail banking business of Standard Chartered Bank Philippines to EastWest Banking Corporation, including credit cards, personal loans, wealth management, and retail deposits, was successfully completed. In 2022, Citigroup Inc. (Citi) successfully completed the sale of its Philippine consumer business to UnionBank of the Philippines, which included Citi's local credit card, unsecured lending, deposit and investment businesses, as well as Citicorp Financial Services and Insurance Brokerage Philippines Inc. which provides insurance and investment products and services to retail customers.

The Philippine banking industry is highly regulated by the BSP and operates within a framework that includes guidelines on capital adequacy, corporate governance, management, anti-money laundering and provisioning for NPLs. The BSP can alter any of these and can introduce new regulations to control any particular line of business. See *“Banking Regulation and Supervision”* for a more detailed discussion.

President Rodrigo Duterte has signed into law the CREATE Act to attract more investments and maintain fiscal prudence and stability. The President signed on 26 March 2021 the Republic Act (RA) 11534 or the CREATE Act which introduces reforms to the corporate income tax and incentives systems. See discussion under the *Philippine Taxation* section above for some of the changes introduced by the CREATE Act.

SECTION 17. BANKING REGULATION AND SUPERVISION

The following description is a summary of certain sector specific laws and regulations in the Philippines, which are applicable to the Bank. The information detailed in this chapter has been obtained from publications available in the public domain. The regulations set out below may not be exhaustive, and are only intended to provide general information to the investors and are neither designed nor intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.

Banking Regulation and Supervision

Introduction

Republic Act No. 8791, otherwise known as the General Banking Law of 2000 (the **General Banking Law**) provides that the operations and activities of banks are subject to the supervision of the BSP. Likewise, Republic Act No. 7653 (the **New Central Bank Act**), as amended by Republic Act No. 11211, vests the BSP the authority to regulate and supervise the operations of banks and shall exercise such regulatory powers over the operations of finance companies and non-bank financial institutions performing quasi-banking functions. The BSP exercises its powers through the Monetary Board.

The supervisory power of the BSP under the New Central Bank Act extends to the subsidiaries and affiliates of banks and quasi-banking institutions engaged in allied activities. A subsidiary is defined as a corporation with more than 50% of its voting stock is directly or indirectly owned, controlled or held with power to vote by a bank or quasi-bank. An affiliate is defined as a corporation whose voting stock, to the extent of 50% or less, is owned by a bank or quasi-bank or which is related or linked directly or indirectly to such institution or intermediary through common stockholders or such other factors as may be determined by the Monetary Board. In this regard, the BSP Manual of Regulations for Banks (**MORB**) defines an affiliate as an entity linked directly or indirectly to a bank by means of: (a) ownership, control (as defined under the relevant portion of the BSP MORB), or power to vote, of at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa; (b) interlocking directorship or officership, where the concerned director or officer owns, controls (as defined under the relevant portion of the BSP MORB), or has the power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity; (c) common stockholders owning at least ten percent (10%) of the outstanding voting stock of the bank and at least twenty percent (20%) of the outstanding voting stock of the entity; (d) management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the entity; and (e) permanent proxy or voting trusts in favour of the bank constituting at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa.

In the exercise of its supervisory powers, the BSP may: (a) issue rules of conduct or standards of operation for uniform application; (b) conduct examination to determine compliance with laws and regulations; (c) oversee compliance with such rules and regulations; and (d) inquire into the solvency and liquidity of the covered entities. Furthermore, the General Banking Law provides that the BSP, in examining a bank, has the authority to examine an enterprise which is owned or majority-owned or controlled by a bank. The New Central Bank Act provides that there shall be an interval of at least twelve (12) months between regular examinations.

As a general rule, no restraining order or injunction may be issued by a court to enjoin the BSP from exercising its powers to examine any institution subject to its supervision. The refusal of any officer, owner, agent, manager, director or officer-in-charge of an institution subject to the supervision or examination of the BSP to make a report or permit an examination is criminally punishable under Section 34 of the New Central Bank Act. In addition to the general laws, Republic Act No. 9160 (**Anti-Money Laundering Act of 2001**), as amended, provides, among others, that banks must, in addition to the general laws such as the General Banking Law and the Anti-Money Laundering Act of 2001, likewise comply with letters, circulars and memoranda issued by the BSP, some of which are contained in the MORB.

The MORB is the principal source of rules and regulations to be complied with and observed by banks in the Philippines. The MORB contains regulations that include those relating to the organization, management and administration, deposit and borrowing operations, loans, investments and special financing program, and trust and other fiduciary functions of the relevant bank. Supplementing the MORB are rules and regulations promulgated in various circulars, memoranda, letters and other directives issued by the Monetary Board.

All regulations pertaining to banks are then implemented by the Financial Supervision Sector (**FSS**) of the BSP. The FSS is responsible for ensuring the observance of applicable laws, rules and regulations by banking institutions operating in the Philippines (including Government credit institutions, their subsidiaries and affiliates, nonbank financial intermediaries, and subsidiaries and affiliates of non-bank financial intermediaries performing quasi-banking functions, non-bank financial intermediaries performing trust and other fiduciary activities under the General Banking

Law, non-stock and savings loans associations under Republic Act No. 3779 or the Savings and Loan Association Act, and pawnshops under Presidential Decree No. 114 or the Pawnshop Regulation Act.

Regulation Relating to Capital Structure

Pursuant to the General Banking Law, no entity may operate as a bank without the permit of the BSP through the Monetary Board. The Philippine Securities and Exchange Commission (**SEC**) will not register the incorporation documents of any bank or any amendments thereto without a certificate of authority issued by the Monetary Board.

A bank can only issue par value stocks and it must comply with the minimum capital requirements prescribed by the Monetary Board. A bank cannot purchase or acquire its own capital stock or accept the same as security for a loan, except when authorized by the Monetary Board. All treasury shares of a bank must be sold within six months from the time of purchase or acquisition thereof.

In accordance with BSP Circular No. 854, universal banks are required to have capital accounts of at least ₱3 billion for a bank with only a head office, ₱6 billion for a universal bank with up to 10 branches (inclusive of head office), ₱15 billion for a universal bank with 11 to 100 branches (inclusive of head office), and ₱20 billion for a universal bank with more than 100 branches (inclusive of head office). On the other hand, commercial banks are required to have capital accounts of at least ₱2 billion for a commercial bank with only a head office, ₱4 billion for a commercial bank with up to 10 branches (inclusive of head office), ₱10 billion for a commercial bank with 11 to 100 branches (inclusive of head office), and ₱15 billion for a commercial bank with more than 100 branches (inclusive of head office). Thrift banks which maintain only a head office in the National Capital Region are required to have capital accounts of at least ₱500 million, ₱750 million for a thrift bank with up to 10 branches (inclusive of head office), ₱1 billion for a thrift bank with 11 to 50 branches (inclusive of head office) and ₱2 billion for a thrift bank with more than 50 branches (inclusive of head office). These minimum levels of capitalization may be changed by the Monetary Board from time to time.

For purposes of these requirements, the BSP MORB states that the term capital shall be synonymous to unimpaired capital and surplus, combined capital accounts and net worth and shall refer to the total of the unimpaired paid-in capital, surplus and undivided profits, less:

- (a) treasury stock;
- (b) unbooked allowance for probable losses (including allowance for credit losses and impairment losses) and other capital adjustments as may be required by the BSP;
- (c) total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI granted by the bank;
- (d) total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates;
- (e) total outstanding unsecured loans, other credit accommodations and guarantees granted to related parties that are not at an arm's length terms;
- (f) deferred tax assets that rely on future profitability of the bank to be realized net of any (i) allowance for impairment and (ii) associated deferred tax liability if the conditions cited in PAS 12 on income taxes are met, provided that, if the resulting net figure is a net deferred tax liability, such excess cannot be added to net worth;
- (g) reciprocal investment in equity of other banks or enterprises, whether foreign or domestic, the deduction shall be the lower of the investment of the bank or the reciprocal investment of the other bank or enterprise; and
- (h) in the case of rural banks and cooperative banks, the government counterpart equity, except those arising from conversion of arrearages under the BSP rehabilitation program.

According to BSP Circular No. 1027 dated 28 December 2018, deposits for stock subscription recognized as equity pursuant to Section X128 of the Manual shall be added to capital. On 15 July 2014, Republic Act No. 10641 or "An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act No. 7721" (RA 10641) further liberalized the industry by providing that the Monetary Board may authorize foreign banks to acquire up to 100% (previously 60%) of the voting stock of one domestic bank. Under RA 10641, established, reputable and financially sound foreign banks may be authorized by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (i) by acquiring, purchasing or owning up to one

hundred percent (100%) of the voting stock of an existing bank; (ii) by investing in up to one hundred percent (100%) of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (iii) by establishing branches with full banking authority. Additionally, such foreign bank must be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. A foreign bank branch authorized to do banking business in the Philippines under RA 10641 may open up to five sub-branches as may be approved by the Monetary Board. On the other hand, locally incorporated subsidiaries of foreign banks authorized to do banking business in the Philippines under RA 10641 shall have the same branching privileges as domestic banks of the same category. Privileges shall include the eligibility to operate under a universal banking authority subject to compliance with existing rules and regulations. Notwithstanding the entry of foreign banks, the BSP is mandated to adopt necessary measures to ensure that at all times the control of 60% of the resources or assets of the entire banking system is held by domestic banks, which are majority-owned by Filipinos.

Under RA 10641, the Monetary Board is authorized to issue such rules and regulations as may be needed to implement the provisions of RA 10641. On 06 November 2014, the Monetary Board issued Resolution No. 1794 providing for the implementing rules and regulations of RA 10641 and on 21 November 2014, the BSP issued Circular No. 858, amending the relevant provisions of the BSP MORB with respect to the entry and operations of foreign banks, accordingly. On 15 February 2016, BSP issued Circular No. 902, Series of 2016 to implement the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks pursuant to its policy to promote a competitive banking environment.

Under the General Banking Law, individuals related to each other within the fourth degree of consanguinity or affinity, whether legitimate, illegitimate or common-law, are considered family groups or related interests and must be fully disclosed in all transactions by such an individual with the bank. Moreover, two or more corporations owned or controlled by the same family group or same group of persons are considered related interests, which must be fully disclosed in all transactions with the bank.

A bank cannot declare dividends greater than its accumulated net profits on hand deducting therefrom its losses and bad debts. A bank cannot also declare dividends if at the time of declaration:

- (a) its clearing account with the BSP is overdrawn;
- (b) it is deficient in the required liquidity floor requirement for government funds;
- (c) it is not compliant with the minimum capitalization requirement and risk-based capital ratios as provided under applicable and existing capital adequacy framework;
- (d) it is not compliant with the combined requirement for capital conservation buffer requirement and countercyclical capital buffer as defined in Appendix 63b, Part III of the BSP MORB;
- (e) it is not compliant with the higher loss absorbency (**HLA**) requirement, phased-in starting 01 January 2017 with full implementation by 01 January 2019, in accordance with the DSIB framework as provided under Sec. X128 of the BSP MORB, for universal and commercial banks and their subsidiary banks and quasi-banks that are identified as DSIBs; or
- (f) it has committed any unsafe or unsound banking practice as defined under existing regulations and/or major acts or omissions as determined by the BSP to be grounds for suspension of dividend distribution, unless this has been addressed by the bank as confirmed by the Monetary Board or the Deputy Governor of the SES.

Banks are required to ensure compliance with the minimum capital requirements and risk-based capital ratios even after the dividend distribution.

Regulations with Respect to Branches

Universal and commercial banks may open branches within or outside the Philippines upon prior approval of the BSP, as provided under Section 20 of the General Banking Law. The same provision of the law also allows banks, with prior approval from the Monetary Board, to use any or all of their branches as outlets for the presentation and/or sale of financial products of their allied undertakings or investment house units. In line with this, BSP Circular No. 854 Series of 2014 provides various minimum capitalization requirements for branches of banks, depending on the number of branches (e.g., ranging from a minimum of ₱6 billion for up to 10 branches of universal banks (inclusive of the head office) to a maximum of ₱20 billion for more than 100 branches of universal banks (inclusive of the head office)). BSP Circular No. 1151 (Series of 2022) increased the minimum capital requirements for rural banks as part of

the Rural Bank Strengthening Program of the BSP, requiring capitalization ranging from a minimum of ₱50 million for up to ₱200 million for more than 10 branches of rural banks.

The Bank may apply to the BSP for the establishment of branches outside its principal or head office. Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Pursuant to BSP Circular No. 759, issued on 30 May 2012, once approved, a branch should be opened within three years from the date of approval. Pursuant to BSP Circular No. 505, issued on 22 December 2005, banks are allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Manila, Paranaque, Pasay, Pasig and Quezon and the municipality of San Juan, Metro Manila. However, this branching restriction was liberalized pursuant to BSP Circular No. 728, issued on 23 June 2011. Thereafter, BSP Circular No. 759 further liberalized its policy on the establishment of branches by removing the limit set on the number of branches allowed to be applied for by a bank.

On 28 December 2017, BSP Circular No. 987 was issued, providing the guidelines on the establishment of branch-lite units amending relevant provisions of the BSP MORB. A branch-lite unit refers to any permanent office or place of business of a bank, other than its head office or a branch which performs limited banking activities and records its transactions in the books of the head office or the branch to which it is annexed.

Regulations with Respect to Management of Banks

The board of directors of a bank must have at least five and a maximum of 15 members. According to Republic Act No. 11232, or the Revised Corporation Code (**RCC**), the board of banks and quasi-banks must have independent directors comprising at least 20% of such board. In case of merged or consolidated banks, the number of directors shall not exceed 21. An independent director is a person who is not an officer or employee of a bank, its subsidiaries or affiliate or related interests during the past three (3) years counted from the date of his election/ appointment. Foreigners are allowed to have board seats to the extent of the foreign equity in the bank.

The RCC also requires a compliance officer for corporations vested with public interest. Material contracts of a corporation vested with public interest with one or more of its directors, trustees, officers or their spouses and relatives within the fourth civil degree of consanguinity or affinity must also be approved by at least two-thirds (2/3) of the members of the board, with at least majority of the independent directors approving the same, in addition to common requirements for similar contracts for other companies pursuant to Section 31 of the RCC.

The Monetary Board shall issue regulations that provide for the qualifications and disqualifications to become a director or officer of a bank. After due notice to the board of directors of a bank, the Monetary Board may disqualify, suspend or remove any bank director or officer who commits or omits to perform an act which renders him unfit for the position.

The Monetary Board may regulate the payment by the bank of compensation, allowances, bonus, fees, stock options and fringe benefits to the bank officers and directors only in exceptional cases such as when a bank is under conservatorship, or is found by the Monetary Board to be conducting business in an unsafe or unsound manner or when the Monetary Board deems it to be in unsatisfactory condition.

Except in cases allowed under the Rural Bank Act and BSP Circular No. 1076, Series of 2020, no appointive or elective public official, whether full time or part time, may serve as officer of any private bank, except if the service is incidental to financial assistance provided by government or government owned and controlled corporation or when allowed by law.

Regulations with Respect to Bank Operations

A universal bank, such as the Bank, may open branches or offices within or outside the Philippine subject to the prior approval by the BSP. A bank and its branches and offices is treated as one unit. A bank, with prior approval of the BSP, may likewise use any of its branches as outlets for the presentation and/or sale of financial products of its allied undertakings or investment house units.

The Monetary Board shall prescribe the minimum ratio which the net worth of a bank must bear to its total risk assets which may include contingent accounts. In connection thereto, the Monetary Board may require that the ratio be determined on the basis of the net worth and risk assets of a bank, its subsidiaries, financial or otherwise, and prescribe the composition and the manner of determining the net worth and total risk assets of such bank and its subsidiaries. To ensure compliance with the set minimum ratio, the Monetary Board may limit or prohibit the distribution of net profits by such bank and require that such net profit be used to increase the capital accounts of the bank until the minimum requirement has been met. It may also restrict or prohibit acquisition of major assets and the making of new investments by the bank. A universal bank has the authority to exercise and perform: (a) activities allowed for commercial banks; (b) powers of an investment house; (c) investment in non-allied enterprises.

Capital Adequacy Requirements

The Philippines adopted capital requirements based on the Basel Capital Accord in July 2001.

BSP Circular No. 538, which took effect on 01 July 2007, serves as the implementing guideline of the revised International Convergence of Capital Measurement and Capital Standards known as Basel II.

In December 2010, a new update to the Basel Accords, known as Basel III, was issued by the Basel Committee on Banking Supervision (the **Basel Committee**) containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers and short and medium-term quantitative liquidity ratios. To align with international standards, the BSP issued BSP Circular No. 709 effective 01 January 2011, which adopted part of the Basel Committee's eligibility criteria to determine eligibility of capital instruments to be issued by Philippine banks and quasi-banks as Hybrid Tier 1 capital and Tier 2 capital.

In January 2012, the BSP announced that the Philippines' universal and commercial banks, including their subsidiary banks and quasi-banks, were required to adopt in full the capital adequacy standards under Basel III which took effect from 1 January 2014. It aims to replace Basel II, to further strengthen the local bank's loss absorption capacity and encourage banks to rely more on core capital instruments like Common Equity Tier (**CET**) 1 and Tier 1 issues.

BSP Memorandum No. M2012-002 outlines BSP's proposed new minimum ratios and conservation buffers. The revised risk-based capital adequacy framework (which will also cover risk measurement enhancement and provisions concerning the use of third party credit assessment agencies) took effect on 01 January 2014. On 15 January 2013, the BSP issued the implementing guidelines for the adoption on 1 January 2014 of the revised capital standards under the Basel III accord for universal and commercial banks.

The guidelines set new regulatory ratios for banks to meet specific minimum thresholds for CET1 capital and Tier 1 capital in addition to the CAR. The BSP maintained the minimum CAR at 10.0% and set a minimum CET1 ratio of 6.0% and a minimum Tier 1 capital ratio of 7.5%. The new guidelines also introduced a capital conservation buffer of 2.5% which is made up of CET1 capital. Under BSP Circular No. 1027 dated 28 December 2018, net due from head office, branches and subsidiaries outside the Philippines of foreign banks branches, excluding accumulated net earnings is required to be deducted from CET1 capital.

On 27 June 2014, the BSP issued Circular No. 839 requiring banks to undergo real estate stress test (**REST**) while setting prudential limits for banks' Real Estate Exposures (**REEs**) to ensure that they have adequate capital to absorb potential losses to the property sector. On 13 August 2020, the Monetary Board increased the total real estate loan limit from 20% to 25% of the total loan portfolio, net of interbank loans, of universal and commercial banks. A stress test will be undertaken on a universal and commercial bank's real estate exposure under an assumed write-off of 25%.

On 29 October 2014, the Monetary Board approved the guidelines for the implementation of higher capital requirements on DSIBs by the BSP under Basel III. Banks deemed DSIBs by the BSP are required to maintain capital surcharges to enhance their loss absorbency and thus mitigate any adverse side effects both to the banking system and to the economy should any of the DSIBs fail. The assessment started in 2014 with the BSP informing banks confidentially of their DSIB statuses in 2015. To determine the banks' systemic importance, the BSP will assess and assign weights using the indicator-based measurement approach based on the following: size, interconnectedness, substitutability, and complexity. Depending on how they score against these indicators and the buckets to which the scores correspond, the DSIBs will have varying levels of additional loss absorbency requirements ranging from 1.5% to 2.5%. Aside from the added capital pressure, DSIBs may be put at an undue disadvantage compared to Global Systemically Important Banks (**GSIBs**) given that this framework was patterned for regional/global banks and thus may not be appropriate for local banks. The phased-in compliance started on 1 January 2017 and became fully effective on 1 January 2019.

In May 2015, the BSP approved the guidelines for the implementation of Basel III leverage ratios (calculated by dividing banks' Tier 1 capital over its total on-book and off-book exposure). Under the BSP Circular No. 881, universal and commercial banks are required to maintain a minimum leverage ratio of 5%, which is more stringent than the 3% minimum leverage ratio under Basel III by 1 January 2017. The leverage ratio serves as a backstop measure to the risk-based capital requirements. While this has no material impact given that Philippine banks' ratios are above the required minimum, the leverage ratio along with other pending components of Basel III point to an increasing regulatory burden on banks. Additional requirements imposed under Basel III included the Liquidity Coverage Ratio (**LCR**) and the Net Stable Funding Ratio (**NSFR**). The LCR requires banks to hold a sufficient level of High-Quality Liquid Assets (**HQLAs**) to enable them to withstand a 30 day-liquidity stress scenario. Banks have been required to meet an LCR threshold of 100% beginning on January 1, 2019. The NSFR requires that banks' assets

and activities are structurally funded with long-term and more stable funding sources. As of 01 January 2020, the minimum 100% NSFR became effective for subsidiary banks and quasi-banks of universal and commercial banks. Compliance with these ratios may also further increase competition among banks for deposits as well as high quality liquid assets. While both ratios are intended to strengthen banks' ability to absorb shocks and minimise negative spillovers to the real economy, compliance with these ratios may further increase competition among banks for deposits as well as HQLAs.

In addition, Basel III capital rules for banks include setting up a countercyclical capital buffer (**CCyB**) wherein banks build up the required level of capital during boom times and draw down on the buffer in the event of an adverse turn in the cycle or during periods of stress, thus helping to absorb losses. On 6 December 2018, the BSP issued. BSP Circular No. 1024 imposes a capital conservation buffer (**CCB**) of 2.5% and a CCyB of 0% subject to upwards adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed 2.5%. Any increase in the CCyB rate shall be effective 12 months after its announcement, while decreases will be effective immediately. The circular further provides that the HLA requirement is required to be on top of the combined requirement for CCB and CCyB. Under the Bank for International Settlements (**BIS**), the CCB became fully effective on 01 January 2019.

BSP Circular No. 1051, issued on 27 September 2019, amended the framework for dealing with D-SIBs. For the lower bucket, a minimum HLA requirement of 1.5% of risk-weighted assets at all times was imposed. For the higher populated bucket, the HLA requirement ranges from above 1.5% to 2% of risk-weighted assets. An empty top bucket with HLA requirement of 2.5% of risk-weighted assets shall also be maintained. The differentiated HLA requirement for D-SIBs slotted under the higher-populated bucket is to be based on the ranking of a bank's overall systemic importance through the use of the indicator-based measurement approach. An equation is provided in BSP Circular No. 1051 for computing the additional loss absorbency requirement for D-SIBs slotted under the higher-populated bucket.

The HLA requirement shall also be on top of the combined requirement for CCB and CCyB, as determined under BSP Circular No. 1051. This Circular provides for restrictions on distributions, depending on the CCyB rate of the bank. However, payments which do not result in the depletion of CET1 capital are not considered capital distributions. D-SIBs are also subjected to greater supervisory requirements such as additional disclosures and reports in its ICAAP. These requirements may lead to such banks to hold even higher minimum levels of capital compared with the levels above.

Reserve Requirements

The BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios under the New Central Bank Act. If a bank fails to meet this reserve requirement during a particular week on an average basis, it must pay a penalty to the BSP on the amount of any deficiency.

BSP Circular 1176 issued on 29 June 2023 supplemented prior circulars and provides that universal and commercial banks are required to maintain regular reserves of: (a) 9.5% against demand deposits, NOW accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable CTDs, long-term non-negotiable tax-exempt CTDs, deposit substitutes, Peso deposits lodged under due to foreign banks, and Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank); (b) 0% against deposit substitutes evidenced by repurchase agreements; (c) 4% against long-term negotiable certificates of time deposits; (d) 3% against bonds; and (e) 0% against basic deposit accounts as defined under Section X222 of the MORB and for interbank call loan transactions.

Credit Quotas for Agricultural and Fisheries Financing

Republic Act No. 11901, or the Agricultural, Fisheries and Rural Development Financing Enhancement Act of 2022 (**Agri-Agra Law**), which lapsed into law on July 28, 2022 and repealed Republic Act No. 10000 or The Agri-Agra Reform Credit Act of 2009. The Agri-Agra Law mandates all banking institutions, whether private or government, to set aside at least 25% of their total loanable funds for agriculture and fisheries credit in general. The law gives more flexibility to the banks in extending credit to the agriculture and agrarian reform sectors as the law removed the required allocation of credit between the agrarian reform beneficiaries (10%) and agricultural beneficiaries (15%) under the Agri-Agra Law. Under the law, banks may also comply through the various alternative forms of compliance.

Banks that fail to comply or only partially comply with the minimum requirements under the Agri-Agra Law shall be penalized by the BSP with an annual monetary penalty and/or administrative sanctions. The law also provides that banks which are unable to directly lend to rural community beneficiaries may invest in debt and equity securities,

undertake agricultural value chain financing, and grant agri-business loans to fund agricultural and community-enhancing activities, among others.

Limitations on Operations

The Single Borrower's Limit

Except as prescribed by Monetary Board for reasons of national interest, the total amount of loans, credit accommodations and guarantees that may be extended by a bank to any person, partnership, association, corporation or other entity shall at no time exceed twenty-five percent (25%) of the net worth of such bank. The basis for determining compliance with the single borrower's limit (SBL) is the total credit commitment of the bank to or on behalf of the borrower. The total amount of loans, credit accommodations and guarantees above may be increased for specific circumstances as laid out in the relevant provision of the BSP MORB.

BSP Circular 779 issued on 09 January 2013, amended the BSP MORB provisions on Regulations on Single Borrower's Limit. The amendments allowed for increases (on top of the 25% as already mentioned) on the amount of loans, credit accommodations and guarantees that a bank may issue to a borrower. The following are the increases that are conditional: (a) an additional 10% of the net worth of the bank as long as the additional liabilities are secured by shipping documents, trust or warehouse receipts or other similar documents which cover marketable, non-perishable goods which must be fully covered by insurance, (b) an additional 25% of the net worth of the bank provided that: (i) the additional loans, credit accommodations and guarantees are used to finance the infrastructure and/or development projects under PDP/PIP; (ii) these additional liabilities should not exceed 25% of the net worth of the bank; and (iii) the additional 25% shall only be allowed for a period of six years from 06 December 2010; and (c) an additional 15% of the net worth of the bank provided that the additional loans, credit accommodations and guarantees are used to finance oil importation of oil companies which are not subsidiaries or affiliates of the lending bank which is also engaged in energy and power generation.

The SBL limitations shall not apply to (a) loans and other credit accommodations secured by obligations of the BSP or of the Government; (b) loans and other credit accommodations fully guaranteed by the Government as to the payment of principal and interest; (c) loans and other credit accommodations secured by U.S. Treasury Notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted rating agencies; (d) loans and other credit accommodations to the extent covered by the hold-out on or assignment of, deposits maintained in the lending bank and held in the Philippines; (e) loans, credit accommodations and acceptances under letters of credit to the extent covered by margin deposits; and (f) other loans or credit accommodations which the Monetary Board may from time to time specify as non-risk items. On 30 April 2018, the BSP issued BSP Circular No. 1001 which provided for a separate individual limit of 25.0% of the net worth of the lending bank for loans, credit accommodations and guarantees granted by a bank to an entity for the purpose of project finance.

To mitigate the adverse effects of the COVID-19 pandemic on the operations of BSFIs, the BSP issued BSP Memorandum No. M-2020-011 dated 19 March 2020 and Memorandum No. M-2020-057 dated 21 July 2020, which granted additional operational relief to BSFIs. The relief measures include an increase in this single borrower's limit from 25% to 30% until 31 March 2021, which was extended until 31 December 2022 by Memorandum No. M-2022-004. On 13 December 2023, the BSP issued Circular No. 1185 which approved the grant of additional single borrower's limit of 15% percent of net worth on loans, credit accommodation and guarantees for the purpose of financing eligible green or sustainable projects, including transitional activities related to decarbonization.

On 22 July 2020, the BSP issued BSP Memorandum Circular No. 1091, excluding debt securities held by market makers from the SBL for a period not exceeding 90 days if acquired from 1 August 2020 to 31 July 2021 and for a period of 60 days if acquired from 1 August 2021 onwards. On 5 January 2023, the BSP issued Circular No. 1164 which provided for minimum operational requirements for credit risk transfer agreements to be excluded from the total credit commitment of a bank to a borrower in reckoning compliance with the SBL. In addition, this circular also amended the definition of capital.

Limitation on DOSRI Transactions

No director or officer of any bank may directly or indirectly, for himself or as the representative or agent of others, borrow from such bank nor may become a guarantor, endorser or surety for loans from such bank to others, or in the manner be an obligor or incur any contractual liability to the bank except with the written approval of the majority of all the directors of the bank, excluding the director concerned. After due notice to the board of directors of the bank, the office of any officer or director who violates the DOSRI limitation may be declared vacant and such erring officer or director will be subject to the penal provisions of the New Central Bank Act.

On 2 June 2016, the Monetary Board approved the revisions to prudential policies on loans, other credit accommodations and guarantees granted to DOSRIs. The Monetary Board allowed the exclusion of loans granted by a bank to its DOSRI for the purpose of project finance from the 30% unsecured individual ceiling during the project gestation phase, provided that the lending bank shall ensure that standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include a pledge of the borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts and assignment of project documents.

On 23 June 2016, the BSP issued Circular No. 914, Series of 2016, amending the prudential policy on loans, other credit accommodations, and guarantees granted to DOSRI, subsidiaries and affiliates. Circular No. 914 has raised the ceilings on the exposure of subsidiaries and affiliates of banks to priority programs, particularly infrastructure projects under the Philippine Development Plan / Public Investment Program (**PDP/PIP**) needed to support economic growth. The exposures to subsidiaries and affiliates in PDP/PIP projects will now be subject to higher individual and unsecured limits of 25% instead of 10% and 12.5% instead of 5% of the net worth of the lending bank, respectively, subject to certain conditions. Further, the circular also provides for a refined definition of "related interest" and "affiliates" to maintain the prudential requirements and pre-empt potential abuse in a borrowing transaction between the related entities. The circular also amends the capital treatment of exposures to affiliates by weighing the risk of both the secured and unsecured loans granted to the latter.

Limitations on Loans and Credit Accommodations

As a general rule, loan and other credit accommodation against real estate by a bank shall not exceed 70% of the appraised value of the real estate security plus 70% of the appraised value of the insured improvements and such loans shall not be made unless title to the real estate rests with the mortgagor. In the case of universal and commercial banks, the loan values of real estate given as security for any loan granted will be reduced from 70% to not more than 60% of the appraised value of the real estate security and the insured improvements, except the following which are allowed a maximum value of 70% of the appraised value (a) residential loans not exceeding ₱3.5 million to finance the acquisition or improvement of residential units; and (b) housing loans extended by or guaranteed under the Government's "National Shelter Program", such as the expanded housing loans program of the home development mutual fund and the mortgage and guaranty and credit insurance program of the Home Insurance and Guaranty Corporation. Prior to lending on an unsecured basis, a bank must investigate the borrower's financial position and ability to service the debt and must obtain certain documentation from the borrower, such as financial statements and tax returns. Any unsecured lending should be only for a time period essential for completion of the operations to be financed. Likewise, loans against chattels and intangible properties shall not exceed 75% of the appraised value of the security and such loans may be made to the title-holder of the unencumbered chattels and intangible properties or his assignee.

On 4 February 2008, the BSP issued Circular No. 600 removing interbank loans from the total loan base to be used in computing the aggregate limit on real estate loans and amending the inclusions and exclusions to be observed in the computation.

On 10 October 2017, the BSP issued Circular No. 976 which approved amendments to the expanded report on the real estate exposure of banks and required the submission of a report on project finance exposures to enable the BSP to gather more granular information regarding these exposures. It also clarified the definition of loans to finance infrastructure projects for public use that are currently exempt from the 20% limit on real estate loans.

On 27 October 2017, the BSP issued BSP Circular No. 978 which provided for exclusion of the portion of loans and other credit accommodation covered by guarantees of international/regional institutions/multilateral financial institutions where the Philippine Government is a member/shareholder, from the ceilings on total outstanding loans, other credit accommodations and guarantees granted to banks' subsidiaries and affiliates. BSP Circular No. 978 excluded the following in determining compliance with the ceilings provided under BSP Circular No. 914: (1) loans, other credit accommodations and guarantees secured by assets considered as non-risk under existing BSP regulations; (2) interbank call loans; and (3) the portion of loans and other credit accommodations covered by guarantees of international/regional institutions/multilateral financial institutions where the Philippine Government is a member/shareholder, such as the International Finance Corporation and the Asian Development Bank.

Limitation on Investments

The total investment of a universal bank in equities of allied and non-allied enterprises shall not exceed 50% of the net worth of the said universal bank. Moreover, the equity investment in any one enterprise whether allied or non-allied, shall not exceed 25% of the net worth of the universal bank. Net worth for this purpose is defined as the total unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by the BSP. The Monetary Board must approve such acquisition of equities.

Further, the BSP may impose conditions on the any approval of a major investment and has the authority to seek corrective action.

A universal bank can own up to 100% of the equity in a thrift bank, a rural bank or a financial or non-financial allied enterprise. A publicly listed universal bank, such as the Bank, may own up to 100% of the voting stock of only one other universal or commercial bank. However, with respect to non-allied enterprise, the equity investment in such enterprise by a universal bank shall not exceed 35% of the total equity in the enterprise nor shall it exceed 35% of the voting stock in that enterprise.

A bank's total investment in real estate and improvements including bank equipment shall not exceed 50% of the combined capital accounts. Further, the bank's investment in another corporation engaged primarily in real estate is considered as part of the bank's total investment in real estate, unless otherwise provided by the Monetary Board.

The limitation stated above shall not apply with respect to real estate acquired by way of satisfaction of claims. However, all these properties must be disposed by the bank within a period of five years or as may be prescribed by the Monetary Board. In addition, the Monetary Board recently approved BSP Circular No. 1042, series of 2019, containing the guidelines on sound risk management practices pertaining to investment activities of a bank.

Prohibition to Act as Insurer

A bank is prohibited from directly engaging in insurance business as the insurer.

Permitted Services

In addition to the operations incidental to its banking functions, a bank may perform the following services:

- (a) receive in custody funds, documents and valuable objects;
- (b) act as financial agent and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities;
- (c) upon prior approval of the Monetary Board, act as the managing agent, adviser, consultant or administrator of investment management/advisory/consultancy accounts; and
- (d) rent out safety deposit boxes.

Anti-Money Laundering Act 2001 and Related Laws

The Anti-Money Laundering Act of 2001, as amended, (AMLA) requires covered institutions such as banks including its subsidiaries and affiliates, to provide for customer identification, keep records and report covered and suspicious transactions. Republic Act No. 10168 enacted on 18 June 2012 expanded the AMLA to include the crime of financing terrorism.

The AMLA was further amended through Republic Act No. 10365, approved on 15 February 2013, which expanded the coverage of the AMLA to encompass "covered persons, natural or juridical." Additions to the enumeration of covered persons include jewellery dealers for transactions in excess of ₱1.0 million; company service providers, or those who form companies for third parties, hold positions as directors or corporate secretaries for third parties, provide business addresses or engage in correspondence or act as nominee shareholder for others. Likewise, the following persons were added to the list: persons (a) who manage their client's money, security or other assets, or (b) who manage bank or securities accounts, or (c) who organise funds for the creation, operation or management of companies, or (d) who create, operate or manage entities or relationships, or (e) buy and sell business entities.

Money laundering is committed by any person who, knowing that any monetary instrument or property represents, involves or relates to the proceeds of any unlawful activity defined under the law:

- (a) transacts said monetary instrument or property;
- (b) converts, transfers, disposes of, moves, acquires, possesses or uses said monetary instrument or property;
- (c) conceals or disguises the true nature, source, location, disposition, movement or ownership or of rights with respect to said monetary instrument or property;
- (d) attempts or conspires to commit money laundering offences referred to in paragraphs (a), (b), or (c);
- (e) aids, abets, assists in or counsels the commission of the money laundering offences referred to in paragraphs (a), (b) or (c);

- (f) performs or fails to perform any act as a result of which he facilitates the offence of money laundering referred to in (a), (b) or (c); and
- (g) knowingly fails to disclose and file with Anti-Money Laundering Council (AMLC) any monetary instrument or property required to be disclosed and filed.

Under AMLA, banks, as covered persons, are required to report to the AMLC all covered transactions and suspicious transactions within a period of five working days from occurrence thereof, unless the AMLC prescribes a different period not exceeding 15 working days. The Court of Appeals of the Philippines (**Court of Appeals**), upon verified ex-parte application by the AMLC and after determination that probable cause exists that any monetary instrument or property is in any way related to an unlawful activity as defined in the AMLA, has the authority to issue a freeze order which is effective immediately, and which shall not exceed six months depending upon the circumstances of the case. However, if no case is filed against a person whose account has been frozen within the period determined by the Court of Appeals (but not exceeding six months), the freeze order is deemed automatically lifted, provided, that a freeze order is without prejudice to an asset preservation order which the relevant trial court may issue upon the same assets. Further, a freeze order or asset preservation order is limited only to the amount of cash or monetary instrument or value of property which the court finds probable cause to consider such property as proceeds of the predicate crime.

BSP Circular No. 495 issued on 20 September 2005, as amended by BSP Circular 527 issued on 28 April 2006, required all universal and commercial banks to adopt an electronic money laundering transaction monitoring system by 14 October 2007. The said system should, at the minimum, be able to detect and raise to the bank's attention, transactions and/or accounts that qualify either as "covered transactions" or "suspicious transactions" as defined under AMLA.

BSP Memorandum No. M2012-017 issued on 04 April 2012, as affirmed by BSP Circular No. 950 issued on 15 March 2017 likewise requires all covered banking institutions to comply with the anti-money laundering risk rating system (**ARRS**), a supervisory system that aims to ensure that mechanisms to prevent money laundering and terrorist funding are in place and effectively implemented in banking institutions.

In July 2017, Republic Act No. 10927 was signed into law, and it further expanded the coverage of AMLA to include cash transactions with or involving real estate developers or brokers exceeding ₱7.5 million, and casinos for a single casino cash transaction involving an amount in excess of ₱5.0 million or its equivalent in any other currency.

Institutions that are subject to AMLA are also required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for a minimum of ten years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

Covered transactions are single transactions in cash or other equivalent monetary instrument involving a total amount in excess of ₱500,000.00 within one Banking Day.

Suspicious transactions are transactions with covered institutions such as a bank, regardless of the amount involved, where any of the following circumstances exists:

- (a) there is no underlying legal or trade obligation, purpose or economic justification;
- (b) the customer or client is not properly identified;
- (c) the amount involved is not commensurate with the business or financial capacity of the client;
- (d) the transaction is structured to avoid being the subject of reporting requirements under the AMLA;
- (e) there is a deviation from the client's profile or past transaction;
- (f) the transaction is related to an unlawful activity or offence under AMLA; or
- (g) similar or analogous transactions to the above.

Failure by any responsible official or employee of a bank to maintain and safely store all records of all transactions of the bank, including closed accounts, for five years from date of transaction/closure of account shall be subject to a penalty of six months to one year imprisonment and/or fine of ₱500,000.00.

Malicious reporting of a completely unwarranted or false information relative to money laundering transaction against any person is punishable by six months to four years imprisonment and a fine of not less than ₱100,000.00 and not more than ₱500,000.00.

In compliance with the law, banks, their officers and employees are prohibited from communicating directly or indirectly to any person or entity the fact that a report was made to the AMLC and any information relating to such report. A violation of the said rule is deemed a criminal act.

On 18 July 2020, Republic Act No. 11479 or the Anti-Terrorism Act of 2020 (**Anti-Terrorism Act**) became effective. The Anti-Terrorism Act repealed Republic Act No. 9372 or the Human Security Act to provide stricter penalties and regulations against the inimical acts of terrorism. Section 35 of the Anti-Terrorism Act authorizes the Anti-Money Laundering Council (**AMLC**), either upon its own initiative or at the request of the Anti-Terrorism Council, to investigate: (a) any property or funds that are in any way related to financing of terrorism or violation of Sections 4, 6, 7, 10, 11, or 12 of the Anti-Terrorism Act; and (b) property or funds of any person or persons in relation to whom there is probable cause to believe that such person or persons are committing or attempting or conspiring to commit, or participating in or facilitating the financing of the aforementioned sections. In this regard, the AMLC is authorized to inquire into or examine deposits and investments with any banking institution or non-bank financial institution and their subsidiaries and affiliates without a court order. It also provides penalties to any person who maliciously, or without authorization, examines deposits, placements, trust accounts, assets, or records in a bank or financial institution and any employee, official, or a member of the board of directors of a bank or financial institution, who after being duly served with the written order of authorization from the Court of Appeals, refuses to allow the examination of the deposits, placements, trust accounts, assets, and records of a terrorist or an outlawed group of persons, organization, or association.

On 23 November 2020, the BSP issued Memorandum No. M-2020-084, which refers to the money laundering/terrorist/proliferation financing risk assessment system (**MRAS**) applicable to BSP-supervised financial institutions.

On 30 March 2023, BSP Circular No. 1170, s. 2023 was issued which amended the provisions of the Manual of Regulation for Banks on Customer Due Diligence (**CDD**). The circular provides that “where a covered person is unable to comply with the relevant CDD measures, considering risk based approach, it shall (a) not open the account, commence business relations, or perform the transaction; or (b) terminate the business relationship; but in both cases, it shall consider filing a suspicious transaction report (**STR**) in relation to the customer.” The circular also includes the guidelines for the use of the Electronic Know Your Customer system as a method of electronically verifying the credentials of a customer.

Revised Corporation Code (RCC)

The RCC was signed into law on 20 February 2019 and became effective on 08 March 2019.

Aside from the discussions above relative to the management of banks, included among the salient features of the RCC are:

- Corporations are granted perpetual existence, unless the articles of incorporation provide otherwise. Perpetual existence shall also benefit corporations whose certificates of incorporation were issued before the effectivity of the Code, unless a corporation, upon a vote of majority of the stockholders of the outstanding capital stock notifies the Philippine SEC that it elects to retain its specific corporate term under its current Articles of Incorporation.
- A corporation vested with public interest must submit to its shareholders and to the Philippine SEC an annual report of the total compensation of each of its directors or trustees, and a director or trustee appraisal or performance report and the standards or criteria used to assess each director, or trustee.
- Banks, quasi-banks, pawnshops, non-stock savings and loan associations (**NSSLA**), and corporations engaged in money service business, preneed trust and insurance companies, and other financial required, must have at least 20% independent directors in the Board, in accordance with the SRC. This requirement also applies to other corporations engaged in businesses imbued with public interest, as may be determined by the Philippine SEC.
- The Code allows the creation of a “One Person Corporation.” However, it expressly prohibits banks and quasi-banks, preneed, trust, insurance, public and publicly listed companies, among others, from being incorporated as such. This restriction also applies with respect to incorporations as Close Corporation.
- Material contracts between the Corporation and its own directors, trustees, officers, or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least two-thirds (2/3) of the entire membership of the Board, with at least a majority of the independent directors voting to approve the same.

- The right of stockholders to vote in the election of directors or trustees, or in shareholders' meetings, may now be done through remote communication or in absentia if authorized by the corporate by-laws. However, as to corporations vested with public interest, these votes are deemed available, even if not expressly stated in the corporate by-laws. The shareholders who participate through remote communication or in absentia are deemed present for purposes of quorum. When attendance, participation and voting are allowed by remote communication or in absentia, the notice of meetings to the stockholders must state the requirements and procedures to be followed when a stockholder or member elects either option.
- As to amendments made to the by-laws of any bank, banking institution, building and loan association, trust company, insurance company, public utility, and other corporations governed by special laws, the Code requires that a prior certificate of the appropriate government agency to the effect that such bylaws or amendments are in accordance with law, must be submitted.
- A favorable recommendation by the appropriate government agency is likewise required for banks or banking institutions, building and loan associations, trust companies, insurance companies, public utilities, and other corporations governed by special laws, before the Commission approves any merger or consolidation; or any voluntary dissolution.
- In case of transfer of shares of listed companies, the Commission may require that these corporations whose securities are traded in trading markets and which can reasonably demonstrate their capability to do so, to issue their securities or shares of stock in uncertificated or scripless form in accordance with the Rules of the Commission.

The RCC refers to the Philippine Competition Act in case of covered transactions under said law involving the sale, lease, exchange, mortgage, pledge, or disposition of properties or assets; increase or decrease in the capital stock, incurring creating or increasing bonded indebtedness; or mergers or consolidations covered by the Philippine Competition Act thresholds.

Bayahinan I

On 24 March 2020, Congress passed Republic Act No. 11469 or the Bayanihan to Heal as One Act (**Bayanihan I**), which confers emergency powers on the President of the Philippines. Section 4(aa) of Bayanihan I directed all banks to implement a grace period for the payment of all loans falling due within the ECQ for a minimum of 30 days, without interests, penalties, and other charges. Under the Bayanihan I, persons with multiple loans were granted a minimum grace period of 30 days for each and every loan.

On 01 April 2020, the BSP issued Memorandum No. M-2020-017 containing the implementing rules and regulations of Section 4(aa) of Bayanihan I. The IRR required banks to implement the 30-day grace period for all loans with principal and/or interest falling due within the ECQ Period, without incurring interest on interest, penalties, fees, or other charges. The grace period provided under the Bayanihan I ceased to be effective on 01 June 2020, as clarified under BSP Memorandum No. M-2020-45. On 24 June 2020, Bayanihan I expired.

Bayanihan II

On 11 September 2020, Congress passed Republic Act No. 11494 or the Bayanihan to Recover as One Act (**Bayanihan II**) to extend the President's emergency powers. Section 4(uu) of Bayanihan II directed all banks to implement a non-extendible, mandatory one-time 60-day grace period for all existing, current, and outstanding loans with principal and/or interest, including amortizations, falling due on or before December 31, 2020 without incurring interest on interests, penalties, fees, or other charges. Parties were not precluded from mutually agreeing to a grace period longer than 60 days.

On 18 September 2020, the BSP issued Memorandum No. M-2020-068 containing the implementing rules and regulations of Section 4(uu) of Bayanihan II. The IRR required banks to implement a mandatory, one-time 60day grace period for all loans with principal and/or interest falling due on or before 31 December 2021, without incurring interest on interest, penalties, fees, or other charges. Bayanihan II expired on 30 June 2021.

Philippine Competition Act

The Philippine Competition Act (the **Competition Act**) was signed into law on 21 July 2015, and took effect on 8 August 2015. The Competition Act is the first anti-trust statute in the Philippines, and it provides the competition framework in the Philippines. The Competition Act was enacted to provide free and fair competition in trade, industry and all commercial economic activities. To implement its objectives, the Competition Act provides for the creation of a Philippine Competition Commission (the **PCC**), an independent quasi-judicial agency, vested with the power to

conduct investigations, issue subpoenas, conduct administrative proceedings and impose administrative fines and penalties. The PCC must apply for a warrant with the relevant court to conduct a search and seizure PCC prohibits anti-competitive agreements between or among competitors and mergers and acquisitions which have the object or effect of substantially preventing, restricting or lessening competition. It also prohibits practices which involve abuse of a dominant position.

On 3 June 2016, the PCC issued the Implementing Rules and Regulations of the Philippine Competition Act (**PCA IRR**). Under the PCA IRR (as amended by PCC Advisory No. 2019-001 (**Advisory**), which became effective on 1 March 2019, as a general rule, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of at least one of the acquiring or the acquired entities, including the entities that the ultimate parent entity controls, exceeds ₱5.6 billion (**Size of Party**); and (b) the value of the transaction exceeds ₱2.2 billion (**Size of Transaction**), as determined in the Advisory. Parties to a joint venture transaction are required to provide notification if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2.2 billion, or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2.2 billion.

In response to the COVID-19 pandemic, Republic Act No. 11494, otherwise known as the “Bayanihan to Recover as One Act” was signed into law and became effective on 15 September 2020. Under this law, all mergers and acquisitions entered into within a period of two (2) years from its effectivity, with transaction values below ₱50 billion shall be exempt from compulsory notification under the Competition Act. On 05 October 2020, the PCC issued the Rules for the Implementation of Section 4 (eee) of Republic Act No. 11494 relating to the review of mergers and acquisitions, which set temporary thresholds of up to ₱50.0 billion for Size of Party and Size of Transaction, valid until 15 September 2022.

Effective 16 September 2022, and with the expiration of the 2-year moratorium under the Bayanihan to Recover as One Act, the PCC provisionally set the thresholds in relation to the Size of Party and Size of Transaction tests by increasing these to ₱6.1 billion and ₱2.5 billion, respectively. Recently under PCC Resolution No, 01-2024, the PCC increased the thresholds in relation to the Size of Party and Size of Transaction tests by increasing these further to ₱7.8 billion and ₱3.2 billion, respectively.

Under the Competition Act and the PCA IRR, a transaction that meets the thresholds and does not comply with the notification requirements and waiting periods are considered void and will subject the parties to an administrative fine of 1% to 5% of the value of the transaction. Administrative fines of up to ₱250.0 million may also be imposed by the PCC on entities that: (a) enter into anti-competitive agreements between competitors that are either prohibited per se or that have the object of substantially preventing, restricting or lessening competition by setting, limiting or controlling production, markets, technical development or investment or by dividing or sharing the market or (b) fail to comply with the compulsory notification and/or enter into prohibited mergers and acquisitions. An entity that enters into anti-competitive agreements, may also be sentenced to imprisonment from two to seven years and a fine of not less than ₱50 million to ₱250 million. The penalty of imprisonment is imposed on the directors and/or management personnel who are knowingly and willfully responsible for the violation. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

On 15 September 2017, the PCC issued the 2017 Rules of Procedure which apply to investigations, hearings, and proceedings of the PCC, except to matters involving mergers and acquisitions unless otherwise provided. It prescribes procedures for fact-finding or preliminary inquiry and full administrative investigations by the PCC. The Rules also include non-adversarial remedies such as the issuance of binding rulings, show cause orders and consent orders.

On 10 September 2019, the Supreme Court of the Philippines approved the Rules on Administrative Search and Inspection under the Competition Act. The rules govern the application, issuance, and enforcement of inspection orders for administrative investigations of alleged violations of the Competition Act.

On 19 January 2021, the PCC issued Memorandum Circular No. 21-001 adjusting the schedule of fines for violations of the 2017 Rules of Procedure and the Rules of Merger Procedure. The amount of administrative fines may range from to up to ₱275 million. Commitment of acts such as, failure to comply with a ruling, order, or decision of the PCC or the disclosure, publication, transfer, copying or dissemination of confidential information may amount to a fine of ₱55,000.00 up to ₱2.2 million.

On 18 May 2023, the PCC issued the Non-Horizontal Merger Guidelines that aim to strengthen the transparency of the analytical process undertaken by the PCC when reviewing mergers and acquisitions. Th Guidelines on substantive non-horizontal merger analysis were issued pursuant to Section 16 of the Competition Act and are supplementary to the 2018 PCC Merger Review Guidelines.

On 21 August 2023, the PCC issued the Guidelines for the *Motu Proprio* Review of Mergers and Acquisitions in Digital Markets. The Guidelines were issued to provide greater transparency and predictability over the PCC's power of *motu proprio* review of mergers and acquisitions, by providing a non-exhaustive list of transactions that PCC believes may indicate competition issues in the digital market, thus potentially triggering *motu proprio* review by the PCC.

Data Privacy Act

Republic Act No. 10173, otherwise known as the Data Privacy Act of 2012 (**Data Privacy Act**), was signed into law on 15 August 2012. This Act governs the processing of all types of personal information (i.e., personal, sensitive, and privileged information) in the hands of the government or private natural or juridical person through the use of Information and Communications System (**ICT**), which refers to a system for generating, sending, receiving, storing or otherwise processing electronic data messages or electronic documents and includes the computer system or other similar device by or which data is recorded, transmitted or stored and any procedure related to the recording, transmission or storage of electronic data, electronic message, or electronic document. While the law provides that it does not apply to information necessary for banks and other financial institutions under the jurisdiction of BSP to comply with the AMLA and other applicable laws, the said law applies to all other personal information obtained by banks for other purposes.

It mandated the creation of a National Privacy Commission (**NPC**), which shall administer and implement the provisions of the Data Privacy Act and ensure compliance of the Philippines with international standards set for data protection. The Philippines recognizes the need to protect the fundamental human right of privacy and of communication, while ensuring free flow of information to promote innovation and growth. It also identifies the vital role of information and communications technology in nation building and its inherent obligation to ensure that personal information in ICT in the government and in the private sector are secured and protected.

The Data Privacy Act seeks to protect the confidentiality of “personal information”, which is defined as “any information, whether recorded in material form or not, from which the identity of an individual is apparent or can be reasonably and directly ascertained by the entity holding the information, or when put together with other information would directly and certainly identify an individual.” The law provides for certain rights of a data subject or an individual whose personal information is being processed. The law imposes certain obligations on “personal information controllers” and “personal information processors”. It also provides for penal and monetary sanctions for violations of its provisions.

On 24 August 2016, the National Privacy Commission issued the IRR of the Data Privacy Act.

Electronic Banking Operations

On the conduct of electronic banking, the BSP has prescribed prudential guidelines which refers to systems that enable bank customers to avail themselves of a bank's products and services through a personal computer (using direct modem dial-in, internet access, or both) or a telephone. Applicant banks must prove that they have in place a risk management process that is adequate to assess, control, and monitor any risks arising from the proposed electronic banking activities.

The BSP released guidelines on the protection of electronic banking customers on 1 September 2006. These guidelines provide specific requirements in the following areas: (a) oversight by a bank's board of directors, and other concerned officers over its electronic banking activities; (b) the development of a risk management policy and internal controls over its electronic banking activities; (c) the implementation of a consumer awareness program for the customers of banks; (d) development of policy on disclosures and transparencies, and the availability of electronic banking service; and (e) the development of complaint resolution procedure for unauthorized transactions in electronic banking.

BSP Circular No. 808, dated 22 August 2013, required BSP-supervised institutions to migrate their entire payment network to the more secure Europay, MasterCard and Visa (**EMV**) chip-enabled cards. In 2014, BSP Circular No. 859 set out the EMV Implementation Guidelines which shall govern the implementation for debit cards in any card-accepting devices/terminals. The deadline set for compliance with the migration to the EMV was initially set for 01 January 2017. However, pursuant to BSP Memorandum No. M-2017-019 issued on 09 June 2017, BSFIs are required to fully comply with the EMV requirement by 30 June 2018. Failure to do so is considered a serious offence and will subject these institutions to monetary sanctions provided under relevant provision of the BSP MORB.

BSP issued Circular No. 1033 on 22 February 2019, which amended the BSP MORB by adding regulations on Electronic Payment and Financial Services (**EPFS**). This allows BSP-supervised institution to offer products or

services that would enable its customers to receive payments or initiate financial transactions and other related services through an electronic device such as computer, mobile phone, ATM and other devices.

On 21 January 2022, the BSP issued BSP Circular No. 1135, providing for the Guidelines on the Settlement of Electronic Payments Under the National Retail Payment System (NRPS) Framework. This is in line with the BSP's goal to ensure the efficiency of payment systems in the country. In line with this, the BSP requires BSFIs participating in an Automated Clearing House (ACH) for electronic payments to ensure that the ACH provides certainty of settlements of the multilateral clearing obligations of the clearing participants.

On 7 February 2023, BSP Circular No. 1166 or the Amendments to the Regulations on Electronic Money (E-Money) and the Operations of Electronic Money Issuers (EMI) in the Philippines. The amended guidelines cover BSFIs that issue E-money and engage in the E-money business in the Philippines. Additionally, the amended guidelines provide that banks may offer E-money services subject to prior approval of the BSP under an EPFS license. The guidelines provide for minimum disclosure requirements that BSFIs must include in the terms and conditions that customers must acknowledge prior to the availment of e-money services. Further, the guidelines require BSFIs to have sufficient liquidity requirements to meet E-money redemptions and provide minimum amounts for BSFIs with outstanding E-money balance of at least ₱100 million and those with outstanding E-money balance below ₱100 million.

Under the circular, EMI banks are required to have minimum capitalization, which is the higher of the bank's required capitalization depending on its bank category or the bank's required capitalization based on EMI category. Moreover, large-scale EMI banks are required to have a minimum capital of ₱200 million, whereas small-scale EMI banks are required to have a minimum capital of ₱100 million

Monetary penalty or a non-monetary penalty as may be authorized by the Monetary Board may be imposed as sanction on a BSFI and/or its directors/officers, in case of violation of the guidelines.

Digital Banks

On 26 November 2020, the Monetary Board approved the inclusion of digital banks as a distinct classification of banks. Digital banks offer financial products and services that are processed end-to-end through a digital platform and/or electronic channels without any physical branch or sub-branch or branch-lite unit offering financial products and services. On 2 December 2020, the BSP issued BSP Circular No. 1105 which provides the guidelines on establishment of digital banks. While digital banks have no physical branch or sub-branch or branch-lite unit, digital banks are required to maintain a principal or head office in the Philippines to serve as the main point of contact for stakeholders, including the BSP and other regulators. Pursuant to the accelerated digitalization in the financial industry, the BSP issued Memorandum No. M-2022-016 on 22 March 2022, which provides the controls and processes supporting the operation, connectivity, and endpoint security of Application Programming Interface (API) and the good practices for API management.

Related Party Transactions

On 14 December 2015, the BSP announced that it approved guidelines strengthening oversight and control standards for managing related party transactions. The guidelines highlight that while transactions between and among the entities within the same group create financial, commercial, and economic benefits, higher standards should be applied to protect the interests of all stakeholders. It is emphasized that related party transactions are generally allowed for as long as these are done on an arm's length basis referring to the process involved in handling the transaction as well as the economic terms of the transaction.

Under the guidelines, the board, as an oversight body, shall have overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations. The board is expected to approve an overarching policy on the handling of related party transactions that should cover the scope of its related party transactions policy, guidelines in ensuring arm's length terms, management of conflicts of interest, materiality thresholds and limits, whistle blowing mechanisms, and restitution of losses and other remedies for irregular related party transactions. Further, banks that are part of conglomerates are required to create a related party transactions committee responsible for the continuing identification and review of existing relations between and among businesses and counterparties, and for ensuring that related party transactions are processed in the regular course of business, and are priced fairly. The guidelines now explicitly require that the annual reports adequately disclose relevant information on the governance of related party transactions and specific details of exposures to related parties.

On 25 April 2019, the SEC issued Memorandum Circular No. 10-2019 regarding the Rules on Material Related Party Transactions for Publicly-Listed Companies (SEC MC 10-2019). Under SEC MC 10-2019, when the related party

transactions amount to 10% or higher of a company's total assets, it is considered a material related party transaction and is disclosable and reportable to the SEC.

Taxation for Banks

Generally, banks are subject to regular corporate income tax (“**RCIT**”), based on their taxable income at a tax rate of 25%, effective July 1, 2020. On the other hand, banks, classified as domestic corporations, with net taxable income not exceeding five million pesos and with total assets not exceeding one hundred million pesos, excluding land on which the bank's office, plant, and equipment are situated during the taxable year for which the tax is imposed, shall be taxed at 20%.

Taxable net income refers to items of income specified under Section 32 (A) of the Tax Code (the National Internal Revenue Code of 1997, as amended by Republic Act (“**RA**”) No. 10963), less the items of allowable deductions under Section 34 of the Tax Code or those allowed under special laws.

A minimum corporate income tax (“**MCIT**”) equivalent to 2% of the gross income of a bank is payable beginning on the fourth year of operations of the bank only if the MCIT is greater than the RCIT. Any excess MCIT paid over the RCIT can be carried forward as tax credit against the RCIT for the three immediately succeeding years. For purposes of MCIT, the bank's gross income means: (a) gross receipts less sales returns, allowances, discounts and cost of services, including interest expense; and (b) income derived from other businesses except income exempt from income tax and income subject to final tax.

Net operating loss carry-over (“**NOLCO**”) can be claimed as deduction from gross income for the next three consecutive taxable years immediately following the year of such loss.

Since banks are in the regular business of lending, interest income derived by banks from lending activities which is generally considered passive income by non-banks, is considered ordinary income of banks subject to 25% or 20% RCIT, whichever is applicable. Banks may also claim interest expense as tax deduction if such expense complies with the requirements laid down in Revenue Regulations (“**RR**”) No. 13-2000 and RR No. 5-2021, as clarified under RMC No. 19-2024.

The Tax Code does not allow banks to deduct interest expense or bad debts, except in case of distributions in liquidation, arising from transactions with the following:

- an individual who directly or indirectly owns more than 50% in value of the outstanding capital stock of the bank;
- a corporation, more than 50% in value of the outstanding capital stock of which is owned directly or indirectly, by or for the same individual in sub-paragraph (a), either as a personal holding company or a foreign personal holding company.

Pursuant to Revenue Regulations No. 05-99 (as amended by Revenue Regulations No. 25-02), in order for banks to claim bad debts as tax deductions, they must submit a written approval from the BSP stating that the indebtedness can be written off from the banks' books of accounts at the end of the taxable year, subject to the final determination by the BIR that bad debts being claimed by the banks are worthless and uncollectible. However, on 29 October 2014, the BSP issued Circular No. 855 which provides that notice of write-off of problem credits shall be submitted in the prescribed form to the BSP through the appropriate Central Point of Contact within thirty (30) business after every write-off with a sworn statement signed by the President of the financial institution or officer of equivalent rank that write-off did not include transactions with DOSRI and was undertaken in accordance with board-approved internal credit policy. Based on the said circular, a notice to the BSP would suffice, and that BSP approval with respect to a write-off of a bad debt not related to a DOSRI transaction, is no longer required.

Banks, and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax (“**GRT**”) under Section 121 of the Tax Code, while financing companies and other financial intermediaries not performing quasi-banking functions are subject to GRT under Section 122 of the Tax Code. Section 121 of the Tax Code imposes GRT at the rates of 1% to 5% on interest, commissions and discounts from lending activities of banks and non-bank financial intermediaries performing quasi-banking functions depending on the remaining maturities of instruments from which such receipts are derived. Section 121 of the Tax Code imposes GRT at a higher rate of 7% on other items of gross income. Section 122 of the Tax Code, on the other hand, imposes GRT at the rate of 5% on gross receipts from interest, commissions, discounts and all other items treated as gross income except that interests, commissions and discounts are taxed at rates of 1% and 5% depending on the remaining maturities of the related instruments. On 13 June 2016, the BIR issued Revenue Memorandum Circular No. 62-2016 (“**RMC 62-2016**”) seeking to clarify the tax treatment of GRT, which is passed on by banks through contractual stipulations to their

clients. RMC 62-2016 provides that if under a contract the GRT is passed on to the client, such passed-on GRT should be treated as gross income characterized as other fees and charges and should itself be subject to a 7% GRT under Section 121 of the Tax Code, and at 5% under Section 122 of the Tax Code.

Real and other properties acquired (“**ROPA**”) of banks are considered as ordinary assets. The income derived from their sale is subject to the RCIT. Moreover, the transaction is subject to a 6% creditable withholding tax based on the highest among the zonal value, value in the tax declaration or selling price, which shall be withheld by the buyer and can be used as a credit against the bank’s taxable income in the year that the gain is realized.

The Tax Code provides for a final tax at fixed rates for the amount of interest, yield or benefit derived from deposit substitutes which shall be withheld and remitted by the payor of the said interest, yield or benefit. This rule does not apply to gains derived from trading, retirement or redemption of the debt instrument which is subject to regular income tax rates, except those instruments with maturity of more than five years as these are exempt from income tax.

To be considered as a deposit substitute, the debt instrument must have been issued or endorsed to 20 or more individuals at any one time at the time of the original issuance in the primary market or at the issuance of each tranche in the case of instruments sold or issued in tranches. IBCLs with a maturity period of not more than five days and used to cover deficiency in reserves against deposit liabilities are not considered deposit substitutes and are not subject to documentary stamp tax except if they have a maturity of more than seven days.

FCDU transactions with non-residents of the Philippines, offshore banking units (“**OBU**s”), FCDUs of local banks and branches of foreign banks (i.e., offshore income) are tax-exempt, while interest income from foreign currency loans granted by FCDUs of depository banks to residents other than OBUs or other depository banks under the expanded system is subject to 10% final tax. All other income of FCDUs is taxable at RCIT of 25% or 20%, whichever is applicable.

On 1 January 2018, the TRAIN Law took effect and amended certain provisions of the Tax Code. The relevant changes of the TRAIN Law are incorporated in the section titled “*Philippine Taxation*” of this Offering Circular.

On 14 February 2019, the President signed into law the Tax Amnesty Act of 2019 or RA No. 11213 (“**Tax Amnesty Law**”), which was intended to complement the provisions of the TRAIN Law. However, following the President’s veto of the provisions granting general tax amnesty for all unpaid national internal revenue taxes for taxable year 2017 and prior years, the current Tax Amnesty Law only grants estate tax amnesty for estates of decedents who died on or before 31 December 2017 and whose estate taxes have remained unpaid or have accrued as of 31 December 2017 and tax amnesty on delinquencies covering all national internal revenue taxes for taxable year 2017 and prior years. RA No. 11956 extended the deadline to file the estate tax amnesty returns and to pay the corresponding estate taxes until 14 June 2025 and expanded the coverage of the amnesty to include estate taxes that have remained unpaid or have accrued as of 31 May 2022.

On 26 March 2021, the second package of the CTRP, Republic Act No. 11534, otherwise known as the CREATE Act, was signed into law, amending provisions of the Tax Code, relating to, among others, corporate income tax, lowering corporate income taxes and modernizing fiscal incentives in a bid to complement the expected incremental revenues from the first package.

The salient provisions of the CREATE Act include:

- (a) reduction in corporate income tax (CIT) from the current 30% to 20% for MSMEs and to 25% for other corporate taxpayers by July 1, 2020;
- (b) reduction in the minimum corporate income tax rate to 1% effective July 1, 2020 until June 30, 2023;
- (c) effective July 1, 2020, a period of four to seven years during which export enterprises may enjoy the 5% special corporate income based on the gross income earned in lieu of all national and local taxes;
- (d) extension of the applicability of the net operating loss carryover for losses incurred during the first three years from the start of commercial operation by registered projects or activities, from the current three to five consecutive taxable years immediately following the year of such loss;
- (e) net capital gains derived by resident foreign corporations on the sale of shares of stock of domestic corporations not traded on the Philippine stock exchange will be subject to a final tax of 15%, increased from the current rate of 5% on the first ~US\$2,000 and 10% on the excess thereof;
- (f) Regional Operating Headquarters will be subject to regular CIT rates effective January 1, 2022, increased from the current 10% rate on taxable income;
- (g) Qualified Registered Business Enterprises (“**RBE**”) will be granted an income tax holiday for four to seven years, depending on the assigned RBE category level. After the income tax holiday period, a special corporate income tax rate of 5% beginning July 1, 2020 will be imposed on gross income earned in lieu of

- all national and local taxes. The duration of the special corporate income tax is five to ten years depending on the assigned Registered Business Enterprises tier level; and
- (h) in lieu of the special corporate income tax, enhanced deductions may be granted for a period of five to ten years depending on the assigned Registered Business Enterprises category level.

See also *“Investment Considerations—Risks Relating to the Bank’s Business—Changes to regulations and guidelines issued by regulatory authorities in the Philippines, including the BSP, the Bureau of Internal Revenue (the BIR) and international bodies, including the Financial Action Task Force (the FATF) may have an adverse impact on the Bank.”*

The other tax reform packages that the government hopes to implement include reforms to the taxation of passive income, financial intermediaries, and financial transactions. The fourth package under the CTRP relating to passive income and financial intermediaries, as approved on third reading by the House of Representatives, proposes to impose (i) a single final withholding tax rate of 15% on interest income regardless of currency, maturity, issuer and other differentiating factors, (ii) a single rate of 15% on interest income, dividends and capital gains, (iii) a single gross receipt tax of 5% on banks, quasi-banks, and certain non-bank financial intermediaries across all types of income (lending and non-lending), except dividends, equity shares and net income of subsidiaries, (iv) uniform taxation of 2% of premium for pre-need, pension, life and HMO insurance, (v) removal of IPO tax, and (vi) gradually reduce the stock transaction tax until it reaches zero by 2026 and removal of the transaction tax on listed and traded debt instruments by 2026, and exemption of non-monetary documents from DST. On 12 February 2024, the Department of Finance presented a refined proposal for the fourth package of CTRP before the Senate Committee on Ways and Means, which includes among others, a proposal to harmonize the interest income tax at 20% regardless of the maturity or term, issuer, and currency.

BSP Regulations on Issuances of Securities

Additional Requirements for the Issuance of Bonds and Commercial Papers

On 09 August 2018, the BSP issued additional requirements for the issuance by banks of bonds and commercial papers. Circular No. 1010 provides that a bank may issue bonds and/or commercial papers without prior BSP approval, provided that the following conditions are met:

- (a) the bank must have a CAMELS composite rating of at least “3” and a “Management” rating of not lower than “3”;
- (b) the bank has no major supervisory concerns in governance, risk management systems, and internal controls and compliance system;
- (c) the bank/QB has complied with directives and/or is not subject of specific directives and/or enforcement actions by the BSP; and
- (d) the bonds issued are enrolled and/or traded in a market which is organized in accordance with the SEC rules and regulations.

Further, the issuing bank, including its subsidiaries, affiliates, and the wholly or majority-owned or -controlled entities of such subsidiaries and affiliates, except for its trust departments or related trust entities, is prohibited from holding or acting as a market maker of the bank’s listed/traded bonds or commercial papers. Likewise, the registry bank, including the underwriter/arranger of the issuance, must be a third party with no subsidiary/affiliate relationship with the issuing bank and which is not related to the issuing bank in any manner that would undermine its independence.

Amendments to Existing Requirements for Issuances of Bank Securities

On 26 November 2019, the BSP issued Circular No. 1062 amending the provisions of the BSP MORB to relax certain requirements on the issuance of Long-Term Negotiable Certificates of Time Deposit, Bonds and Commercial Papers. Under the amendments, universal banks or commercial bank that is a related party of the issuing bank, may serve as the underwriter or arranger of the issuance, subject to the following conditions:

- (a) That there are other third party underwriters or arrangers that are not related in any manner to the issuing bank;
- (b) That the objective conduct of the due diligence review is not undermined; and

(c) That the appropriate safeguards and controls as provided under Section 136 of the BSP MORB on related party transactions shall be instituted to prevent conflict of interest on the said arrangement.

Further, the underwriter or arranger that is a related party of the issuing bank may be a holder of the bonds or commercial papers, provided that it is part of the underwriting agreement.

Moratorium on the Issuance of Long-Term Negotiable Certificates of Time Deposit (LTNCTDs)

BSP Circular No. 1059 dated 15 November 2019 amended the Manual imposing an indefinite moratorium on the issuance of LTNCTDs beginning 01 January 2021. LTNCTDs that have been approved but remain unissued as of 31 December 2020 may still be issued, provided that this is done within the period allowed by the BSP. Requests for authority to issue LTNCTDs will only be accepted by the appropriate supervising department of the BSP until 30 September 2020.

Other Laws and Regulations

Set out below are other regulations applicable to banks operating in the Philippines:

1. *The Philippine Deposit Insurance Act, as amended.* The Philippine Deposit Insurance Corporation (**PDIC**), the PDIC through Republic Act No. 3591, as amended, has the authority to insure the deposits of all banks which are entitled to the benefits of insurance and impose penalties against those who engage in unsafe and unsound banking practices. The PDIC is mandated to provide deposit insurance coverage for the depositing public to help promote public confidence and stability in the economy. Its most recent amendment took effect on 20 July 2022. The amendment attaches the PDIC to the BSP for policy and program coordination, optimizing regulatory coordination efficiency. Further, the PDIC may now adjust the maximum deposit insurance coverage without need of legislation.

2. *The Financial Products and Services Consumer Protection Act.* Republic Act No. 11765 or the Financial Products and Services Consumer Protection Act (**FCPA**) was signed into law on 6 May 2022. The Act expands the powers of financial regulators such as the BSP and imposes duties on financial service providers such as banks. Violation of the Act will result in the imposition of enforcement actions from the BSP, penalties and/or administrative sanctions. On 28 November 2022, the Monetary Board issued Circular No. 1160, Series of 2022, which provides for the implementing guidelines of FCPA. According to the Circular, banks must meet the following standards in dealing with financial consumers:

- (a) Disclosure and Transparency;
- (b) Protection of Client Information;
- (c) Fair Treatment;
- (d) Effective Recourse; and
- (e) Protection of Consumer Assets against Fraud and Misuse

Pursuant to the FCPA, the BSP may, in addition to the enforcement actions under the MORB, restriction the ability of banks to collect excessive or unreasonable interests, fees or charges, including other interests, fees and charges that are covered under Republic Act No. 10870, otherwise known as the "Philippine Credit Card Industry Regulation Law, and order requiring accounting and disgorgement of profits obtained, or losses avoided, as a result of a violation of the FCPA, its IRR and other existing laws, rules, and regulations under its jurisdiction, including reasonable interest.

3. *Guidelines for Virtual Asset Service Providers (VASP) in the Philippines.* On 26 January 2021, the BSP issued Circular No. 1108, relating to the Guidelines for Virtual Asset Service Providers (VASP) in the Philippines, which amends in its entirety Section 902-N of the Manual of Regulations for Non-Bank Financial Institutions (**MORNBFI**). In particular, Section 902-N on Virtual Currency Exchanges shall be replaced by VASP, as the BSP recognizes that once fiat currency is exchange or converted into a virtual asset, the same becomes easily transferrable, facilitating expedient movement or transfer of funds and payment services, among others. As such, VASPs were considered as money service businesses which were subject to the regulatory authority and examination powers of the BSP. Under said guidelines, the covered entities are required to secure a Certificate of Authority to operate as a Money Service Business and are required to observe the capitalization requirements of either ₱50 million or ₱10 million, for VASPs with or without safekeeping and/or administration services as define in said Circular, respectively.

4. *Ceiling on Interest or Finance Charges for Credit Card Receivables.* On 19 January 2023, the BSP issued Circular No. 1165 which amends the ceiling on interest or finance charges for credit card receivables to an annual rate of 36% from the 24% cap imposed by BSP Circular No. 1098, which was issued to alleviate the burden on Filipino consumers due to the COVID-19 pandemic.

The circular provides that banks may now impose a maximum annual interest rate of 36% except for credit card installment loans which shall be subject to a monthly add-on rate not exceeding one percent (1%). For credit card cash advances, in addition to the foregoing interest rates, no other fee or charge shall be imposed apart from the maximum processing fee of ₱200.00 per transaction. These fees and rates are subject to the review by the BSP every six (6) months.

5. *Sustainable Finance Framework.* On 29 April 2020, the BSP issued Circular No. 1085 relating to the Sustainable Finance Framework that sets out the expectations of the BSP on the integration of sustainability principles, including those covering environmental and social (E&S) risk areas, in the corporate governance and risk management frameworks as well as in the strategic objectives and operations of banks. Pursuant to said guidelines, the Framework shall apply to all banks, and branches of foreign banks may adopt the relevant policies and strategies of their Head Office, which are consistent with the applicable provisions in Circular. Banks were provided three (3) years from the effectivity of the Circular to fully comply with the same. On 21 October 2021, the Monetary Board approved the guidelines that shall govern the integration of E&S risks in the enterprise-wide risk management frameworks of banks that shall amend the provisions of the Sustainable Finance Framework. Pursuant to BSP Circular No. 1128, banks shall consider E&S risks in defining credit risk strategy and shall integrate E&S risks in operational risk management framework.

6. *Regulations Governing the Derivatives Activities of Banks.* In line with the policy of the BSP to support the development of the Philippine financial market by providing banks and their clients with expanded opportunities for financial risk management and investment diversification through the prudent use of derivatives, Circular No. 594 was issued by the BSP in 08 January 2008 amending the existing regulations governing the derivatives activities of banks and trust entities. Furthermore, Circular No. 688 issued by the BSP in May 2010 prescribes guidelines on the determination of the credit risk-weighted assets for banks that will engage in derivatives activities as end users for hedging purposes and/or under limited-use authority. The Bank expects increased competition in the swaps and other derivative transactions allowed under the regulations.

In February 2017, BSP issued Memorandum No. M-2017-004 advising all banks and quasi-banks that cross-border derivative transactions involving non-centrally cleared derivatives are subject to margin requirements pursuant to the policy framework adopted by the Basel Committee on Banking Supervision and the International Organization of Securities Commissions. The framework requires all covered entities that engage in non-centrally cleared derivatives to exchange initial and variation margins. Assets collected as collateral for margin purposes should be highly liquid and should, after the application of an appropriate haircut, be able to hold their value in times of distress. Variation margin requirements were phased in from 01 September 2016 to 01 March 2017, while initial margin requirements are being phased in from 01 September 2016 to 01 September 2020.

7. *Amendments to UITFs Regulations.* On 5 September 2022, the BSP issued Circular No. 1152 which further modified the guidelines for creation of UITFs. The BSP delineated between different kinds of UITFs (money market funds, fixed income funds, multi-asset funds, equity funds, and distributing funds). Trust Entities (TEs) are now allowed to create, administer, and manage UITFs with prior approval or notification to the BSP. Prior BSP approval is needed if the TE will create, for the first time, a fixed income fund, multi-asset fund, equity fund, fund-of-funds, feeder fund, multi-class fund, or distributing fund. If the TE will create a UITF that is the same category as any of its existing ones, then only prior notification to the BSP is needed. Any amendment to a UITF shall be the subject of a written notification to the BSP if the amendment involves specific aspects.

On 9 August 2023, the BSP issued Circular No. 1178 which provided for guidelines on the use of benchmarks for UITFs. These guidelines require the trustee to include a benchmark in the presentation of a UITF.

8. *Exemption of Paired ROP Warrants from Capital Charge for Market Risk.* In connection with the Government's Paired Warrants Program, the BSP issued Circular No. 605 in 05 March 2008 exempting warrants paired with Government bonds from capital charges for market risk to the extent of a bank's holdings of bonds paired with warrants equivalent to not more than 50% of total qualifying capital.

9. *Amendment to the Guidelines on Securities Borrowing and Lending Transactions.* On 5 February 2019, the BSP issued Circular No. 1030 which amended Circular No. 611 to govern foreign exchange transactions. Foreign loans and borrowings, as well as foreign currency loans from banks operating in the Philippines to be obtained by the public sector as well as the private sector that will be publicly-guaranteed shall require prior BSP approval unless otherwise exempted. Private sector foreign loans and borrowings that are not publicly guaranteed shall be registered with the BSP if these will ultimately be serviced with foreign exchange resources of authorized agent banks or their affiliate forex corporations. The BSP also now allows private sector foreign/foreign currency loans/borrowings to be obtained to refinance outstanding foreign/foreign currency loans/borrowing, provided that the obligations to be refinanced are duly registered or reported (as may be required) to the BSP.

10. *Reclassification of Financial Assets between Categories.* The BSP issued Circular No. 628 dated 31

October 2008, amending Circular No. 626 dated 23 October 2008 and Resolution of the Monetary Board No. 1423 dated 30 October 2008, which approved the guidelines governing the reclassification of financial assets between categories. Financial institutions are allowed to reclassify all or a portion of their financial assets from “held for trading” or “available for sale” categories to the “available for sale” or “held to maturity” or “unquoted debt securities classified as loans” categories effective 01 July 2008. Any reclassification made in periods beginning on or after 15 November 2008 shall take effect from the date when the reclassification is made.

11. *Valuations of Government Securities Held by Banks.* In October 2013, the BSP amended the rules on valuations of government securities held by banks to reflect actual market rates, with the guideline applying to both benchmark and non-benchmark securities. Under BSP Circular No. 813, the weighted average of done or executed deals is used as the basis for valuation. In the absence of weighted average done deals for benchmark bonds, the simple average bids are used. In the absence of both weighted done deals and simple average bids for non-benchmark securities, interpolated yields derived from reference rates in accordance with BSP-approved guidelines is used.

12. *Segregation of Customer Funds and Securities Received by Banks.* On 14 August 2015, the BSP issued Circular No. 885 requiring the segregation of customer funds and securities received by banks in the performance of their securities brokering functions. Banks are required to institute adequate risk management systems and controls to ensure protection of customer funds and securities, proper segregation of functions, and prevention of conflict of interest situations that may arise in the conduct of securities brokering activities within the bank. Banks must also make and keep current books and records relating to customer funds and securities and submit monthly reportorial requirements.

13. *Creation of Personal Management Trust.* On 18 August 2016, the BSP issued Circular No. 920 allowing for the creation of the personal management trust (PMT), which is a living trust arrangement that seeks to meet the estate planning and asset management needs of individuals. The trustor may or may not nominate a third party beneficiary. It is supposed to serve as a more flexible tool in the management of an individual’s financial affairs. Upon the effectivity of the circular, all living trust accounts (LTAs) were discontinued and all those that remained valid were automatically considered as PMT.

14. *Clearing of Checks via Electronic Presentment.* On 07 September 2016, the BSP issued Circular No. 924, amending the Manual in view of the clearing of checks via electronic presentment, which is implemented by the Philippine Clearing House Corporation (PCHC). On 20 January 2017, the BSP began the electronic clearing of checks. Under this new system, only digital images of the checks and their electronic payment information are required to be transmitted to the paying bank. The clearing time was reduced to just one banking day, as against three banking days previously, since no physical delivery of checks will be needed.

15. *Effective Reporting System Generation and Timely Submission of Reports.* On 26 June 2017, the BSP amended the Manual through Circular No. 963, series of 2017, which issuance instituted governance processes in accordance with the BSP’s expectation that banks establish an effective reporting system generation and timely submission of reports. Said reports must comply with those standards prescribed by the BSP, and those banks that fail to do so (i.e., files an erroneous report, delayed report, or did not submit at all) are meted with certain sanctions that can be aggravated by habitual violations. It further provided that banks had until 31 December 2017 to make the necessary preparations to their systems and processes in order to comply with the new provision. Its full implementation started on 01 January 2018.

16. *Guidelines on the Adoption of PFRS 9.* On 14 August 2018, the BSP issued Circular No. 1011 which provides guidelines on the adoption of PFRS 9. The Circular provides that where there are differences between the BSP regulation and PFRS 9, as when more than one option are allowed or certain limits are prescribed, then the option or limit prescribed by the BSP should be adopted. The circular further provides that with respect to the preparation of prudential reports, banks should adopt in all respect the PFRS, except in specific cases.

On 19 October 2021, BSP issued Memorandum No. M-2021-055, granting temporary regulatory relief on the capital treatment of provisioning requirements under Philippine Financial Reporting

Standard (PFRS) 9, by allowing an “add-back” factor until 2023. Under said measure, covered BSFIs will be allowed to “add-back” increase in the Stage 1 and Stage 2 provisioning requirements booked under the allowance for credit losses from the end of December 2019 to CET 1 capital, over a period of two (2) years commencing 01 January 2022, subject to a declining add-back factor.

17. *Marking to market of financial instruments.* BSP Circular No. 1021 dated 15 November 2018 provides that financial instruments that are required to be classified and measured at fair value, within the scope of PFRS 9

required to be marked-to-market in accordance with the provisions of PFRS 13 on Fair Value Measurement and the related rules and regulations issued by the Securities and Exchange Commission.

18. *Regulatory Treatment of Restructured Loans for Purposes of Measuring Expected Credit Losses.* On 21 October 2021, BSP issued Memorandum No. M-2021-056, providing guidelines on the regulatory treatment of restructured loans for purposes of measuring expected credit losses (**ECL**), effective until 31 December 2022. The classification of loans whose terms are modified due to the COVID-19 pandemic under Stage 1, 2, or 3, for purposes of determining ECL shall be based on the assessment of the extent of financial difficulty of the borrowers and their ability to fully pay the loan based on the revised terms. Loans that have been restructured to support borrowers that are experiencing financial difficulties due to the COVID-19 pandemic should not automatically be considered as credit-impaired that will warrant the classification of the accounts as non-performing.

19. *Basic Deposit Accounts.* BSP Circular No. 992, issued on 01 February 2018, requires banks to establish a basic deposit account which refers to interest or non-interest-bearing account designed to promote financial inclusion. The basic deposit account shall have an opening amount of not more than ₱100.00 and no minimum maintaining balance but with a maximum balance of not more than ₱50,000.00. If the depositor exceeds the ₱50,000.00 maximum balance, the bank shall convert the basic deposit account to a regular deposit account. The basic deposit account shall have no dormancy charges and has no reserve requirement.

20. *Reserves against trust and other fiduciary accounts (TOFA).* BSP Circular No. 1025 dated 13 December 2018 provides that in addition to the basic security deposit, banks authorized to engage in trust and other fiduciary business shall maintain reserves on TOFA -others, except accounts held under (1) administratorship; (2) trust under indenture; (3) custodianship and safekeeping; (4) depository and reorganisation; (5) employee benefit plans under trust; (6) escrow; (7) personal trust (testamentary trust); (8) executorship; (9) guardianship; (10) life insurance trust; (11) pre-need plans (institutional/individual); (12) Personal Equity And Retirement Account (**PERA**); (13) legislated and quasi-judicial trust; and (14) specialised institutional accounts under trust.

21. *Guidelines on the Management of Interest Rate Risk in the Banking Book (IRRBB) and Market Risk Management.* BSP Circular No. 1044 dated 6 August 2019 approved the adoption of guidelines for managing IRRBB and amendments to the guidelines on market risk management. Under the circular, all banks and quasi-banks must adequately identify their IRRBB exposures, take appropriate steps to measure, monitor and control the risk, and ensure that the IRRBB management system is integrated into the overall risk management framework and strategic business planning process. The circular also requires active board and senior management oversight. The BSP will evaluate the adequacy and effectiveness of the IRRBB management framework, taking into account the size, complexity and nature of a bank or quasi-bank's business.

22. *Circular 1067* dated 13 December 2019 approved the minimum disclosure requirements on IRRBB and required the following disclosures in the bank's annual reports:

- (a) A description of how the bank defines IRRBB for purposes of risk control and measurement;
- (b) A description of the bank's overall IRRBB management and mitigation strategies;
- (c) The periodicity of the calculation of the bank's IRRBB measures, and a description of the specific measures that the bank uses to gauge its sensitivity to IRRBB;
- (d) A description of the interest rate shock and stress scenarios that the bank uses to estimate changes in the economic value and/or in earnings;
- (e) A high-level description of how the bank hedges its IRRBB, as well as the associated accounting treatment; and
- (f) A high-level description of key modelling and parametric assumptions used in IRRBB measurement.

Guidelines on Voluntary Surrender of a Banking License. BSP Circular No. 1050 dated 18 September 2019 amended the rules on voluntary liquidation in the Manual by formulating guidelines in the event that a bank decides to surrender its banking license either with a view to proceed to voluntary dissolution and liquidation or with the intention to convert into a non-bank entity. The circular lays down the criteria that the BSP must consider in deciding whether to approve the surrender of a bank's banking license. The circular also outlines the application procedure for the cessation of a bank's operations and the documents that the bank must submit to the BSP in support of its application. Once the bank has received notice of the BSP's approval of its voluntary surrender of its banking license, the bank shall immediately cease its operations.

23. *Amendments to the Framework for Dealing with Domestic Systematically Important Banks (DSIBs).* BSP Circular No. 1051 dated 27 September 2019 amended the Manual's provision on DSIBs to change the number of indicators to characterize a D-SIB from ten (10) to nine (9). The circular also provides for a framework for dealing with D-SIBs, including the guidelines on data requirements and reports, schedule of restriction on distribution of dividends during the phased-in implementation period of the Higher Loss Absorbency requirement, and recovery plan.

24. *Amendments to the Regulations on Investment Management Activities.* The BSP issued Circular No. 1109 Series of 2021, which reduced the minimum size of an account under investment management. It further allows the commingling of funds subject to certain conditions and expanded the securities eligible under as investment outlet for commingled funds. Previously, the minimum size of an investment management account was ₱1.0 million. Under the Circular, BSP-Supervised Financial Institutions (**BSFIs**) may determine the minimum amount that should be maintained by a client in an investment management account (**IMA**), which shall be at least ₱100,000.00. Moreover, prior to this Circular, commingling of IMAs was not allowed except for the purpose of investing in government securities or in duly registered commercial papers. Under the Circular, funds from IMAs may be commingled subject to the following conditions:

- (a) The investment of each of the IMAs in the commingled fund shall at least be ₱100,000.00;
- (b) The commingled funds shall only be invested in (i) securities directly issued by the Philippine National Government, (ii) exchange-traded equities and fixed income securities and commercial papers registered with the SEC, (iii) securities issued by banks incorporated in the Philippines, except those issued through the trust units, or (iv) securities issued by other sovereigns that are exempt from registration under Section 9(b) of the Securities Regulation Code;
- (c) The commingling of funds and the manner of termination of the same shall be specifically agreed in writing by the clients. The investment manager should ensure that the agreement to commingle funds with other IMAs is legally binding and enforceable. Furthermore, the risks associated with commingling of funds, such as market liquidity risk, shall be fully disclosed to the clients;
- (d) The investment manager shall determine that it possesses the operational capability to manage the accounts participating in commingled funds. In doing so, the investment manager shall undertake an assessment taking the following into consideration: (i) sufficiency of personnel handling commingled IMAs; (ii) capability of existing systems to accurately and readily identify the allocation of each investor in a commingled fund and generate the following information on a per IMA basis, at a minimum: accruals, coupons received, dividends received, market-to-market gains or losses and required reports; and (iii) ability to conduct periodic reconciliation of relevant records; and
- (e) The maximum number of IMAs that can be commingled into one fund shall be determined by the investment manager based on its own operational capability to commingle IMAs.

Amendments to the Rules on Cross-Border Transfer of Local and Foreign Currencies. The BSP issued Circular No. 1146 Series of 2022 which allows a person to import or export, or bring into or take out of the Philippines, or electronically transfer legal tender Philippine notes and coins, checks, money order and other bills of exchange drawn in peso against banks operating in the Philippines in an amount not exceeding ₱50,000.00 without prior authorization by the BSP. In excess of such ₱50,000.00 limit, a prior written authorization from the BSP is required. In case of physical cross-border transfer of Philippine currency, there must be a declaration of the whole amount brought into or taken out of the Philippines. For foreign currency, a person who brings into or takes out of the Philippines foreign currency or other foreign-currency denominated bearer monetary instruments in excess of \$10,000.00 or its equivalent must declare the whole amount brought into or taken out of the Philippines.

25. *Peso Real Time Gross Settlement System.* The BSP resumed of the collection of settlement fees and other charges for the use of the Peso Real Time Gross Settlement (**RTGS**) System. The BSP previously waived all transaction fees charged for fund transfer instructions made with PhilPaSS beginning 1 April 2020 until the end of the enhanced community quarantine period.

26. *Amendment to the Currency Rate Risk Protection Program Facility.* On 18 April 2023, the BSP issued Circular No. 1172 amending the Currency Rate Risk Protection Program Facility (**CRPP**) and its implementing guidelines. For reference, the CRPP Facility is a non-deliverable USD/PHP forward contract between BSP and a universal/commercial bank in response to the request of bank clients desiring to hedge their eligible foreign currency obligations. The amendment lists transactions with payments/settlement/maturity within three (3) months from the date of application are considered eligible foreign exchange obligations/transactions.

In addition to this, other updates in the CRPP facility rules include the change in the maximum tenor from ninety (90) days to three months, and the change in the US dollar interest rate to be used in the computation of the price of non-deliverable forward contract to the relevant Bankers Association of the Philippines (**BAP**) weighted average rate or spot transactions or the weighted average rate of the last five (5) transactions mapped before the close of trading, whichever is higher, on deal date. If not available, the weighted average rate of the last five (5) transactions mapped at the BAP shall be used.

27. *Pricing of Electronic Payments.* BSP Memorandum No. M-2023-037 was issued on 15 December 2023, which provides for the Moratorium on Increase of Fee for InstaPay and PESONet transactions to participants who currently charge transfer fees for person-to-person fund transfers via InstaPay and PESONet, which directed said participants to maintain said fees. The relevant transfer fee that is currently waived may only be restored up to the amount of fee reported to the BSP prior to the waiver. Meanwhile, participants that do not currently impose transfer fees shall submit for prior BSP approval any fee to be imposed on their customers for initiating fund transfers on InstaPay and PESONet. On 24 May 2024, BSP issued Memorandum Circular No. 2024-015 regarding the pricing of electronic payments. The circular provides guidelines for establishing reasonable and fair market-based pricing for transactions involving electronic payments. The circular further provides that pricing should be cost-efficient, sustainable and inclusive. Additionally, the circular requires transparency in pricing through appropriate disclosure of fees to end- users.
28. *Amendment to the Regulations on Personal Equity and Retirement Account (PERA).* On 21 February 2023, the BSP issued Circular No. 1168 which reduced the rate for the security for the faithful performance of Personal Equity and Retirement Account (**PERA**) Administrators' duties and to increase the amount for the maximum annual PERA contribution. The PERA Administrator is required to hold eligible government securities, equivalent to at least zero percent (0.0%) of the book value of the total volume of PERA assets administered, earmarked in favor of the BSP starting 1 January 2023. The submission of the Quarterly Report on Compliance with the Basic Security Deposit requirement shall no longer be required starting with the reference period of 31 March 2023 in view of the zero rate for the security for the faithful performance of PERA Administrators' duties.
29. *Maharlika Investment Fund Act of 2023.* On 18 July 2023, *Republic Act No. 11954*, was enacted which provides that for the first and second fiscal years upon effectivity of the law, 100% of the BSP's total declared dividends will be remitted to the National Government for the capitalization of the Maharlika Investment Corporation (**MIC**), in the amount not exceeding ₱50 billion for the initial subscription of the National Government to the capitalization of the MIC. Thereafter, the dividends of the BSP shall be remitted to the National Government to fund the increase in the capitalization of the BSP.

SECTION 18. OFFER PROCEDURES

18.1 METHOD OF DISTRIBUTION

The Bonds under the Programme will be issued pursuant to BSP Circular No. 1010 (Series of 2018), BSP Circular No. 1062 (Series of 2019), and other related circulars and issuances of the BSP (the "BSP Rules"). The issuance of the Bonds is exempt from the registration requirement under the Securities Regulation Code pursuant to Section 9.1(e) of the said law.

The Sole Arranger, the Arranger and the Selling Agents for each issuance under the Programme are required to comply with all laws, regulations, BSP rules and directives as may be applicable in the Philippines, including without limitation any BSP rules issued by the BSP, in connection with the offering and purchase of the Bonds and any distribution and intermediation activities, whether in the primary or secondary markets, carried out by or on behalf of the Sole Arranger, the Arranger or the Selling Agents in connection therewith.

No action has been or will be taken by the Bank, the Sole Arranger, the Arranger or the Selling Agents in any jurisdiction (other than the Philippines), that would permit a public offering of any of the Bonds, or possession or distribution of this Offering Circular, or any amendment or supplement thereto issued in connection with the offering of the Bonds, in any country or jurisdiction where action for that purpose is required.

Each of the Sole Arranger, the Arranger and the Selling Agents shall be a third-party in relation to Bank, such that, (i) it has no subsidiary/affiliate relationship with Bank; (ii) it is not related in any manner to Bank as would undermine the objective conduct of due diligence on Bank. The Registrar and Paying Agent and Trustee are likewise third-parties in relation to Bank, such that, (i) they have no subsidiary/affiliate relationship with Bank; (ii) they are not related in any manner to Bank as would undermine their independence.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Selling Agents or any affiliate of the Selling Agents is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Selling Agent or its affiliate on behalf of the Bank in such jurisdiction

The Bonds are newly issued securities in scripless form for which there currently is no market. A market maker shall be appointed to provide live bids good for the minimum denomination under the Master Terms and Conditions, and a cumulative trading commitment per trading day, as required under PDEX Trading Rules, Conventions, and Guidelines. The Sole Arranger, the Arranger and the Selling Agents are not obligated to make a market for the Bonds. Accordingly, no assurance can be given as to the development or liquidity of any market for the Bonds.

The Sole Arranger, the Arranger and Selling Agents and their respective affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of Sole Arranger, the Arranger and the Selling Agents may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Bank or its subsidiaries, jointly controlled entities or associated companies and may be paid fees in connection with such services from time to time. In the ordinary course of their various business activities, the Sole Arranger, the Arranger and the Selling Agents and their respective affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Bonds or its subsidiaries, jointly controlled entities or associated companies, including Bonds issued under the Bond Program, may be entered into at the same time or proximate to offers and sales of Bonds or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Bonds. Bonds issued under the Programme may be purchased by or be allocated to the Sole Arranger, the Arranger, Selling Agent or any of their respective affiliates for asset management and/or proprietary purposes whether or not with a view to later distribution. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

18.2 APPLICATIONS TO PURCHASE THE BONDS DURING THE OFFER PERIOD

Applicants may purchase the Bonds under the Programme during the relevant Offer Period for each Series or Tranche by submitting fully and duly accomplished Applications to Purchase ("ATP") the Bonds, whether originally signed in quadruplicate if manually processed/submitted or triplicate if electronically submitted through the electronic Securities Issue Portal together with all the required attachments and the corresponding payments to the Selling Agent from whom such application was obtained no later than 5:00 p.m. of the last day of the relevant Offer Period. ATPs received after said date or without the required attachments will be rejected. Only ATPs which are

accompanied by payment in the form of cash, manager's checks, debit instructions or such other forms of instructions that are acceptable to the relevant Selling Agent and provided in the ATP, and which cover the entire purchase price shall be accepted. The Issuer and the Arranger reserve the right to adjust the Offer Period as needed.

18.2.1 Documents to be provided by individuals

- A clear copy of at least one (1) valid photo-bearing identification document issued by an official authority in accordance with BSP Circular No. 608 (2008) as may be amended from time to time, and documents as may be required by the Registrar and/or Selling Agent concerned;
- Two (2) fully executed signature cards in the form attached to the application;
- Valid tax identification number issued by the BIR;
- For aliens residing in the Philippines or non-residents engaged in trade or business in the Philippines, consularized proof of tax domicile issued by the relevant tax authority of the Applicant; and
- Such other documentary requirements as may be reasonably required by the Bank and Selling Agents in the implementation of its internal policies regarding "know your customer" and anti-money laundering.

18.2.2 Documents to be provided by corporate and institutional applicants

- SEC-certified or Corporate Secretary-certified true copy of the SEC Certificate of Registration, Articles of Incorporation and By-Laws or such other relevant organizational or charter documents;
- Original or Corporate Secretary-certified true copy of the duly notarized certificate confirming the resolution of the Board of Directors and/or committees or bodies authorizing the purchase of the Bonds and specifying the authorized signatories;
- Two (2) fully executed signature cards duly authenticated by the Corporate Secretary, in the form attached to the application;
- Valid tax identification number issued by the BIR;
- Identification documents of the authorized signatories of the Applicant, as specified in item (a) of the immediately preceding paragraph; and
- Such other documentary requirements as may be reasonably required by the Bank and Selling Agents in the implementation of its internal policies regarding "know your customer" and anti-money laundering.

18.2.3 Additional documents to be provided by Tax-Exempt Holders

- Proof of Tax Exemption or Entitlement to Preferential Tax Rates
 - For (a) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (b) cooperatives duly registered with the Cooperative Development Authority; and (c) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR;
 - For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator;
 - For all other tax-exempt entities (including, but not limited to, (a) non-stock, non-profit educational institutions; (b) government-owned or -controlled corporations; and (c) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax;
 - For entities claiming tax treaty relief – (a) prior to the first Interest Payment Date: (1) three (3) originals of the BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder, or if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries with the proof of receipt by the concerned office of the BIR; (2) one (1) original of the apostilled/consularized Tax Residency Certificate ("TRC") duly issued by the foreign tax authority of the country of the residence of the Bondholder, or if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws; (3) the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Issuer; and (4) three (3) originals of the duly notarized, or apostilled/consularized if executed outside of the Philippines, Special Power of Attorney executed by the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, in favor of its authorized representative (if the Application Form for Treaty Purposes and other documents are accomplished by an authorized representative) and confirmation acceptable to the Issuer that the Bondholder or

the Bondholder's owners or beneficiaries, as may be applicable, is/are not doing business in the Philippines to support the applicability of a tax treaty relief; (b) prior to the payment of subsequent interests due: (1) three (3) originals of the BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder, or if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries with the proof of receipt by the concerned office of the BIR; and (2) one (1) original of the apostilled/consularized TRC duly issued by the foreign tax authority of the country of the residence of the Bondholder, or if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws, if the validity period of the previously issued TRC has already lapsed; and

- Any other document that the Bank or PDTC may require from time to time.
- Original of the duly notarized undertaking, in the prescribed form, declaring and warranting its tax-exempt status, that the tax-exemption certificate, ruling or opinion providing for such tax-exempt status has not been revoked or cancelled and that there are no material changes in character, purpose or method of operation of the Bondholder which are inconsistent with the basis of its income tax exemption, or warranting the Bondholder's entitlement to preferential treaty rates, and undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax-exempt status or treaty privileges and agreeing to indemnify and hold the Issuer and the Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and
- Such other documentary requirements as may be required by the Issuer or the Registrar and Paying Agent as proof of the Applicant's tax-exempt status.

In addition, the Joint Lead Arrangers and Joint Bookrunners, and the Selling Agents may each request such other documents from a proposed Holder in order to establish that he/she/it is an Eligible Holder and is not a Prohibited Holder, his/her/its exemption from taxation of interest income from fixed income securities or to comply with applicable requirements of the AMLA or the BSP Rules.

18.3 ALLOCATION AND ISSUE OF THE BONDS

Applications to Purchase the Bonds shall be subject to the availability of the Bonds and acceptance by the Issuer. The Arranger, in consultation with the Issuer, reserves the right to accept, reject, scale down or reallocate any Application to purchase the Bonds applied for under the relevant Series or Tranche of Bonds.

In the event that payment supporting any Application is returned by the drawee bank for any reason whatsoever, the Application shall be automatically cancelled and any prior acceptance of the Application shall be deemed revoked. If any Application is rejected or accepted in part only, the application money or the appropriate portion thereof will be returned without interest by the relevant Selling Agent.

On the relevant Issue Date, the Selling Agents shall, on behalf of the Issuer, accept the relevant Applications to Purchase. The acceptance of the Application to Purchase shall ipso facto convert such Application to Purchase into a purchase agreement between the Issuer and the relevant Bondholder.

Upon confirmation by the Issuer of acceptance of the relevant Applications and the respective amount of Bonds, the Registrar and Paying Agent shall release in accordance with the Registry and Paying Agency Agreement the relevant registry confirmation (the "Registry Confirmation") to successful applicants confirming the acceptance of their purchase of the Bonds and consequent ownership thereof and stating the pertinent details including the amount accepted, with copies to the Issuer.

The Registrar shall be entitled to rely solely on the Final Sales Reports submitted by the Selling Agent to the Registrar. Where PDTC discovers, after Issue Date, any inconsistency between the Final Sales Report and the Application to Purchase submitted by the Bondholder, PDTC reserves the right to rely subsidiarily on the Applications to Purchase, to the extent that the information in the Final Sales Report is noted to be inconsistent with the Application to Purchase. Within seven (7) Banking Days from the Issue Date, the Registrar shall distribute the Registry Confirmations directly to the Bondholders in the mode elected by the Bondholder as indicated in the Application to Purchase.

18.4 TRANSACTIONS IN THE SECONDARY MARKET

All secondary trading of the Bonds shall be coursed the trading facilities of PDEX, as applicable, subject to the payment by the Bondholder of fees to the connection with trading on PDEX, and the Registrar. Transfers shall be subject to the procedures of the BSP, the Registrar and PDEX, including but not limited to the guidelines on minimum trading lots, minimum holding denominations, and record dates.

The Bank shall list the Bonds under the Programme in PDEX for secondary market trading. Upon listing of the Bonds with PDEX, investors shall course their secondary market trades through the trading participants of PDEX for execution in the PDEX Trading Platform in accordance with the PDEX Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and must settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEX Settlement Rules and Guidelines. The secondary trading of the Bonds in PDEX may be subject to such fees and charges of PDEX, the trading participants of PDEX, and other providers necessary for the completion of such trades. Transactions on the Bonds on PDEX will be subject to the duly approved and relevant rules of the exchange, including guidelines on minimum trading lots and other guidelines for holding and trading of the Bonds as may be prescribed by the BSP.

For the avoidance of doubt, the minimum denomination for the Bonds as prescribed by the BSP or as may be provided in the relevant Pricing Supplement must be kept at all times. Consequently, no negotiation or secondary trading will be allowed if the result is that a remaining Bondholder of the Bonds will hold less than the minimum denomination as prescribed or approved by the BSP or as stated in the relevant Pricing Supplement.

No transfers will be effected for a period of two (2) Business Days preceding the due date for any payment of interest on the Bonds, or during the period of two (2) Business Days preceding the due date for the payment of the principal amount of the Bonds.

The Registrar shall register any transfer of the Bonds upon presentation to it of the following documents in form and substance acceptable to it:

- The relevant Trade- Related Transfer Form or Non-Trade Transfer Form as the case may be, duly accomplished by the transferor Bondholder and endorsed by the PDEX Trading Participant;
- duly accomplished Investor Registration Form of the buyer/transferee as prescribed by the Registrar as well as all supporting documents described for the original issuance of the Bonds as described above (in case of a new holder);
- proof of the qualified tax-exempt status of the transferee, if applicable, and the covering Affidavit of Undertaking;
- the original duly endorsed signature cards of the buyer/transferee and such other original or certified true copies of other documents submitted by the buyer/transferee in support of the transfer or assignment of the Bonds in its favor;
- the appropriate secretary's certificate attesting to the board resolutions authorizing the transfers and acceptances as well as designating the authorized signatories, together with specimen signature cards duly signed by the parties, and duly authenticated by each party's corporate secretary; and
- such other documents that may be required by the Registrar, including those for Non-Trade Transactions.

Transfers of the Bonds in violation of the restrictions on transfer under the Master Terms and Conditions shall be null and void and shall not be registered by the Registrar.

18.5 INTEREST AND PRINCIPAL PAYMENT

On the relevant Payment Date, the Paying Agent shall, upon receipt of the corresponding funds from the Issuer, make available to the Bondholders the amounts due under the Bonds, net of taxes and fees (if any), by way of credits to the bank accounts identified by the Bondholders in the Applications to Purchase.

18.6 SCHEDULE OF REGISTRY FEES

The Registrar and Paying Agent shall be entitled to charge the Bondholders and/or their counterparties such reasonable fees as the Registrar and Paying Agent shall prescribe in connection with the services that the Registrar and Paying Agent shall perform, such as, but not limited to, the opening and maintaining of accounts in favor of the Bondholders, the maintenance of the records of the Bondholder in the Registry, the issuance, cancellation, and replacement, when proper, of the Registry Confirmations, and the transfers of the Bonds from a purchaser or seller/transferor of the Bonds.

18.6.1 Transfer Fees in the Secondary Trading

1. Transfer Fee of ₱100.00 to be paid each by the transferring Bondholder and the buyer/transferee prior to the registration of any transfer of the Bonds in the Registry. Either side may opt to pay the full charge of ₱200.00 per transfer. For transfers from a registry account to the depository, the full charge of P200.00 per transfer shall be charged to the transferring bondholder.
2. Account Opening Fee of ₱100.00 to be paid upfront by a transferee who has no existing account in the Registry

3. Such transaction fees as PDTC shall prescribe for effecting electronic settlement instructions received from the PDSClear System if so duly authorized by a bondholder

18.6.2 *Transfer Fees due to Non-Trade Transactions*

1. Transaction Fee of ₱100.00 to be paid each by the transferring Bondholder and the requesting party prior to the registration of any transfer of the Bonds in the Registry. Either side may opt to pay the full charge of ₱200.00 per transfer.
2. Transaction Fee of ₱500.00 per side plus legal cost, for non-intermediated transfers (e.g. inheritance, donation, pledge).
- 3.

18.6.3 *Other Fees charged to the Bondholder*

These fees pertain to instances when PDTC is requested to undertake the printing of non-standard reports for the Bondholders for which appropriate fees are charged to cover the related overhead costs. The fee may vary depending on the type of report, as follows:

1. Fee of ₱200.00 to be paid upon each application for a certification request of holding.
2. Fee of ₱50.00 to be paid upon each application for a monthly statement of account (in addition to the quarterly statement of account to be issued by the Registrar to each Holder free of charge).
3. Fee of ₱50.00 to be paid upon application for the issuance of a replacement Registry Confirmation for reasons such as mutilated, destroyed, stolen or lost.
4. The fee for Special Reports varies depending on request.
 - A. Report without back-up file restoration is subject to a fee of ₱100.00 per request, plus ₱20.00 per page.
 - B. Report requiring back-up file restoration is subject to a fee of ₱300.00 per request, plus ₱20.00 per page

SECTION 19. INDEPENDENT AUDITORS

The limited review financial statements as of and for the period ended 30 June 2024 and audited financial statements as of and for the years ended 31 December 2023, 2022, and 2021, respectively, were reviewed/ audited by SyCip, Gorres, Velayo and Co., independent auditors.

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AUDITED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED 31 DECEMBER 2023, 2022,
AND 2021

REVIEWED FINANCIAL STATEMENTS AS OF AND FOR THE PERIOD ENDED 30 JUNE 2024