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The offering circular is intended to be available only to Philippine and non-Philippine citizens residing in the Philippines or corporations or judicial entities organized and existing under Philippine law, and is not intended for distribution in other jurisdictions. The information contained the offering circular may not be published or distributed outside the Philippines.

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BANK OF COMMERCE

(a banking corporation organized and existing under Philippine laws)

₱20,000,000,000
Peso Bond Programme

Under this ₱20,000,000,000 Bond Programme (the "**Programme**"), Bank of Commerce ("**BankCom**", 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 ₱20,000,000,000 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 24 June 2022 among BankCom and the Joint Lead Arrangers and Joint Bookrunners (including the Terms and Conditions of the Bonds annexed to the Programme Agreement), the Registry and Paying Agency Agreement dated 24 June 2022 between BankCom and Philippine Depository and Trust Corporation ("**PDTC**" or the "**Registrar**" or "**Paying Agent**"), the Trust Agreement dated 24 June 2022 between BankCom and Rizal Commercial Banking Corporation - Trust and Investments 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 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, in 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 plus (corp.), with a Stable Outlook, dated 21 June 2022 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.

See "Investment Considerations" for a discussion of certain factors to be considered in connection with an investment in the Bonds.

Joint Lead Arrangers and Joint Bookrunners

ING

PHILIPPINE COMMERCIAL CAPITAL, INC.

Selling Agents

Bank of Commerce

ING

PHILIPPINE COMMERCIAL CAPITAL, INC.

For inquiries or complaints, you may contact the Bank at +632 8632 2265 or at customerservice@bankcom.com.ph or the BSP Financial Consumer Protection Department at telephone no. +632 8708-7087.

The date of this Offering Circular is 24 June 2022

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 Joint Lead Arrangers and Joint Bookrunners 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 Joint Lead Arrangers and Bookrunners 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 Joint Lead Arrangers and Joint Bookrunners 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 Joint Lead Arrangers and Joint Bookrunners 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 Joint Lead Arrangers and Joint Bookrunners.

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 Joint Lead Arrangers and Bookrunners 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 Joint Lead Arrangers, nor the Joint Bookrunners, 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 Joint Lead Arrangers and Joint Bookrunners 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 Joint Lead Arrangers, Joint Bookrunners, or on the Selling Agents (other than the Bank) or on any person affiliated with the Joint Lead Arrangers, Joint Bookrunners, 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 Joint Lead Arrangers, the Joint Bookrunners, 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 31 March 2022 and audited financial statements as of and for the years ended 31 December 2021, 2020, and 2019 which will be considered an integral part hereof, have been prepared in compliance with Philippine Financial Reporting Standards ("**PFRS**"). The Bank's financial statements as of and for the years ended 31 December 2021, 2020, and 2019 were audited by R.G. Manabat & Co.

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 Joint Lead Arrangers, the Joint Bookrunners, 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 Joint Lead Arrangers, the Joint Bookrunners, 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 Joint Lead Arrangers and Joint Bookrunners 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 Joint Lead Arrangers and Joint 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, www.bankcom.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

Bank of Commerce (the "**Bank**" or "**BankCom**") is one of the country's fast-growing commercial banks and is licensed by the *Bangko Sentral ng Pilipinas* ("**BSP**"). The Bank has been operating since 1963. In 2008, San Miguel Corporation ("**SMC**") bought into the Bank and became a majority stakeholder through the combined voting stake of San Miguel Corporation Retirement Fund and San Miguel Properties, Inc. in the Bank.

The refreshed capital and management resulted in strengthened banking operations, systems and services, and reinforced the Bank's stability. The Bank provides innovative banking solutions and a complete range of products and services in deposit, commercial loans, credit card services, consumer banking, transaction banking, corporate banking, treasury, asset management, trust and investments. In terms of service reach, the Bank has retail and corporate internet banking facilities, 140 branches and 253 automated teller machines ("**ATMs**") strategically located nationwide as of 31 March 2022.

1.2 RECENT DEVELOPMENTS

1.2.1 Primary Offer of Common Shares by Way of an Initial Public Offering ("IPO")

On 31 March 2022, the Bank issued 280,602,800 new common shares (the "**Offer Shares**") on the Philippine Stock Exchange ("**PSE**") at a price of ₱12.00 per share raising a total amount of ₱3,367.2 million from its initial public offering. The Bank intends to use the net proceeds from the sale of the Offer Shares to fund its lending activities, acquisition of investment securities, and financial capital expenditure requirements in connection with the upgrading of its automated teller machine (ATM) fleet and its core banking system.

The IPO is part of the Bank's Universal Banking license application. With a unibank license, the Bank will have more opportunities to generate and warehouse interest bearing assets like marketable securities, generate more fee-based income, and manage risk of securities underwritten and held for trading. This will also enable the bank to enhance its marketing relationship with existing and prospective clients in the large corporate and middle market segments as it will be carrying a broader range of products, from traditional working capital lines and term loans to project finance, initial public offerings, mergers and acquisitions, financial advisory, etc. The latter services are essential to large businesses in planning their expansion programs as a response to the increasing demand brought about by the robust economy.

1.2.2 Highlights for the Three (3)-Month Period Ended 31 March 2022 and Fiscal Year Ended 31 December 2021

The Bank's first quarter 2022 net income hit ₱360.6 million, more than double the ₱146.3 million earned in the same period last year. This upward trajectory resulted from the continued strong core business activities despite the continuing local and international market volatilities.

Total Revenues which stood at ₱1.7 billion is up 14.5% as Net Interest Income posted a 6.5% increase.

Non-interest income rose by 93% to ₱272 million resulting mainly from the turnaround in foreign exchange gains and growth in service fees business.

The Bank continues to demonstrate operational efficiency as Operating Expenses growth was kept in check at 2% at ₱1.2 billion.

Total assets were recorded at ₱206.4 billion, a 3.3% expansion from end 2021 level mainly due to the 13.8% growth in loans and receivables. Contributing as well to assets expansion were increases in investment securities.

The Bank's capital base stood strong at ₱26.7 billion, up 14.2% from the ₱23.4 billion in previous quarter, spurred mainly by proceeds from its Initial Public Offering (IPO) in March 2022.

The Bank continued its strong performance in 2021 by recording a seven-year high net income of ₱1.2 billion vs ₱784 million in 2020. The results reflect the bank's resiliency amidst the continuing challenges of the COVID-19 pandemic.

The Bank's core income continued to grow as net interest income increased 6% year on year. The increase was mainly driven by prudent management of interest expenses at ₱697 million, 41% lower vs. end-2020.

Non-interest income which stood at ₱826 million was mainly supported by a 19% growth in service charges and fees and commissions and gains on sale of acquired assets.

Amidst this increase in revenues, the Bank was able to limit Operating Expenses growth to 3% in 2021, despite additional technology investments.

1.2.3 Development of New Loan Programs

Alongside the need to reduce the Bank's exposure to affiliates, it has developed new loan programs intended to leverage off the SMC ecosystem composed of SMC's network of customers, trade partners, suppliers, vendors, distributors, contractors, and employees, among others. Loans to be generated from these lending programs are envisioned to gradually replace borrowings of the SMC Group. Moreover, as bulk of the potential customers from this segment operate within the middle market, clients tapped for these programs are anticipated to be a source of higher net interest margins as well as diversified, stickier deposit base.

1.2.4 Maiden Long Term Negotiable Certificates of Time Deposit ("LTNCD") Issuance

On 17 March 2020, the Bank issued ₱5.0 billion unsecured long-term negotiable certificates of time deposit ("**LTNCD**") with 4.5% fixed interest rate and maturing on 17 September 2025. The issuance of the LTNCD was approved by the Board of Directors ("**BOD**") on 25 June 2019 and by the BSP on 31 October 2019.

1.2.5 ₱5.5 billion Preferred Shares Private Placement

On 5 August 2021, SMC Equivest Corporation ("**SMC Equivest**"), a wholly owned subsidiary of San Miguel Corporation, subscribed to 41,666,667 Series 1 Preferred Shares of Bank of Commerce for ₱5,500,000,044.00, which was fully paid on the same date. The preferred shares are cumulative, non-voting, non-participating, perpetual, and convertible into common shares at a ratio of 1:1 (i.e. one preferred share is convertible into one common share) and at the option of the preferred shareholder after five (5) years from the date of issuance, subject to requirements under laws, rules, and regulations. Dividends shall accrue at a rate of 2.50% p.a. in the first year, 3.00% p.a. in the second year, 4.00% p.a. in the third year, 5.00% p.a. in the fourth year, and 5.50% p.a. beginning on the fifth year onwards from issuance. The dividends shall be payable either in cash or in shares at the discretion of the Bank. The foregoing capital infusion is in compliance with the requirement of the BSP for the Bank to meet the minimum capitalization requirements for banks applying for a universal banking license. Prior to such subscription, SMC Equivest owned 4.69% of the outstanding capital stock of the Bank comprising of common shares. The terms and conditions of the Preferred Shares, including the dividend rate, were approved by the BSP.

1.2.6 Stock Split

On 25 May 2021, the Board of Directors approved the amendment of the Bank's Articles of Incorporation to the par value of common and preferred shares from One Hundred Pesos (₱100.00) to Ten Pesos (₱10.00). The amendment resulted in the increase in common shares from 170,251,147 to 1,702,511,470 and an increase in preferred shares from 45,500,000 to 455,000,000. The amendment was approved by the Stockholders on 8 July 2021. The amendment on the Bank's Articles of Incorporation was approved by the BSP on 4 October 2021 and by the SEC on 2 November 2021.

1.2.7 Equity Restructuring

On 29 March 2021, the Board of Directors approved the Bank to undergo equity restructuring to wipe out the deficit amounting to ₱51,156,715 as at 31 December 2020 through the use of the Bank's paid-in surplus.

On 12 July 2021, the Bank received from BSP a "No Objection" response to its application for equity restructuring with the SEC, subject to the (i) Bank's compliance with the Commission's other requirements; and (ii) condition that the Bank shall provide BSP a certified true copy of SEC's approval of the equity restructuring within five (5) days from receipt thereof.

On 14 October 2021, the SEC approved the equity restructuring to wipe-out the deficit as at 31 December 2020 amounting to ₱51,156,715 against the paid-in surplus of ₱5.6 billion subject to the conditions that the remaining paid-in surplus of ₱5.5 billion cannot be applied for future losses that may be incurred by the Bank without prior approval of the SEC.

1.2.8 SMC Retirement and SMC Equivest Transfer of Shares

On 20 October 2021, SMC Equivest Corporation purchased from San Miguel Corporation Retirement Plan One Million Five Hundred Seventy-one Thousand Six Hundred (1,571,600) common shares of the Bank at a par value of ₱100.00 per share (15,716,000 common shares after the reduction in par value to ₱10.00 per share) comprising 1.4% of the Bank's total issued and outstanding common shares, for a total purchase price of Three Hundred Fifty-five Million Nine Hundred Thirty-five Thousand Nine Hundred Sixty-eight Pesos (₱355,935,968.00). The Certificate Authorizing Registration ("**CAR**") for the transfer of shares has been issued by the Bureau of Internal Revenue on 21 February 2022.

1.2.9 Impact of COVID-19 on Operations and Strategies

The 2020 pandemic severely curtailed the Bank operations primarily due to the closure of various branches around the country because of quarantine restrictions imposed by the Philippine government. Restrictions in movement also made it difficult for Bank employees to report to head office or open branches. Nonetheless, in 2021 the Bank continued to serve its customers and meet its regulatory obligations by using its existing Business Continuity Measures ("BCM") and various efforts to mitigate the spread of the COVID-19 virus through measures such as the transition to a work-from home arrangement, investment in technology to enable a conducive work-from- home arrangement for its employees, establishment of health and safety protocols within its premises, among others. As of this issuance, all the Bank's 140 branches nationwide are open for business and fully operational.

In 2021, the Bank recorded a net income of ₱1.2 billion as compared to 31 December 2020 of ₱784.4 million. This was driven by 6% increase in net interest income due to lower funding cost as interest expenses declined. Meanwhile, total operating expenses, including provisions, declined by 24.66% to ₱4.4 billion from ₱5.8 billion mainly due a net reversal of provision for credit losses which was recorded at ₱634.8 million as opposed to the prior year's result of ₱962.5 million. In 2020, the Bank had a significant increase in provisions to anticipate credit losses brought about by the global pandemic. These provisions gradually decreased leading to the net reversal as of 31 December 2021 due to the continuous collection efforts to update non-current accounts.

As an affiliate of the SMC Group, the Bank has been able to leverage on the conglomerate's testing facilities. Since the 2nd half of 2020 until 31 December 2021 at the least, Bank employees have been tested using the PCR method at least twice whether or not they have experienced any symptoms. Bank personnel have also been given the opportunity to take part in the COVID vaccination program currently planned for the SMC Group.

Given that the pandemic is continuing, the Bank is conducting the following activities to manage credit risk going forward:

- The Corporate Banking Group together with the Credit Group closely monitors all corporate borrowers for signs of financial distress. The Bank proactively works with its borrowers to ensure they are able to meet their payment obligations.

- The Consumer Lending Group has been asked to cap its growth and simply replace consumer loans that are being fully paid off. New loans now have increased equity requirements and the borrower’s ability to pay is scrutinized more closely in relation the effects of the ongoing pandemic.
- The Credit Card Group has limited new credit cards to bank clients with higher average daily balance minimums or SMC ecosystem customers with higher income requirements and at least one (1) issued card from another bank.

The Bank continues to monitor the situation and continues to review its provisioning and capital levels. As the government continued to ease restrictions and economy gradually opened up, the Bank was able to adapt according to these developments and recorded a net income of ₱360.59 million for the first quarter of 2022.

1.3 BANK INFORMATION

Bank of Commerce was incorporated under the laws of the Philippines in 1963. The Bank's head office and principal place of business is located at the San Miguel Properties Center, No. 7 St. Francis Street, Mandaluyong City, Philippines. The Bank’s telephone number at this location is (632) 8982 6000. The Bank’s primary website is www.bankcom.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 reviewed financial statements as of and for the period ended 31 March 2022 and audited financial statements of the Bank as of and for the years ended 31 December 2021 and 2020, and 2019 prepared in accordance with PFRS and audited by R.G. Manabat & 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 CONDENSED STATEMENTS OF FINANCIAL POSITION

BANK OF COMMERCE

CONDENSED STATEMENTS OF FINANCIAL POSITION

	Quarter Ended 31 March	**Years Ended December 31**		
	2022	**2021**	**2020**	**2019**
ASSETS				
Cash and Other Cash Items	₱2,265,466,894	₱2,747,780,890	₱2,420,504,742	₱1,776,398,932
Due from the BSP net	34,698,999,315	45,367,142,605	39,547,210,722	21,955,496,031
Due from Other Banks net	2,901,014,391	1,039,456,479	1,023,255,562	670,481,616
Interbank Loans Receivable and Securities Purchased Under Resale Agreements net	23,003,244,106	19,133,505,219	22,055,827,932	13,429,279,503
Financial Assets at Fair Value through Profit or Loss	753,522,923	994,612,772	1,265,419,468	1,053,759,876
Financial Assets at Fair Value through Other Comprehensive Income	4,774,652,687	5,055,116,576	15,424,248,009	1,389,857,145
Investment Securities at Amortized Cost net	45,182,324,487	42,909,057,404	9,146,277,511	22,547,832,753
Loans and Receivables net	84,675,690,893	74,374,125,167	71,628,349,480	73,742,261,809
Non-current Assets Held for Sale	-	-	-	48,121,557
Investment in an Associate net	39,400,574	39,661,589	40,687,406	41,443,508
Property and Equipment net	1,439,274,506	1,472,398,367	1,659,401,337	1,741,075,195
Investment Properties net	3,417,809,054	3,448,314,535	3,624,986,606	3,729,769,193
Deferred Tax Assets net	741,856,342	743,505,416	955,379,983	880,301,277
Other Assets net	2,491,520,844	2,387,937,153	2,129,132,566	2,027,207,272
Total Assets	**₱206,384,777,016**	**₱199,712,614,172**	**₱170,920,681,324**	**₱145,033,285,667**

		Years Ended December 31		
	March 31, 2022	**2021**	**2020**	**2019**
LIABILITIES AND EQUITY				
Deposit Liabilities				
Demand	₱51,260,968,533	₱48,702,339,755	₱39,659,286,077	₱34,158,477,979
Savings	105,170,394,728	108,874,919,612	83,743,820,681	72,016,565,174
Time	12,163,982,931	9,107,143,873	20,673,084,328	17,681,144,917
Long-Term Negotiable Certificates	5,029,420,000	5,029,420,000	5,029,420,000	-

BANK OF COMMERCE

CONDENSED STATEMENTS OF FINANCIAL POSITION

	Quarter Ended 31 March	Years Ended December 31		
	2022	**2021**	**2020**	**2019**
	173,624,766,192	171,713,823,240	149,105,611,086	123,856,188,070
Bills Payable	-	-	18,675	105,095
Manager's Checks and Acceptances Payable	1,095,657,979	951,460,497	870,079,608	923,459,741
Accrued Interest, Taxes and Other Expenses	949,982,990	1,021,625,802	892,463,477	815,034,803
Other Liabilities	4,028,459,619	2,662,971,101	3,286,045,837	3,343,506,476
Total Liabilities	**179,698,866,780**	**176,349,880,640**	**154,154,218,683**	**128,938,294,185**
Equity				
Capital stock	₱18,196,805,900	₱15,390,777,900	₱11,224,111,200	₱11,224,111,200
Paid-in surplus	7,230,148,406	6,776,694,869	5,594,079,646	5,594,079,646
Surplus reserves	866,634,647	755,806,267	395,602,340	399,262,743
Retained Earnings (Deficit)	1,102,376,929	852,471,738	(51,156,715)	(839,250,906)
Remeasurement losses on retirement liability	(262,547,387)	(262,547,387)	(449,088,000)	(319,998,451)
Net unrealized gain (losses) on financial assets at fair value through other comprehensive income	(446,803,798)	(156,154,761)	69,657,563	36,108,673
Cumulative translation adjustment	628,274	7,010,814	(15,404,017)	2,014,880
Share in other comprehensive loss of an associate	(1,332,735)	(1,325,908)	(1,339,376)	(1,336,303)
Total Equity	**26,685,910,236**	**23,362,733,532**	**16,766,462,641**	**16,094,991,482**
Total Liabilities and Equity	**₱206,384,777,016**	**₱199,712,614,172**	**₱170,920,681,324**	**₱145,033,285,667**

2.2 STATEMENTS OF INCOME

BANK OF COMMERCE STATEMENTS OF INCOME	Quarter Ended 31 March	Years Ended December 31		
	2022	**2021**	**2020**	**2019**
INTEREST INCOME				
Interest income calculated using the effective interest method:				
Loans and receivables	₱1,100,168,129	₱4,284,455,772	₱4,840,143,949	₱4,920,061,099
Investment securities at fair value through other comprehensive income and at amortized cost	378,370,569	1,251,563,739	919,374,469	1,117,092,275
Due from the BSP and other banks	104,241,315	228,434,625	265,527,722	163,456,630
Interbank loans receivable and securities purchased under resale agreements	77,007,224	316,281,375	238,044,191	315,569,692
Other interest income:				
Financial assets at fair value through profit or loss	2,608,204	14,420,446	16,991,151	16,058,663
	1,662,395,441	6,095,155,957	6,280,081,482	6,532,238,359
INTEREST EXPENSE				
Deposit liabilities	171,272,754	645,260,590	1,127,728,480	2,346,266,843
Lease liabilities	7,352,587	35,033,342	42,921,243	45,360,536
Bills payable and others	16,258,376	16,691,365	1,105,699	4,855,994
	194,883,717	696,985,197	1,171,755,422	2,396,483,373
NET INTEREST INCOME	1,467,511,724	5,398,170,760	5,108,326,060	4,135,754,986
OTHER INCOME				
Trading and investment securities gains (losses) net	(29,086,960)	(78,709,145)	1,147,573,753	355,688,714
Service charges, fees and commissions	159,090,069	531,127,752	444,637,070	477,274,280
Gains on foreclosure and sale of property and equipment and foreclosed assets net	85,015,869	274,985,810	58,764,927	336,288,436
Foreign exchange gains net	42,588,554	48,367,204	48,875,995	67,994,272
Miscellaneous	14,159,758	50,565,323	65,417,725	459,861,228
	271,767,290	826,336,944	1,765,269,470	1,697,106,930
OTHER EXPENSES				
Compensation and fringe benefits	438,387,977	1,820,969,091	1,819,392,253	1,684,538,431
Provision for (Reversal of) credit and impairment losses	771,550	(634,819,513)	962,509,599	52,095,015
Taxes and licenses	240,928,873	802,193,452	830,158,438	773,892,173
Depreciation and amortization	106,145,274	462,532,885	567,850,860	480,444,851
Rent and utilities	133,026,793	532,283,906	476,343,471	505,773,088
Insurance	86,387,498	334,825,533	280,637,960	245,450,542
Service fees and commissions	47,757,899	229,706,473	183,373,509	278,525,116

BANK OF COMMERCE

STATEMENTS OF INCOME

	Quarter Ended 31 March	Years Ended December 31		
	2022	**2021**	**2020**	**2019**
Subscription fees	20,563,158	107,646,170	96,595,420	69,302,963
Entertainment, amusement and recreation	18,667,092	97,393,528	107,304,726	123,335,716
Management and professional fees	34,103,582	85,022,359	79,453,000	65,801,182
Amortization of software costs	14,996,342	53,595,136	45,907,917	34,144,155
Miscellaneous	104,044,556	501,811,576	381,759,150	399,784,678
	1,245,780,594	4,393,160,596	5,831,286,303	4,713,087,910
INCOME BEFORE SHARE IN NET LOSS OF AN ASSOCIATE AND INCOME TAX	493,498,420	1,831,347,108	1,042,309,227	1,119,774,006
SHARE IN NET LOSS OF AN ASSOCIATE	254,188	1,039,285	753,029	2,865,073
INCOME BEFORE INCOME TAX	493,244,232	1,830,307,823	1,041,556,198	1,116,908,933
INCOME TAX EXPENSE	132,650,661	623,688,658	257,122,410	464,186,399
NET INCOME (LOSS)	**₱360,593,571**	**₱1,206,619,165**	**₱784,433,788**	**₱652,722,534**

2.3 STATEMENTS OF COMPREHENSIVE INCOME

	BANK OF COMMERCE			
	STATEMENTS OF COMPREHENSIVE INCOME			
	Quarter Ended 31 March	**Years Ended December 31**		
	2022	**2021**	**2020**	**2019**
NET INCOME (LOSS)	₱360,593,571	₱1,206,619,165	₱784,433,788	₱652,722,534
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that may not be reclassified to profit or loss				
Net change in remeasurement losses on retirement liability	-	186,540,613	(129,089,549)	(224,686,360)
Net change in fair value of equity securities at fair value through other comprehensive income	15,809,992	31,555,000	(412,381)	5,229,000
	15,809,992	218,095,613	(129,501,930)	(219,457,360)
Items that may be reclassified to profit or loss				
Net change in fair value of debt securities at FVOCI	(306,319,029)	(320,194,577)	314,704,714	359,733,308
Net change in fair value of debt securities at FVOCI take to profit or loss	-	68,883,753	(280,743,443)	(198,827,405)
Net movement in cumulative translation adjustment	(6,382,540)	22,414,831	(17,418,897)	(10,624,175)
Share in other comprehensive income (loss) of an associate	(6,827)	13,468	(3,073)	4,326,471
	(312,708,396)	(228,882,525)	16,539,301	154,608,199
	(296,898,404)	(10,786,912)	(112,962,629)	(64,849,161)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱63,695,167**	**₱1,195,832,253**	**₱671,471,159**	**₱587,873,373**

2.4 STATEMENTS OF CASH FLOWS

	BANK OF COMMERCE			
	STATEMENTS OF CASH FLOWS			
	Quarter Ended 31 March	Years Ended December 31		
	2022	**2021**	**2020**	**2019**
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	₱493,244,232	₱1,830,307,823	₱1,041,556,198	₱1,116,908,933
Adjustments for:				
Provision for (reversal of) credit and impairment losses	1,446,867	(635,185,510)	958,875,752	52,225,704
Gain on sale of investment securities at amortized cost	-	-	(767,033,010)	-
Depreciation and amortization	106,145,274	462,532,885	567,850,860	480,444,851
(Gain) loss on sale of financial assets at fair value through other comprehensive income	-	68,883,753	(280,743,443)	(198,827,405)
Unrealized (gains) losses on financial assets at fair value through profit or loss	19,535,130	4,189,634	(69,731,751)	(135,535,224)
Gain on foreclosure and sale of property and equipment and foreclosed assets net	(85,015,869)	(274,985,810)	(58,764,927)	(336,288,436)
Amortization of software costs	14,996,342	53,595,136	45,907,917	34,144,155
Miscellaneous income	-	-	(6,595,120)	(363,450,000)
Share in net loss of associate	254,188	1,039,285	753,029	2,865,073
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Interbank loans receivables	-	106,515,133	4,382,274	(110,883,214)
Financial assets at fair value through profit or loss	221,554,719	266,617,062	(141,927,841)	918,184,476
Loans and receivables	(10,332,153,403)	(2,049,407,264)	1,142,980,036	(1,643,739,447)
Other assets	(81,782,049)	(254,234,814)	(184,442,772)	(202,644,680)
Increase (decrease) in:				
Deposit liabilities	1,910,942,952	22,608,212,154	25,249,423,016	(7,322,035,294)
Manager's checks and acceptances payable	144,197,482	81,380,889	(53,380,133)	307,963,803
Accrued interest, taxes and other expenses	(99,255,363)	90,609,895	97,234,086	(100,619,502)
Other liabilities	1,375,491,914	(386,245,709)	(207,066,635)	(117,129,826)
Net cash (absorbed by) generated from operations	(6,310,397,584)	21,973,824,542	27,339,277,536	(7,618,416,033)
Income taxes paid	(120,057,186)	(366,872,337)	(355,090,693)	(338,334,083)
Net cash (used in) provided by operating activities	**(6,430,454,770)**	**21,606,952,205**	**26,984,186,843**	**(7,956,750,116)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale or redemption of:				

BANK OF COMMERCE				
STATEMENTS OF CASH FLOWS				
	Quarter Ended 31 March	Years Ended December 31		
	2022	**2021**	**2020**	**2019**
Investment securities at amortized cost	8,128,040,000	15,166,197,000	20,043,309,156	1,557,000,000
Financial assets at fair value through other comprehensive income	-	17,433,761,770	16,022,194,922	10,024,308,116
Investment properties	82,729,059	308,006,196	50,090,800	94,051,694
Property and equipment	9,150,732	45,240,223	45,448,780	49,150,059
Additions to:				
Financial assets at fair value through other comprehensive income	-	(7,358,521,216)	(29,740,895,892)	(3,071,058,659)
Investment securities at amortized cost	(10,401,615,161)	(48,933,469,733)	(5,873,014,288)	(893,626,163)
Property and equipment	(25,522,063)	(156,995,689)	(98,228,754)	(207,302,263)
Software costs	(19,368,094)	(48,972,849)	(16,158,782)	(131,596,152)
Investment properties	(776,869)	(1,098,889)	(2,095,772)	(21,242,574)
Net cash provided by (used in) investing activities	**(2,227,362,396)**	**(23,545,853,187)**	**430,650,170**	**7,399,684,058**
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of lease liability	(₱49,125,710)	(₱188,452,088)	(₱177,806,359)	(₱148,056,647)
Issuance of preferred stock	-	5,452,543,902	-	-
Issuance of common stock	3,304,209,967	-	-	-
Settlement of bills payable	-	(18,675)	(86,420)	(557,366,520)
Net cash (used in) provided by financing activities	3,255,084,257	5,264,073,139	(177,892,779)	(705,423,167)
EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS	(16,427,578)	22,414,831	(17,418,897)	(10,624,175)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,419,160,487)	3,347,586,988	27,219,525,337	(1,273,113,400)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items	2,747,780,890	2,420,504,742	1,776,398,932	1,748,070,945
Due from the BSP	45,367,142,605	39,547,210,722	21,955,496,031	21,424,140,231
Due from other banks	1,039,456,479	1,023,255,562	670,481,616	3,838,048,357
Interbank loans receivable and securities purchased under resale agreements	19,133,505,219	21,949,327,179	13,318,396,289	11,983,626,735
	68,287,885,193	64,940,298,205	37,720,772,868	38,993,886,268
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items	2,265,466,894	2,747,780,890	2,420,504,742	1,776,398,932
Due from the BSP	34,698,999,315	45,367,142,605	39,547,210,722	21,995,496,931

	BANK OF COMMERCE			
	STATEMENTS OF CASH FLOWS			
	Quarter Ended 31 March	Years Ended December 31		
	2022	**2021**	**2020**	**2019**
Due from other banks	2,901,014,391	1,039,456,479	1,023,255,562	670,481,616
Interbank loans receivable and securities purchased under resale agreements	23,003,244,106	19,133,505,219	21,949,327,179	13,318,396,289
	₱62,868,724,706	**₱68,287,885,193**	**₱64,940,298,205**	**₱37,720,772,868**
CASH FLOWS FROM INTEREST AND DIVIDENDS				
Operating Activities				
Interest received	₱1,288,673,865	₱5,013,594,767	₱5,183,736,446	₱5,602,826,464
Interest paid	204,715,519	659,753,395	1,226,602,056	2,496,181,179
Investing Activities				
Interest Received	₱362,065,221	₱988,560,088	₱1,049,252,946	₱1,185,867,090
Dividends received	1,612,352	5,709,161	12,228,425	8,201,707
Financing Activities				
Interest paid	₱7,587,689	₱35,396,571	₱44,027,424	₱55,071,532

2.5 KEY PERFORMANCE INDICATORS AND RATIOS

(in percent, %)

	Quarter Ended 31 March	Years Ended December 31		
	2022 (Annualized)	**2021 (Audited)**	**2020 (Audited)**	**2019 (Audited)**
Return on Average Assets	0.7	0.7	0.5	0.4
Return on Average Equity	5.8	6.0	4.8	4.1
Net Interest Margin on Average Earning Assets	3.3	3.4	3.9	3.5
Tier 1 Capital Ratio	21.4	20.7	15.6	15.1
Total Capital Adequacy Ratio	22.1	21.6	16.6	15.9

SECTION 3. GENERAL TERMS AND CONDITIONS OF THE BONDS

The summary of the terms and conditions of the Bonds set out below is not a comprehensive enumeration of all the rights and obligations of the Issuer, the Bondholders and other parties to the offering. The parties' respective rights, obligations and privileges are set out in the Terms and Conditions annexed to the Programme Agreements, which prevail in the event of any conflict between those terms and conditions and the summary set out below.

Issuer	Bank of Commerce ("BankCom")
Issuer Rating	PRS Aa plus (corp.) with a Stable Outlook from Philippine Rating Services Corporation ("PhilRatings")
Issue	PHP-denominated Senior Fixed-Rate Bonds (the "Bonds") constituting direct, unconditional, unsecured and unsubordinated obligations of BankCom which shall form part of the Issuer's aggregate proposed ₱20.0 billion Bond Programme.
Issue Amount of initial Tranche	Minimum of [●] Billion Pesos (₱[●],000,000,000) in aggregate principal amount, subject to oversubscription option.
Use of Proceeds	[(1) management of the Bank's net interest margin - matching of long-term assets with long-term funding to reduce the Bank's interest rate risk; (2) diversification of funding sources – more stable funding source for the banks; and (3) general corporate purposes.]
Manner of Distribution	Public offering in the domestic market
Issue Price	[Par or 100% of face value.]
Issue Date	[●] or such other date as may be agreed by the Issuer and the Joint Lead Arrangers and Bookrunners may agree upon.
Maturity Date	[●] or [●] (●) years after Issue Date
Form and Denomination	The Bonds shall be issued in scripless form in denominations of [₱100,000 each], as a minimum, and in multiples of [₱50,000] thereafter, and traded in denominations of [₱50,000] in the secondary market.
Interest Rate	• Fixed interest rate of [●]% per annum, determined by the Benchmark Rate of [three-day average of 2Y BVAL] plus Spread of [50 to 100] bps) on the Interest Rate Setting Date. • Quarterly payment; 30/360-day count basis
Joint Lead Arrangers and Joint Bookrunners	ING Bank N.V., Manila Branch ("**ING**") Philippine Commercial Capital, Inc. ("**PCCI**")
Selling Agents	ING, PCCI and other institutions as may be agreed upon. BankCom may also sell and distribute the Bonds through its branches on its own behalf.
Trustee	Rizal Commercial Banking Corporation - Trust and Investments Group
Market Maker	Philippine Commercial Capital, Inc.
Registrar and Paying Agent	Philippine Depository & Trust Corp. ("**PDTC**")

Redemption Option	If as a result of a change in law, rule or regulation (or in the interpretation of any of the foregoing) either: (i) payments under any tranche of the Bonds become subject to additional or increased taxes other than those applicable as of the relevant Issue Date; (ii) the Issuer becomes subject to increased reserve requirements against obligations that include such tranche of the Bonds, and such additional or increased taxes or increased reserve requirements cannot be avoided by the use of reasonable measures available to the Issuer; or (iii) if any of the transaction documents (or any provision thereof) becomes invalid, illegal, or unenforceable to the extent that it becomes unlawful for the Issuer enforce its rights or comply with its obligations thereunder, or the Issuer is prevented or restrained from performing its obligations under the transaction documents, then subject to the applicable regulations, the Issuer may, at its option, redeem all (but not less than all) of the tranche of the Bonds affected by any of the foregoing events on any Interest Payment Date.
Final Redemption	The Bonds will be redeemed [at par or 100% face value upon their maturity].
Covenants; Representations and Warranties	Customary covenants and warranties such as but not limited to a negative pledge, compliance with applicable law and regulations, completeness and accuracy of due diligence information provided.
Events of Default	Customary events of default such as but not limited to non-payment, cross-default, breach of covenants or warranties.
Purchase and Cancellation	The Issuer may 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 (and the Bondholders shall not be obliged to sell) Bonds pro-rata from all Bondholders. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued.
Status and Ranking of the Bonds	The Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of the Bank and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, other than obligations preferred by the law.
Prohibited Bondholders	Persons and entities which are prohibited from purchasing and/or holding any Bonds of the Issuer pursuant to the Governing Regulations, including: (1) the Issuer (but excluding for this purpose the Issuer's trust department, which may purchase and/or hold Bonds in the name of and for the account of its clients who are not Prohibited Bondholders); (2) any other person or entity that is classifiable as a related party of the Issuer. For purposes of this definition, a "related party" means, in addition to the Issuer's subsidiaries and affiliates, 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 if disseminated among the public; <u>*provided*</u>, 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 the Bonds: 1) Any member of the Issuer's board of directors including the Board Advisers, Corporate Secretary, Assistant Corporate Secretary and officers/staff of the Office of the Corporate Secretary and their relatives within the first degree of consanguinity or affinity, or by legal adoption;

2) All members of the Bank's Senior Executive Team (SET) (President & CEO; Chief Finance Officer; Heads of Treasury Group, Trust Services Group, Corporate Banking Group I, Corporate Banking Group II, Branch Banking Group, Transaction Banking Group, Credit Card Group, Consumer Group, Executive Support Group, Operations Group, Credit Group, Heads of Human Resources Management and Development Division, Legal Services Division, Corporate Communication and Consumer Protection Division, Information Technology Division, Risk Management Division, Internal Audit Division, Compliance Division); the SET consultants; SET secretariat; the Executive Assistant of the President; the Assistant to the President; and their relatives within the first degree of consanguinity or affinity, or by legal adoption;

3) All members of the Asset and Liability Committee (ALCO) including the ALCO secretariat and their relatives within the first degree of consanguinity or affinity, or by legal adoption;

4) Any of the Issuer's personnel in the following Group, Division or Department, including their relatives within the first degree of consanguinity or affinity, or by legal adoption:

   (A) Treasury Management Group;
   (B) Trust Services Group;
   (C) Compliance Division;
   (D) Office of the Corporate Secretary;
   (E) Finance and Controllership Group;
   (F) Corporate Planning Division;
   (G) Legal Services Division;
   (H) Corporate Communication and Consumer Protection Division; and
   (I) Market and Liquidity Risk Department;

5) The Bank's stockholders, substantial stockholders, subsidiaries, affiliates and other related parties, as defined in Section 131 of the Manual of Regulations for Banks (as the same may be amended, supplemented or replaced at the time of any offering of a Tranche of the Bonds). 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) With respect to any Tranche 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: 1) The partners and associates of external legal counsel to the Issuer, the Arrangers and Bookrunners; and 2) The officers and staff of (x) the Issuer's external auditors, and (y) auditors providing comfort letters in respect of such Tranche; *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. (b) persons defined as U.S. Persons under the Foreign Account Tax Compliance Act of the United States, as such statute may be amended from time to time ("FATCA"), including, but not limited to, (1) a U.S. citizen (including a dual citizen who may have another citizenship besides having U.S. citizenship), (2) 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), (3) a U.S. partnership, U.S. corporation, or U.S. entity, (4) a U.S. estate, (5) 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 who have the authority to control all substantial decisions of the trust, (6) a passive non-financial foreign entity with U.S. controlling persons, or (7) any other person that is not a non-U.S. person under the FATCA; and (c) any Restricted Party.
Taxation	If any payments of principal and/or interest on the Bonds shall be subject to deductions or withholding for or on account of any present taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") 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, then all such Taxes shall be for the account of the Bondholder concerned; and if the Issuer shall be required by law or regulation to deduct or withhold such Taxes, then the Issuer shall make the necessary withholding or deduction for the account of the Bondholder concerned; *provided*, that all sums payable by the Issuer to tax-exempt persons shall be paid in full without deductions for Taxes or other duties, assessments or government charges, subject to the submission by the relevant Bondholder claiming the exemption of the documents required in Clause 2(b)(iii) above and such other evidence as may be acceptable to the Issuer; and *provided, further*, that documentary stamp tax for the primary issue of the Bonds, if any, shall be for the Issuer's account.
Registration Requirement	The Bonds are classifiable as exempt securities under Section 9.1(e) of the Securities Regulation Code (Republic Act No. 8799) and do not need to be registered with the Securities and Exchange Commission.
Listing	The Issuer shall list the Bonds in PDEx on the Issue Date.

Transfer of the Bonds	Trading of the Bonds will be coursed through a PDTC Participant under the Scripless Book-entry System of the PDTC. Trading, transfer and/or settlement of the Bonds shall be performed in accordance with the PDTC rules and procedures to be set by the Issuer and the Registrar. Upon any assignment, title to the Bonds will pass by recording of the transfer from the transferor to the transferee in the electronic register of bondholders to be maintained by the Registrar.
Governing Law	Philippine Law

SECTION 4. FORM OF PRICING SUPPLEMENT

[BankCom logo]

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

PRICING SUPPLEMENT
dated [●]

Offer of up to [₱●] Tranche [●] Bonds under its
₱20,000,000,000 Bond Programme

[●]% p.a. 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 and Selling Agents

[●]

Selling Agents

[●]

OFFER OF TRANCHE [●] BONDS
BY BANK OF COMMERCE
UNDER ITS ₱20,000,000,000 BOND PROGRAMME

This document constitutes the Pricing Supplement relating to the 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 "Terms and Conditions") set forth in the Offering Circular dated [●]. This Pricing Supplement contains the final terms of this Offer and the Tranche [●] Bonds and must be read in conjunction with the Offering Circular. Full information on BankCom 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.

Issuer	Bank of Commerce ("**BankCom**")
Issuer Rating	[●]
Issue	PHP-denominated [●] Bonds (the "Bonds")
Issue Amount	[●]
Manner of Distribution	Public offering
Use of Proceeds	[●]
Issue Price	[●]
Offer Period	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
Issue Date	[●] or such other date as may be agreed by the Issuer and the Arrangers and Bookrunners.
Maturity Date	[●] or [●] Years after Issue Date
Maturity Value	[●]
Form and Denomination	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.
Ranking	The [Tranche] [●] 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
Interest Rate	[●]% per annum payable on the Interest Payment Dates set out below [*to be adjusted if parties agree on floating rate*]

Interest Period	[●]
Interest Payment Dates	[●]
Day Count Fraction	30/360 day count basis
Governing Law	Philippine Law
Payment Account Name	
Listing	
Other Terms and Conditions applicable to the Tranche [●] Bonds	[●]

PARTIES TO THE TRANSACTION

Arrangers and Bookrunners	[●]
Selling Agents	BankCom [●]
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.

Bank of Commerce
(BankCom)

By:

____

[●]
[●]

SECTION 5. USE OF PROCEEDS

The purpose of the issuance is: (1) management of the Bank's net interest margin - matching of long-term assets with long-term funding to reduce the Bank's interest rate risk; (2) diversification of funding sources – more stable funding source for the banks; and (3) general corporate purposes.

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 The ongoing situation of the COVID-19 pandemic could have negative effects on the Bank's asset portfolio and business operations.

The COVID-19 outbreak is continuing to cause widespread concern and financial and economic hardship not only to consumers, but also to businesses and communities in the Philippines. Specific segments of the population are already experiencing the impact of the pandemic and have found themselves in financially vulnerable positions. Private sector businesses have cut back production and have been forced to temporarily lay off employees leaving thousands jobless. The Philippine banking industry is not impervious to the adverse effects of the pandemic. Although rules and regulations that have been introduced by the BSP, the Bureau of Internal Revenue ("**BIR**"), and the SEC certainly helped banks to continue their business operations, they still face alarming pressures on their capital and liquidity position, especially since the duration and severity of this outbreak remains uncertain. As the economic situation in the Philippines remains highly strained, there is an expected credit loss and a rise of non-performing loans exposing the bank to higher credit exposure.

As a result of the economic impact of the COVID-19 pandemic and the Bayanihan Act, for the period ended 31 March 2022, the Bank reversed provision for credit losses of ₱4,071,487, representing a significant decrease compared to the provision for credit losses of ₱962,509,599 for the period ended 31 December 2020. Meanwhile, the Bank's net NPL ratio remained the same at 0.9% as of 31 March 2022 and 31 December 2021. 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). The Bank may continue to be required to record NPL and make provisions for credit losses larger than usual in or even beyond 2020 as lockdown measures continue to be imposed across the country and the impact of the pandemic becomes more pronounced. Increases in NPLs and provision for credit losses could have a material adverse effect on the Bank's business, cash flows, financial condition, results of operations and prospects.

Furthermore, as the COVID-19 pandemic continues to evolve, it is likely that the Bank's income, liquidity, resources and sources of funding will deteriorate, decrease or worsen. For example, if the Philippine economy continues to shrink and more of the Bank's existing and potential depositors experience financial distress, clients' deposits in the Bank may decrease, resulting in deterioration of the Bank's liquidity and decrease of the Bank's source of funding and resources. Meanwhile, the worsening of the Philippine economy may also harm the Bank's existing and potential borrowers' abilities to repay, cause the Bank's loan and debt borrower pool to shrink and adversely affect the Bank's interest income.

The continued spread of COVID-19 has also led to disruption and volatility in the global capital markets. It is possible that the spread of COVID-19 could cause a global economic slowdown or recession. The deterioration of the regional economy and financial markets in general will have a material adverse effect on the Bank's business, financial condition and results of operations. While the Bank has taken preventative and other measures to mitigate the impact of COVID 19, even when restrictions are lifted, there might be a period of significantly reduced economic activity, increased unemployment and reduced consumer spending. Should this be the case, this will continue to affect the Bank's business, financial condition, results of operations and prospects.

The Bank has taken various measures to ensure the continuance of its business and to protect health, safety and welfare of its employees, customers and outsource providers. Such measures include, among others, transition to remote work model, gradual return to workplace, establishment of safety and control measures, and implementation of engagement, health, wellness and welfare programs. The Bank has also made sustained efforts in developing its digital capabilities and expanding its services to bring convenience and efficiency to its customers. In addition, for the purpose of risk management, the Bank has enhanced its due diligence procedure with respect to loan and debt approvals during the pandemic. See "*Description of the Business - Impact of COVID-19 on Operations and Strategies*". These measures have achieved certain positive effects, yet it is possible that the effects of these measures become limited, unsatisfactory or not as desired in the future, especially if the COVID-19 pandemic continues to evolve and causes more severe disruption to the world and Philippine economy.

The severity of the consequences for, and the extent of the future impact of the pandemic on, the Bank will depend on certain developments, including the duration and spread of the outbreak, the actions taken to contain COVID-19, the impact on the Bank's customers, suppliers and employees, and the accessibility and effectiveness of government support programs to the Bank's customers, all of which are highly uncertain and cannot be predicted. There is no assurance that the pandemic will not have a material adverse impact on the Bank's future results of operation.

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 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 of the period ended Q1 2022, 2021, and 2020, the Philippine Peso registered an exchange rate of ₱50.74, ₱50.77 and ₱48.03 per US$1 respectively. Year-on-year % change as of yearend 2021 registered a depreciation of 5.7% versus yearend 2020.

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. As a result, the Bank's income, results of operations and the quality and growth of its assets depend, to a large extent, on the performance of the Philippine economy. Historically, the Bank has derived substantially all of its revenues and operating profits from the Philippines and, as such, their 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. 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;
- Government budget deficits
- Adverse trends in the current accounts and balance of payments of the Philippine economy;
- re-emergence of Middle East Respiratory Syndrome-Corona virus (MERS-CoV), SARS, avian
- Influenza (commonly known as bird flu), or H1N1, Polio, or the emergence of another similar disease (such as Zika) in the Philippines or in other countries in Southeast Asia;
- Natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- Political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- Other regulatory, social, political or economic developments in or affecting the Philippines.

There can be no assurance that the Philippines will maintain strong economic fundamentals in the future. Any future deterioration in economic conditions in the Philippines could materially and adversely affect the Bank's financial position and results of operations, including the Bank's ability to grow its asset portfolio, the quality of the Bank's assets and its ability to implement the Bank's business strategy. Changes in the conditions of the Philippine economy could materially and adversely affect the Bank's business, financial condition and results of operations.

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, including acts of political violence. In the last decade, there has been political instability in the Philippines, including extra-judicial killings, alleged electoral fraud, impeachment proceedings against two former presidents, two chief justices of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by previous administrations. In addition, a number of officials of the Philippine government are currently under investigation or have been indicted on corruption charges stemming from allegations of misuse of public funds, extortion, bribery, or usurpation of authority. There can be no assurance that acts of political violence will not occur in the future and any such events could negatively impact the Philippine economy.

An unstable political 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 business, operations, and financial condition of the Bank.

The national and local elections took place on 9 May 2022. On 25 May 2022, Ferdinand "Bongbong" Marcos, Jr. was officially declared by the Congress as the 17th President of the Republic of the Philippines. There can be no assurance that the prevailing administration will continue to implement social and economic policies favored by the outgoing administration. A major deviation from the policies of the outgoing administration or fundamental change of direction, including with respect to Philippine foreign policy, may lead to an increase in political or social uncertainty and instability.

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. Political or social instability in the Philippines could negatively affect the general economic conditions and business environment in the Philippines, which could have a material adverse effect on the business, operations, and financial position 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 been subject to a number of terrorist attacks since 2000. In recent years, the Philippine army has also been in conflict with the Abu Sayyaf organization, which has ties to the al-Qaeda terrorist network, and has been identified as being responsible for certain kidnapping incidents and other terrorist activities particularly in the southern part of the Philippines. In September 2015, Canadians John Ridsdel and Robert Hall, Norwegian Kjartan Sekkingstad and Filipina Marites Flor were kidnapped from a tourist resort on Samal Island in southern Philippines by the Abu Sayyaf which demanded ransom for the hostages' release. Hall and Ridsdel were later beheaded on separate occasions in April and June 2016, respectively, after the ransom demands were not allegedly met. The fate of Sekkingstad and Flor is still unknown. After almost ayear in captivity, Sekkingstad and Flor were finally released. In September 2016, the Abu Sayaff abducted Jurgen Gustav Kantner and killed his wife while the couple were sailing off the waters of the southern Philippines. Recently, Kantner was beheaded in February 2017, after ransom demands were not allegedly met. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy.

Moreover, there were isolated bombings in the Philippines in recent years, mainly in regions in the southern part of the Philippines, such as the province of Maguindanao. Although no one has claimed responsibility for these attacks, it is believed that the attacks are the work of various separatist groups, possibly including the Abu Sayyaf organization. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines and adversely affect the country's economy.

The Government of the Philippines and the Armed Forces of the Philippines have clashed with members of several separatist groups seeking greater autonomy, including the MILF, the Moro National Liberation Front and the New People's Army.

In January 2015, a clash took place in Mamasapano in Maguindanao province between the SAF of the Philippine National Police and the Bangsamoro Islamic Freedom Fighters ("BIFF") and the MILF, which led to the deaths of 44 members of SAF, 18 from the MILF, five from the BIFF, and several civilians, including Zulkifli Abdhir, a Malaysian national included in the US Federal Bureau of Investigation's most wanted terrorists.

On 2 September 2016, a bombing that killed 15 and injured 71 took place in Davao City, Mindanao. It is believed that the Abu Sayyaf organization and/or their allies are responsible for the bombing.

In May 2017, members of the "Maute Group", a local terrorist group with alleged allegiances to the Islamic State of Iraq and Syria, captured parts of Marawi City in Lanao del Sur to allegedly establish an Islamic State caliphate in Mindanao. In response, President Duterte issued Proclamation No. 216 declaring martial law and suspended the writ of habeas corpus over the whole island of Mindanao, allowing arrests for those connected with the crisis. The Congress has granted the request of President Duterte to extend martial law in Mindanao until 31 December 2019. On 17 October 2017, President Duterte declared the liberation of Marawi City from terrorists and the beginning of the rehabilitation of Marawi City. As of 30 October 2017, more than 1,000 people including at least 165 soldiers, 919 Maute group fighters, and 47 civilians have been killed since fighting broke out. Currently, several fundraising activities are being held by local government units to help rebuild Marawi City as well as aid families of the soldiers and policemen who were killed in the campaign to retake Marawi City from terrorists.

Similar attacks or conflicts between the Government and armed or terrorist groups could lead to further injuries or deaths of civilians and police or military personnel, 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 businesses and materially and adversely affect its financial conditions, results of operations and prospects.

6.1.6 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 April 2009, an outbreak of the H1N1 virus, commonly referred to as "swine flu," occurred in Mexico and spread to other countries, including the Philippines. In August 2014, the World Health Organization ("WHO") declared the Ebola outbreak that originated in West Africa as an international health emergency in view of the rising death toll due to the disease. That month, a Filipino seaman in Togo was quarantined for exhibiting symptoms of Ebola virus infection but was later released after testing negative for the disease. While still Ebola-free, the Philippines, however, remains vulnerable to exposure and spread of the disease for the following reasons: a) the considerable number of OFWs in the Ebola-hit West African countries; b) the impact of international travel which raises the probability of transmission; and

c) lack of the necessary infrastructure to contain the spread of the disease. In March 2016, the Director-General of WHO terminated the Public Health Emergency of International Concern in regards to the Ebola Virus Disease outbreak.

In February 2015, a Filipina nurse who arrived from Saudi Arabia tested positive for the MERS-CoV (i.e., the Middle East Respiratory Syndrome-Corona virus). She was quarantined, received medical treatment and later discharged and cleared of the disease by the Department of Health ("DOH"). All known contacts of the said nurse, including some passengers in the same flight that arrived from Saudi Arabia, were also cleared of the infection, putting the country once again free of an active case of the disease.

In March 2016, reports of an American woman who stayed in the Philippines for four weeks in January 2016, tested positive for the Zika virus upon returning home, indicating the local transmission of the disease through the Aedes aegypti mosquito. In May 2016, a South Korean national was reported to have acquired the infection while visiting the Philippines, following earlier reports of two other confirmed cases of the viral infection in the country. All of the patients had recovered, indicating that the Zika viral infection acquired in the country was self-limiting.

In August 2017, an outbreak of bird flu from a poultry farm in Central Luzon was confirmed, and the avian influenza strain was later found to be transmissible to humans. In response to the outbreak, restrictions on the transport and sale of birds and poultry products outside a seven-kilometer radius control area surrounding the affected site were imposed. The Philippines has since been cleared of any human infection of the avian influenza virus.

If the outbreak of the Ebola virus, MERS-CoV, Zika virus, bird flu, Novel Coronavirus or any public health epidemic becomes 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.

In September 2019 the DOH confirmed the re-emergence of polio in the Philippines and declared a national polio outbreak. This is after a confirmation of a Vaccine Derived Poliovirus Type 2 (VPDV2) case in a 3-year old child Mindanao. After which another case was reported in Laguna this time from a 5-year old boy. The reemergence of the disease comes 20-years after the country was declared polio free in 2000. The DOH has started to mobilize and conducted a synchronized polio vaccination in October of 2019.

In early 2020, there was an outbreak of the Novel Coronavirus (2019-nCoV), a severe flu-like coronavirus, which originated in Wuhan, China and spread to the rest of the world. As of 31 December 2020, the Philippines reported 474,064 cases of infection and 9,244 deaths.

Based on latest available data dated 06 March 2022 from the Department of Health, the Philippines reported 3,667,542 cases of infection and 57,023 deaths. Various countries (the Philippines included) are monitoring developments with regard the new variants of SARS-CoV-2, the virus that causes COVID-19, in view of their increased transmissibility that could trigger a rapid rise in the number of cases. So far, Philippine health authorities have detected the presence of Alpha, Beta, Gamma, Delta, and Theta variants— all considered variants of concern (VOC) in the Philippines. The B.1.1.7 variant, now known as the Alpha variant, was first detected in the United Kingdom in September 2020. The B.1.351 or the Beta variant was first found in Nelson Mandela Bay, South Africa in October 2020. The P.1 or the Gamma variant was first reported by the National Institute of Infectious Diseases (NIID) in Japan. The B.1.617.2 or the Delta variant was first found in India last year. The Theta or the P.3 variant was first detected in the Philippines. Based on the epidemic curve, the country is experiencing another peak of virus cases, which can be considered a "second wave," The DOH said that in light of the continuous rise of cases, cities in virus epicenter Metro Manila are now at "high to critical risk." The unprecedented and extraordinary public health emergency brought about by the COVID-19 pandemic substantially contracted the country's gross domestic product by 9.6% in 2020 – the first (1st) annual contraction since 1998 – a year after the Asian Financial Crisis erupted, according to the Philippine Statistics Authority.

In the Philippines, the imposition of community quarantine measures resulted in the temporary closure of many establishments and a huge number of displaced workers. Based on latest available and preliminary data from the Philippine Statistics Authority, there were 2.87 million unemployed Filipinos as of March 2022, translating to an unemployment rate of 5.8%, slightly better than 7.1% as of March 2021 which is equivalent to 3.44 million unemployed individuals..

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

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

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

Domestic interest rates have remained manageable since 2009, with the monetary policy directed towards stimulating the economy. In 2009, central banks around the world, including the BSP, started an easing cycle to combat the 2008 Financial Crisis. The monetary policy intended to stimulate economic growth while ensuring inflation is maintained at manageable levels. At the Monetary Board meeting on 11 February 2021, the BSP maintained its key policy rates to 2.0% for the overnight reverse repurchase facility, 1.5% for the overnight deposit facility and 2.5% for the overnight lending facility. Citing the continued uncertainty caused by the COVID-19 pandemic, the BSP has cut its main policy rate by a cumulative 200 basis points in 2020. Additionally, on 31 July 2020, the BSP reduced the reserve requirement for banks to 12%. Interest rates may increase in the future as price pressures begin building as a result of further reopening of the economy and inflation pressures.

With the gradual reopening of the economy and external factors such as the ongoing Russo-Ukrainian War (and its effects primarily on commodities such as crude oil and wheat), inflationary pressures become apparent. Such metric is a key consideration of the BSP for adjusting its key policy rates.

Latest forecasts from the BSP pointed to inflation hitting an average of 4.6% in 2022 which is already outside the target inflation band of 2% to 4%. The following year in 2023, forecasted inflation is at an average of 3.9% which is near the ceiling of the same target band. Given rising inflation expectations, the BSP raised the interest rate on its overnight reverse repurchase facility by 25 basis points to 2.25% effective on 20 May 2022. This is the first time that the BSP hiked its monetary policy rate since implementing an accommodative stance to keep the economy float during the pandemic.

6.1.8 *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 is subject to frequent seismic activity. From year 2015 to 2018, there were nine (9) large known earthquakes in the Philippines, with magnitudes ranging from 5.5 to 7.1. Batangas experienced an earthquake swarm in April 2017, hitting the province thrice with a twin earthquake, followed by several aftershocks. The nine (9) large known earthquakes triggered landslide and tsunami warnings, left damages on buildings and houses, killed 14 people and 327 injured. Recently, on 22 April 2019, a magnitude 6.1 earthquake struck parts of Luzon, including Metro Manila. More recently, on 10 May 2020, a magnitude 5.4 earthquake jolted Occidental Mindoro with aftershocks felt in Metro Manila.

Approximately twenty (20) tropical cyclones enter the Philippine Area of Responsibility yearly, an area which incorporates parts of the Pacific Ocean, West Philippines Sea and the Philippine Archipelago (with the exception of Tawi-Tawi province). Among these cyclones, ten (10) will be typhoons, with five (5) having the potential to be destructive ones. The Philippines is "the most exposed country in the world to tropical storms" according to Time Magazine.

On 1 November 2020, Typhoon Goni ("**Rolly**") brought torrential rains, violent winds, mudslides and storm surges to the island of Luzon. On 10 November 2020, it was reported that according to the National Disaster Risk Reduction and Management Council ("**NDRRMC**"), the cost of damage to infrastructure and agriculture caused by Typhoon Goni has reached more than ₱17.8 billion primarily in the areas of Ilocos, Cagayan Valley, Central Luzon, Calabarzon, Mimaropa, Bicol, Eastern Visayas, Cordillera Administrative Region ("**CAR**"), and the NCR.

After Typhoon Goni, Typhoon Ulysses ("**Vamco**") hit the island of Luzon the hardest from 11 to 12 November 2020. The typhoon unleashed powerful winds and torrential rains that killed dozens of people, destroyed thousands of homes, and caused heavy flooding. According to a report of the NDRRMC dated 7 December2020, damage to agriculture is estimated at ₱7,318,946,822 in Regions I, II, III, Calabarzon, Mimaropa, V, CAR, and NCR. Meanwhile, damage to infrastructure is estimated at ₱12,014,206,676.28 in Regions I, II, III, Calabarzon, Mimaropa, V, CAR, and NCR.

The Philippines also experiences occasional volcanic eruptions. Last 12 January 2020, the Taal Volcano erupted again after 42 years. The Philippine Institute of Volcanology and Seismology raised the Alert Level up to Level 4. The volcano spewed ashes across Calabarzon and even reached Metro Manila resulting in suspension of classes, work, and flights. On 14 February 2020, Alert Level was downgraded to level 2, followed by another downgrade to level 1 on 19 March 2020. However, on 9 March 2021, the Alert level was raised, once again, to level 2, followed by another increase to level 3 on 1 July 2021, and reverted to level 2 on 23 July 2021.

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.

6.1.9 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 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 (Republic Act No. 8799) (the "SRC") requires the relevant entities 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 (5) independent directors. Many other jurisdictions may require more independent directors.

Moreover, 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 shareholder interests may be less well-defined and enforced in the Philippines than elsewhere, putting 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 shareholders

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

The Philippines, China and several Southeast Asian nations have been engaged in a series of long-standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. The Philippines maintains that its claim over the disputed territories is supported by recognized principles of international law consistent with the United Nations Convention on the Law of the Sea ("UNCLOS"). The Philippines made several efforts during the course of 2011 and 2012 to establish a framework for resolving these disputes, calling for multilateral talks to delineate territorial rights and establish a framework for resolving disputes.

Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a group of small islands and reefs known as the Scarborough Shoal. In April and May 2012, the Philippines and China accused each other of deploying vessels to the shoal in an attempt to take control of the area, and both sides unilaterally imposed fishing bans at the shoal later that year. These actions threatened to disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports, as well as a temporary suspension of tours to the Philippines by Chinese travel agencies. Since July 2012, Chinese vessels have reportedly turned away Philippine fishing boats attempting to enter the shoal, and the Philippines has continued to protest China's presence there. In January 2013, the Philippines sent notice to the Chinese embassy in Manila that it intended to seek international arbitration to resolve the dispute under UNCLOS. China has rejected and returned the notice sent by the Philippines to initial arbitral proceedings.

In September 2013, the Permanent Court of Arbitration in The Hague, Netherlands issued rules of procedure and initial timetable for the arbitration in which it will act as a registry of the proceedings. Should these territorial disputes continue or escalate further, the Philippines and its economy may be disrupted and the operations of the Bank could be adversely affected as a result. In particular, further disputes between the Philippines and China may lead both countries to impose trade restrictions on the other's imports. On 12 July 2016, the five-member Arbitral Tribunal at the Permanent Court of Arbitration in The Hague, Netherlands, unanimously ruled in favor of the Philippines on the maritime dispute over the West Philippine Sea. The Tribunal's landmark decision contained several rulings, foremost of which invalidated China's "nine-dash line", or China's alleged historical boundary covering about 85% of the South China Sea, including 80% of the Philippines Exclusive Economic Zone ("EEZ") in the West Philippine Sea. China rejected the ruling, saying that it did not participate in the proceedings for the reason that the court had no jurisdiction over the case. Any such impact from these disputes could adversely affect the Philippine economy, and materially and adversely affect the Bank's business, financial position and financial performance.

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

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 branches of international banks, including competitors which in some instances have greater financial and other capital resources, a greater market share and greater brand name recognition than the Bank.

The recent mergers and consolidations in the banking industry, as well as the liberalization of foreign ownership regulations in banks, have allowed the emergence of foreign and bigger local banks in the market. For example, there has been increased foreign bank participation in the Philippines following the Monetary Board's lifting of the ban on granting of new licenses, as well as the amendment of banking laws with respect to the limit on the number of foreign banks. This has led to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea, Shinhan Bank, Yuanta Bank and United Overseas 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. In addition, the establishment of the ASEAN Economic Community in 2015 may enhance cross-border flows of financial services (in addition to goods, capital, and manpower) among member nations. This is expected to increase the level of competition both from Philippine banks and branches of international banks. This may impact the Philippine banks' operating margins, but this would also enhance the industry's overall efficiency, business opportunities and service delivery. As of 31 March 2022, according to data from the BSP, there was a total of 45 domestic and foreign universal and commercial banks operating in the Philippines.

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

- Other large Philippine banks and financial institutions with significant presence in Metro Manila and large country-wide branch networks;
- Full entry of foreign banks in the country through any of the following modes allowed under Republic Act No. 10641 or An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for
- the Purpose Republic Act No. 7721 ("RA 10641") (approved on 15 July 2014): (a) the acquisition, purchase or ownership of up to 100% of the voting stock of an existing bank; (b) investment of up to 100% of the voting stock in a new banking subsidiary incorporated under Philippine law; or (c) establishment of branches with full banking authority;
- Foreign banks, due to, among other things, relaxed standards which permitted large foreign banks to open branch offices;
- Domestic banks entering into strategic alliances with foreign banks with significant financial and management resources, and in some cases resulting in excess capital that can be leverages for asset growth and market share gains; and
- Continued consolidation and increased mergers and acquisitions in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions.

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 continue to increase its loan portfolio and deposit base, as well as cause increased pricing competition, which could have a material adverse effect on its growth plans, margins, results of operations and financial condition.

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

As the country continues to recover from the impact of the pandemic, there was a sharp drop in provision for credit losses resulting to a higher aggregate net profit for the Philippine banking system, from ₱421.31 billion in 2020 to ₱569.04 billion in 2021 resulting to a year-on-year increase of 35%. A key factor in such trend is the lower provision for credit losses on loans and other financial assets which had a year-on-year decrease of 43% in 2021 at ₱283.00 billion from ₱504.77 billion in the previous period.

For the full year 2021, the amount of bad debts written off by the banking sector has been hovering close to 89% of the period ended 31st of December 2020. due to the mandated relief measures under Republic Act No. 11469 or the Bayanihan to Act as One Act ("Bayanihan 1") and Republic Act No. 11494 or the Bayanihan to Recover as One Act ("Bayanihan 2").

As of 31 March 2022, the Philippine banking system has ₱460.46 billion in gross NPL translating to 4.08% in gross NPL ratio compared with 3.97% and 4.21% as of 31 December 2021. In terms of net NPL ratios, the Philippine banking system registered 2.11% both for the periods ended 31 March 2022 and 31 December 2021. These levels as heightened compared with the period ended 31 December 2019, prior to the height of the COVID-19 pandemic, at 2.04% and 1.06% in gross NPL and net NPL ratios, respectively. Despite the current NPL ratio levels, the Philippine banking system has registered a relatively adequate NPL coverage ratio of 88.38% as of 31 March 2022.

Further, 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 net interest margins, low loan growth and potential or actual undercapitalization of the banking system. Fresh disruptions in the Philippine financial sector, or general economic conditions in the Philippines, may cause the Philippine banking sector in general, 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.

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").

Notably, last 25 June 2021, the FATF released its grey list of countries that will be subjected to increased monitoring to prove their progress as they address strategic deficiencies in their regimes against money laundering, terrorist financing, and proliferation financing. With its inclusion in the grey list, the Philippines needs to implement the eighteen (18) action items required within the prescribed timelines to ensure the country's removal from such list. Progress reports must likewise be submitted to the FATF thrice a year. The AMLC emphasized, however, that the Philippines will not yet be subjected to countermeasures. It is only when a country fails to meet the deadlines that the FATF will call on countries to impose countermeasures against it.

The Bank's banking activities are regulated and supervised principally by, and have reporting obligations to, the BSP. The Bank is also subject to the banking, corporate, taxation and other regulations and laws in effect in the Philippines, administered by agencies such as the BIR, the SEC, the AMLC as well as international bodies such as the FATF.

In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented which are intended to provide tighter control and added transparency in the Philippine banking sector. These rules include new guidelines on the monitoring and reporting of suspected money laundering activities as well as regulations governing the capital adequacy of banks in the Philippines. Institutions that are subject to Republic Act No. 9160 or the Anti-Money Laundering Act of 2001, as amended (the "**AMLA**"), are required to establish and record the identities of their clients based on official documents and identification of ultimate beneficial owners (UBOs) of corporate vehicles. 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 (5) years after their closure.

The BSP has also ordered universal, commercial and thrift banks to conduct Real Estate Stress Tests to determine whether their capital is sufficient to absorb a severe shock. The Real Estate Stress Test Limit ("**REST Limit**") combines a macroprudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. Should a bank fail to comply with the prescribed REST Limits, it shall be directed to explain why its exposures do not warrant immediate remedial action. Should the same be found insufficient, the bank shall be required to submit an action plan to meet the REST Limits within a reasonable time frame. The latest regulation on the REST Limit, BSP Circular No. 1093, Series of 2020, provides that total real estate loans of universal banks and commercial banks shall not exceed 25% of the total loan portfolio of a bank, net of bank loans, excluding certain items listed in the relevant BSP regulations and the Manual. This percentage is an increase from the previous 20%.

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 ("**SDA**") prior to the IRC, is now replaced by the Overnight Deposit Facility ("**ODF**") whose rate at 1.5%, and forms the lower bound of the IRC. Meanwhile, the rate for the Overnight Lending Facility ("**OLF**") has replaced the Repurchase Facility ("**RP**"). The rate for the OLF, which forms the upper bound of the IRC, is now 2.5% under the RP. The BSP likewise introduced the Term Deposit Facility ("**TDF**") to serve as the main tool for absorbing liquidity through weekly TDF 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.

The BIR has also promulgated rules on the submission of an Alphabetical List ("**Alphalist**") of portfolio investors receiving income payments and dividends. The BIR requires all withholding agents to submit an Alphalist of payees on income payments subject to creditable and withholding taxes and prohibit the lumping into a single amount and account of various income payments and taxes withheld. The Supreme Court, however, issued a temporary restraining order against the said BIR rule on 9 September 2014 with regard to the lumping into a single amount.

On 3 March 2021, the AMLC issued the 2021 Sanction Guidelines incorporating amendments brought about by the enactment of Republic Act No. 11479 or the Anti-Terrorism Act of 2020 and Republic Act No. 11521 or An Act Further Strengthening the Anti-Money Laundering Law, amending for the Purpose Republic Act 9160, otherwise known as the Anti-Money Laundering Act of 2001, as amended. The guidelines now cover targeted financial sanctions related to terrorism, terrorism financing, and proliferation financing, including remedies and relevant links to the appropriate United Nations Security Council Sanctions Committee.

Further, there is no assurance that the BSP or other Philippine regulators will not issue stricter or tighten regulations as a result of events affecting financial institutions in the Philippines, including the cyber heist of the Bangladesh Bank in 2016. In the event of any changes to the existing guidelines or rules, or introduction of additional regulations, the Bank, as far as applicable, will have to comply with the same and may incur substantial compliance and monitoring costs. The Bank's failure to comply with current or future regulations and guidelines issued by regulatory authorities in the Philippines and in other relevant jurisdictions could have a material adverse effect on the Bank's business, financial condition and results of operations.

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 31 December 2021 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 17.07% on a consolidated basis and 16.48% on a solo basis. As a comparison, the Bank's Tier 1 capital ratio and CAR were at 21.40% and 22.10%, respectively as of 31 March 2022.
On 04 May 2020, BSP issued Memorandum No. M-2020-039 which provides for the utilization of Basel III capital and liquidity buffers in light of the COVID-19 situation. A covered bank or QB which has built up its CCB and LCR buffer is allowed to utilize the same during the state of COVID-19 health emergency but is expected to integrate regulatory flexibilities into its internal policies and processes to ensure that these buffers are efficiently utilized. First, in relation

to the CCB, the covered bank/QB which draws down 2.5% minimum.

CCB will not be considered in breach of the Basel III risk-based capital adequacy framework. When the CCB is utilized, the covered bank/QB is restricted from making distributions in the form of dividends, profit remittance in the case of a foreign bank branch, share buybacks, discretionary payments on other Tier 1 capital instruments, or discretionary bonus payments to staff. Second, for the LCR, the covered bank/QB may draw on its stock of liquid assets to meet liquidity demands even if this may cause the bank to maintain an LCR below the 100% 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.

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.

As a result of the economic impact of the COVID-19 pandemic and the Bayanihan Act, for the period ended 31 March 2022, the Bank booked provision for credit losses of ₱771,550, while a reversal of provision for credit losses of (₱634,819,513) was recorded for the period ended 31 December 2021. Meanwhile, the Bank's net NPL ratio remained the same at 0.9% as of 31 March 2022 and 31 December 2021. 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).

Based on data from the BSP and as of 31 March 2022, the Philippine banking system had an outstanding loan, net of BSP Reverse Repurchase Arrangements (RRP), amounting to about ₱10.47 trillion which increased by 0.5% from approximately ₱10.52 trillion as of 31 December 2021.In terms of the banking sector's provision for credit losses on loans and other financial assets, it increased by 9.45% to ₱20.99 billion for the 3-month period ended March 2022 from ₱23.18 billion for the same period in the previous year. Bad debt written off reached ₱0.95 billion for the 3-month period ended March 2022, smaller by 73% from ₱3.43 billion for the same period in the previous year. The Philippine banking industry had a higher net income at ₱66.34 billion for the quarter ended March 2022, an increase of 26.30% from ₱52.52 billion a year ago.

Moreover, the banking sector's provision for credit losses on loans and other financial assets increased by 9.45% to ₱20.99 billion in March 2022 from ₱23.18 billion in the previous year. Bad debt written off reached ₱0.95 billion, smaller by 73% from ₱3.43 billion a year earlier. The Philippine banking industry had a higher net income at ₱66.34 billion, an increase of 26.30% from ₱52.52 billion a year ago.

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.

PFRS continues to evolve as standards and interpretations promulgated effective 1 January 2018 and onwards come into effect.

Effective 1 January 2018, PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option ("**FVO**") is not invoked, be subsequently measured at: (a) amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the outstanding principal; or (b) at fair value through other comprehensive income ("**FVOCI**") if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the outstanding principal. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income ("**OCI**") or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the criteria for using the FVO.

PFRS 9 also introduced a new expected loss impairment model that will require more timely recognition of expected credit losses. Under the impairment approach in PFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

PFRS 9 also replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship. The Bank adopted PFRS 9 on 1 January 2018 and, as allowed in the transition provisions of the standard, did not restate comparative information. Differences in the carrying amounts of financial assets resulting from the adoption of PFRS 9 are recognized in Retained Earnings and other comprehensive income as at 1 January 2018. Accordingly, the information presented in 2017 does not reflect the requirements of PFRS 9 and therefore is not comparable to the information presented in 2018 under PFRS 9. Additionally, as a result of the adoption of PFRS 9, the Bank adopted consequential amendments to PAS 1, Presentation of Financial Statements, which require separate presentation in the statements of income and statements of comprehensive income of interest income calculated using the effective interest method as against other interest income. This includes interest income earned from financial assets at amortized cost and debt securities at FVOCI which were both presented separately from financial assets at FVPL.

For information on the impact of adopting PFRS 9, see Note 3 to the Bank's financial statements for the year ended 31 March 2022 included elsewhere in this Offering Circular.

PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. PFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Bank adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application on 1 January 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Bank elected to apply the standard to all contracts as at 1 January 2018.

From the sources of revenue of the Bank, recognition and measurement of these revenue streams are within the scope of PFRS 15 and, based on the identified performance obligations and delivery of such services, recognition is still aligned with the previous treatment under PAS 18.

PFRS 16 introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

The Bank adopted PFRS 16 on 1 January 2019 using the modified retrospective approach with certain transition reliefs. The Bank elected to use the practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying the old standards at the date of initial application. The Bank also elected to use the recognition exemptions for short-term leases and lease contracts which the underlying asset is of low value ('low-value assets'). Upon adoption of PFRS 16, the Bank applied a single recognition and measurement approach for all leases (as lessee) except for short-term leases and leases of low-value assets. The Bank recognized lease liabilities representing lease payments and right-of-use (ROU) assets representing the right to use the underlying assets. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. ROU assets were recognized based on the amount equal to the lease liabilities adjusted for any related prepaid and accrued lease payments previously recognized.

On 28 May 2020, the International Accounting Standards Board issued Amendments to PFRS 16, COVID-19-Related Rent Concessions, which provide relief to lessees from applying PFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria: (a) the rent concession is a direct consequence of COVID-19; (b) the change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change; (c) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (d) there is no substantive change to other terms and conditions of the lease. A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment. The amendments are effective for annual reporting periods beginning on or after 1 June 2020.

The Monetary Board, in its Resolution No. 967 dated 30 July 2020 approved the Supervisory Expectations on the Measurement of Expected Credit Losses (ECL) and the Treatment of Regulatory Relief Measures Granted amid the COVID-19 Pandemic. All BSP Supervised Financial Institutions ("BSFI") shall be guided by the supervisory expectations on the measurement of ECL under the PFRS 9 considering the uncertainties brought about by the COVID-19 pandemic. The supervisory expectations likewise set out the prudential treatment of the implementation of the mandatory grace period under Section 4(aa) of Bayanihan Act as well as the relief measures granted by the BSP under Memorandum No. M-2020-08, as amended by Memorandum No. M-2020-032 dated 27 April 2020. The supervisory expectations provide that BSFIs that will avail of the regulatory relief measures to exclude eligible loans from past due and non- performing classifications and to stagger the booking of allowance for credit losses shall continue to report actual past due and non-performing loans and allowance for credit losses in the Financial Reporting Package (FRP) and the Capital Adequacy Ratio (CAR) reports. This is to facilitate the generation of industry statistics and provide the BSP with information on the true health of the banking system.

The Bank believes that other amendments and improvement to PFRS issued effective 1 January 2019 and onwards will not have material impact on the Bank's future financial statements.

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. In 2013, the Philippines earned investment grade status from all three major credit ratings agencies — Fitch (BBB-), Standard and Poor's (BBB-) and Moody's (Baa3). In 2014, S&P and Moody's upgraded their ratings to "BBB" and "Baa2" in May and December, respectively, with both agencies affirming these ratings in 2017. Fitch also upgraded the Philippines' long-term foreign currency issuer default rating from "BBB-" to "BBB" in December 2017, while S&P raised its outlook to Positive from Stable last April 2018. S&P further upgraded the country's rating by a notch from "BBB" to "BBB+" in April 2019 brought about by the country's solid economic fundamentals. Furthermore, the three (3) credit rating agencies affirmed their respective credit ratings of the country, S&P affirmed their "BBB+" ratings on after noting the economy's recovery in 2021, and expects it to accelerate in 2022. Moody's affirmed their "Baa2" rating with a stable outlook for the Philippines in 2020, saying the country's strong fiscal position in recent years will help shield it from the impact of the coronavirus crisis. Fitch affirmed their "BBB" credit rating in 2022.
International credit rating agencies issue credit ratings for companies with reference to the country in which they are resident. As a result, the sovereign credit ratings of the Philippines directly affect companies that are resident in the Philippines, such as the Bank. There is no assurance that Fitch, Moody's, S&P or other international credit rating agencies will not downgrade the credit rating of the Philippines in the future. Any such downgrade could have a material adverse effect on liquidity in the Philippine financial markets and the ability of the Philippine government and Philippine companies, including the Bank, to raise additional financing, and will increase borrowing and other costs.

6.2.8 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 gross NPL ratio exclusive of interbank loans for the Philippine universal and commercial banks as of the periods ended 31 December 2020, 2021, and 31 March 2022 was 3.20%, 3.68%, and 3.85% respectively.

6.2.9 *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, and 12% by 28 February 2021 (compared to, for example, Indonesia, where the minimum local currency reserve requirement is 6.5% of local currency deposit balances).

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.*

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 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.

The broad ramifications of "Brexit" for the United Kingdom, the European Union and the global economy have yet to be seen, casting uncertainty on global prospects and possible volatility in financial markets.

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 CONSIDERATIONS RELATING TO THE BANK

6.3.1 The COVID-19 pandemic and the measures to contain the virus could adversely affect the Bank's businesses.

The COVID-19 pandemic reached the Philippines on 30 January 2020 when the first COVID-19 positive case was reported, but stringent government measures were only implemented shortly after the first case of local transmission was reported on 5 March 2020. The government implemented a lockdown termed as an Enhanced Community Quarantine ("**ECQ**") throughout the island of Luzon on 16 March 2020 and eventually to other high-risk areas in the Philippines to contain the spread of COVID-19, causing the closure of all businesses except those classified as essential services. Beginning 16 May 2020, Metro Manila had been in a modified ECQ until 31 May 2020 and under General Community Quarantine beginning 1 June 2020.

Philippine economic activity has come to a virtual standstill with the ECQ enforced throughout the island of Luzon and other parts of the Philippines. While banking was classified as an essential service, banks had limited operations run by a skeleton workforce. During the ECQ, the Bank opened only 99 out of its 140 branches nationwide. As of 31 October 2021, 140 or 100% of the 140 branches of the Bank are open.

Meanwhile, the Bayanihan to Heal as One Act, designated as Republic Act No. 11469, granted customers a 30- day grace period for all loans with principal and/or interest falling due within the period of 17 March to 31 May 2020. It also relieved customers of interest on interest, penalties or fees covered during the said period.

The Bank foresaw operational risks due to the disruption in operations resulting from government-mandated mobility restrictions. The Bank has an organization-wide disaster recovery and business continuity plan in the event of major disasters or adverse scenarios, and this has been put in place since the imposition of the ECQ over Luzon last March. The Bank continues to operate with a Skeleton Workforce (SWF) to ensure that clients' needs are met.

The Bank has prepared for similar scenarios like this to ensure that its clients can still continue to do business and accomplish their financial transactions with minimal disruption. The Bank has encouraged its clients to use other banking channels, such as ATMs and online banking which are available round the clock.

The Bank has also issued advisories to its employees on quarantine guidelines and client interactions, and imposed travel restrictions and social distancing at work. It also implemented precautionary measures in the workplace, such as temperature scanning, installing handwashing stations and sanitation devices, and regular disinfection of bank premises.

The Bank is in the process of implementing COVID-19 testing for its employees. Given the country's current situation with the pandemic, the Bank continues to implement preventive measures to mitigate further transmission of the virus for the safety of its clients and employees.

Because of the ECQ measures, businesses are generally on limited operations and many small and medium enterprises have been negatively affected. The Bank continues to assess the full impact of the pandemic on its core businesses, revenues and operations. The long-term adverse effects of the pandemic on the global and Philippine economy will also negatively impact the Bank's businesses, prospects, financial condition and results of operations.

The Bank has been conducting a continuous assessment of industries and entities which could be affected with the prolonged spread of the COVID-19. It is also closely monitoring the markets and industries it services. Cash outflows are being monitored to immediately identify and address liquidity concerns, if any. The Bank is reviewing its current provisions for various loans and will work to ensure that it reflects an accurate value of its loans and other assets as required by regulatory standards. At the end of the quarantine period there may be an increase in non-performing loans. Even if this were to occur, the Bank has enough capital to meet its financial obligations.

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 qualifying capital, except with respect to certain exemptions per BSP which includes those exposures to Government-related entities and transactions that are guaranteed by the Government. The Government has also imposed an agrarian reform and agriculture lending policy requiring Philippine banks to extend certain loan amounts to agrarian beneficiaries and the agricultural 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. The legal limit with respect to such positions shall be the lower of 20% of a bank's unimpaired capital or US$50 million. As of 31 March 2022, the Bank's overbought position was US$6,992,468.09. 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 last 26 April 2021 as additional operational relief measures and increased the SBL from 25% to 30% effective until 31 December 2021. Based on the Bank's monitoring of the Single Borrower's Limit (SBL) set by the BSP, there is no breach in the 30% threshold as of 31 March 2022.

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 through potential acquisitions. It plans to increase its geographic footprint in select growth areas, while expanding the range of its products and services targeting the mid-sized corporate and 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 experience prolonged financial distress as a result of the impact on operations and profitability of the COVID-19 global pandemic and subsequent imposition of community quarantine measures in various parts of the country.

The Bank also intends to grow its interest-earning assets, which by nature are risky, to improve its return on assets and capital. Failure by the Bank to expand its earning asset base could have a material adverse effect on its financial performance.

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.

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 8.5 and Strategies on Section 8.6 of the Offering Circular. However, there is no assurance that the Bank can provide an effective mitigation to such risk.

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

The Bank has experienced high growth in recent years and expects its business to grow significantly 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 strategies. For a more detailed discussion please refer to the Bank's Strengths on Section 8.5 and Strategies on Section 8.6 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 ₱1,610,090,190, ₱2,698,792,926, ₱2,825,873,000 and ₱3,037,332,990 as of 31 December 2019, 2020, 2021, and for the 3-month period ended 31 March 2022, 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 8.5 and Strategies on Section 8.6 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 has expanded its consumer loan operations, including unsecured salary loans and credit cards, and plans to continue to expand its consumer loan business in the near future. 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, 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. Moreover, because it sometimes offers consumer loan products to OFWs, the consumer loan portfolio maybe affected by changes in the economic conditions of the host countries of OFW customers, which could result in delays or defaults in monthly payments. 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.

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 8.5 and Strategies on Section 8.6 of the Offering Circular. However, there is no assurance that the Bank can provide an effective mitigation to such risk.

6.3.8 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.

6.3.9 The Bank's trading activities are subject to volatility and the Bank is diversifying away from the business.

The Bank engages in trading activities, primarily maintaining proprietary trading positions in Philippine and foreign government securities and some corporate debt securities. In the past, its gains from treasury operations have contributed significantly to its operating income and the contribution has been decreasing in recent years. Trading and securities gain/(loss) and foreign exchange gain/(loss) contributed ₱423,682,986, ₱1,196,449,748, (₱30,341,941) and ₱13,501,594 of total operating income for the years ended 31 December 2019, 2020, and 2021, and quarter ended 31 March 2022, 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. As a result of this volatility, the Bank has been proactively decreasing its dependence on trading activities while remaining to be opportunistic. With an increased number of branches and growth of the loan portfolio, the Bank's trading income is likely to become a smaller part of the Bank's operating income in the future. 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.

6.3.10 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 31 March 2022, the Group's secured loans receivable represented 50.01% of its gross loans (receivables from customers), and 13.26% 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 factors may also significantly reduce its ability to realize the value of its collateral and therefore the effectiveness of taking security for the loans it grants. Furthermore, it may incur expenses to maintain such properties and prevent their deterioration. In realizing cash value for such properties, it may incur further expenses such as legal fees and taxes.

PAS 16, Property, Plant and Equipment, allows the use of revaluation model or cost model in accounting for property, plant and equipment. PAS 40, Investment Property, allows the use of either fair value model or cost model in accounting for investment property. However, the BSP requires the use of cost model for statutory and prudential reporting purposes. In a May 2019 letter, the BSP commented on the Bank's use of the fair value model in its 2018 Audited

Financial Statements (AFS). The Bank explained that it believed the fair value model presented the most reliable and relevant information for its investors. The Bank also mentioned that it had been using the model since 2014 as disclosed to the BSP in its annual reports and examinations since that year. After separate meetings of BSP with management, on 10 June 2019, the BSP reiterated its position that the Bank should use the "cost model" for both its AFS and prudential reports. Furthermore, BSP Circular 494 stated that buildings and non-financial assets shall be depreciated over a period not exceeding ten (10) years and three (3) years, respectively.

Accordingly, on October 1, 2019, the Bank retrospectively changed its accounting policy on property and equipment and investment properties and applied to these financial statements for the annual period ending December 31, 2019. It is important to note, however, that the deficit amounts mentioned above did not result from the Bank's operating activities but are substantially attributable to the full recognition of impairment losses for Trader's Royal Bank (TRB) assets in 2014. For statutory and prudential reporting, such impairment losses relating to the TRB assets purchased by the Bank on 9 November 2001were being recognized on a staggered basis as allowed by Monetary Board Resolution No. 619. But in 2014, to align with PFRS and sound financial management, the Bank had chosen to fully recognize the ₱2.46 billion remaining impairment losses as at 31 December 2014. On January 26,2021, the BOD approved the plan for equity restructuring to wipe out the deficit through the use of the Bank's Paid-in Surplus.

6.3.11 The Bank has significant credit exposure to certain borrowers and industries. Deterioration in the performance of any of these industry sectors or the non-performance of a substantial portion of these loans could adversely impact the asset quality of its loan portfolio and business.

The Bank has credit exposure to various industry sectors. As of 31 December 2021 and 31 March 2022, its total exposure to borrowers (or outstanding loans and receivables) was ₱74,374 million and ₱84,676 million respectively. The ten largest performing borrowers in aggregate accounted for 43.9% and 40.18% of its gross loan and receivables portfolio as of 31 December 2021 and 31 March 2022, 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 30% of its qualifying capital. As of 31 March 2022, its single borrower limit was ₱6,724 million. As of 31 December 2021, its single borrower limit was ₱4,959 million. 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 31 March 2022 accounted for 5.9% 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 31 March 2022, its five (5) largest industry exposures were to (1) Real Estate at 26.11% (2) Electricity, Gas, Steam and Air-condition Supply at 24.77%, (3) Manufacturing at 14.81%, (4) Construction at 12.04% and (5) Other Loans for personal Consumption at 6.85%, which together comprised an aggregate of ₱72,640 million and constituted 84.57% 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.

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

The Bank's funding needs are principally satisfied from demand, savings and time deposits, and to a smaller extent, borrowings from other banks and unsecured subordinated debt. As of 31 March 2022, ₱173,624,766,192 of the Bank's funding needs were sourced from deposits and the remaining ₱6,074,100,588 from other liabilities, manager's checks, financial liabilities at FVPL, and accrued Expenses.

Although its deposits have historically been a stable source of funding for the Group, no assurance can be given that this will continue to be the case in the future. In the event a substantial number of its depositors withdraw, or do not roll over their deposits, or if other banks do not lend short term funds to the Bank as they have in the past, its liquidity position could be adversely affected, which could result in its inability to fund its loan portfolio and may require the Bank to seek alternative sources of funding. It can provide no assurance as to the availability or terms of such funding.

To the extent it is unable to obtain sufficient funding on acceptable terms or at all, the Bank's liquidity and financial condition and results of operations will be adversely affected.

6.3.13 The Bank's dependency on SMC ecosystem

As of 31 March 2022, loans to the SMC ecosystem account less than 30% of the Bank's loan portfolio The Bank's exposure to the SMC 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 SMC ecosystem accounts can be absorbed by the Bank while still meeting its capital adequacy requirements.

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

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

The Bank is heavily reliant on technology in certain business operations and uses technology to differentiate its products and services from those of its competitors. While the Bank aims to remain at the forefront of technology banking in the Philippines, there are no significant barriers that prevent its competitors from adopting a similar strategy for their products and services. Accordingly, there can be no assurance that it will be able to maintain its technological advantage over its competitors. Furthermore, it may need to incur a significant amount of research and development and/or capital expenditures to maintain its technological advantage. Failure to maintain its technological advantage 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 a loss of business and result in a material adverse effect on its business, financial condition and results of operations.

Moreover, the 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. The trend of increasing usage of these digital solutions has been accelerated by the lockdowns and movement restrictions brought about by the COVID-19 pandemic. In addition, with the objective of achieving an efficient, inclusive, safe, and secure digital payments ecosystem, the BSP launched its Digital Payments Transformation Roadmap for 2020 to 2023 which led to the setup of a digital banking framework recognizing digital banks as a separate category and indicating the requirements for establishing a digital bank.

Digital banks offer financial products and services that are processed end-to-end through a digital platform and/or electronic channels with no physical branches. Just like traditional banks, they are allowed to grant loans, accept deposits, invest in securities, issue credit cards, and buy and sell foreign exchange currencies, among others.

As of 31 March 2022, the BSP has granted six (6) digital bank licenses: (i) Overseas Filipino Bank, (ii) Tonik Digital Bank, Inc., (iii) UNObank, (iv) UnionDigital Bank, (v) GoTyme Bank, and (vi) Maya Bank. These are in addition to banks offering no-branch banking services through their respective mobile apps such as CIMB Bank Philippines and ING Bank N.V. Manila which both provide all-online retail banking services despite having existing commercial and universal banking licenses respectively.

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 8.5 and Strategies on Section 8.6 of the Offering Circular. However, there is no assurance that the Bank can provide an effective mitigation to such risk.

6.3.15 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. The proper functioning of its financial control, risk management, accounting or other data collection and processing systems, together with the communication networks connecting its various branches and offices is critical to its business and its ability to compete effectively. It has centralized the database in respect of its domestic business through the adoption of a core banking system that provides the capability of online real-time transaction processing and accessible in various electronic channels, including ATMs, internet banking, and mobile banking. 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 the Bank’s Strengths on Section 8.5 and Strategies on Section 8.6 of the Offering Circular. However, there is no assurance that the Bank can provide an effective mitigation to such risk.

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

The Bank is subject to risks relating to its information and technology systems and processes. The hardware and software used by the Bank in its information technology are vulnerable to damage or interruption by human error, misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses or the interruption or loss of support services from third parties such as internet service providers, ATM operators and telephone companies. Any disruption, outage, delay or other difficulties experienced by any of these information and technology systems could result in delays, disruptions, losses or errors that may result in loss of income and decreased consumer confidence in the Bank. These may, in turn, adversely affect its business, financial condition and results of operations.

The Bank also seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by its increased use of the internet. For example, in connection with the installation, maintenance and upgrading of new technology systems, the Bank grants third party access to its systems and there can be no assurance that such access will not result in security breaches or other disruptive problems. Computer break-ins and security breaches would affect the security of information stored in and transmitted through these computer systems and network infrastructure. The Bank employs security systems and maintains operational procedures to prevent break-ins, damage and failures. The potential for fraud and securities problems is likely to persist and there can be no assurance that these security measures will be adequate or successful. The costs of maintaining such security measures may also increase substantially. Failure in security measures could have a material adverse effect on its business, financial condition and results of operations. To mitigate this risk, the Bank has a Managed Security Operations Center (MSOC), a centralized outsourced function employing people, process, and technology to continuously monitor and improve the Bank’s security posture while preventing, detecting, analyzing, and responding to cybersecurity incidents.

The Bank also performs regular vulnerability assessment and penetration testing to assess the security measures, identify all risks to the security information, evaluate the safeguards and controls of the Bank to deter advanced persistent threats, and identify the risk level the Bank is currently exposed to so that an appropriate set of response to and mitigation of those weaknesses can be deployed. A constant “Information Security Training and Awareness” system is also in place designed to help the Bank’s employees understand the role they play in helping to combat information security breaches. The training program includes an orientation for all newly hired employees, refresher training, annual examinations, simulated phishing exercises and monthly risk advisories.

The Bank follows the NIST Cybersecurity Framework, a set of guidelines and best practices that helps the Bank continuously build and improve its cybersecurity posture. The framework puts forth sets of recommendations and standards that enables the Bank to be better prepared in identifying and detecting cyberattacks, and provides guidelines on how to respond, prevent, and recover from cyber incidents.

Even with all these controls in place, the Bank still encounters occasional issues such as third parties using phishing techniques to get login data from customers. There have also been hacking attempts to retrieve and use credit card information. Fraud amounts have been within the Bank’s risk appetite and there have been no mass incidents of fraud affecting more than a handful of its customers.

6.3.17 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. Finally, continued increases in market interest rates could adversely affect the liquidity levels of the Bank and the Philippine banking industry in general, which have in recent years been supported by the relatively low interest rate environment in the Philippines. In a decreasing interest rate environment, potential competitors may find it easier to enter the markets in which it operates and to benefit from wider spreads. 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.

To measure interest rate risk, the Bank's Risk Management Division uses internally developed models such as Value-at-Risk (VAR) and Earnings-at-Risk (EAR). These models are subject to independent model validation in addition to yearly audit. Interest rate risk is managed by comparing exposures against Board Risk Oversight Committee (BROC) approved limits such as stop loss, position, delta sensitivity, VAR, repricing gap and EAR limits. Compliance with these limits is regularly reported to the Asset Liability Committee and the BROC.

For pre-termination and prepayment risk in particular, like all banks, the Bank is subject to time deposit pretermination and loan pre-payment. The Bank incorporates these two risks in our EAR model using behavioral assumptions using historical customer behavior. The Bank sets limits for EAR for guidance to manage such risk.

Given the rising interest rate environment, pre-payment/pre-termination risk is seen to be minimal as customers have preferred to stay with their existing lower rates.

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 8.5 and Strategies on Section 8.6 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 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 31 March 2022, the Bank had ₱19,019,998,601 of assets and ₱19,019,998,601 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.

6.3.19 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.

6.3.20 The Bank's ability to assess, monitor and manage risks inherent in its business differs from the standards of its counterparts in more developed countries as well as larger banks in the Philippines.

The Bank is exposed to a variety of risks, including credit risk, market risk, portfolio risk, foreign exchange risk and operational risk. The effectiveness of its 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 the Bank may be incomplete or obsolete. It may also have developed credit screening standards in response to such inadequacies in quality of credit information that may be different from, or inferior to, the standards used by its international competitors as well as larger banks with greater resources in the Philippines. The Bank's ability to assess, monitor and manage risks inherent in its business may not meet the standards of larger, more established Philippine banks or its counterparts in more developed countries. If the Bank is unable to acquire or develop in the future the technology, skill sets and systems necessary to attain such standards, or if its standards are not as rigorous as international standards or comparable to larger more established Philippine banks that have greater resources than the Bank, it could have a material adverse effect on its ability to manage these risks, ability to grow and 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 the Bank's Strengths on Section 8.5 and Strategies on Section 8.6 of the Offering Circular. However, there is no assurance that the Bank can provide an effective mitigation to such risk.

6.3.21 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.

In addition, the Bank's successful implementation of its branch network growth strategy will rely on its ability to identify and attract qualified management and other personnel. In the past, it has faced challenges in hiring and retaining such personnel, and a failure to do so in the future could adversely affect the expansion of the Bank's network and achieving related strategic objectives such as expanding the Bank's deposit and customer base.

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 8.5 and Strategies on Section 8.6 of the Offering Circular. However, there is no assurance that the Bank can provide an effective mitigation to such risk.

6.3.22 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 significantly increase 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.

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 8.5 and Strategies on Section 8.6 of the Offering Circular. However, there is no assurance that the Bank can provide an effective mitigation to such risk.

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

FATCA is the Foreign Account Tax Compliance Act enacted into law in the U.S. on 18 March 2010 as part of the Hiring Incentives to Restore Employment Act. It is a new regime for finding income overseas as a response to a landmark court case in which a large international bank agreed to pay $780 million in fines for their role in assisting U.S. citizens in evading income taxes.

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

An FFI will have to set up a process to identify U.S. accounts as part of its 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 FF. 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 FATCA. A recalcitrant account holder is one who fails to comply with reasonable requests pursuant to IRS mandated verification and due diligence procedures to identify U.S. accounts, to provide a name, address and TIN or fails to provide a bank secrecy waiver upon request.

Specific to the Bank's compliance with FATCA, the Bank and its subsidiaries registered on 30 June 2014 as an Expanded Affiliate Group i.e., the Bank (lead financial institution) and subsidiaries. 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 TGJ QCS.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.

6.3.24 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.

6.4 CONSIDERATIONS RELATING TO THE BONDS

6.4.1 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 Issuer shall at the Issuer'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.

6.4.2 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.

6.4.3 Limited right to accelerate

The Bonds constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer, 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 Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

The rights of the Holders are limited in certain respects. If any one or more Acceleration Events shall have occurred and be continuing, then any Holder may, by notice to Issuer and the Registrar and Paying Agent, declare the principal and all accrued interest (including default interest, as specified in the Terms and Conditions) on the Bonds held by such Holder and other applicable charges thereon (including any incremental taxes that may be due on the interest income already earned under the Bonds) immediately due and payable. Upon such declaration, such amount shall be immediately due and payable by the Issuer, without need for any further presentment, demand, protest or further notice of any kind, all of which are expressly waived by the Issuer, and, without prejudice to the other remedies available to the other holders. As defined in the Terms and Conditions, "Acceleration Events" include loss of the Issuer's primary corporate franchise or other material licenses, payment default, insolvency or dissolution, and cross-default.

With respect to Events of Default not constituting an Acceleration Event, only Holders representing at least a majority of the then aggregate outstanding principal amount of the Bonds may, by notice to Issuer and the Registrar and Paying Agent, declare the principal and all accrued interest (including default interest, as specified in the Terms and Conditions) on the Bonds and other applicable charges thereon (including any incremental taxes that may be due on the interest income already earned under the Bonds) immediately due and payable. Upon such declaration, such amount shall be immediately due and payable by the Issuer, without need for any further presentment, demand, protest or further notice of any kind, all of which are expressly waived by the Issuer, and, without prejudice to the other remedies available to the other holders. See "Terms and Conditions" for further details.

6.4.4 Limited Liquidity of the Bonds

The Issuer intends to list the Bonds for trading in PDEx. No assurance can be given that an active trading market for the Bonds will develop. 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.

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 CD holder would receive sales proceeds lower than his initial investment should a CD holder decide to sell his Bonds prior to maturity.

Subject to the Terms and Conditions, the Bonds cannot be pre-terminated at the instance of any CD holder before Maturity Date. However, the Bank may, subject to the General Banking Law of 2000, Subsection X233.9 of the MORB and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding Bonds on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

6.4.5 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.

6.4.6 Issuance and Transfer Restrictions

The Bonds may not be issued or transferred to (i) the Issuer; (ii) the subsidiaries or affiliates of the Issuer; (iii) wholly or majority-owned or controlled entities of such subsidiaries and affiliates of the Issuer; or (iv) any other Prohibited Holders. 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.

6.4.7 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 November 2019, 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*.

6.4.8 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. Each potential investor should:

- have enough 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 financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;
- have enough 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 individually 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 such instruments as a way to manage risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. Investors may purchase Bonds to manage risk or enhance yields. A potential investor should not invest in the Bonds unless it has the expertise (either individually 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.

6.4.9 The Bonds are subject to tax

As part of the Duterte administration’s 10-point socioeconomic agenda, a comprehensive tax policy and administration reform is sought to be implemented. Said tax reform plan proposes significant changes to the tax system that will purportedly reduce tax rates, the impact of which will be compensated by measures that will broaden tax base. Thus, in late 2016, the Department of Finance (“**DOF**”) submitted to Congress the first of six packages that make up its comprehensive tax reform plan, commonly known as the TRAIN bill. Package One of the TRAIN bill was signed into law in December 2017.

Package Four of the Tax Reform for Acceleration and Inclusion ("**TRAIN**") ("**TRAIN Package 4"**) or House Bill No. 304, 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. One of the reforms introduced is the unification the tax rates of passive income through the imposition of a uniform rate of 15 percent (which would be a reduction from the prevailing from 20%) on interest income, dividends, and capital gains on the sale of shares of stock. On 9 September 2019, the House of Representatives passed House Bill ("**HB"**) No. 304, or Package 4 of the TRAIN bill, on its third reading. Before HB No. 304 can become effective, it needs to be considered and approved by the Senate, which may impose revisions. As of 22 June 2022, HB 304 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 TRAIN 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. 304 will be passed into law, or in what form such a law may take. HB No. 304 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, Section 2.57 of Revenue Regulations No. 2-98, BIR Revenue Regulations No. 11-2018.

6.4.10 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

Bonds with different features may be issued under the Programme. A number of these Bonds may have features which contain particular risks for 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 securities issued at a substantial discount (such as Zero Coupon Bonds) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

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 31 March 2022. This table should be read in conjunction with the Bank's reviewed financial statements as of and for the period ended 31 March 2022, included in this Offering Circular.

	As of 31 March 2022 (unaudited) (in ₱ millions)
Liability Accounts	
Deposit Liabilities	173,624.77
Bills Payable	-
Manager's Checks and Acceptances Payable	1,095.66
Accrued Interest, Taxes, and Other Expenses	949.98
Other Liabilities	4,028.46
Total Liabilities	179,698.87
Equity Accounts	
Paid-in Capital Stock	18,196.81
Additional Paid-in Capital	7,230.15
Surplus reserves	866.63
Retained Earnings (Deficit)	1,102.38
Remeasurement losses on retirement liability	(262.55)
Net unrealized gain (losses) on financial assets at FVOCI	(446.80)
Cumulative translation adjustment	0.63
Share in other comprehensive loss of an associate	(1.33)
Total Equity	26,685.91
Total Capitalization and Indebtedness	**₱ 206,384.78**

SECTION 8. DESCRIPTION OF THE BANK

8.1 OVERVIEW

Bank of Commerce (the "**Bank**") is one of the country's progressive commercial banks and is licensed by the Bangko Sentral ng Pilipinas ("**BSP**"). The Bank has been operating since 1963 and traces its origins to the Overseas Bank of Manila with headquarters in Binondo, Manila.

The Bank has since evolved through different phases of growth. In 1980, the Overseas Bank of Manila changed its name to Commercial Bank of Manila. The following year, the Government Service Insurance System (GSIS) acquired the Commercial Bank of Manila and used "ComBank" as the Bank's short name. In 1984, ComBank acquired Royal Savings Bank. The First National Bank of Boston, one of the oldest and leading banks in the United States and a local investment group acquired ComBank in 1988. The Bank was then renamed Boston Bank of the Philippines.

In November 1991, the Bank changed its official name to Bank of Commerce. With the buyout of the majority interest of the First National Bank of Boston in 1993, Bank of Commerce was placed under complete Filipino ownership. As part of its growth plans, Bank of Commerce acquired Pan Asia Bank and purchased selected assets and liabilities of Trader's Royal Bank in 2001. These takeovers significantly increased the Bank's presence in the banking industry.

Filipino-owned San Miguel Properties, Inc., a subsidiary of San Miguel Corporation ("**SMC**"), and San Miguel Corporation Retirement Fund, the registered retirement plan of SMC Group employees, became the controlling shareholders of Bank of Commerce in 2008. San Miguel Properties, Inc. has 31.91% of ownership, San Miguel Corporation Retirement Fund has 30.84% of ownership and recently SMC Equivest Corporation, a wholly-owned subsidiary of San Miguel Corporation, has 4.87% of ownership as of 31 March 2022. On 16 January 2013, the SEC approved the extension of the corporate life of Bank of Commerce for another 50 years from 16 December 2013.

Bank of Commerce provides innovative banking solutions and a complete range of products and services in deposit, commercial loans, credit card services, consumer banking, corporate banking, treasury, asset management, transaction banking and trust and investments. In terms of service reach, the Bank relaunched the Retail and Corporate Internet Banking facilities with enhanced features to encourage consumers and corporate clients to transact regular banking services such as bills payment, fund transfers, card loading, and other services via the internet banking platform. The Bank has a network of 140 Branches and 253 Automated Teller Machines ("**ATMs**") strategically located nationwide, as of 31 March 2022.

8.2 RECENT DEVELOPMENTS

8.2.1 Primary Offer of Common Shares by Way of an Initial Public Offering ("IPO")

On 31 March 2022, the Bank issued 280,602,800 new common shares (the "**Offer Shares**") on the Philippine Stock Exchange ("**PSE**") at a price of ₱12.00 per share raising a total amount of ₱3,367.2 million from its initial public offering. The Bank intends to use the net proceeds from the sale of the Offer Shares to fund its lending activities, acquisition of investment securities, and financial capital expenditure requirements in connection with the upgrading of its automated teller machine (ATM) fleet and its core banking system.

The IPO is part of the Bank's Universal Banking license application. With a unibank license, the Bank will have more opportunities to generate and warehouse interest bearing assets like marketable securities, generate more fee-based income, and manage risk of securities underwritten and held for trading. This will also enable the bank to enhance its marketing relationship with existing and prospective clients in the large corporate and middle market segments as it will be carrying a broader range of products, from traditional working capital lines and term loans to project finance, initial public offerings, mergers and acquisitions, financial advisory, etc. The latter services are essential to large businesses in planning their expansion programs as a response to the increasing demand brought about by the robust economy.

8.2.2 Highlights for the Three (3)-Month Period Ended 31 March 2022 and Fiscal Year Ended 31 December 2021

The Bank's first quarter 2022 net income hit ₱360.6 million, more than double the ₱146.3 million earned in the same period last year. This upward trajectory resulted from the continued strong core business activities despite the continuing local and international market volatilities.

Total Revenues which stood at ₱1.7 billion is up 14.5% as Net Interest Income posted a 6.5% increase.

Non-interest income rose by 93% to ₱272 million resulting mainly from the turnaround in foreign exchange gains and growth in service fees business.

The Bank continues to demonstrate operational efficiency as Operating Expenses growth was kept in check at 2% at ₱1.2 billion.

Total assets were recorded at ₱206.4 billion, a 3.3% expansion from end 2021 level mainly due to the 13.8% growth in loans and receivables. Contributing as well to assets expansion were increases in investment securities.

The Bank's capital base stood strong at ₱26.7 billion, up 14.2% from the ₱23.4 billion in previous quarter, spurred mainly by proceeds from its Initial Public Offering (IPO) in March 2022.

The Bank continued its strong performance in 2021 by recording a seven-year high net income of ₱1.2 billion vs ₱784 million in 2020. The results reflect the bank's resiliency amidst the continuing challenges of the COVID-19 pandemic.

The Bank's core income continued to grow as net interest income increased 6% year on year. The increase was mainly driven by prudent management of interest expenses at ₱697 million, 41% lower vs. end-2020.

Non-interest income which stood at ₱826 million was mainly supported by a 19% growth in service charges and fees and commissions and gains on sale of acquired assets.

Amidst this increase in revenues, the Bank was able to limit Operating Expenses growth to 3% in 2021, despite additional technology investments.

The Bank closed 2021 with ₱199.7 billion in assets, up 17% from the ₱171 billion at end-2020. This was driven mainly by increased purchase of investment securities and a 4% growth in loans. The asset growth was supported by a 15% increase in deposits to ₱172 billion.

The bank's total capital at year end 2021 (pre-listing) stood at ₱23 billion, 39% higher year-on- year, boosted by the ₱5.5 billion capital infusion from San Miguel Corporation's (SMC) 100% wholly owned subsidiary, SMC Equivest Corporation.

8.2.3 Development of New Loan Programs

Alongside the need to reduce the Bank's exposure to affiliates, it has developed new loan programs intended to leverage off the SMC ecosystem composed of SMC's network of customers, trade partners, suppliers, vendors, distributors, contractors, and employees, among others. Loans to be generated from these lending programs are envisioned to gradually replace borrowings of the SMC Group. Moreover, as bulk of the potential customers from this segment operate within the middle market, clients tapped for these programs are anticipated to be a source of higher net interest margins as well as diversified, stickier deposit base.

8.2.4 Maiden Long Term Negotiable Certificates of Time Deposit Issuance

On 17 March 2020, the Bank issued ₱5.0 billion unsecured LTNCD with 4.5% fixed interest rate and maturing on 17 September 2025. The issuance of the LTNCD was approved by the BOD on 25 June 2019 and by the BSP on 31 October 2019.

8.2.5 ₱5.5 billion Preferred Shares Private Placement

On 5 August 2021, SMC Equivest Corporation ("**SMC Equivest**"), a wholly owned subsidiary of San Miguel Corporation, subscribed to 41,666,667 Series 1 Preferred Shares of Bank of Commerce for ₱5,500,000,044.00, which was fully paid on the same date. The preferred shares are cumulative, non-voting, non-participating, perpetual, and convertible into common shares at a ratio of 1:1 (i.e. one preferred share is convertible into one common share) and at the option of the preferred shareholder after five (5) years from the date of issuance, subject to requirements under laws, rules, and regulations. Dividends shall accrue at a rate of 2.50% p.a. in the first year, 3.00% p.a. in the second year, 4.00% p.a. in the third year, 5.00% p.a. in the fourth year, and 5.50% p.a. beginning on the fifth year onwards from issuance. The dividends shall be payable either in cash or in shares at the discretion of the Bank. The foregoing capital infusion is in compliance with the requirement of the BSP for the Bank to meet the minimum capitalization requirements for banks applying for a universal banking license. Prior to such subscription, SMC Equivest owned 4.69% of the outstanding capital stock of the Bank comprising of common shares. The terms and conditions of the Preferred Shares, including the dividend rate, were approved by the BSP.

8.2.6 Stock Split

On 25 May 2021, the Board of Directors approved the amendment of the Bank's Articles of Incorporation to the par value of common and preferred shares from One Hundred Pesos (₱100.00) to Ten Pesos (₱10.00). The amendment resulted in the increase in common shares from 170,251,147 to 1,702,511,470 and an increase in preferred shares from 45,500,000 to 455,000,000. The amendment was approved by the Stockholders on 8 July 2021. The amendment on the Bank's Articles of Incorporation was approved by the BSP on 4 October 2021 and by the SEC on 2 November 2021.

8.2.7 Equity Restructuring

On 29 March 2021, the Board of Directors approved the Bank to undergo equity restructuring to wipe out the deficit amounting to ₱51,156,715 as at 31 December 2020 through the use of the Bank's paid-in surplus.

On 12 July 2021, the Bank received from BSP a "No Objection" response to its application for equity restructuring with the SEC, subject to the (i) Bank's compliance with the Commission's other requirements; and (ii) condition that the Bank shall provide BSP a certified true copy of SEC's approval of the equity restructuring within five (5) days from receipt thereof.

On 14 October 2021, the SEC approved the equity restructuring to wipe-out the deficit as at 31 December 2020 amounting to ₱51,156,715 against the paid-in surplus of ₱5.6 billion subject to the conditions that the remaining paid-in surplus of ₱5.5 billion cannot be applied for future losses that may be incurred by the Bank without prior approval of the SEC.

8.2.8 SMC Retirement and SMC Equivest Transfer of Shares

On 20 October 2021, SMC Equivest Corporation purchased from San Miguel Corporation Retirement Plan One Million Five Hundred Seventy-one Thousand Six Hundred (1,571,600) common shares of the Bank at a par value of ₱100.00 per share (15,716,000 common shares after the reduction in par value to ₱10.00 per share) comprising 1.4% of the Bank's total issued and outstanding common shares, for a total purchase price of Three Hundred Fifty-five Million Nine Hundred Thirty-five Thousand Nine Hundred Sixty-eight Pesos (₱355,935,968.00). The Certificate Authorizing Registration ("**CAR**") for the transfer of shares has been issued by the Bureau of Internal Revenue on 21 February 2022.

8.2.9 Impact of COVID-19 on Operations and Strategies

The 2020 pandemic severely curtailed the Bank operations primarily due to the closure of various branches around the country because of quarantine restrictions imposed by the Philippine government. Restrictions in movement also made it difficult for Bank employees to report to head office or open branches. Nonetheless, in 2021 the Bank continued to serve its customers and meet its regulatory obligations by using its existing Business Continuity Measures ("BCM") and various efforts to mitigate the spread of the COVID-19 virus through measures such as the transition to a work-from home arrangement, investment in technology to enable a conducive work-from- home arrangement for its employees, establishment of health and safety protocols within its premises, among others. As of this issuance, all the Bank's 140 branches nationwide are open for business and fully operational.

In 2021, the Bank recorded a net income of ₱1.2 billion as compared to 31 December 2020 of ₱784.4 million. This was driven by 6% increase in net interest income due to lower funding cost as interest expenses declined. Meanwhile, total operating expenses, including provisions, declined by 24.66% to ₱4.4 billion from ₱5.8 billion mainly due a net reversal of provision for credit losses which was recorded at ₱634.8 million as opposed to the prior year's result of ₱962.5 million. In 2020, the Bank had a significant increase in provisions to anticipate credit losses brought about by the global pandemic. These provisions gradually decreased leading to the net reversal as of 31 December 2021 due to the continuous collection efforts to update non-current accounts.

As an affiliate of the SMC Group, the Bank has been able to leverage on the conglomerate's testing facilities. Since the 2nd half of 2020 until 31 December 2021 at the least, Bank employees have been tested using the PCR method at least twice whether or not they have experienced any symptoms. Bank personnel have also been given the opportunity to take part in the COVID vaccination program currently planned for the SMC Group.

Given that the pandemic is continuing, the Bank is conducting the following activities to manage credit risk going forward:

- The Corporate Banking Group together with the Credit Group closely monitors all corporate borrowers for signs of financial distress. The Bank proactively works with its borrowers to ensure they are able to meet their payment obligations.
- The Consumer Lending Group has been asked to cap its growth and simply replace consumer loans that are being fully paid off. New loans now have increased equity requirements and the borrower's ability to pay is scrutinized more closely in relation the effects of the ongoing pandemic.
- The Credit Card Group has limited new credit cards to bank clients with higher average daily balance minimums or SMC ecosystem customers with higher income requirements and at least one (1) issued card from another bank.

The Bank continues to monitor the situation and continues to review its provisioning and capital levels. As the government continued to ease restrictions and economy gradually opened up, the Bank was able to adapt according to these developments and recorded a net income of ₱360.59 million for the first quarter of 2022.

8.3 CORPORATE HISTORY AND MILESTONES

1963	The Overseas Bank of Manila was incorporated in the Philippines
1980	Overseas Bank of Manila changed its name to Commercial Bank of Manila
1981	Commercial Bank of Manila (ComBank) was acquired by the GSIS
1984	ComBank acquired Royal Savings Bank
1988	First National Bank of Boston and a local investment group acquired ComBank
1988	ComBank was renamed the Boston Bank of the Philippines
1991	Boston Bank of the Philippines changed official name to Bank of Commerce
1993	Buyout of the majority interest of the First National Bank of Boston
2000	Acquired selected assets and liabilities of Pan Asia Bank
2001	Acquired selected assets and liabilities of Trader's Royal Bank
2008	San Miguel Properties, Inc. and San Miguel Corporation Retirement Plan became the controlling shareholders of the Bank
2018	New strategy with enhanced management team led by the appointment of the Bank's new President and CEO, Michelangelo R. Aguilar BankCom revised its logo to include "SMC affiliate" text

2020	The Bank was granted a copyright by the Intellectual Property Office for the short name "BankCom" BankCom issued ₱5.0 billion LTNCDs in March 2020
2021	In August 2021, BankCom completed the ₱5.5 billion private placement of SMC Equivest to help BankCom achieve the ₱20.0 billion minimum capital requirement for UB status On 23 December 2021, the BSP approved the upgrade of BankCom's commercial banking license to a universal banking license, subject to regulatory requirements

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 investment banks.

Mergers, acquisitions and closures reduced the number of players in the Philippine banking system from a high of 785 banks in 2009 to 499 banks as of March 2022. However, with the entry of foreign banks under new and liberalized banking laws and regulations, the number of universal and commercial banks has grown to 45 as of March 2022. Lending from universal and commercial banks posted a quarter-on-quarter growth of 1.05% in the quarter ended 31 March 2022 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 banking space, enjoys the advantage of having experience that includes origination, credit selection, collection and asset recovery activities.

8.5 STRENGTHS

BankCom believes that its principal competitive strengths include the following:

8.5.1 Strong support from SMC Group and synergies with the SMC ecosystem

BankCom believes that it has strong support from SMC and continues to leverage its position as a member of the SMC Group, which is one of the largest and most diversified conglomerates in the Philippines by revenues and total assets. The SMC Group has business interests in various sectors including beverages, food, packaging, fuel and oil, energy, infrastructure, property development, cement, car distributorship, and banking services. In 2021, the SMC Group's sales was equivalent to approximately 4.9% of the country's GDP.

As a result of this relationship, the Bank has been able to gain significant business and realize valuable synergies with the SMC Group. These come in two (2) main forms: first, directly, through various banking and cross-selling opportunities with SMC's industry leading businesses; and second, indirectly, through the broader SMC Group ecosystem, through its network of customers, trade partners, suppliers, vendors, distributors, contractors, employees, among others. SMC Group's vast ecosystem creates an organic opportunity for BankCom to grow. In addition, the market leading nature of SMC Group's various businesses provide BankCom with a vast pool of opportunities to cross sell its products and services.

For instance, BankCom is the deposit bank of choice for many SMC Group affiliates. Further, the Bank has also expanded its client base to include coverage of middle market clients within the SMC ecosystem such as Petron dealers, San Miguel Brewery distributors, and Ginebra San Miguel distributors. This has opened opportunities for the Bank the bank to provide not only financing but also to cross sell other products such as cash management, foreign exchange, trade finance, and trust services to a broad and diversified clientele.

The SMC ecosystem provides the Bank with an abundant source of growth which it has historically leveraged and will continue to maximize as it pursues a new phase of growth.

8.5.2 Prudent balance sheet management with strong capitalization and liquidity to support a new growth phase

The Bank's astute use of capital has resulted in sustained strong capital adequacy ratios. CET 1 capital ratio stood at 15.35% as of 31 December 2021 and 16.69% as of 31 March 2022. Meanwhile, the Bank's total capital adequacy ratio stood at 21.57% as of 31 December 2021 and 22.10% as of 31 March 2022.

The Bank's CET 1 and CAR ratios are significantly above the BSP's current minimum levels of 6.0% and 10.0%, respectively. The same CET1 and CAR minimum requirements will continue to apply to the Bank as a universal bank. Furthermore, the Bank is among the country's best capitalized private domestic banks. The Bank's solid capital ratios create a robust runway for the Bank to support and execute its long-term growth plans.

Further, the Bank has a sizeable war chest of capital which will support its expansion initiatives as it pursues a new phase of growth. This includes the proceeds from the ₱5.5 billion preferred shares private placement in August 2021 as well as the net proceeds from this Offering which is estimated to be ₱3,202.4 million. Moreover, the Bank has proven its ability to tap capital markets through its successful debut issuance of Long-Term Negotiable Certificates of Time Deposit in March 2020 which allowed the Bank to raise ₱5.0 billion. Lastly, the Bank currently has a liquid balance sheet with its loan-to-deposit ratio ("**LDR**") clocking in at 63% as of 31 March 2022. The Bank's war chest of capital affords BankCom a platform to launch its strategic growth objectives as well as "ready-to-deploy" stance as tactical growth opportunities arise.

8.5.3 Effective risk management leading to high asset quality and balance sheet resilience

BankCom has and continues to implement sound and effective risk management measures allowing the Bank to maintain high asset quality and a healthy balance sheet while pursuing growth. BankCom prioritizes loan quality and has adopted rigorous credit quality standards in accordance with BSP's guidelines on sound credit risk management practices. BankCom believes this approach will insulate the Bank against any downturns in the financial sector or in the domestic or global economies and serve as an additional layer of resilience and protection, as illustrated in the current market conditions as a result of the COVID-19 pandemic.

Through these measures, the Bank has grown its loan and receivables book (net) by 35% from ₱62.7 billion as of 31 December 2017 to ₱84.7 billion as of 31 March 2022 while keeping its Gross NPL ratio relatively stable from 2.8% as of 31 December 2017 to 2.9% as of 31 March 2022.

BankCom asset quality metrics fare positively compared to the industry. As of 31 March 2022, BankCom's Gross NPL Ratio stood at 2.9% compared to 3.99% the average for Universal and Commercial Banks (as reported by BSP).

8.5.4 Augmented and invigorated management team overseen by seasoned and experienced Board

BankCom's management team and Board of Directors comprise highly-experienced individuals with an average of more than 20 years of sector expertise and proven abilities to grow the business. Its members have track records of delivering on business plans and achieving results, while prudently assessing risks in an increasingly complex and regulated banking environment.

The Bank's Board of Directors is led by Chairman Amb. Francis C. Chua. He has been a member of the Board of Directors of the Bank since 20 May 2008, and sat as Vice Chairman from 2013 to 2022. Currently, Mr. Chua sits as the Chairman of the Board of Directors of the Bank. Mr. Chua chairs the Executive Committee (Excom) of the Bank. With his constant feedback and insights on best banking practices, he has been instrumental in promoting the Bank in the business community and in marketing its products and services. Amb. Chua continuously serves in the Philippine Chamber of Commerce and Industry, Inc. (PCCI), as Consul General conferred by the Honorary Consulate General of the Republic of Peru in Manila since 2006, and as Board Adviser of the Office of Alternative Dispute Resolution under the Department of Justice. He was the Special Adviser on Economic Affairs under the Office of the Speaker of the House of Representatives, Congress of the Philippines since 1997. He is Honorary Trade and Investment Representative of the Department of Trade and Industry, appointed Commissioner in the Constitutional Commission, Board of Trustee of Technical Education and Skills Development Authority (TESDA), and Special Envoy on Trade and Investment (China) of the Department of Foreign Affairs since 2007. He is a member of the Board of Directors of the Philippine Stock Exchange where he previously served as Treasurer.

Director Jose C. Nograles is a seasoned investment banker and economist. He was President of the Philippine Deposit Insurance Corporation (**PDIC**) from 2008 to 2011 where he led PDIC's transformation to a more responsive and innovative institution. Previously, he was the Senior Executive Vice President of the Land Bank of the Philippines (**LBP**). Director Nograles continues to be a strict advocate of the Bank's conscientious and efficient use of resources towards sustainable care for the environment.

Meanwhile, Director Melinda S. Gonzales-Manto is a celebrated accountant and is looked up to as an expert in assurance and business advisory. She has over 30 years of experience in audit and was previously a Partner in the Assurance and Advisory Business Services Division of SGV. She is highly respected as well in initial public offerings, due diligence engagements, and mergers and acquisitions.

Lastly, Director Fe B. Barin has spent more than 40 years at the BSP and acted as Chairman of the SEC for a 7- year term, among others.

Moreover, the Bank's President and CEO, Michelangelo R. Aguilar, has over 35 years of banking experience in the areas of Corporate and Investment Banking, Global Markets, and Treasury.

The Bank's day-to-day business is based on a streamlined management structure and managed by officers who have extensive experience in banking operations from leading universal and commercial banks in the country across key areas including retail and wholesale banking, treasury, trust, risk and compliance. Given the experience and track record of BankCom's senior management, the Bank believes that it possesses extensive knowledge of all aspects of the banking industry, strong relationships and familiarity with the Bank's target clients and their banking needs, rapport with other banks and financial institutions, and harmonious relationship with regulators. Additionally, the Bank's senior management team regularly meets and coordinates in order to increase productivity and efficiencies across the Bank's various business units.

8.5.5 Strategic and well-balanced branch network footprint

BankCom believes that its branch network has a strategic and well-balanced geographical footprint. The Bank's branches are strategically located to maximize market potential and offer accessibility to both existing and potential customers. As of 31 March 2022, the Bank has a consolidated network of 140 branches and 253 ATMs. Of its branches, 62 are located in Metro Manila, 43 are located in Luzon (outside of Metro Manila), 22 are located in Visayas and 13 are located in Mindanao.

The diversity and expanse of the Bank's geographical footprint is aligned with the nationwide reach of the SMC ecosystem, allowing the Bank to maximize its synergies and cross sell with the SMC Group and the broader SMC ecosystem. Furthermore, the branches of BankCom are strategically located in areas outside Metro Manila particularly in emerging high growth regions, which enables the Bank to capitalize on the robust development of these areas. More than half or 55% of the Bank's branches are located outside the National Capital Region.

The Bank believes that its presence in key provincial markets places it in a unique position, allowing it to cultivate fruitful and long-term relationships with clients in such areas that are difficult for other players to replicate. Further, the Bank believes that the strategic and convenient locations of its branches in such areas, being close to local town centers or at key crossroads of commerce, is a compelling factor to sustain the loyalty of its existing clientele and to attract new customers.

8.5.6 Nimble and agile company culture and workflow allows BankCom to act quick and prudently when opportunities arise

BankCom believes that its emergent nature allows it to swiftly capture growth opportunities as these arise such as rolling out new products. Further, this allows the Bank to manage and adjust its operations efficiently to navigate accordingly through varying market conditions.

For instance, at the height of uncertainty during the COVID-19 pandemic, the Bank was able to rapidly adjust its operations to fit the situation. The Bank's nimbleness allowed for resilient banking operations throughout the pandemic, opening select branches during the ECQ and then increasing branch availability for regular and walk-in customers. From 50% at the start of the Luzon-wide ECQ, the Bank was quickly able to bring branch operations up to 95% in under three months and finally to 100% by late-2020.

Further, the Bank was able to promptly realign its strategy to address the pandemic. This included managing and reducing risk exposure by tactically shifting focus from consumer accounts to commercial and corporate accounts. As of 31 March 2022, consumer loans (comprising home loans, auto loans, and credit cards, among others) accounted for 16.2% of its total loans, which the Bank has pared down from 20.5% as of 31 December 2019.

The Bank also deployed strategies to aggressively grow deposits, and continuously monitored credit risk, provisioning and capital levels. The Bank's total deposits as of 31 December 2021 stood at ₱171.7 billion, a 15.2% increase from ₱149.1 billion as of 31 December 2020. This has further increased to ₱173.6 billion as of 31 March 2022.

BankCom's nimble workflow and culture became its source of great advantage throughout the COVID-19 pandemic and allowed the Bank to achieve an unprecedented stellar performance during an unprecedented time. In 2021, the Bank saw its Net Income grow by 53.8% to ₱1.2 billion as the Bank's Net Interest Income grew by 5.7% to ₱5.4 billion as interest expense dropped by a considerable 40.5%.

8.6 STRATEGIES

BankCom's strategic vision is to grow in the coming years to achieve economies of scale, improve efficiency, and be at par with the country's leading domestic banks. Within this time horizon, BankCom also envisions to enter into a new era of growth as it upgrades to a universal bank and maximizes the additional products, services and functions allowed in its universal banking license. BankCom aims to achieve sustainable growth across its business segments. The Bank's strategies to achieve its objectives are set forth in greater detail below.

8.6.1 Achieve scale and sustainable growth / client expansion by leveraging the broader SMC ecosystem

The Bank will continue to leverage the SMC ecosystem as an integral part of its growth strategy.

The Bank aims to maximize potential synergies and opportunities with supply chains and payments streams within the SMC ecosystem including, dealers, vendors, suppliers, employees, and customers.

This includes tapping the financing needs of SMC ecosystem's third-party vendors and suppliers (SMC had ₱89 billion of Accounts Payable – Trade as of 31 December 2021). In addition, BankCom is currently onboarding the payroll processes of SMC affiliates and subsidiaries (₱23 billion in Salaries and Wages as of 31 December 2021). This allows the bank to have a larger deposit base to utilize for its loan books.

BankCom's management is mandated by the Board of Directors to optimize the relationship with the players in the supply chain of the SMC ecosystem. Moreover, as bulk of these potential customers from this segment, operate within the middle market, this potential creates a source of better interest rate margins for the Bank as well as a more diversified and stickier deposit base.

8.6.2 Leverage the universal banking license to expand product suite and service offering

The Bank views the UB license as a key catalyst of growth especially in the long-run. Upon effectivity, the Bank's intends to immediately start building a franchise around the new products and services that a UB license affords including: investment banking services and bancassurance, among others.

BankCom intends to engage in and offer investment banking products and services to capitalize on its client base and management's expertise. These include but are not limited to: (i) underwriting, arranging to distribute (whether on a best-efforts basis), purchasing or selling equity and debt securities of other corporations and/or government securities; and (ii) providing financial advisory services across various mandates including mergers and acquisitions, and capital raising. To date, the Bank has been actively participating as a selling agent in capital market transactions and intends to increase its involvement in these types of transactions with the aim of developing a robust track record and expertise in investment banking. In addition, the Bank recognizes that participating in capital markets offerings generates cross-sell opportunities with its Trust and Treasury Groups and will look to maximize potential synergies.

The Bank also intends to develop a bancassurance franchise as this business could be a potent source of additional fees income with minimal capital deployment.

8.6.3 Investment in Information Technology Infrastructure and Financial Technology to improve customer service and touchpoints

BankCom sees digital banking as a cornerstone of its long-term strategy and a key enabler of long-term growth. In the near term, the Bank intends to continue to advance its technological capabilities to support business growth across multiple channels. The Bank expects to utilize digital technology as a major tool, particularly in the areas of fund transfer, deposits, payments, and other transactions. As part of its use of proceeds from the its recently concluded initial public offering, BankCom plans to spend a total of ₱922 million for the (i) replacement/ additional ATMs and cash recycling/deposit for offsite locations; and (ii) upgrading the core banking system. The Bank believes that these initiatives make it well-placed to efficiently implement its continued goals of further large-scale expansion, business diversification, and efficient service delivery.

The Bank's extensive network of branches and ATMs is complemented by its infrastructure platform and alternative channels including mobile and internet banking that offers convenient, low-cost and secure transaction capabilities that enhance overall customer experience and improves customer loyalty and retention. This allows for a strong deposit gathering capability and an ability to cross-sell and distribute existing and potential fee-generating products such as bancassurance, trust, and credit cards. These highly automated platforms minimize transaction costs within the Bank's network, enable comprehensive function with regards to electronic payments and cash management services for corporate clients and generate substantial fund flow from both retail and corporate customers. In addition, the Bank believes that its roll-out of credit card products in 2015 further enhanced its client retention and profitability.

BankCom started the digital journey by launching its mobile banking app in 2020. In 2021, BankCom continues its digital transformation with an ATM Fleet replacement with CRMs to expand its capability beyond just cash dispensation. This channel is supported by a change of first generation core banking system to a current third generation Banking-as-a-Service model to unleash the capabilities of integration of retail loan products, such as, consumer loans, credit cards and provide the bank with low cost funds and growth in CASA deposits. All of these products and services are connected with an Open Banking Framework for API interactions with select financial services partners to deliver cohesive banking services and promoting a positive and integrated customer experience.

The Bank also intends to maximize digitization and other IT-related synergies with the SMC Group and SMC ecosystem. This includes the use of BankCom's Personal Online Banking (POB) and Corporate Internet Banking (CIB) applications which can cater to the daily transactional needs of its employees and corporate partners, respectively.

8.6.4 Increase profitability through Return-on-Equity expansion as well as growth of fee income business

As part of the strategy to improve its profitability, the BankCom has set initiatives in place to drive fee-based income growth from various businesses, including: foreign exchange flows, trade finance fees from off-balance sheet accounts, the Trust group, remittance, credit cards and other high-yielding products and services that generate fee-based income

The Bank has made significant inroads in its fee income portfolio. For instance, the Bank's credit base has grown by 109% from 40,485 as of 31 December 2017 to 84,676 as of 31 March 2022; remittance fees has grown by over eight (8) times from ₱5.0 million in 2017 to ₱52.2 million in 2021; and the assets under management (AUM) of its Trust Business expanded from ₱24.6 billion on 31 December 2017 to ₱68.9 billion on 31 March 2022, representing a 180% growth or a CAGR of 22.9%.

Additional sources of fee income are underway as the Bank forays into investment banking and bancassurance through the universal banking license, as well as the entailed auxiliary/supporting businesses such as its Trust Group which intends to build up its investment securities portfolio while diversifying its holdings into better yielding corporate and sovereign issues that would generate more fees from bond trading and distribution

8.6.5 Build deeper relationships and activate cross sell opportunities by putting the needs of customers on the forefront

BankCom's commitment to providing superior service to valued customers is ingrained in the Bank's service DNA with its corporate tagline, "We think customers". This sums up the Bank's brand and service promise – putting customers' welfare first and keeping in mind what matters to them most – their families, businesses, communities and their futures. BankCom is committed to providing its customers the very best.

BankCom believes that its service culture allows the Bank to create more meaningful connections with clients and allows its sales teams to manage clients on a holistic level, anticipate and understand clients' needs better and foster relationships that unlock continued brand loyalty and support over the long-term thereby unlocking more value from each client relationship, The Bank believes that its existing customer base has significant potential for cross-selling opportunities and intends to intensify its cross-selling efforts with its existing customers.

The Bank also plans to focus its efforts in cross-selling its full suite of products including consumer loans, cash management solutions, electronic remittance channels, wealth management and investment products, and trust as well as other products and services that will be available to the Bank when it gains universal banking status including bancassurance, among others.

The Bank also intends to apply the same service framework across the SMC ecosystem to unlock more cross selling opportunities and expand its client base. These would include, contractors and dealers, to whom the Bank can provide the following services and products: automatic debit arrangement, retail deposits, consumer finance (home and auto loans), credit cards, and trust investments.

8.6.6 Shareholders' commitment to environmental, social, and governance ("ESG") framework and regulatory compliance and advancing the culture of "malasakit"

BankCom not only prioritizes its financial performance, but also focuses on making meaningful contributions to the development of the nation and welfare of the larger society, alongside conducting its business operations in strict accordance and adherence with regulations. The Bank is committed to stewardship and advancing the spirit of malasakit, an inherent quality shared with its parent company, San Miguel Corporation.

BankCom's corporate social responsibility efforts are geared towards fulfilling its long-standing commitment to community development, promoting financial literacy, and championing volunteer work. The Bank has undergone a number of activities including Taal volcano relief operations, COVID-19 assistance focused on medical front liners, support for education program 10 million students across the country, typhoon Rolly and Ulysses donation drive and relief efforts, among others. Moreover, the Bank has recently risen above its usual Corporate Social Responsibility ("CSR") initiatives by pivoting most of its budget and efforts towards helping out Filipinos severely affected by the pandemic and other calamities. For instance, for the first time in its history, the Bank decided to forego producing corporate giveaways and reallocated the budget towards benefitting impoverished and underprivileged communities.

Furthermore, the Bank sustains it resiliency and stability while balancing the interests of its stakeholders through policies, processes, practices, and framework that dictate its corporate behavior and activities. It is the policy of BankCom to establish and uphold the highest standards of ethical behaviors among its employees, management, and board. The Bank discourages situations or conditions that would result to, or create conflict of interest between BankCom and its employees. In addition, the Bank has adopted a Manual on Corporate Governance, updated annual as may be necessary, to incorporate significant changes brought about by new legislations, regulations, or best practices. All employees are enjoined to uphold the best interest of the Bank.

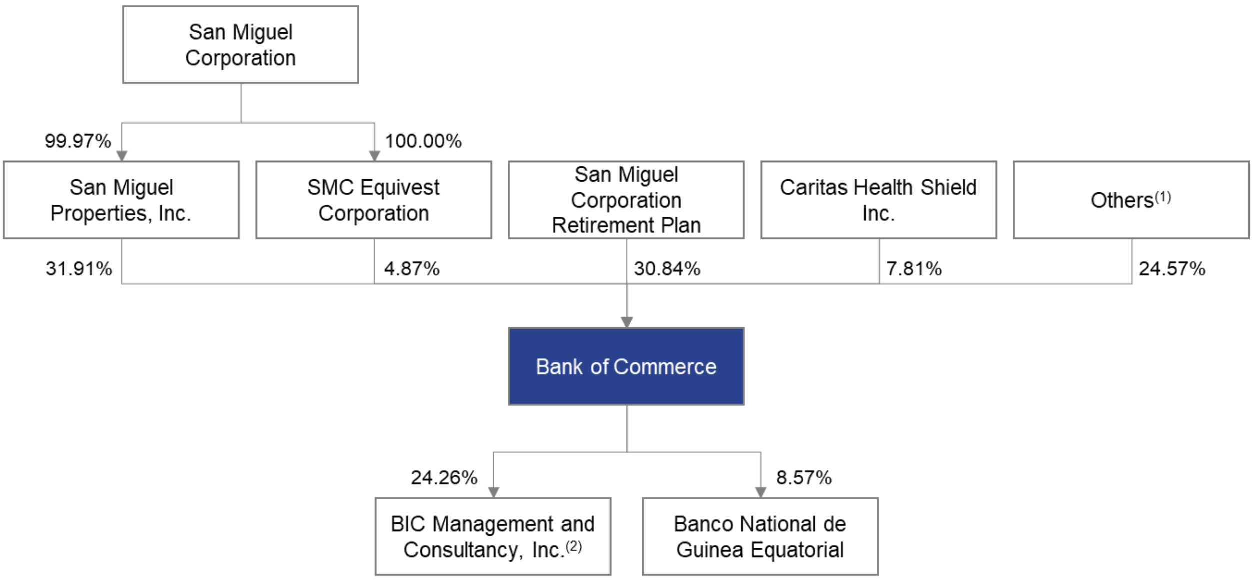
On regulatory compliance, the Bank requires Directors and members of Senior Management to undergo periodic training programs particularly focused on regulatory policy updates and requirements, such as but not limited to, anti-money laundering and terrorist financing, risk management practices, governance, ethical standards, and supervisory expectations.

8.7 GROUP AND ORGANIZATIONAL STRUCTURE

The following shows the shareholding structure of the Bank and its associates as of 31 March 2022:

SHAREHOLDING STRUCTURE

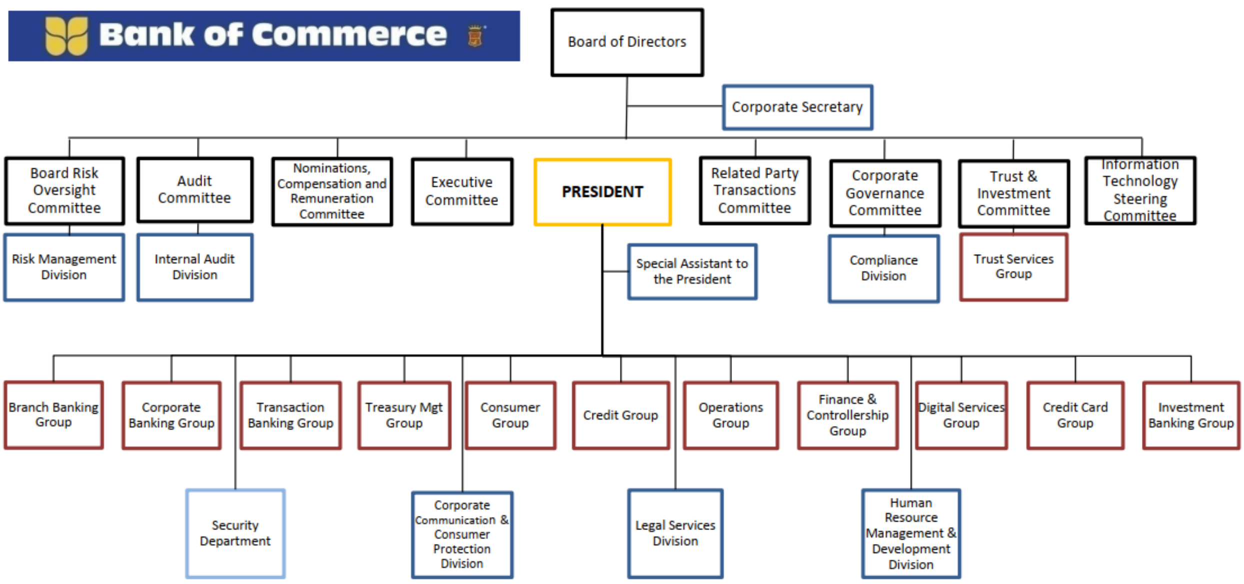
Based on Public Ownership Report dated 31 March 2022



NOTES:

1) Stockholders holding less than 4.87% each
2) Formerly BIC Investment and Capital Corporation

The following chart sets forth an overview of the organizational structure of the Bank and its principal activities as of 31 March 2022:



8.8 ASSOCIATE

The Bank has an equity investment in BIC Management and Consultancy Inc., (formerly BIC Investment and Capital Corporation) in which it holds shares amounting to 24.26% of the outstanding capital stock as of 31 March 2022. The Bank also has an 8.57% equity interest in Banco National de Guinea Equatorial (BANGE) under a partnership agreement with Universal Exchange Corporation (UEC). The Bank does not have control and participation in the operations of the aforementioned entities. Further, the Bank does not have any subsidiaries.

8.9 BANKING PRODUCTS AND ACTIVITIES

8.9.1 Overview

The Bank's principal areas of business are retail or branch banking, transaction banking, corporate banking, consumer loans, cards, treasury, cash management, remittance, and trust services. 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 Products

- Savings Account with Debit Card (Mastercard)
- Savings Account with Passbook
- Savings Account Plus
- Checking Account
- Complete Checking Account
- US Dollar Savings Account
- Euro Savings Account
- Yuan Savings Account
- Junior Smart Savers Savings Account
- One Passbook Investment Account
- Time Deposit
- One-Year Time Deposit
- US Dollar Time Deposit
- Euro Time Deposit
- SSS Pension Account
- US Veterans Pension Savings Account (PHP and USD)
- Payroll Savings Account
- Philippine Retirement Authority (PRA) Savings and Time Deposit Accounts (PHP and USD)
- Cash Card (Mastercard)
- Long Term Negotiable Certificate Time of Deposit
- Corporate Savings Account/ Savings Account Plus/ Checking Account/ Checking Account Plus with Corporate Access Number

8.9.3 Corporate Banking

- Working Capital Loan
- Term Loan
- Capital Expenditure Financing
- Project Financing
- Small Business Loan – Term Loan

- Small Business Loan – Business Credit Line
- Foreign Currency Denominated Loan
- Trade Financing
- Letters of Credit
- Export Packing Credit
- Export Bills Purchase
- Domestic Bills Purchase

8.9.4 Consumer Loans

- Home Loan
- Auto Loan
- Salary Loan

8.9.5 Credit Card

- Bank of Commerce Mastercard

8.9.6 Trust Products and Services

- Unit Investment Trust Funds
  - Diversity Money Market Fund
  - Diversity Peso Bond Fund
  - Diversity Dollar Bond Fund
  - Diversity Dividend Focused Fund
- Trust and Other Fiduciary Services
  - Personal Management Trust
  - Employee Benefit Trust
  - Trust Under Indenture
  - Collateral Trust
  - Special Purpose Trust/Other Institutional Trust
- Investment Management Account
  - Other Agency Accounts
  - Facility / Loan Agency
  - Escrow Agency
  - Buyer and Seller Escrow
  - POEA Escrow
  - BIR Escrow
  - HLURB Escrow
  - Source Code Escrow
  - Other Escrow Accounts

8.9.7 Treasury Products

- Fixed Income Government Securities (Peso / Dollar)
- Corporate Bonds
- Foreign Exchange

8.9.8 *Transaction Banking*

- Cash Management Services
    - BankCom Corporate
    - Fund Manager Solutions*
    - Deposit Inquiry Services
    - Account Transaction History
    - Bank Statement Downloading
    - SOA Download (Multi-cash, MT940 and MT950 formats)
    - Fund Transfer to Own Accounts
    - Payments Management Solutions*
    - Auto Credit Arrangement (ACA)
    - Payroll Crediting Service
    - Fund Transfer to Third Party Accounts
    - Fund Transfer to Other Banks (PESONet/ Instapay)
    - Manager's Check Cutting Service
    - Corporate Check Cutting Service
    - Collections Management Solutions*
    - Auto Debit Arrangement (ADA)
    - Other Services
    - Direct Fund Transfer Facility
    - Deposit Pick-Up Service
    - Bills Payment Facility
    - Payroll Plus
    - Post-Dated Check Warehousing Facility
    - Customs, Duties and Taxes Payments (via BankCom PAS5 Facility)
    - BancNet - BIR Electronic Filing and Payment System (BIR eFPS)
    - BancNet - eGovernment Facility (SSS, Pag-IBIG and PhilHealth Payments)

- Digital Channels
    - BankCom Personal
    - Point of Sale
    - Automated Teller Machines (ATM)
    - Fintech / Card Solutions

- Remittance Services
    - SikapPinoy OFW Account with Debit Card
    - SikapPinoy Asenso Program
    - Credit to Accounts with Bank of Commerce
    - Credit to Accounts with Other Philippine Banks via PesoNet
    - Credit to Accounts with Other Philippine Banks via Instapay
    - Cash Home Delivery
    - Cash Pick-up Services via Bank of Commerce Branches from International Remittance Partners:
        - Al Ansari Exchange LLC
        - Arab National Bank – TeleMoney

        - Bank Al Jazira – Fawri
        - Bank AlBilad – Enjaz
        - Family Express Canada
        - Eastern & Allied Pty Ltd (HaiHa Money Transfer)
        - MoneyGram
        - Prabhu Money Transfer
        - TransFast
        - U Remit International Corp.

- Cash Pick-up Services via Payout Partners:
    - M Lhuillier
    - Cebuana Lhuillier
    - LBC Express
    - Palawan Pawnshop
    - RD Pawnshop

- E-Government Payments of OFWs through Remittance Partners:
    - SSS Contributions / Loan Payments
    - PhilHealth Contributions
    - Pag-IBIG Contributions / Loan Payments

8.9.9 International Trade Services

- Import
    - Import Letter of Credit (LC) (Sight / Usance)
    - Payment Abstract Secure (PAS5) Enrollment and Customs Duties & Taxes Payment
    - Shipside Bond Guarantee
    - Airway Bill Endorsement
    - Foreign Exchange (FX) Purchase for Advance Payment of Importation
    - Negotiation of:
        - Open Account (OA)
        - Documents Against Payment (DP)
        - Documents Against Acceptance (DA)
        - Import Letter of Credit
    - Standby Letter of Credit (SBLC)
- Domestic
    - Domestic Letter of Credit
    - Domestic Standby Letter of Credit
    - Negotiation of Domestic Letter of Credit
- Export
    - Export Bills for Collection
    - Export Bills Purchased
    - Export Advances

**Available in Corporate Internet Banking*

The following table sets out the amounts for statement of income items generated by each of these businesses in the years ended 31 December 2019, 2020, 2021, and three-month period ended 31 March 2022.

	March 31, 2022 (Unaudited)					
	Treasury Management Group	**Corporate Banking Group**	**Branch Banking Group**	**Consumer Group**	**Others**	**Total**
Statement of Income						
Net interest income:						
Thirdparty	₱522	₱848	₱(144)	₱223	₱19	₱1,468
Intersegment	(343)	(347)	1,055	(131)	(234)	-
Net Interest Income	179	501	911	92	(215)	1,468
Non-interest income	13	13	23	12	211	272
Total revenues	192	514	934	104	(4)	1,740
Other expenses	45	52	543	36	569	1,245
Income (losses) before provision for credit losses and income tax expense	**₱147**	**₱462**	**₱391**	**₱68**	**₱(573)**	**₱495**
Provision for credit and impairment losses						**₱1**
Share in net loss of associate						**-**
Income tax expense						**133**
Net income						**₱361**

	December 31, 2021					
	Treasury Management Group	**Corporate Banking Group**	**Branch Banking Group**	**Consumer Group**	**Others**	**Total**
Statement of Income						
Net interest income:						
Thirdparty	₱1,614	₱3,328	₱(560)	₱896	₱120	₱5,398
Intersegment	(1,256)	(1,321)	3,879	(629)	(673)	-
Net Interest Income	358	2,007	3,319	267	(553)	5,398
Non-interest income	(29)	40	83	31	702	827
Total revenues	329	2,047	3,402	298	149	6,225
Other expenses	147	199	2,040	146	2,496	5,028
Income (losses) before provision for credit losses and income tax expense	**₱182**	**₱1,848**	**₱1,362**	**₱152**	**₱(2,347)**	**₱1,197**
Reversal of credit and impairment losses						**₱(635)**
Share in net loss of associate						**1**
Income tax expense						**624**
Net income						**₱1,207**

	December 31, 2020					
	Treasury Management Group	**Corporate Banking Group**	**Branch Banking Group**	**Consumer Group**	**Others**	**Total**
Statement of Income						
Net interest income:						
Thirdparty	₱1,173	₱3,677	₱(1,023)	₱1,013	₱268	₱5,108
Intersegment	(1,416)	(2,019)	4,840	(716)	(689)	-
Net Interest Income	(243)	1,658	3,817	297	(421)	5,108

Non-interest income	1,204	78	86	10	387	1,765
Total revenues	961	1,736	3,903	307	(34)	6,873
Other expenses	308	219	1,736	153	2,452	4,868
Income (losses) before provision for credit losses and income tax expense	**₱653**	**₱1,517**	**₱2,167**	**₱154**	**₱(2,486)**	**₱2,005**
Provision for credit and impairment losses						**₱963**
Share in net loss of associate						**1**
Income tax expense						**257**
Net income						**₱784**

	December 31, 2019					
	Treasury Management Group	**Corporate Banking Group**	**Branch Banking Group**	**Consumer Group**	**Others**	**Total**
Statement of Income						
Net interest income:						
Thirdparty	₱1,029	₱3,173	₱(1,150)	₱927	₱157	₱4,136
Intersegment	(481)	(1,993)	3,469	(670)	(325)	-
Net Interest Income	548	1,180	2,319	257	(168)	4,136
Non-interest income	437	287	124	74	775	1,697
Total revenues	985	1,467	2,443	331	607	5,833
Other expenses	213	400	1,661	157	2,230	4,661
Income (losses) before provision for credit losses and income tax expense	**₱772**	**₱1,067**	**₱782**	**₱174**	**₱(1,623)**	**₱1,172**
Provision for credit and impairment losses						**₱52**
Share in net loss of associate						**3**
Income tax expense						**464**
Net income						**₱653**

8.9.10 Corporate Banking Group

Corporate Banking Group ("**CBG**") principally handles loans and other credit facilities for corporate institutional, and middle market clients. The Group continues to pursue lending activities which supports working capital and capex requirements of its clients. Embedded in its strategy is the aggressive expansion and further diversification of its credit portfolio with the intention of gradually reducing exposure to affiliate accounts.

CBG is focused on two major activities. The first is focused on building a loan portfolio comprised of nonaffiliate counts across multinationals and other conglomerates, large corporates, and SME market accounts, initially this will focus on transactions involving clients with dealings with the SMC Group (i.e., suppliers, dealers, distributors "the SMC ecosystem") under the Bank's program lending facilities. The second is to maintain the existing relationship with SMC affiliates (within the constraints of Regulatory Relief) with particular focus on project financing opportunities related to Philippine Government priorities.

For the three-months ended 31 March 2022, CBG generated total revenues of ₱514 million, which was 1.7% lower year-on-year of the same period. This decrease came as a result of lower fee income. Nevertheless, CBG maintained a healthy loan portfolio, which grew to ₱71 billion as of end-March 2022.

The pandemic year of 2020 saw the CBG taking a more defensive approach in portfolio maintenance through proactively engaging pandemic-affected borrowers to avail of work-out payment plans and restructuring arrangements. This initiative allowed CBG to maintain a healthy loan portfolio and keep NPL ratio at a prepandemic level of 1.5%.

This translated to a net interest income of ₱1.6 billion, an increase of 89% from ₱893 million in 2019. Total revenue grew by 30% to ₱1.7 billion, from ₱1.3 billion the previous year. CBG likewise generated an increase in its Loan ADB in 2020, earning ₱63 billion compared to ₱61 billion in 2019.

To sustain this momentum of growth, CBG is keen on pursuing a more progressive approach to corporate lending, highlighted by the following:

- Supporting the financing requirements of corporate and small-medium enterprises as it actively; participates in big-ticket financing transactions aligned with the government's nation-building and economic recovery plans;
- Tapping capital market issuances as a means to generate a steady source of accrual;
- Working with product partners to offer more lending products to financially challenged customers;
- Strengthening collaborative efforts with other business units to step up cross-selling initiatives and
- boost fee-based income, such as trade-related fees;
- Further expanding its market reach by forging more business partnerships in provincial areas; and
- adding more on-ground managers to foster new relationships with rural enterprises.

CBG is equipping relationship managers and rank-and-file employees with the right knowledge and tools in building solid client relationships, which will be made possible by conducting more training programs that aim to enhance both hard and soft skills, while setting them in motion toward career development. Meanwhile, as the Bank adopts digital banking solutions, CBG is looking at implementing IT system updates for corporate loans, bank statement analysis, financial modeling, and portfolio management systems.

8.9.11 Branch Banking Group

Branch Banking Group ("**BBG**") oversees the Bank's retail banking business and serves as the nucleus for other business units to initialize programs for their respective markets. Running a network of 140 branches to date, the BBG team is composed of seasoned banking professionals with years of experience and expertise in the industry, focused on a singular objective of providing a consistent and comprehensive financial experience for the Bank's affluent and middle-market customers.

Despite the pandemic, the BBG maintained its growth momentum for 2021. Through its 140 branches, BBG on-boarded 34,349 new depositors and increased its total deposits by 16% or ₱20 billion. CASA low-cost deposits increased 18% or ₱12 billion, while high-cost deposits increased by 14% or ₱8 billion, to name a few of the products offered by the Bank. Given its strategic collaborations with its partner Bank business units, BBG assisted in ₱558 million Auto Loan bookings, ₱279 million home loan bookings, ₱45 million in Trust income, ₱17 million in FOREX income and 3,257 approved credit cards.

BBG took the challenging economic conditions in 2020 as an opportunity to serve a niche demand for a stable, long-term investment outlet. In partnership with Treasury Management Group (TMG), BBG launched the Bank's maiden LTNCD issuance. With a team from BBG's operations, business development, and branches at the helm, potential customers who matched the risk profile for investing were identified through the proprietary single customer view (SCV) facility. BBG managed and undertook the bookings, and ensured that all requirements complied with BSP guidelines, including educating investors, addressing concerns about LTNCD, and sending timely communications about the offering period, issuance dates, and information about selling agent. Prior to the enforced quarantines, BBG mounted roadshows held in Pampanga, Alabang, Laguna, Quezon City, Iloilo, Bacolod, Davao, Cagayan de Oro, Makati, and Manila, which generated ₱4.1 billion for LTNCD. With these gains, BBG continues to aggressively develop and market other high-yielding products for its clients.

In 2020, BBG took a direct marketing approach on consumer loan and credit card products, riding on its highlevel campaigns and initiatives the previous year. Together with the Consumer Group (CG), Credit Cards Group (CCG) and Trust Services Group (TSG), BBG advanced to areas of high-growth potential within and outside NCR, where demand was underserved, and carried out online marketing presentations and telemarketing with prospective clients identified via SCV. Simultaneously, BBG pursued organic marketing at the area level, leveraging on product knowledge gained from regular sales meetings with these business units. Through these efforts, branch sourced consumer loans generated a total volume of ₱713 million (₱565 million in auto loans and ₱148 million in home loans) and gained an additional 3,500 approved credit card applications. Similarly, BBG referred a total volume of ₱14.993 billion to TSG.

Despite an increase in digital banking transactions, the role of branches in supporting the transactional needs of both consumers and merchants was magnified more in terms of ensuring problem-free acceptance of deposits, over-the-counter withdrawal, check clearing and encashment, account opening, card maintenance, and continuous operation of onsite ATMs. Branches also enabled business customers to use the products of Transaction Banking Group ("TBG") by operating as their check releasing counters, facilitating deposit pickup, and performing account maintenance under auto-debit arrangements.

While observing strict health and safety protocols, BBG ensured that its network was capable of serving its customers through implementation of the following:

- Making 95% of its branches available within two and a half months from ECQ enforcement, subsequently reaching 100% availability in early fourth quarter of 2020;
- 98% to 99% cash availability of onsite ATMs;
- 100% compliance with contact-tracing requirements and health and safety protocols (nationwide and LGU-based), such as temperature checks, use of PPEs, and physical distancing;
- Frequent sanitation and regular disinfection of branch premises and workstations, as well as provision for personal antiviral solutions at primary contact points;
- Installation of acrylic shield physical barriers and safety reminder notices; and
- Branch employee training on proper personal sanitation and social distancing.

As customers' primary point of contact, branches also served as an extension of the Bank's customer assistance mechanism (CAM) in helping consumer loan borrowers and credit cardholders understand the most pertinent features and implications of the Bank's announcements regarding Bayanihan I and II, as well as the BSP regulations that were enacted during the quarantine period.

Backed by these significant achievements, BBG looks forward with a sharper focus on the following areas:

- Aligning branch banking technology to improve the customer journey and overall experience167
- Offering "phygital" products backed by streamlined processes
- Improving branch "look and feel" and transaction flow
- Refocusing branch roles toward more efficient servicing of customers

As each of these initiatives roll out, BBG is focused on meeting the needs of its diverse and growing depositor base, while managing emerging challenges under the new normal.

8.9.12 Transaction Banking Group

Transaction Banking Group continues to exceed its non-interest income even up to today, whereby almost 50% of its budget has already been attained by June 2022. In 2021, it achieved 24% versus budget and 36% against 2020. This is because for TBG's corporate product segment, the trade product team has booking deals consistently and has finally been stabilized two years after TBG was set up, being able to grow its contingent liabilities by 327%, achieving an increase of 182% in fees in 2021. Its noteworthy to say that Transaction Banking Group's trade team is now able to increase its transactions for its foreign counterparts, being able to issue its first foreign SBLC to a beneficiary in Taiwan plus the increased usage of import LCs from USD$1.3m to USD$114m solely for this year. TBG Trade was able to issue its first SBLCs for debt service reserve account (DSRA), which accounts 49% of domestic trade. Overall, flows for TBG trade has grown by PHP 4.688B for domestic and PHP 9.6B foreign flows solely for 2021. BankCom corporate customers in succeeding years should expect more innovative solutions from this team, specially once the electronic supply chain service is launched, whose pilot is expected to start in early 2023.

Cash Management team on the other hand grew its deposit flows continues to grow, onboarding more than PHP 35B worth of corporate clients in its solutions. They focused on clients with growth momentum despite pandemic, on-boarding 625 clients in BankCom Business in 2021, achieving a growth of 9% on the average daily balances of their corporate banking clients grew, while 36% for branch banking group. In lieu of process efficiency and more automation, the team enrolled more clients in BankCom Business for payroll, instead of having this processed manually by the branch the traditional way. Intra bank fund transfer grew by 87% within BankCom in lieu of cash flows among ecosystems, whereas fund transfers domestic grew by 92% for Instapay. To assure our clients of secured transactions due to cybersecurity threats, the bank implemented and spent on its multi factor authentication (MFA) also as directed BSP. To establish name recall, standardization and proper name identifier in relation to the solution it provides, the team also rebranded its products and services according to its function, which was featured in newspaper publications via CNN. Corporate clients can now name the product or service they need according to BankCom Collect, BankCom Pay and BankCom Connect. This paves the way to launch of BankCom Business robust corporate banking platform which hopefully will soon be launched in 2023.

For the retail services of Transaction Banking, Digital channel team continues to grow its fees by 18%. This was made possible due to the on-time implementation of Acquirer Based Fee Charge (ABFC) in Q2 2021, whereby the shift of fees was more in favor on those who own the machines (like BankCom). Note that 48% of its current ATM fleet are located in offsite premises, 56% of it are outside Metro Manila. Aside from this, due to the 31% increase enrollees in BankCom Personal, more and more transactions flowed through bills payment, achieving an increase of 92% in transactional fees for this leg. Pandemic actually influenced the payment industry to shift from cash basis to more electronic channels which our newly launched mobile app can support, achieving a transaction growth of 124% in 2021 for Instapay alone. In 2023, our retail clients can look forward to more functionalities on our BankCom Personal such as usage of QR, biometrics, fund transfer via mobile and email plus load on prepaid cards. This goes to show that BankCom is indeed on its road to digitalization, catering to the ongoing changes on the retail front.

For our overseas clients, fee income of our remittance team grew by 14% from previous year, which was brought by transactional growth from Bank Al Bilad (Enjaz) and Eastern Allied (Australia). Considering the close partnership established with other partner banks like Bank Aljazeera (Fawri) and Prabhu, remittance to mobile wallet was actively promoted as one of the key product differentiators via Instapay, to support the needs of the beneficiaries in receiving immediate cash, though considering regulated movements during pandemic caused by various lockdowns in the country. To support further the domestic needs, TBG's remittance team also launched its domestic remit through its partnership with RD Pawnshop, catering to 1,600 locations nationwide. Through this, any sender can now go to any BankCom branch, which can then remit to any beneficiary domestically through this service.

As pandemic subsides and life goes back to the new normal, there are more solution and product innovations BankCom clients can look forward to, both on local and foreign front. These services are all in line with the bank's overall strategy for digitalization and electronic channels as delivered by TBG.

The Cash Management Division ("**CMD**") complemented the Bank's more aggressive approach in strengthening its digital channels by proactively offering electronic solutions for payment settlement. InstaPay and PESONet were offered to corporate clients who opted to use these channels for fund transfers during the lockdowns, as confinement limited mobility and access to our branches.
As coming to the aid of quarantined customers was a top priority, CMD also launched a more customer-centric direct service hotline that allowed the Bank to immediately address cash management concerns and inquiries. Trade solutions were cross-sold to corporate clients who opened new accounts with the Bank. The Trade Department focused on meeting the needs of customers requiring guarantees to secure ordered goods through letters of credit. Continuous education on trade services and its benefits was also given optimum importance to target distributors and merchants whose businesses were based on consumer demand.

Though many businesses were caught unprepared by the pandemic and other unforeseen calamities, TBG was able to effectively navigate its wide range of businesses to adapt to the new normal, leveraging on more practical digital solutions to meet the changing financial requirements of retail and corporate clients.

8.9.13 Treasury Management Group

Treasury Management Group ("**TMG**") principally provides money market, trading and treasury services, as well as management of the Bank's funding operations by use of treasury bills, government securities and placements and acceptances with other banks.

For the three-months ended 31 March 2022, TMG registered a net interest income of ₱179 million and non interest income of ₱13 million. In 2022, yields moved upwards to reflect policy normalization initiated by central banks as economies start to recover from the pandemic. Inflationary pressures such as COVID-related supply chain disruptions and soaring commodity prices brought about by the Russia-Ukraine war have also pushed interest rates higher. From the start of the year until end-March 2022, 5 year and 10 year US Treasuries rose by 120 and 80bps, respectively. Locally, 5 year and 10 year Philippine BVAL rates rose by around 100bps. This resulted in a mute trading gain for the first three months of 2022.

Meanwhile, its foreign exchange business remained stable capitalizing on occasional volatility in the USD/PHP pair. The Peso reversed its strength seen in 2020 as the economy opened up despite the lingering pandemic. This resulted in a surge in the country's import of goods as domestic consumption increased. Exports however grew at a much smaller rate resulting in a drastically higher trade deficit from year ago levels. OFW remittance volume did not help much as annual growth rate was in the low single digit level only. Having said that, the country's current account deficit steadily deteriorated as increase in foreign loans to fight the pandemic added to the external payment burden of the country. In line with this, the Bank's FX business was able to take advantage of market volatilities along with an increase in client based FX flows in 2021.

Dynamic market conditions heightened the importance of liquidity and interest rate risk management. In particular, efforts were geared towards the further reduction of the bank's interest expense by dynamically managing and optimizing assets, liabilities and cash flows. In addition, dynamic cash flow forecasting, liquidity scenario planning, stress testing and close monitoring of deposit fluctuations, funding concentration and liquidity metrics, such as Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and Early Warning Indicators (EWIs), were undertaken to manage liquidity positions, meet funding obligations and strengthen funding capabilities.

8.9.14 Consumer Group

Consumer Group ("**CG**") principally manages home, automobile, and salary loans for individual customers. CG actively partners with BBG to market consumer loan products to its valued customers around the country. It also maintained a partnership with real estate developers as well as a deepened relationship with automobile dealers through its account officers.

For the three-months ended 31 March 2022 CG's total revenue slightly grew by 1 as the Omicron-caused restrictions kept activities at a minimum during the first two months of the year. The Group continued to show a conservative risk posture, and it focused on a selective market that met the risk criteria set by the Bank which was reviewed on a regular basis. This enabled the Group to improve the quality of its existing portfolio and to onboard only desirable borrowers that met its risk appetite. The focus on quality over quantity had shown encouraging results and had favorably impacted the Group's bottom line due to resulting reversals in provisions.

For 2022, CG intensifies its cross-selling activities with a focus on specific market segments identified through data analytics. In general, this will maximize the reach of the Bank's 140 branches while still harnessing business from traditional partners in real estate development and auto dealership.

These efforts are driven by the Bank's continued vision of serving its target market more effectively through a variety of products punctuated by focused service despite the obstacles posed by the ongoing pandemic. The Group continues to monitor the country's response to the health crisis as it calibrates its risk appetite according to the developments that affect the strength of the consumer market.

8.9.15 Investment Banking Group

The Investment Banking Group ("IBG") was established in the 1st quarter of 2022 following the approval of the BSP on December 23, 2021 the upgrade of BankCom's banking license from commercial bank to universal bank, thus allowing it to engage in investment banking activities. IBG seeks to assist it clients in accessing the capital markets. It leverages off the capabilities of the other units of the Bank (BBG, CBG, TMG, and TSG) to distribute primary issues to end-investors or lenders. IBG underwrites, issue manages, and arranges publicly listed and privately placed debt securities/instruments.

8.9.16 Trust Services Group

Trust Services Group ("**TSG**") is the Bank's trust and fiduciary management arm. It is responsible for developing new business, account solicitation, and administration of personal and corporate investment accounts under the scope of trust, other fiduciary business, and investment management activities specifically licensed by the BSP.

TSG is organizationally, operationally and functionally separate and distinct from the other departments and businesses of the Bank. It is responsible for providing the Bank with the incremental funding it needs to realize growth objectives, while closely coordinating the funds-flow process with the other support units of the Bank to obtain optimum investment returns at all times. Under local regulations, TSG is allowed to perform asset management activities in its capacity as Trustee or Investment Manager.

For the first three (3) months of 2022, Trust Services Group's (TSG) total revenue grew to ₱14.65 million, a 35.28% year-on-year increase. Assets held in Trust at the end of the period stand at ₱68.9 billion, a 62.3% growth year-on year increase, With the gradual opening of the economy, TSG continues with a hybrid marketing strategy to be closer to customers and branch marketing personnel through limited date-to-face engagements, frequent voice/video calls, conferences and online meetings. Thus, products and services that embody protection and growth of savings continue to be promoted through traditional and new delivery channel.

TSG is positioning itself to take advantage of the transition to the "new normal". Backed by the Bank's strong foundation, we are positive that bright prospects of financial growth will be present as we gear toward protecting and growing savings through prudent and informed investing.

8.10 EMPLOYEES

As of 31 March 2022, the Bank had a total of 1,847 employees, 906 of which are engaged in a professional management capacity and classified as bank officers, and 941 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's staff employees are members of the Bank of Commerce Employees Union ("**BCEU**"), except for employees holding confidential positions and belonging to the Information Technology Services Division. BCEU has been the sole and exclusive bargaining representative for all the regular rank-and-file employees of the Bank since 22 July 1986. The Bank and BCEU have a Collective Bargaining Agreement ("**CBA**") that governs the terms and conditions of employment of the staff. The existing CBA is valid until expired on 30 June 2023.

As of 31 March 2022, BCEU has a total of 761 members. 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 BCEU or any outstanding dispute with the BCEU.

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

	As of 31 December			**As of 31 March**
	2019	**2020**	**2021**	**2022**
Rank and File	1,000	920	968	906
Officers	897	990	905	941
Total	**1,897**	**1,910**	**1,873**	**1,847**

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 mandatory retirement age for a Bank employee is 60. The Bank has a funded non-contributory defined benefit retirement plan covering its regular and permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan.

The Bank's retirement benefits are based on the employee's years of service and a percentage of his gross monthly salary. An employee shall be retired and shall be entitled to full retirement benefits upon his attainment of 60 years of age.

An employee, upon reaching the age of 50 years and with the completion of no less than ten (10) years of service as a regular employee and with 30 days prior notice to the Bank, may retire at his option and shall be entitled to the retirement benefits.

An employee who has at least ten (10) years of service as a regular employee, but who has not reached the age of 50 years, may retire at his option and shall be entitled to the retirement benefits such retirement benefits shall be subject to the pertinent requirements of the BIR.

An employee who has at least 5 years of service as a regular employee, shall be eligible to the resignation benefits if he resigns, subject to the pertinent requirements of the BIR.

The Bank's retirement plan is registered with the BIR as a tax-qualified plan and complies with the minimum retirement benefit specified under the law. The retirement fund is managed and administered by the Bank's Trust Services Division which is covered by an Investment Management Account.

8.10.3 Compensation Policy

The Bank observes overall compensation program on par with industry standards and aligned with the requirements of labor laws, rules, and regulations. The program considers performance and is commensurate with the individual's qualifications, experience, and expertise. Corollary to this, the Bank utilizes data gathered from industry survey to ensure that remuneration packages of the employees are within industry standards. Likewise, employee performance is recognized through periodic performance assessments. This process provides the measure for commensurate salary increases and performance bonuses.

8.10.4 Insurance Policy

The Bank provides its regular employees with group life insurance and medical and hospitalization insurance coverage in line with good business practice and in accordance with Philippine standards. Insurance premium payments for these policies are paid entirely by the Bank.

8.11 BRANCH NETWORK

As of 31 March 2022, the Bank has a total branch network of 140 branches nationwide, 62 in Metro Manila and 78 across various cities and provinces. Eight (8) of these were approved and opened within the last four (4) years. 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 2019, 2020, 2021, and 31 March 2022:

	As of 31 December			**As of 31 March**
	2019	**2020**	**2021**	**2022**
Metro Manila	62	62	62	62
Luzon	43	43	43	43

Visayas	22	22	22	22
Mindanao	13	13	13	13
Total Bank branches	140	140	140	140

Moving forward, the Bank aims to expand its reach, gain more market share, and defend its customer base through a "phygital" (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 31 March**
	2019	**2020**	**2021**	**2022**
Metro Manila	117	119	108	111
Luzon	92	90	86	86
Visayas	34	34	34	34
Mindanao	21	21	22	22
Total ATMs	264	264	250	253

8.13 PROPERTIES

The Bank's head office is located at San Miguel Properties Centre, No. 7, St. Francis Street, Mandaluyong 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 1 to 15 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 15%.

The Bank leases out some properties as office space. These non-cancellable have remaining lease terms ranging from 1 to 8 years.

Location	**As of 31 December 2019**	**As of 31 December 2020**	**As of 31 December 2021**	**As of 31 March 2022**
Owned Branches				
Metro Manila	4	4	4	4
Luzon	3	3	3	3
Visayas	1	1	1	1
Mindanao	1	1	1	1
TOTAL	**9**	**9**	**9**	**9**
Leased Branches				
Metro Manila	66	57	66	66
Luzon	32	40	32	32
Visayas	21	22	21	21
Mindanao	12	12	12	12
TOTAL	**131**	**131**	**131**	**131**

8.14 INFORMATION TECHNOLOGY

8.14.1 Digital Initiatives

As embracing digital processes became the norm in a quarantined environment, the Bank launched its mobile app, BankCom Personal, and a more streamlined browser version for retail customers in July. The 26% increase in enrollment to our new online banking facility in 2020 is attributed to the promotion of conducting banking transactions while staying safe during the quarantine periods. As the Bank anticipated more transactions done online, fund transfers to other banks (FTOB) rose to 821% from 2019, equivalent to almost seven times more transactions per enrollee compared to the previous year.

For InstaPay, outward transactions grew by 142%, while inward transactions recorded a staggering increase of 358%. In the same manner, PESONet transaction count grew three times more. With the increase in transaction volumes, average daily low cost deposit balances also increased in line with end-of-period deposit growth.

The Bank's Strategy is to implement the necessary information technology systems to support existing and new lines of businesses. The Bank intends to strengthen change management and system implementation and deployments by reinforcing the quality assurance and testing effectiveness while shortening delivery time; and pursuing a higher level of maturity for IT Governance and management. It is targeting for all key processes a minimum level of 3 (Established Level) of ISACA's COBIT framework in order to further improve IT value delivery and benefits realization while optimizing risk and resources.

8.14.2 Security Measures

The Bank has continued adoption of new technology, including strengthening cyber security prevention & detection by further enhancing the existing CAATs (computer-assisted audit techniques), cybersecurity and data analytics capabilities and upgrade the current continuous auditing and monitoring system. This supplements the traditional, cyclical or compliance-oriented audit and to detect on a timely and effective manner potential audit and security issues (red flags or system compromise) and/or actual operational and processing errors or irregularities;

8.14.3 Anti-Money Laundering Systems

To improve its systems for money laundering monitoring, the Bank also pushed for the upgrade of its Anti-Money Laundering Act (AMLA) system to efficiently monitor and comply with the legal requirements of the Bangko Sentral ng Pilipinas (BSP) and financial regulators in tracking individuals committing financial-related violations. The Bank began work on the delivery of a more robust Trust Banking system. The new trust system is currently used in production as of July 2021.The operational efficiencies from the new system brings stability in the core trust banking process, as well as improve customer delivery through timely delivery of information through various channels.

8.15 INTELLECTUAL PROPERTY

The Bank secured Certificates of Registration from the Intellectual Property Office of the Philippines for the brand names "BANK OF COMMERCE" and "BANKCOM", the latter being the short name of the Bank. This covers the following products and services: banking services; home, automobile, corporate and personal loan; financial services; ATM banking services; credit card services; internet/online banking services; mobile banking services; investment services; and remittance services.

8.16 IT SECURITY, DISASTER RECOVERY, AND BUSINESS CONTINUITY PROGRAM

The Bank has a Business Continuity Management Framework which results in the identification of business continuity management structure, roles and responsibilities of concerned personnel, and policies and procedures to be observed in case a disruption strikes and affects the critical operations of the institution. It is a roadmap from disaster preparation to recovery.

The framework includes five major activities, namely: Business Impact Analysis and Risk Assessment, Business Continuity Strategy Formulation, Business Continuity Plan Development, BCP Testing, and Training, Awareness and Maintenance.

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 involved in various pending legal proceedings, claims and investigations. Summaries of the more significant of these cases are set out below. Management nonetheless believes that none of the proceedings presently involving the Bank will (even if resolved against the Bank) have a material adverse effect on the Bank's operations, properties, assets, conditions (financial or otherwise), results of operations or profits, or on its ability to discharge its obligations.

8.18.1 Bureau of Internal Revenue - Declaratory Relief

Revenue Regulation No. 04-2011 prescribed allocation of expenses among different income streams of a bank or business unit. Several banks received preliminary or final assessment notices covering deficiency income taxes for the year 2011 following BIR's verification of returns and application of RR 4-2011. The banks filed this petition for declaratory relief to restrain the implementation of the new regulation and annul the same on constitutional grounds.

In May 2018, the trial court issued an order granting the petition and nullified RR 4-2011. The Department of Finance brought a petition for review directly to the Supreme Court praying for the reversal of the trial court's order. In a Decision promulgated on 1 December 2021, the Supreme Court denied the petition and declared the nullity of RR 4-2011.

8.18.2 Anti-Money Laundering Council – Violation of AMLA

The Bank allegedly submitted covered transaction reports ("**CTR**") to the Anti-Money Laundering Council ("**AMLC**") beyond the 5-day reglementary period. The AMLC Secretariat thus charged the Bank with "non-compliance with the requirement to report covered and suspicious transactions," sanctioned as a "major violation" under the Rules on the Imposition of Administrative Sanctions (RIAS) under Republic Act No. 9160, as amended. The Bank responded to the AMLC's charge and explained that it should not be held liable under the RIAS because it had filed CTRs and substantially complied with the requirements of Philippine anti-money laundering laws and regulations. Additionally, the Bank pointed out that it implemented improvements to its reporting system.

Notably, a majority of the universal and commercial banks in the Philippines are faced with the same predicament. While the case was pending, the AMLC issued the Rules of Procedure in Administrative Cases ("**RPAC**") which repealed the RIAS. The RPAC, under Rule 2 Section 3 (e), allows the striking out of a case (as if no case was filed) upon payment of the appropriate assessment, which ranges from ₱5,000,000.00 to ₱10,000,000.00. On motion of the Bank, the AMLC resolved to allow the Bank to avail of this benefit upon payment of P5,000,000.00. The Bank complied through a letter of authority in favor of the Bangko Sentral ng Pilipinas (BSP) to debit the assessed amount from its demand deposit account. In December 2021, the AMLC issued a Resolution that the case is stricken from the record.

8.18.3 Presidential Commission on Good Government - Reconveyance of Assets

The Presidential Commission on Good Government ("**PCGG**") brought an action before the Sandiganbayan for reconveyance of assets relative to alleged ill-gotten wealth of former President Ferdinand Marcos claimed to have been deposited with Traders Royal Bank (TRB). The Bank was impleaded as additional defendant in an amended complaint as successor-in-interest of TRB, citing their Purchase & Sale Agreement ("**PSA**"). The Bank raised the defense that it did not acquire the disputed assets which were specifically excluded from the assets acquired and/or liabilities assumed from TRB under the PSA. The Sandiganbayan rendered a decision finding TRB liable for the alleged ill-gotten wealth of the former President but dismissed the case insofar as the Bank is concerned, affirming the Bank's position on exclusion of the disputed assets from the PSA and declaring that there was no merger between the two banks. The PCGG filed a motion for partial reconsideration with respect to the dismissal of the case in favor of the Bank. The Sandiganbayan denied the Motion for Partial Reconsideration filed by the PCGG, and maintained its decision absolving the Bank from PCGG's claim on the alleged ill-gotten wealth. PCGG filed a Petition for Review on *Certiorari* with the Supreme Court, and the Bank is awaiting notice from the Supreme Court.

8.18.4 College Assurance Plan Philippines Inc. - Corporate Rehabilitation

The controversy originated from proceedings for corporate rehabilitation of College Assurance Plan Philippines Inc. ("**CAPPI**"). Trustee, Philippine Veterans Bank ("**PVB**"), and CAPPI claimed "interest" or dividends on the Bank's preferred shares that it redeemed from CAPPI, insisting that interest thereon is due. The Bank countered that payment of dividends requires BSP approval and that is not liable to pay "interest" or dividends in the absence of retained earnings. Pending resolution of the issue, an escrow fund was set up with PVB-Trust. The BSP subsequently disapproved the issuance of dividends by the Bank. Notwithstanding, the trial court ordered PVB-Trust to release funds from the escrow for payment of the interest "due and payable" on the redeemed preferred shares. Before the Bank received the order, PVB-Trust released the corresponding amount to CAPPI. The Bank elevated the matter to the Court of Appeals which decided in its favor, ordering CAPPI to return the amount it received from PVB. CAPPI and PVB filed separate petitions before the Supreme Court assailing the decision of the Court of Appeals.

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.

8.20 CORPORATE SOCIAL RESPONSIBILITY

The Bank not only prioritizes its financial performance, but also focuses on making meaningful contributions to the development of the nation and welfare of the larger society. The Bank's Corporate Social Responsibility (CSR) efforts are geared toward fulfilling its long-standing commitment to community development, promoting financial literacy, and championing volunteer work. All these initiatives are also made possible by the firm commitment shown by highly regarded corporate partners and non-governmental organizations in rendering initial assistance, as well sustaining the efforts that had been started in the communities.

From organizing relief operations to expanding the delivery of essential services, the Bank's CSR initiatives reflected its dedication to active community participation with the aim of uplifting the lives of the people it serves. Past activities include:

8.20.1 Programs in Partnership with San Miguel Foundation, Inc. (SMFI):

(a) Team Malasakit

SMFI's flagship volunteerism initiative implemented various activities that showcased the true spirit of volunteerism and cooperation. Bank employee-volunteers provided relief operations and volunteer assistance for the following initiatives:

• Taal Volcano eruption relief operations in Batangas City: Employee-volunteers cleaned up and refilled hundreds of reusable water containers (through SMC-Infrastructure's Bulacan Bulk Water Plant Facility) for the province's evacuees and displaced residents

• COVID-19 Assistance: Much needed personal protective equipment (PPE) intended for medical frontliners were repacked by employee-volunteers; BankCom Cagayan de Oro branch procured essential supplies and helped distribute to Northern Mindanao Medical Center and J.R. Borja General Hospital; and

• Abutin Na10 campaign: The Department of Education and World Vision partnered up to provide 10 million students across the country access to printed instructional packets and gadgets for online learning activities. The bank supported the campaign by matching total donations collected from employees, doubling the amount to ensure students get the best access to education during the pandemic

(b) **`Better World Diliman**

Bank of Commerce joined SMFI in its efforts in enhancing its community development projects for families in Metro Manila via Better World, the foundation's learning and livelihood arm. The Bank also donated a Mitsubishi L300 van to the facility, for the delivery and transfer of products and farm produce from provincial areas.

8.20.2 Typhoon Rolly and Ulysses Donation Drive and Relief Efforts

Employee-volunteers joined relief operations (soup kitchens, distribution of food and essential needs to displaced residents) and donation drives for victims affected by Typhoon Rolly and Ulysses in select provinces.

8.20.3 Family Academy Program and Food-Feeding Program in Partnership with International Care

Ministries Foundation, Inc. (ICMFI)An education program with a two-generational approach designed to empower parents in educating their children at home. Within a period of eight months, parents were equipped with basic curriculum in Math and phonics, and educational supplies as they become their kids' first teachers in a home setting. In addition to this, community residents were provided with free seminars and lessons on safe water, women's health and reproduction, disease recognition and prevention. The partnership also mounted a feeding program for families severely affected by the pandemic.

8.20.4 Community-Managed Savings and Credit Association (CoMSCA) in Partnership with World Vision

A program launched with World Vision which provided communities in Bohol with livelihood opportunities and the CoMSCA program which allowed residents to benefit from a local pool of capital for the financing of predictable expenses, facilitation of household cash-flow management, investment in short-term and income-generating activities. Residents were provided with basic financial education by employee-volunteers, to equip them on proper money management, saving for education, household and other family expenses, and livelihood ventures.

8.20.5 ChildHope and Pangarap Foundations

The Bank celebrated the Christmas season with an initiative that gave back to the community – the donation of its 2020 corporate giveaways budget to beneficiaries of both foundations, to help these institutions sustain their efforts in promoting education to children and developing community programs that benefit underprivileged families.

8.20.6 Masungi Georeserve Scholarship Program

Recognizing the need of the education sector to continue with their operations despite the pandemic, the Bank partnered with Masungi Georeserve to initiate a scholarship program for select students in nearby schools in Baras, Rizal. The Bank provided financial support and organized a donation among employees to collect cash or in-kind donations for the purchase of school items for student beneficiaries

SECTION 9. ASSETS AND LIABILITIES

9.1 FUNDING

9.1.1 Overview

The Bank's funding is primarily provided by savings, demand, time deposits and long-term negotiable certificates of time deposits ("**LTNCD**"). Of the total amount of deposits of ₱173.63 billion as of 31 March 2022, these amounted to 60.57%, 29.52%, 7.01% and 2.90%, 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 31 March 2022, these accounted for 60.7% 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 current and savings accounts ("**CASA**") to total deposits. The Bank will continue to emphasize growth in its CASA through the launching of differentiated CASA products geared towards the retail, middle market, and corporate customers. The 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 March 31
	2019	**2020**	**2021**	**2022**
	(₱ millions)			
<u>Deposits by type</u>				
Demand…………………………………………	34,158	39,659	48,703	51,261
Savings………………………………………..	72,017	83,744	108,875	105,171
Time…………………………………………..	17,681	20,673	9,107	12,164
LTNCD…………………………………………	-	5,029	5,029	5,029
Total………..	**123,856**	**149,105**	**171,714**	**173,625**
<u>Deposits by currency</u>				
Peso……………………………………………	107,801	125,819	155,337	155,768
Foreign………………………………………...	16,055	23,286	16,377	17,857
Total………..	**123,856**	**149,105**	**171,714**	**173,625**
<u>Bills Payable</u>				
Peso……………………………………………	-	-	-	-
Foreign…………………………………………	-	-	-	-
Total………..	-	-	-	-

As of 31 March 2022, 52.01% 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 March 31, 2022			
	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
	(₱ millions)			
Deposit Liabilities				
Demand……………………………….	51,261	-	-	51,261
Savings………………………………..	102,809	2,362	-	105,171
Time………………………………......	9,307	1,683	1,174	12,164
LTNCD……………………………….	-	-	5,029	5,029
Total …………………………………….	**163,377**	**4,045**	**6,203**	**173,625**

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 is a member of the PDIC which insures all deposits up to maximum of ₱500,000 per depositor. The PDIC is funded by semi-annual assessment fees at a prescribed percentage of the Bank's deposit liabilities less certain exclusions.

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 12% of Peso demand deposits and deposit substitutes starting 13 April 2020. The required reserves shall be kept in the form of deposits placed in the bank's demand deposit accounts with the BSP. On the foreign currency deposit unit ("**FCDU**") side, the Bank is required to maintain at least 30% of deposit liabilities in liquid assets. The Bank has complied with the reserve requirements for both Peso and FCDU books.

As of 31 March 2022, the Bank's liquid assets amounted to ₱68,397 million, representing 33.14% 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 March 31
	2019	2020	2021	2022
	(₱ millions, except percentages)			
Liquid Assets[(1)]…………………………...	40,275	81,736	74,338	68,397
Financial Ratios:				

Liquid assets to total assets………………	27.77%	47.82%	37.22%	33.14%
Liquid assets to total deposits……………	32.52%	54.82%	43.29%	39.39%
Net loans[2] to total deposits……………...	58.26%	46.96%	42.57%	48.03%

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 compressive income.
2. Receivables from customers net of allowance for credit losses and unearned discounts.

9.2 LOAN PORTFOLIO

9.2.1 Overview

As of 31 March 2022, the Bank's gross loans amounted to ₱85.78 billion, representing 41.56% of total assets. As of 31 March 2022, loans to corporates represented 83.48% of the Bank's total loans, 16.26% composed of consumer lending while 0.26% 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 March 31
	2019	**2020**	**2021**	**2022**
	(₱ millions)			
Corporate and commercial lending………………………...	58,291	57,547	60,829	71,009
Consumer lending……………………………………….	15,271	14,793	14,132	13,885
Trade-related lending………………………………………	54	31	43	226
Others[1]…………………………………………………	895	750	480	655
TOTAL…………………………………………………	**74,511**	**73,121**	**75,484**	**85,775**

Notes:

1. Others consist of bills purchased and benefit loans

The Bank's consumer lending amounted to ₱13.89 billion as of 31 March 2022, representing 16.19% of the gross loans of the Bank. As of 31 March 2022, housing loans represented 59.43% of the Bank's consumer lending loans, 24.62% composed of auto loans, 11.40% for credit cards, and 4.54% composed of salary and personal loans.

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

	As of December 31			As of March 31
	2019	**2020**	**2021**	**2022**
	(₱ millions)			
Housing loans………………………………………………	8,495	8,518	8,329	8,252
Auto loans………………………………………………….	4,693	4,233	3,543	3,419
Credit cards………………………………………………..	1,382	1,420	1,617	1,583
Salary and personal loans………………………………….	701	622	643	631
TOTAL………………………………………………….	**15,271**	**14,793**	**14,132**	**13,885**

9.2.2 *Industry Concentration*

	As of December 31						As of March 31	
	2019		**2020**		**2021**		**2022**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
	(₱ millions, except percentages)							
Real estate activities …………	18,389	24.7	16,785	23.0	16,059	21.3	22,422	26.1
Electricity, gas, steam, and air-conditioning supply…………..	12,445	16.7	15,331	21.0	21,407	28.4	21,273	24.8
Construction………………….	10,699	14.3	10,328	14.1	9,218	12.2	10,341	12.1
Manufacturing………………..	8,186	11.0	9,011	12.3	11,557	15.3	12,722	14.8
Financial and insurance activities……………………….	2,081	2.8	3,743	5.1	1,824	2.4	1,594	1.9
Arts, entertainment and recreation……………………..	3,500	4.7	3,500	4.8	-	0.0	-	0.0
Wholesale and retail trade, repair of motor vehicles and motorcycles……………………	2,170	2.9	2,791	3.8	4,732	6.3	5,306	6.2
Water supply, sewerage, waste management and remediation activities……………………….	941	1.3	1,402	1.9	1,417	1.9	1,417	1.7
Transportation and storage…..	2,999	4.0	1,353	1.9	785	1.0	1,719	2.0
Agriculture, forestry and fishing…………………………	3,984	5.3	1,064	1.5	949	1.3	1,054	1.2
Accommodation and food service activities……………….	648	0.9	944	1.3	1,148	1.5	1,155	1.3
Administrative and support service activities……...............	208	0.3	186	0.2	191	0.2	728	0.8
Others………………………….	8,263	11.1	6,683	9.1	6,197	8.2	6,044	7.1
Total…………………………..	**74,511**	**100.0**	**73,121**	**100.0**	**75,484**	**100.0**	**85,775**	**100.0**

As of 31 March 2022, real estate represented the largest sectors of the Bank's gross loans at 26.1%. 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. Due to the lack of agriculture and agrarian borrowers and SMEs that meet the Bank's credit standards and due to the shortage in eligible Government securities, the Bank is unable to meet the said requirements.

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:

9.2.3 Loan Maturity Profile

As of 31 March 2022, loans due within one (1) year represented 46.3% 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 March 31**	
	2019		**2020**		**2021**		**2022**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
	(₱ millions, except percentages)							
Within one year…………….	28,516	38.3	28,885	39.5	34,978	46.3	39,681	46.3
More than one year…………	45,995	61.7	44,236	60.5	40,506	53.7	46,094	53.7
Total…………………………	**74,511**	**100.0**	**73,121**	**100.0**	**75,484**	**100.0**	**85,775**	**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 31 March 2022, 93.4% of the Bank's gross loans was denominated in Philippine Peso with 6.6% 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 March 31**	
	2019		**2020**		**2021**		**2022**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
	(₱ millions, except percentages)							
Philippine Peso……………….	68,351	91.7	68,038	93.0	69,813	92.5	80,096	93.4
U.S. Dollars………………….	6,160	8.3	5,083	7.0	5,671	7.5	5,679	6.6
Total………………………....	**74,511**	**100.0**	**73,121**	**100.0**	**75,484**	**100.0**	**85,775**	**100.0**

9.2.5 Interest Rates

As of 31 March 2021, 48.2% 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 March 31	
	2019		2020		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions, except percentages)							
Fixed rates……………….	41,194	55.3%	40,751	55.7%	39,271	52.0	44,461	51.8%
Variable rates……………	33,317	44.7%	32,370	44.3%	36,213	48.0	41,314	48.2%
Total…………………….	**74,511**	**100.0**	**73,121**	**100.0**	**75,484**	**100.0**	**85,775**	**100**

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 31 March 2022, the loan exposure to the Bank's single largest corporate borrower group amounted to ₱5,000 million or 5.9% of the Bank's total outstanding loan portfolio. As of 31 March 2022, the Bank's ten (10) largest borrower groups accounted for ₱34,020 million, or approximately 40.18% of the Bank's total outstanding loan portfolio. There are no NPLs in the Bank's top ten (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. BSP issued Memo M-2020-011 last 19 March 2020 as additional operational relief measures they increase the SBL from 25 percent to 30 percent effective until 31 March 2021. The Bank is in compliance with the 30% single borrower's limit as of 31 March 2022

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 March 31	
	2019		2020		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%
Loans secured by:	(₱ millions, except percentages)							
Real Estate……………………	6,998	9.4	4,109	5.6	4,672	6.2	4,755	5.5
Chattel…………………..........	3,596	4.8	3,332	4.6	2,651	3.5	2,463	2.9
Deed of Assignment………….	4,799	6.4	1,609	2.2	1,288	1.7	1,222	1.4
Deposit hold-out………………	733	1.0	621	0.9	5,115	6.8	5,140	6.0

	As of December 31						As of March 31	
	2019		2020		2021		2022	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Others…………………………	4,913	6.6	16,395	22.4	24,257	32.1	25,533	29.8
Total Secured………………..…	21,039	28.2	26,066	35.7	37,983	50.3	39,113	45.6
Unsecured……………………...	53,472	71.8	47,055	64.3	37,501	49.7	46,662	54.4
Total……………………………..	**74,511**	**100.0**	**73,121**	**100.0**	**75,484**	**100.0**	**85,775**	**100.0**

As of 31 March 2022, 54.4% of the Bank's total loans are unsecured.

9.2.8 Credit Rating/ Scoring System

The Bank's Internal Credit Risk Rating System ("I**CRRS**") is an established tool used to evaluate the credit risk associated with each borrower. It is a 10-grade rating scale that reflects an established blend of qualitative and quantitative factors containing both a borrower and facility dimension. The borrower dimension focuses on factors that affect the inherent credit quality of each borrower. The facility dimension, on the other hand, highlights the security and collateral arrangements and other similar risk influencing factors of each transaction.

In 2007, the Bank implemented a credit risk classification that is compatible with global rating standards in compliance with BSP. In 2018, the Bank completed the recalibration of the ICRRS.

Along with this, the Bank introduced expert scoring models for consumer loan applications (including credit cards) in 2015. These models together with other credit acceptance criteria are used to determine the Bank's application acceptance.

The Bank contracts external entities to review and validate the different rating models on a regular basis. Results of these validation exercises are reported to the management, the Board Risk Oversight Committee (BROC), and the Audit Committee.

9.2.9 Credit Approval Process

To ensure that the Bank is operating under a sound credit granting process, the approval for new credits as well as the amendment, renewal and refinancing of existing exposures has been aligned with the credit risk management structure of the Bank and clearly articulated in its written credit policy. In this process, the Bank has taken into consideration the different levels of appropriate approving authority and their corresponding approving authority limits, which have been commensurate with the risks of the credit exposures. It likewise implements an escalation process where approval for restructuring of credits, policy exceptions or excesses in internal limits is escalated to individual/committee with higher authorities. More so, the Bank is practicing proper coordination of relevant units and individuals as well as sufficient controls to ensure acceptable credit quality at origination.

Credit proposals are presented and justified by the lending officers via Credit Proposal Memo (CPM) / Offering Memo (OM). Such presentation shall only be made after a thorough evaluation and analysis of the borrower and the source of repayment. And to be consistent with safe and sound banking practice, the Bank shall grant credits only in amounts and for the periods of time essential for the effective completion of the activity to be financed and after ascertaining that the borrower is capable of fulfilling its commitments to the Bank.

Credit approving authority limits are approved by the Board of Directors. Each level of authority can act upon the proposals and transactions within the limits of its authority and in accordance with policies, limitations and restrictions set forth by the management and approved by the Board. Credit proposals that require committee approvals (i.e. Credit and Collection Committee, Executive Committee, and Board of Directors) are presented by the lending officers during the regular en banc meetings of each committee. There are, however, certain urgent transaction types that the policy allows to be routed to members of such committee for approval.

The Credit and Collection Committee plays a critical role in the credit approval process. It has the power to approve credit proposals of any sort, e.g. establishment, renewal, extension, increase/decrease, restructuring or settlement of a credit line or term loan, within its authority and to endorse those credit proposals which are beyond its authority to the Executive Committee and/or the Board of Directors. It has also the responsibility to ensure that credit accommodations to related parties falling below the materiality thresholds are granted on arms' length basis and are compliant with the set regulations.

9.2.10 Credit Monitoring, Review Process, and DOSRI

In line with the BSP mandate for banks to effectively monitor the condition and quality of their individual and group credit portfolios, the Bank has developed and implemented comprehensive processes, procedures and information systems to attend to that mandate. These include criteria that identify and report problem credits to reasonably assure that they are appropriately monitored as well as administered and provided for. As such, any exception, breach and potential problem noted shall be promptly reported to management for corrective action, possible classification and/or provisioning and more frequent monitoring.

The Bank has established an independent unit to review the portfolio of the Corporate/commercial accounts and identify existing and potential areas of deterioration and assess the risks involved. In addition, the credit support units evaluate the degree to which a particular lending unit is complying with existing credit management policies.

Further to this, the Bank has been implementing more intensive monitoring on individual and aggregate exposures against prudential and internal limits on a regular basis. In the ordinary course of business, the Bank has loans and other transactions with its directors, officers, stockholders and related interests ("**DOSRI**"). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the Bank's total capital funds or 15% of the Bank's total loan portfolio, whichever is lower.

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

	As of 31 December			As of 31 March
	2019	**2020**	**2021**	**2022**
Amount	₱2,000,000	-	-	-
% to total loans	0.0021%	-	-	-

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 loans commitments and financial guarantee contracts. No impairment loss is recognized on equity securities.

The Bank measures ECL in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. PFRS 9 requires a loss allowance to be recognized at an amount equal to either the 12-month ECL or lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within 12 months after the reporting date.

9.3.1 *Stage Assessment*

For non-impaired financial instruments:

- Stage 1: Comprised of performing financial instruments which have not experienced SICR since initial recognition or have low credit risk as of reporting date. This stage recognizes a 12-month ECL for the financial instruments categorized under this group.
- Stage 2: Comprised of under-performing financial instruments which have experienced a SICR since initial recognition, but do not have objective evidence of impairment. This stage recognizes a lifetime ECL for the financial instruments categorized under this group.

For credit-impaired financial instruments:

- Stage 3: Comprised of non-performing financial instruments with one or more loss events occurring since the original recognition or assets with objective evidence of impairment at reporting date. Financial instruments falling within this stage have objective evidence of impairment thus requiring the recognition of lifetime ECL.

9.3.2 *Significant Increase in Credit Risk*

The definition of a SICR varies by portfolio where the determination of the change in credit risk includes both the quantitative and qualitative factors.

The Bank applies the movement in its Corporate Loan account's credit risk rating and assessment of breach in watchlist triggers to indicate a possible significant credit downgrade or upgrade through a risk rating matrix. For the remaining portfolios, the Bank considers that a SICR occurs no later than when an asset is more than 30 days past due. The total number of days past due is determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Furthermore, the Bank's internal credit assessment may consider a counterparty to have a SICR since initial recognition if it is identified to have well-defined credit weaknesses. These may include adverse changes in the financial, managerial, economic and/or political nature of a business. Credit weakness can be established by an unsatisfactory track record that merits close monitoring and attention from management.

If there is evidence that there is no longer a SICR relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. For unrated financial instruments, the SICR is measured using the number of days past due which is also consistent with the staging criteria presented above.

9.4 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

The credit quality of financial assets is assessed and managed by the Bank using both external and internal credit 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 31 March 2022 classified according to credit quality (amounts in ₱ thousands):

	TERM LOANS	HOUSING LOANS	AUTO LOANS	BP/IB/TR	DIRECT ADVANCES	AGRI-AGRA	OTHERS	Grand Total
Stage 1								
High Grade	27,698,451	-	-	499,817	413,638	853,811	-	29,465,717
Standard Grade	39,473,017	-	-	228,359	1,095	236,092	-	39,938,563
Substandard Grade	-	-	-	7,200	-	-	-	7,200
Unrated	-	6,920,703	2,679,866	-	-	-	1,571,514	11,172,083

	TERM LOANS	HOUSING LOANS	AUTO LOANS	BP/IB/TR	DIRECT ADVANCES	AGRI-AGRA	OTHERS	Grand Total
	67,171,468	**6,920,703**	**2,679,866**	**735,376**	**414,733**	**1,089,903**	**1,571,514**	**80,583,563**
Stage 2								
Standard Grade	1,098,878	-	-	-	-	52,283	-	1,151,161
Substandard Grade	68,296	-	-	-	-	142,792	-	211,088
Past Due but not Impaired	-	473,894	193,876	-	-	-	41,251	709,021
Impaired	100,000	10,850	1,371	-	-	11,696	-	123,917
	1,267,174	**484,744**	**195,247**	**-**	**-**	**206,771**	**41,251**	**2,195,187**
Stage 3								
Impaired	676,949	846,325	543,792	84,759	163,188	17,663	628,228	2,960,904
	676,949	**846,325**	**543,792**	**84,759**	**163,188**	**17,663**	**628,228**	**2,960,904**
Grand Total	**69,115,591**	**8,251,772**	**3,418,905**	**820,135**	**577,921**	**1,314,337**	**2,240,993**	**85,739,654**

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 account whose computed ECL is less than 1%, appropriation of retained earnings is required for an amount necessary to bring the ECL to 1%. This is applicable to Stages 1, 2, and 3.

9.6 REMEDIAL MANAGEMENT

The Remedial Management Department directly supervises the management of past due loans that are referred to it. For Bank of Commerce, 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 and proposes the appropriate remedial recourse available to the Bank.

Recovery may be voluntary or involuntary. Voluntary mode is cost-efficient and is always preferred through the cooperation of the borrower. 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 through its legal department, which is usually foreclosure of loan collateral or filing of criminal/civil collection suits.

Taking into account the possibility of recovery at set stages, remedial officers review and continually assess the impaired values of each account. Any additional increase or reduction in the impairment value is then compared with the existing credit classification and booked provision. Any adjustment, if necessary, is made accordingly.

All remedial actions require approval of the Bank's President, Credit Committee 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.

Foreclosed and dacioned assets on the other hand are transferred to Acquired Asset Division (AAD) which is tasked to manage and dispose of acquired properties of the Bank. AAD consists of 3 main sections namely Sales & Marketing, Property Management and Sales Contract Receivables. Sales & Marketing group 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. Property Management group is in-charge of monitoring redemption, possession, consolidation, and payment of association dues / taxes. Sales Contract Receivables group is tasked to handle coordination with buyers, monitoring of payments, preparation of sale documents or cancellation of sale for those properties sold under installment.

Disposition of the Bank's acquired assets, depending on the amount, requires approval of Bank's Management namely: Group Head, President, Executive Committee, and Board.

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 Quarter Ended 31 March
	2019	2020	2021	2022
Gross non-performing loans(1)	1,610,090,190	2,698,792,926	2,825,872,916	3,037,332,990
Net non-performing loans(1)	289,121,570	790,064,906	829,714,978	921,854,123
Total loans(1)	83,890,037,686	89,048,850,068	91,200,762,276	104,735,636,057
Gross non-performing loans to total loans (%)(1)	1.92%	3.03%	3.10%	2.90%
Net non-performing loans to total loans (%)(1)	0.34%	0.89%	0.91%	0.88%
Non-performing loans(2)	1,610,090,190	2,698,792,926	2,825,872,916	3,037,332,990
Total loans	83,890,037,686	89,048,850,068	91,200,762,276	104,735,636,057
Total non-performing loans to total loans – excluding interbank loans (%)(3)	1.92%	3.03%	3.10%	2.90%
Total non-performing loan to total loans – including interbank loans (%)(4)	1.92%	3.03%	3.10%	2.90%
ROPA – net	2,607,350,408	2,452,110,933	2,317,096,344	2,266,516,019
Non-performing assets(5)	4,325,642,725	5,253,409,752	5,227,499,159	5,421,127,452
Non-performing assets as percentage of total resources (%)	2.99%	3.09%	2.62%	2.64%
Allowance for impairment of assets	5,636,319,360	6,540,060,475	6,697,453,652	6,811,046,642
Allowance for loan impairments	1,508,833,221	2,244,424,403	2,204,785,197	2,227,999,880
Allowance for loan impairments (General and Specific)	2,290,369,460	3,023,453,225	2,986,670,862	2,403,298,639
Allowance for ROPA impairments	108,202,126	102,505,893	102,505,893	102,505,893
Allowance for loan impairments as a percentage of total non-performing loans (NPL coverage ratio) (%)	93.71%	83.16%	78.02%	73.35%

	For the Year Ended 31 December			For the Quarter Ended 31 March
	2019	2020	2021	2022
Allowance for loan impairments as a percentage of total non-performing loans (NPL coverage ratio) (%) (General and Specific)	142.25%	112.03%	105.69%	79.13%
Allowances for impairment of assets as a percentage of non-performing assets (%)	130.00%	124.00%	128.12%	125.64%
Total restructured loans	527,965,158	304,459,489	412,028,917	410,274,198
Current	332,172,760	101,811,126	151,357,347	105,985,965
Past due	0	6,889,957	42,357,194	12,734,879
NPL	195,792,129	195,758,150	218,314,105	291,553,080
In litigation	269.18	256.12	270.995	274.7
Restructured loans as percentage of total loans (%)	0.63%	0.34%	0.45%	0.39%
Loans – written off	0	0	0	0

Notes

1) Per BSP Circular 772; includes Receivable from Special Purpose Vehicles (SPVs) presented under Other Resources
2) Excludes Receivable from Special Purpose Vehicles (SPVs)
3) Total non-performing loans divided by total loans excluding interbank loans.
4) Total non-performing loans divided by total loans including interbank loans.
5) Non-performing assets comprise of ROPA (gross) and non-performing 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 31 March 2022, the Bank's ten largest NPLs amounted to ₱507.0 million or approximately 0.60% 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 31 March	
	2019	**%**	**2020**	**%**	**2021**	**%**	**2022**	**%**
	(₱ millions)							
AGRI, FORESTRY AND FISHING	20.5	1.3%	19.9	0.7%	19.9	0.7%	19.9	0.7%
MANUFACTURING	162.5	10.1%	145.4	5.4%	149.5	5.2%	190.3	6.3%
ELECTRICITY, GAS, STEAM AND AIR CONDITIONING	89.7	5.6%	89.7	3.3%	89.7	3.1%	89.7	3.0%

	For the year ended 31 December						For the period ended 31 March	
	2019	**%**	**2020**	**%**	**2021**	**%**	**2022**	**%**
WATER SUPPLY,SEWERAGE,WASTE MNGT	1.9	0.1%	1.9	0.1%	1.9	0.1%	1.9	0.1%
CONSTRUCTION	150.0	9.3%	150.0	5.6%	150.0	5.2%	150.0	4.9%
WHOLESALE AND RETAIL TRADE,REPAIR OF MOTOR VEHICLES	244.5	15.2%	253.9	9.4%	259.0	9.1%	358.7	11.8%
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	3.9	0.2%	3.9	0.1%	3.9	0.1%	3.9	0.1%
TRANSPORTATION & STORAGE	30.0	1.9%	39.2	1.5%	41.7	1.5%	41.7	1.4%
INFORMATION AND COMMUNICATION	10.9	0.7%	10.9	0.4%	10.9	0.4%	10.9	0.4%
FINANCIAL AND INSURANCE ACTIVITIES	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
REAL ESTATE ACTIVITIES	334.7	20.8%	841.2	31.2%	872.6	30.5%	929.0	30.6%
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	1.0	0.0%	1.0	0.0%			1.0	0.0%
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	53.4	3.3%	53.3	2.0%	53.2	1.9%	53.2	1.8%
EDUCATION	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
OTHER SERVICE ACTIVITIES	0.2	0.0%	0.2	0.0%	3.4	0.1%	3.4	0.1%
FOR HOUSEHOLD CONSUMPTION	0.0		0.0		0.0			0.0%
A.CREDIT CARD	246.1	15.3%	503.4	18.7%	524.9	18.4%	561.8	18.5%
B.AUTO LOANS	199.3	12.4%	493.0	18.3%	593.2	20.7%	541.3	17.8%
C. MOTORCYLCLE	0.0	0.0%	2.6	0.1%	2.4	0.1%	1.9	0.1%
D. SALARY	19.7	1.2%	47.6	1.8%	40.3	1.4%	37.2	1.2%
E.OTHERS	41.8	2.6%	41.8	1.5%	42.8	1.5%	41.8	1.4%
Total Non-Performing Loans	**1,610.1**	**100.0%**	**2,698.8**	**100.0%**	**2,860.1**	**100.0%**	**3,037.3**	**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 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. In the case of larger loans, the Bank may also consider accepting a *dacion en pago* arrangement.

In the three months ended 31 March 2022, the Bank sold ₱26.3 million of acquired assets in ROPA. The Bank had a net ROPA of ₱3.45 billion, ₱3.62 billion and ₱3.73 billion as of 31 December 2021, 2020, and 2019, respectively, consisting of various real estate properties and shares of stock in several companies. As of 31 March 2022, the Bank's net ROPA amounted to ₱3.42 billion.

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 ₱187.32 million as of 31 March 2022, and ₱191.28 million, ₱179.82 million, and ₱175.75, as of 31 December 2021, 2020, and 2019, respectively.

SECTION 10. RISK MANAGEMENT

10.1 RISK PHILOSOPHY AND GUIDING PRINCIPLES

The Bank's goal is to generate steady returns to shareholders' capital. With this objective in mind, the Bank's business principles, strategies, and operations are designed to achieve cash flows in excess of its obligations to its fund providers and stakeholders. To realize this, the Bank takes risks that are inherent in the conduct of its commercial banking franchise. Risk taking presents opportunities to earn more-than-expected returns, provided that the risk-taking process is intentional, investigated, and controlled. The Bank's risk-taking activities are guided by the following principles:

- The Bank is in the business of taking risks;
- The Bank takes risks after a deliberate process to identify the risks, to dimension them, and to decide whether to reduce, avoid, accept, or transfer the risk;
- The Bank adopts risk management practices suited to the scope and sophistication of its business and in line with global best practices;
- The Bank's risk management is the concern of everyone; and
- The Bank recognizes the independence of risk managers and risk takers from each other.

10.2 RISK APPETITE AND STRATEGY

The capital of the Bank, once invested, is already exposed to risks. The risk appetite of the Bank is the type and threshold of risk that the Bank is willing to seek, accept, or tolerate in the pursuit of its business objectives. This is based on the Bank's capacity to absorb risks given its capital, liquidity, borrowing capabilities, or statutory restrictions.

The Risk Appetite Statements of the Bank are either quantitative or qualitative. Risk Appetite Statements are developed by the Bank to provide guidance on the various types of risk exposures of the Bank such as credit, market, liquidity, and operational risk.

The Bank's strategy to manage risk may be to reduce, avoid, accept, or transfer the risk. Management is under obligation to exercise reasonable care, skill, and caution when engaging in business to ensure the appetite is not exceeded, to maximize the value of capital, and to preserve it when an adverse event occurs. Each and every employee is responsible to implement and adhere to the Bank's risk appetite while making business decisions daily.

10.3 RISK MANAGEMENT OVERSIGHT

The Bank's Board of Directors (BOD), Board Risk Oversight Committee (BROC), and Risk Management Division (RSK) are responsible for setting the overall risk management framework and risk appetite of the Bank. The BOD is the sole arbiter of the risks taken by the organization, with the sole discretion of determining what manner (strategic direction) and magnitude (risk appetite) of risk are suitable for the organization. The BOD develops both the strategic direction and the risk appetite with inputs provided by Management.

The Board established the BROC to oversee the promotion of a risk management culture within the Bank. The BROC is responsible for establishing and maintaining a sound risk management system. It assists the Board in its risk oversight function by:

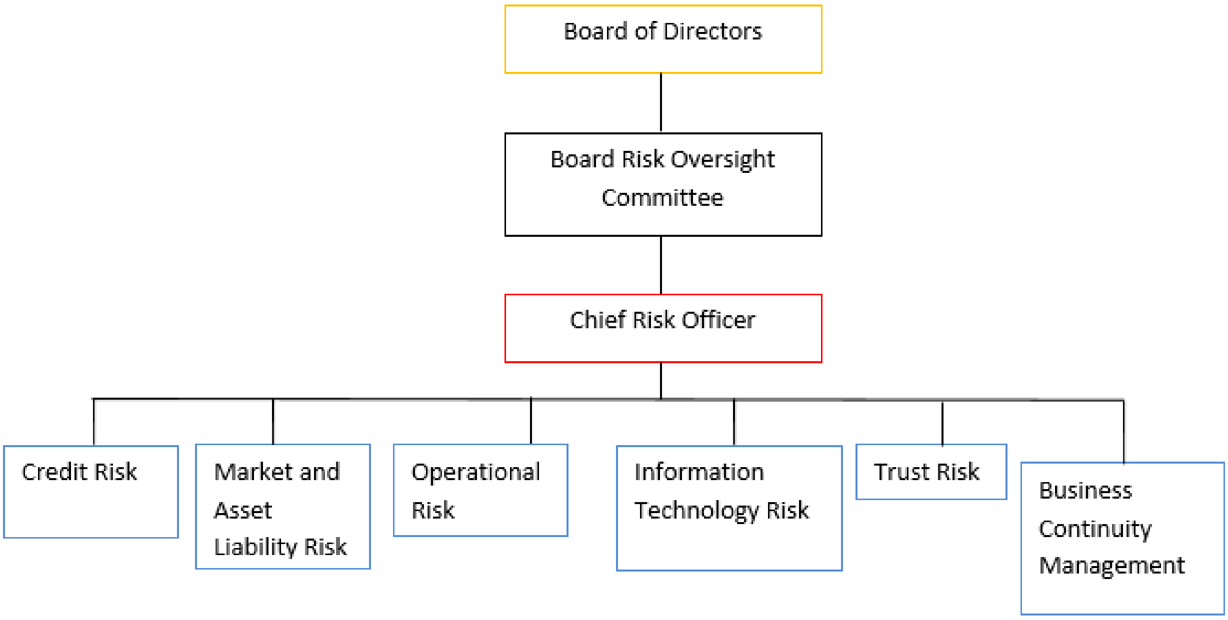
- Identifying and evaluating risk exposures;
- Developing risk management strategies;
- Implementing and periodically reviewing the risk management framework; and
- Promoting a culture that is conscious of the importance of risk management and capital adequacy.

The Bank considers the understanding and the management of risk as a key part of its business strategy. The RSK is mandated to strengthen the Bank's risk management infrastructure to meet the requirements of its business.

The RSK implements the risk management directives of the Board and the BROC by:

- Formulating and recommending policies to manage market, liquidity, credit, operational, information technology, and trust risks arising from the business of the Bank;
- Implementing the risk management framework approved by the BOD;
- Actively promoting a culture of risk awareness and risk management; and
- Coordinating with Finance and Controllership Group on the adequacy of the Bank's capital in absorbing the risks present in the Bank's business.

The RSK reports to the Board through the BROC and is independent from the risk-taking business units of the Bank. Headed by the Chief Risk Officer, it comprises the following departments:



10.4 CREDIT RISK MANAGEMENT

The Credit Risk Management Department (CRM) has three (3) sections, each focusing on a major segment of the credit risk management process. The CRM is responsible for developing and recommending policies that will aid in the management of credit risk present in the Bank's asset portfolios. The CRM is also in charge of developing, maintaining, and updating the Bank's credit risk models including the risk rating systems and scorecards. It is the department's duty to monitor credit risk exposures against established limits and report portfolio performance, including significant movements, asset quality, and levels of concentration to the BROC on a timely basis. It is CRM's responsibility to make sure that the Bank is always in compliance with the continuously evolving landscape of credit risk within the banking industry.

The CRM monitors credit exposures on a counterparty and portfolio level to ensure asset quality and concentration risks are within the Bank's risk appetite. Credit risk thresholds consist of regulatory commitments, internal limits, as well as industry benchmarks. Asset quality is measured through the Bank's Internal Credit Risk Rating System (ICRRS) for corporate accounts and expert scoring models, based on Fair Isaac Corporation (FICO), for consumer loans, including credit cards. These rating systems are monitored and validated on a regular basis. Concentration risks and large exposures are monitored and reported to the BROC and to Management on a regular basis. Concentrations are identified on a counterparty, industry, product, and country level. Regulatory and internally developed stress tests are also performed to evaluate the Bank's ability to absorb credit losses.

With the advent of PFRS 9, the Bank adopted the Expected Credit Loss (ECL) estimation methodology for impairment. CRM is in charge of developing, maintaining, and updating the ECL models of the Bank. Furthermore, it is the department's duty to estimate the quarterly ECL figures for the Bank.

10.5 CREDIT REVIEW DEPARTMENT

As part of the Bank's continuous assessment of the risks extended through its lending units, Credit Review Department (CRD) implements an independent post-approval assessment on the quality of Corporate and Commercial loan accounts which encompasses the following: 1) Review of individual borrowing accounts, via preparation of Review of Credit Risk (RCR) report; 2) Provision of credit classification consistent with the internal and regulatory standards; 3) Assessment of the portfolio in terms of loan quality and adherence to credit policies via preparation of a Credit Review Report and; 4) Recommendation of credit policy and/or procedural changes, if warranted, using the results of the credit review conducted, to further improve loan portfolio quality

10.6 CREDIT APPROVALS

10.6.1 Credit Rating/ Scoring System

The Bank's Internal Credit Risk Rating System ("**ICRRS**") is an established tool used to evaluate the credit risk associated with each borrower. It is a 10-grade rating scale that reflects an established blend of qualitative and quantitative factors containing both a borrower and facility dimension. The borrower dimension focuses on factors that affect the inherent credit quality of each borrower. The facility dimension, on the other hand, highlights the security and collateral arrangements and other similar risk influencing factors of each transaction.

In 2007, the Bank implemented a credit risk classification that is compatible with global rating standards in compliance with BSP. In 2018, the Bank completed the recalibration of the ICRRS.

Along with this, the Bank introduced expert scoring models for consumer loan applications (including credit cards) in 2015. These models together with other credit acceptance criteria are used to determine the Bank's application acceptance.

The Bank contracts external entities to review and validate the different rating models on a regular basis. Results of these validation exercises are reported to the management, the Board Risk Oversight Committee (BROC), and the Audit Committee.

10.6.2 Credit Approval Process

To ensure that the Bank is operating under a sound credit granting process, the approval for new credits as well as the amendment, renewal and refinancing of existing exposures has been aligned with the credit risk management structure of the Bank and clearly articulated in its written credit policy. In this process, the Bank has taken into consideration the different levels of appropriate approving authority and their corresponding approving authority limits, which have been commensurate with the risks of the credit exposures. It likewise implements an escalation process where approval for restructuring of credits, policy exceptions or excesses in internal limits is escalated to individual/committee with higher authorities. More so, the Bank is practicing proper coordination of relevant units and individuals as well as sufficient controls to ensure acceptable credit quality at origination.

Credit proposals are presented and justified by the lending officers via Credit Proposal Memo (CPM) / Offering Memo (OM). Such presentation shall only be made after a thorough evaluation and analysis of the borrower and the source of repayment. And to be consistent with safe and sound banking practice, the Bank shall grant credits only in amounts and for the periods of time essential for the effective completion of the activity to be financed and after ascertaining that the borrower is capable of fulfilling its commitments to the Bank.

Credit approving authority limits are approved by the Board of Directors. Each level of authority can act upon the proposals and transactions within the limits of its authority and in accordance with policies, limitations and restrictions set forth by the management and approved by the Board. Credit proposals that require committee approvals (i.e. Credit and Collection Committee, Executive Committee, and Board of Directors) are presented by the lending officers during the regular en banc meetings of each committee. There are, however, certain urgent transaction types that the policy allows to be routed to members of such committee for approval.

The Credit and Collection Committee plays a critical role in the credit approval process. It has the power to approve credit proposals of any sort, e.g. establishment, renewal, extension, increase/decrease, restructuring or settlement of a credit line or term loan, within its authority and to endorse those credit proposals which are beyond its authority to the Executive Committee and/or the Board of Directors. It has also the responsibility to ensure that credit accommodations to related parties falling below the materiality thresholds are granted on arms' length basis and are compliant with the set regulations.

10.6.3 Credit monitoring, Review Process, and DOSRI

In line with the BSP mandate for banks to effectively monitor the condition and quality of their individual and group credit portfolios, the Bank has developed and implemented comprehensive processes, procedures and information systems to attend to that mandate. These include criteria that identify and report problem credits to reasonably assure that they are appropriately monitored as well as administered and provided for. As such, any exception, breach and potential problem noted shall be promptly reported to management for corrective action, possible classification and/or provisioning and more frequent monitoring.

The Bank has established an independent unit to review the portfolio of the Corporate/commercial accounts and identify existing and potential areas of deterioration and assess the risks involved. In addition, the credit support units evaluate the degree to which a particular lending unit is complying with existing credit management policies.

Further to this, the Bank has been implementing more intensive monitoring on individual and aggregate exposures against prudential and internal limits on a regular basis. In the ordinary course of business, the Bank has loans and other transactions with its directors, officers, stockholders and related interests ("**DOSRI**"). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the Bank's total capital funds or 15% of the Bank's total loan portfolio, whichever is lower.

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

	As of 31 December			As of 31 March
	2019	**2020**	**2021**	**2022**
Amount	₱2,000,000	-	-	-
% to total loans	0.0021%	-	-	-

10.7 MARKET AND ASSET-LIABILITY RISK MANAGEMENT

10.7.1 Market Risk in the Trading Book

The Bank employs an internally developed Value-at-Risk (VAR) model, along with other sensitivity metrics, to measure and monitor the probable deterioration in the market value of its trading portfolio. The Market and Asset-Liability Risk Management Department (MRM) simulates the trading book's VAR on a daily basis, and the results are compared against Board-approved limits. In addition to the risk appetite on VAR, the trading portfolio is also subject to limits on aggregate exposures, sensitivity metrics, daily, monthly, and full year losses, and stress testing. These controls provide insight on possible strategies to hedge or mitigate the market risk arising from the trading book.

10.7.2 Interest Rate Risk in the Banking Book

The MRM 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 Committee (ALCO) and the BROC. 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 Bank also has an internally developed Earnings-at-Risk (EAR) metric for monitoring IRRBB. EAR measures the contraction in the projected NII over the next 12 months excluding pipeline deals through historical simulation of interest rate benchmarks. Non-maturing fixed-rate deposits or current-savings accounts (CASA) are split into two classifications, core deposits and volatile deposits. The volatile or non-core portion of the NMD / CASA are spread over short-term buckets based on behavioral average life. Core deposits are slotted in the 3-5 years bucket. The model captures the possibility of borrowers prepaying their loans and time deposit customers pre-terminating their investments. The interest rate scenario of the model simulates the impact of interest rate movements to existing loans and deposits. More prepayment is expected if interest rates decline while more pre-termination is expected if interest rates increase. EAR is simulated on a monthly basis and also subject to a limit approved by the Board. The report is also accompanied by stress testing with scenarios such as: 1) standard parallel yield curve shifts; 2) BSP prescribed yield curve shifts; 3) steepening and inversion of the curves; 4) timing mismatch in assets and liabilities repricing. Internal Audit conducts a regular validation of the IRRBB models and parameters in addition to the risk-based full scope audit of RSK which includes a review and evaluation of the processes and controls, including governance and risk management activities

The Bank utilizes Funds Transfer Pricing (FTP) as a mechanism to charge the asset businesses for funding (e.g., term loans, housing loans) and to compensate the units that generate funding (e.g., branch deposits). While the Bank is not and does not have intentions to hedge IRRBB via interest rate swaps in the short-term, it actively manages the interest rate mismatch by sourcing stable funds to match long-term assets. Trends, forecasts, and adjustments to the FTP are discussed and approved in the regular ALCO meeting.

10.7.3 Liquidity Risk

The MRM prepares a Maximum Cumulative Outflow (MCO) report which estimates projected funding requirements that the Bank will need at specific time horizons, to measure and monitor liquidity risk. The Bank has a set of internal limits on its MCO gaps to ensure sufficient liquidity, and any breach is reported to ALCO and the Board. Concentration on a single funding source is also regularly monitored to control the Bank's reliance on a specific product or counterparty. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors unique to the Bank, market-wide liquidity stress events, and combination of bank-specific and market-wide stress events. A contingency funding plan which covers quantitative and procedural measures is in place and may be applied under different stress scenarios.

10.8 OPERATIONAL RISK MANAGEMENT

The Operational Risk Management Department (ORMD) monitors the comprehensiveness and effectiveness of internal control systems employed by the Bank. The ORMD oversees the performance of these systems to minimize operational risks and detect vulnerabilities while the consequences are still manageable or avoidable. The ORMD provides timely assessments of inherent general and functional risks to ensure the operational soundness of the organization as an ongoing concern. Operational losses result from inadequate or failed internal processes, people, and systems or from external events. The ORMD monitors actual and probable operational losses in relation to the Bank's risk appetite. The ORMD facilitates the completion of Risk and Control Self Assessments (RCSA) for all the units of the Bank. The RCSA serves as a tool for acquiring information about operational and information technology risks, and determines the adequacy and effectiveness of control mechanisms employed to ensure that operational risks are within the acceptable levels of the Bank. Key risk indicators are also developed and maintained as part of the RCSA for continuous monitoring purposes. Operational loss incidents are also monitored by the ORMD for proper evaluation of the incident, with the intention of preventing recurrence and further financial losses. RCSAs and incidents are escalated to the appropriate level of management, and reported to the Board Risk Oversight Committee.

The ORMD also assists the operating units in improving the operational and system risk management capabilities through policy formulation. New or revised products and services undergo a risk assessment to ensure that adequate procedures and controls are embedded prior to implementation.

10.9 INFORMATION TECHNOLOGY RISK MANAGEMENT

The Information Technology Risk Management Department (ITRM) focuses on the identification, monitoring, advisory, and reporting of risk issues arising from the technology transformation efforts of the Bank and the speed of innovation in products and services delivered on an information technology platform. It ensures the soundness of the organization's information technology systems by providing an effective assessment of inherent risks in its IT infrastructure. The ITRM also ensures the continuous relevance and enforcement of the Bank's IT Risk Management Framework and Information Security Policies and Procedures.

Information Technology risk falls under the broad category of operational risk. As such, objectives, strategies, and processes are similar to ORMD, with a specific focus on risk and control evaluations and incident management related to hardware, software, IT operations, and information security. Key risk indicators include system failures, data corruption, system security, system downtime, disaster recovery, among others. Vulnerability Assessment and Penetration testing is also managed by the ITRM.

10.10 TRUST RISK MANAGEMENT

Trust Risk Management (TRM) ensures the management of risks in the business operations of the Trust Services Group and reports to the Trust and Investment Committee (TIC) and the Board Risk Oversight Committee (BROC). The TRM develops and enhances the policies and procedures in operational, credit, liquidity, and market risks in accordance with the risk management framework of the Bank to ensure that risk management practices continue to be effective and relevant to the ever-evolving trust business. It is responsible for overseeing the implementation of approved strategies and for ensuring that controls are in place relative to its business activities that will limit fiduciary risks and reinforce compliance with laws and regulations.

10.11 BUSINESS CONTINUITY MANAGEMENT

Business Continuity Management (BCM) Department is responsible for facilitating the regular testing, updating, and execution of the Bank's Business Continuity Plan. Its activity follows the BCM life cycle recommended by regulators, which helps ensure that the Bank's critical processes and applications are identified and adequate preparations for various threats or disruptions are addressed. BCM works closely with each business unit for the assessment and development of their unit's Business Continuity Plan. Further, BCM maintains constant coordination and communication with each unit for awareness and updates on developing events.

10.12 ANTI-MONEY LAUNDERING GOVERNANCE AND CULTURE

The Bank is committed to comply with the requirements of the Anti-Money Laundering (AML) Law, rules, and regulations as embodied in its Money Laundering and Terrorist Financing Prevention Program (MTPP) which is regularly updated or as need arises to reflect the constantly evolving regulations, the emerging money laundering/terrorist financing risks, and global best practices.

While Compliance Division monitors its implementation, the Bank's oversight board and management level committees, the Corporate Governance Committee and AML Committee, respectively, are tasked to oversee and implement the Bank's compliance with money laundering and terrorist financing prevention program and policies. This supports the Bank's mission of maintaining high ethical standards in the conduct of its business and ensures that the Bank does not become a conduit for dirty money or a victim of money laundering crime.

Identification of compliance risks enables the Bank to establish measures to mitigate such risks. Through the conduct of independent testing of branches and head office units, the Bank is able to identify the segment in the operational process where money laundering and terrorist financing risks are higher, and based on the testing results, implement improvements in the processes and segregate responsibilities among the units/personnel involved. Testing results are monitored until corrected and reported to the oversight committees to enable them to have an accurate assessment of the effectiveness and efficiency of the Bank's money laundering and terrorist financing prevention program.

The Bank seeks to instill a culture of compliance, with Compliance Division as the main driver of the Bank's initiatives to foster AML awareness and discipline. Compliance Division, in partnership with HRMDD, constantly enhances the Bank's training program to equip bank personnel with appropriate knowledge to achieve the Bank's goal of promoting effective implementation of the Anti-Money Laundering and Combating Financing of Terrorism (CFT) policies and procedures in the entire organization. The Bank provides training programs that are designed based on the degree of experiences to transactions that pose risks to money laundering/terrorist financing exposure, with varying focus for

new employees, front line staff and officers, internal audit, senior management, and directors. All employees are also required to undergo
annual refresher training which highlights their responsibilities under the MLPP.

The Bank endeavors to create a robust compliance culture where the programs and systems in place are adequate and effective to ensure that any risk associated with money laundering and terrorist financing is mitigated and thus, ensures that the interest of the Bank, its clients, and other stakeholders is protected.

10.13 RISK MEASUREMENT AND REPORTING SYSTEM

The Bank's capital adequacy is determined by measuring credit, market, and operational risk exposures using standardized or basic approaches as allowed by the BSP. Risk exposures are measured both individually and in aggregate amounts. Risk measurements are done by respective risk taking personnel and groups but are independently validated, analyzed, and reported by the RSK. In cases where the risk measurement is performed by the RSK, another independent party, in-house or external, conducts a validation exercise.

Market risks are measured by mark-to-market and Value-at-Risk analyses on the overall exposure, on a portfolio level, and on each individual financial instrument. These exposures are also subjected to stress testing using a variety of historical and hypothetical scenarios.

Quality of credit is measured via risk classifications of accounts using an Internal Credit Risk Rating System that incorporates the BSP risk classifications of borrowing accounts. The Bank's front office recommends the credit risk rating of borrowing accounts and classifications and allowances for losses, including changes thereon, when necessary. All risk information is processed, analyzed, and consolidated for proper reporting to the BOD through the BROC, TIC, AuditCom, Senior Executive Team, and various management committees of the Bank.

Actual and estimated risk exposures and losses at Treasury, Corporate and Consumer Banking, Operations, and Branches are consolidated for regular reporting. Reports include, among others, portfolio mix, liquidity and maturity matching, interest rate matching, trading gains and losses, sensitivity and backtesting results, top borrowers, non-performing assets and loans, industry exposures, large exposures, fines and penalties, employee fraud cases, status of legal cases, service level of major information technology systems, and ATMs.

The RSK streamlined the reporting of the enterprise-wide risk profile of the Bank through the periodic presentation and publication of the Risk Dashboard. This provides a readily available snapshot that highlights risk concerns encompassing the major business risk areas: Market, Asset and Liability, Credit, Corporate, Commercial and Consumer Lending, Operations, Information Technology, and Trust.

10.14 COMPLIANCE RISK

A strong compliance culture is the Bank's key to better manage compliance risk. This culture thrives upon a common understanding by all persons within the organization that it is a basic responsibility to know and have a working knowledge of the laws, rules, and regulations attendant to his functions. To reinforce this responsibility, units in charge of ensuring compliance with laws and regulations (legal, regulatory, tax) regularly disseminate any new issuances for the understanding of concerned units/personnel.

Compliance Division provides Business Operating Unit (BOU) guidance on the interpretation and application of BSP rules and regulations and other regulatory issuances with respect to the activities of the Bank. Breaches/deviations from these regulations are appropriately reported to the Senior Management, Corporate Governance Committee, and the Board for immediate/appropriate resolution.

In order to validate that compliance culture is observed on all aspects of the Bank's business, activities and processes, regular monitoring and assessment of adherence to laws, rules, and regulations are performed. For this purpose, the Bank implements the three-pronged approach in Compliance Testing: the Compliance Self-Assessment performed by the units themselves; the Independent Compliance Testing, a validation exercise performed by the Compliance Division on branches, head office units, and selected products/services; and finally supplemented by validation performed by Internal Audit on all units and branches included in the Annual Audit Plan.

Based on the Bank's Compliance Program where self-assessment is one of the pillars, Deputy Compliance Officers (DCO) are appointed within each of the operating and business units of the Bank to perform periodic self-testing. Using the Compliance Self-Assessment Checklist (CSAC) prepared by Compliance Division, Compliance Self-Assessment is done by the DCOs to check the level of compliance of their respective units with identified laws, rules, and regulations. The result of Compliance Self-Assessment is validated through the Independent Compliance Testing. Results of Compliance Self-Assessment and Independent Compliance Testing are reported to the Corporate Governance Committee and appropriate levels of Management. Follow-through is being done until findings/exceptions are fully corrected.

10.15 REPUTATIONAL RISK

Reputational risk proceeds from negative public opinion and has the potential to erode the perception of the Bank as a worthy counterparty or investment target. Negative perception on the part of customers, providers of funding, or regulators can adversely affect a bank's ability to maintain existing, or establish new, business relationships or to continue accessing sources of funding.

As the Bank presently neither uses capital market sensitive funding nor publicly listed stock, its funding cost and equity value remain shielded from reputational risk events and market discipline rendering fair estimate difficult to quantify.

Nevertheless, the impact on reputation of events that may occur in the regular course of business remains a top priority of Senior Management and the Board.

10.16 LEGAL RISK

Legal risk arises from failure in the implementation of necessary control measures as well as imperfect documentation of transactions. The primary functions of the Bank's Legal Services Division (LSD) comprise rendering legal advice and document review to ensure that relevant laws are complied with, Bank interest is duly protected, and identified risks are imparted to responsible units of the Bank. The LSD handles cases filed for and against the Bank and provides Senior Management, the Corporate Governance Committee, and the BROC regular updates on any lawsuits involving the Bank.

10.17 PENSION RISK

The Bank enlists the assistance of third-party consultants to conduct actuarial evaluation on the condition of the retirement plan once a year in order to address any erosion in the explanatory power or significance of the actuarial models used to project benefit obligations.

Valuation of both the projected benefit obligation and the present value of the plan assets assumes rates of discount, asset return, and compensation growth. These parameters may properly reflect market conditions at the time of measurement but later be non-reflective as market conditions change.

The annual third-party actuarial evaluation of the condition of the retirement plan considers the relevance of the assumption used in valuation and recommends the necessary adjustments to properly reflect the value of plan assets and liabilities. The valuation assumptions last underwent review and adjustment during the actuarial report of 2019.

10.18 MODEL RISK

The Bank contracts external entities to validate internal models used to measure market, asset and liability risks, as well as rating models for the classification of borrowers' credit risk. Results of these validation exercises are reported to Management, the BROC, 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 31 December 2019, 2020, and 2021 were derived from the financial statements prepared in accordance with PFRS and audited by R.G. Manabat & Co. in accordance with PSA. Some additional selected financial information presented below as of and for the period ended 31 March 2022 were derived from the financial statements prepared in accordance with PFRS and reviewed by R.G. Manabat & Co. in accordance with PSA. 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 OVERVIEW

The Bank is a commercial bank based in the Philippines which provides a wide range of commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, foreign exchange, and trust services.

The Bank is one of the country's progressive commercial banks, with a network of 140 Branches and 253 Automated Teller Machines (ATMs) strategically located nationwide, as of 31 March 2022.

Being part of the San Miguel Group, the Bank seeks to keep pace with its peers in the banking industry. Based on latest available data from the BSP, the Bank is currently ranked fifteenth (15th) in terms of Total Assets among universal and commercial banks as of yearend 2021.

11.2 FACTORS AFFECTING THE BANK'S RESULTS OF OPERATIONS

The Bank's results of operations and financial condition and the comparability of the Bank's financial results over successive periods have been and will continue to be affected by a number of external factors, including, but not limited to, the following:

11.2.1 Execution of the Bank's Growth Strategy

The Bank's key focus areas for growth include growing its deposit base, expanding its loan portfolio, further diversifying its product and business portfolio to include investment banking and bancassurance products in order to diversify its income streams while pursuing continuous enhancement of its existing products and services.

The Bank's future performance will depend on its ability to implement these growth strategies successfully. For further details of the Bank's strategies, see *"Business—Strategies"*.

11.2.2 General Economic Conditions in the Philippines

The Bank derives the large majority of its revenues and operating profits from customers in the Philippines and its business is highly dependent on the Philippine economy. Demand for, and prevailing prices of, consumer goods and land, are all directly related to the strength of the Philippine economy, the overall levels of business activity in the Philippines and the amount of remittances received from OFWs. The Bank's results of operations vary from period to period in accordance with fluctuations in the Philippine economy, which is in turn influenced by a variety of factors, including political developments among others.

After the onset of the Asian economic crisis in 1997, the Philippines experienced economic turmoil characterized by currency depreciation, interest rate volatility, a significant decline in share prices on the PSE and a reduction of foreign currency reserves. Beginning in 2007, the Philippines was adversely affected by the slowdown in the U.S. economy, as well as the subsequent crisis in worldwide financial markets.

The GDP of the Philippines expanded by 5.7% in 2021, as compared to the 9.5% contraction in 2020, with the country still ranks as one of the fastest growing economies in not only South East Asia, but in all of Asia. The Philippine GDP growth remained relatively high compared to its Asian peers due to improved economic and credit fundamentals, relatively low interest rates, and benign inflation rates. For the Philippine banking industry, relatively low interest rates and sustained economic growth have translated to an increase in total loans from banks, coupled with a reduction in gross NPLs.

Any deterioration in the Philippine economy may adversely affect consumer sentiment and lead to a reduction in the Bank's consumer banking business. There can be no assurance that current or future Governments will adopt economic policies conducive to sustaining economic growth or improving the stability of the Philippine banking sector.

11.2.3 Competition

The Philippine banking industry is very competitive and the Bank competes against domestic and foreign banks that offer similar products and services as the Bank. Competition with other banks has and will continue to affect the cost of the Bank's funding and the Bank's ability to increase its market share of loans and deposits. The Bank also faces increasing competition in its target growth areas such as corporate lending, particularly to non-SMC borrowers, consumer banking such as auto, housing and credit cards as well as fee-income generating products and services such as remittance, trust and mobile banking and payment services. The liberalization of foreign participation in the Philippine banking industry has resulted in increased competition. Since liberalization, foreign banks have expanded from their traditional focus on Metro Manila and large-scale corporations to building their own networks to increase market share, primarily through acquisitions of small domestic savings banks. Foreign banks tend to benefit from the support of their parent companies or established regional operations but they are limited by local regulations to a maximum of six Philippine branches in order to protect the growth and participation of local banks. An increase in competition from foreign banks as a result of relaxed entry rules could adversely affect the Bank's results of operations and financial condition.

11.2.4 Interest Rates

Beginning in 2004, the Government reduced its borrowings and its budget deficit, achieved in part through Government improvements in cash and revenue management as well as various privatization programs. The 91-day Treasury bill rates have decreased from an average rate of 7.3% in 2004 to an average rate of 1.5% in 31 March 2022. The interbank call loan rate, which is the rate on loans among Philippine banks for periods less than 24 hours, primarily for the purpose of covering reserve deficiencies, has decreased from an average rate of 4.8% in 2009 to an average rate 1.9% in 31 March 2022. Commercial lending interest rates in the Philippines have generally followed the trends in Government borrowing rates, moving from an average range of 6.14% in 2019 to 7.1% in 2019 based on data from the BSP.

The following tables set out certain domestic interest rates for the periods indicated:

	Domestic Interest Rates			
	31 December			**31 March**
	2019	**2020**	**2021**	**2022**
	(weighted averages in percentages per period)			
91-day Treasury bill rates	4.67%	2.02%	1.11%	1.50%
Interbank call loan rate[(1)]	4.67%	3.54%	1.62%	1.89%
Philippine commercial bank average lending rates[(2)]	7.09%	n.a.	n.a.	n.a.
Overnight reverse repurchase rates.....	4.41%	2.73%	2.00%	2.00%

Notes:

(1) Rate on loans among Philippine banks for periods less than 24 hours.

(2) Range of monthly rates reflect the annual per percentage equivalent of all commercial banks' actual monthly interest income on peso-denominated loans to the total outstanding level of the peso-denominated demand/time loans, bills discounted, mortgage contract receivables and restructured loans.

Source: BSP

Fluctuations in domestic market interest rates can have a significant impact on the Bank by affecting its interest income, cost of funding and general performance of its existing loan portfolio and other assets. Though the Bank has a relatively stable deposit base weighted towards CASA deposits, in a period of rising domestic interest rates, the Bank may be required to compete aggressively to attract deposits by offering higher rates to depositors in order to increase the Bank's loanable funds. However, as interest rates increase, the Bank aims to protect its profitability by adjusting its lending rates upward. The Bank believes that it is well-positioned for an increasing interest rate environment as most of its assets are short term in duration and may be re-priced as rates increase. However, increased interest rates on their 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 ("**ROPA**"). 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 available for sale investment portfolios. Furthermore, the Bank may suffer trading losses as a result of the decline in value of these securities. As interest rate moves, the Bank dynamically balances its investment securities portfolio to manage its interest rate risks and mitigate such losses while maximizing the returns of its overall portfolio. However, the Bank has refocused its priorities in recent years away from reliance on trading gains and towards maximizing net interest margins. Finally, continued increases in market interest rates could adversely affect the liquidity levels of the Bank and the Philippine banking industry in general, which have in recent years been supported by the relatively low interest rate environment in the Philippines. The Bank actively manages its assets and liabilities to maximize income and minimize cost of funding, as well as to ensure that exposure to fluctuations in interest rates is kept within acceptable limits. In recent times, decreases in interest rates in the Philippines have resulted in increases in the Bank's fixed rate maturity securities portfolio and resulted in increased levels of trading and investment securities gains, which may not recur.

11.2.5 Liquidity

Among universal and commercial banks, gross loans to total deposits decreased from 71.78% as of 31 December 2020 to 69.63% in 31 December 2021, based on data from the BSP. Growth in deposits outpaced loans as gross loans increased by 5.42% from ₱9.92 billion as of 31 December 2020 to ₱10.46 billion as of 31 December 2021, while deposits increased by 8.69% from ₱13.82 billion as of 31 December 2020 to ₱15.02 billion as of 31 December 2021.

11.2.6 Philippine Property Market

The Philippine real estate sector has shown sustained gains in the last few years due largely to increased remittances from OFWs, a steady growth in the business process outsourcing and call center industries, and relatively lower interest rates. Growth and developments are most pronounced in residential houses and condominiums, office and commercial buildings, and shopping malls/centers sub-sectors. A well-performing Philippine property market may lead to an increase in the Bank's loan book, whereas a poor performing property market may lead to an increase in NPLs.

11.2.7 Regulatory Framework

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. In May 2015, the BSP approved the guidelines for implementing of a more stringent capital adequacy structure required under Basel III. Further changes in these and other regulations applicable to the Bank may significantly affect its results of operations and financial condition. For example, the full version of PFRS 9 went into effect on 1 January 2018, will have an effect on the classification and measurement of the Bank's eligible debt instruments under FVOCI and impairment methodology using ECL. In addition, the Bank is subject to certain tax rules specific to financial institutions. See *"The Philippine Banking Industry"* in this Offering Circular.

11.3 KEY PERFORMANCE INDICATORS AND RATIOS

	Quarter Ended 31 March	Years Ended December 31		
	2022 (Annualized)	2021 (Audited)	2020 (Audited)	2019 (Audited)
Return on Average Assets	0.7	0.7	0.5	0.4
Return on Average Equity	5.8	6.0	4.8	4.1
Net Interest Margin on Average Earning Assets	3.3	3.4	3.9	3.5
Tier 1 Capital Ratio	21.4	20.7	15.6	15.1
Total Capital Adequacy Ratio	22.1	21.6	16.6	15.9

11.4 CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that are both (i) relevant to the presentation of the Bank's financial position and results of operations and (ii) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increase, those judgments become even more subjective and complex. In order to provide an understanding of how the Bank's management forms its judgments about future events, including the variables and assumptions underlying its estimates, and the sensitivity of those judgments to different circumstances, the Bank has identified certain critical accounting policies. For more information on the Bank's critical accounting policies and management's use of assumptions and accounting judgments and estimates, see Notes 2 and 3 to the Bank's financial statements included elsewhere in this Offering Circular.

11.5 RESULTS OF OPERATIONS

11.5.1 For the 3-month period ended 31 March 2022 compared with the 3-month period ended 31 March 2021

Analysis of Statements of Income

	March 31, 2022	March 31, 2021	Horizontal analysis Increase / (Decrease)		Vertical analysis 2022	2021
INTEREST INCOME						
Loans and receivables	1,100,168	1,183,476	(83,308)	-7.04%	63.25%	77.93%
Investment securities at FVOCI and at amortized cost	378,371	229,031	149,340	65.20%	21.75%	15.08%
Due from Bangko Sentral ng Pilipinas and other banks	104,241	69,636	34,606	49.70%	5.99%	4.59%
Interbank loans receivable and SPURA	77,007	77,064	(56)	-0.07%	4.43%	5.07%
Financial assets at FVPL	2,608	2,474	134	5.40%	0.15%	0.16%
	1,662,395	**1,561,681**	**100,715**	**6.45%**	**95.58%**	**102.83%**
INTEREST EXPENSE						
Deposit liabilities	171,273	173,822	(2,549)	-1.47%	9.85%	11.45%
Lease liabilities	7,353	9,706	(2,353)	-24.24%	0.42%	0.64%
Bills payable and others	16,258	346	15,913	4603.71%	0.93%	0.02%
	194,884	**183,873**	**11,011**	**5.99%**	**11.20%**	**12.11%**
NET INTEREST INCOME	**1,467,512**	**1,377,808**	**89,704**	**6.51%**	**84.37%**	**90.73%**
OTHER INCOME						
Trading and investment securities gains - net	(29,087)	(28,605)	(482)	1.68%	-1.67%	-1.88%
Service charges, fees and commissions	159,090	111,990	47,100	42.06%	9.15%	7.37%
Foreign exchange gains - net	42,589	(3,991)	46,579	-1167.23%	2.45%	-0.26%
Gains on foreclosure, and sale of property and equipment and foreclosed assets - net	85,016	49,297	35,719	72.46%	4.89%	3.25%
Miscellaneous	14,160	12,152	2,008	16.52%	0.81%	0.80%
	271,767	**140,843**	**130,924**	**92.96%**	**15.63%**	**9.27%**
GROSS INCOME	**1,739,279**	**1,518,651**	**220,628**	**14.53%**	**100.00%**	**100.00%**
OTHER EXPENSES						
Compensation and fringe benefits	438,388	438,989	(601)	-0.14%	25.21%	28.91%
Taxes and licenses	240,929	200,962	39,967	19.89%	13.85%	13.23%
Rent and utilities	133,027	131,258	1,769	1.35%	7.65%	8.64%
Depreciation and amortization	106,145	129,624	(23,479)	-18.11%	6.10%	8.54%
Insurance	86,387	81,389	4,999	6.14%	4.97%	5.36%
Service Fees and Commissions	47,758	47,680	78	0.16%	2.75%	3.14%
Subscription fees	20,563	26,897	(6,334)	-23.55%	1.18%	1.77%
Entertainment and recreation	18,667	24,995	(6,328)	-25.32%	1.07%	1.65%
Management and professional fees	34,104	14,224	19,880	139.76%	1.96%	0.94%
Amortization of software costs	14,996	10,298	4,699	45.63%	0.86%	0.68%
Provision for credit and impairment losses	772	59,860	(59,088)	-98.71%	0.04%	3.94%
Miscellaneous	104,045	114,726	(10,682)	-9.31%	5.98%	7.55%
	1,245,781	**1,280,902**	**(35,121)**	**-2.74%**	**71.63%**	**84.34%**
INCOME BEFORE SHARE IN NET LOSS OF ASSOCIATE AND INCOME TAX	**493,498**	**237,749**	**255,749**	**107.57%**	**28.37%**	**15.66%**
SHARE IN NET LOSS OF ASSOCIATE	254	608	(354)	-58.19%	0.01%	0.04%
INCOME BEFORE INCOME TAX	**493,244**	**237,141**	**256,103**	**108.00%**	**28.36%**	**15.62%**
INCOME TAX EXPENSE	132,651	90,838	41,812	46.03%	7.63%	5.98%
NET INCOME	**360,594**	**146,303**	**214,291**	**146.47%**	**20.73%**	**9.63%**

The Bank reported a Net Income amounting to ₱360.59 million for the first quarter of the year, a 146.47% improvement from the ₱146.3 million last year.

Net Interest Income amounted to ₱1.47 billion, 6.51% up from ₱1.38 billion driven by the growth in earning assets.

Interest on investments at FVOCI and at amortized cost as well as assets at FVPL both grew by 65.2% and 5.4%, respectively to ₱378.37 million and ₱2.61 million. Due from BSP and other banks likewise increased to ₱104.24 million, 49.7% higher from the P69.64 million a year ago.

On the other hand, interest on loans and receivables registered ₱1.1 billion, down 7.04% from ₱1.18 billion on account of lower average rates.

Interest Expense increased by 5.99% to ₱194.88 million mainly due to increase in interest expense on bills payable, partially offset by 1.47% and 24.24% lower expenses on deposits and lease liabilities, respectively.

Total other income was at ₱271.77 million, 92.96% higher than the previous year resulting from higher foreign exchange gains amounting to ₱42.59 million, a turnaround from the ₱4 million loss absorbed in the same period last year. Services Fees also grew by 42.06% to ₱159.1 million. Gains on foreclosure, and sale of property and equipment and foreclosed assets rose by 72.46% to ₱85 million attributable to higher gain on sale of foreclosed asset. Miscellaneous income increased to ₱14.16 million, 16.52% higher than last year's ₱12.15 million. Meanwhile, trading and investment securities posted a loss amounting ₱29.09 million, 1.68% lower vs. 2021's loss of ₱28.61 million.

Operating expenses excluding provisions, marginally increased by 1.96% to ₱1.24 billion from the ₱1.22 billion in March 2021 fueled by increases in management and professional fees, amortization of software costs, taxes and licenses as well as insurance.

Provisions for losses booked at ₱772 thousand, 98.71% lower than last year's ₱59.86 million.

Income Tax Expense amounted to ₱132.65 million, 46.03% or ₱41.81 million higher vs. the ₱90.84 million last year.

Analysis of Statements of Condition

	as of Mar 31, 2022	*as of Mar 31, 2021*	*Mar 22 vs Mar 21 (Change)*	*Mar 22 vs Mar 21 (% Change)*	*% to Total Assets Mar 2022*	*% to Total Assets Mar 2021*
Assets						
Cash & Other Cash Items	2,265,467	2,141,405	124,062	5.79%	1.10%	1.10%
Due from the BSP - net	34,698,999	46,252,880	(11,553,880)	-24.98%	16.81%	23.67%
Due from Other Banks - net	2,901,014	1,812,952	1,088,062	60.02%	1.41%	0.93%
Interbank Loans Receivables - net	23,003,244	22,278,411	724,833	3.25%	11.15%	11.40%
Investment Securities	5,528,176	6,313,303	(785,128)	-12.44%	2.68%	3.23%
Financial Assets At Fair Value	5,528,176	6,313,303	(785,128)	-12.44%	2.68%	3.23%
At Fair Value through Profit/Loss	753,523	802,539	(49,016)	-6.11%	0.37%	0.41%
At FVOCI	4,774,653	5,510,765	(736,112)	-13.36%	2.31%	2.82%
Available for Sale Invesments	0	0	-	0.00%	0.00%	0.00%
Investment Securities at amort cost	45,182,324	35,275,175	9,907,150	28.09%	21.89%	18.05%
Loans and Receivables - net	84,675,691	72,813,008	11,862,683	16.29%	41.03%	37.27%
Non-current Assets Held for Sale	0	0	-	0.00%	0.00%	0.00%
Investment in Associate - net	39,401	40,089	(688)	-1.72%	0.02%	0.02%
Property and Equipment - net	1,439,275	1,604,693	(165,418)	-10.31%	0.70%	0.82%
Investment Properties - net	3,417,809	3,633,977	(216,168)	-5.95%	1.66%	1.86%
Deferred Tax Assets - net	741,856	958,407	(216,550)	-22.59%	0.36%	0.49%
Other Assets - net	2,491,521	2,262,477	229,044	10.12%	1.21%	1.16%
Total Assets	**206,384,777**	**195,386,776**	**10,998,001**	**5.63%**	**100.00%**	**100.00%**
Liabilities and Capital						
Deposit Liabilities	**173,624,766**	**174,500,884**	**(876,118)**	**-0.50%**	**84.13%**	**89.31%**
Demand	51,260,969	45,511,940	5,749,028	12.63%	24.84%	23.29%
Savings	105,170,395	111,645,831	(6,475,436)	-5.80%	50.96%	57.14%
Time	12,163,983	12,313,693	(149,710)	-1.22%	5.89%	6.30%
Long-term Negotiable Certificate	5,029,420	5,029,420	-	0.00%	2.44%	2.57%
Bills Payable	0	9	(9)	-100.00%	0.00%	0.00%
Financial Liabilities at FVPL	0	0	-	0.00%	0.00%	0.00%
Manager's Checks	1,095,658	569,136	526,522	92.51%	0.53%	0.29%
Accrued Interest, Taxes and Other Expenses	949,983	853,373	96,610	11.32%	0.46%	0.44%
Other Liabilities	4,028,460	2,708,554	1,319,906	48.73%	1.95%	1.39%
Total Liabilities	**179,698,867**	**178,631,955**	**1,066,911**	**0.60%**	**87.07%**	**91.42%**
Capital Funds	**26,685,910**	**16,754,821**	**9,931,089**	**59.27%**	**12.93%**	**8.58%**
Total Liabilities & Capital	**206,384,777**	**195,386,776**	**10,998,001**	**5.63%**	**100.00%**	**100.00%**

The Bank's Total Assets stood at ₱206.38 billion as of 31 March 2022, up 5.63% from ₱195.39 million in the same period the previous year mainly from the increase in due from other banks, investment in securities at amortized cost as well as loans and receivables, partially offset by the decrease in due from BSP, together with deferred tax assets and investment securities.

Cash and other Cash Items rose 5.79% to ₱2.27 billion, while Due from BSP fell 24.98% to ₱34.70 billion. Due from Other Banks increased by 60.02% or ₱1.09 billion to ₱2.9 billion. Interbank Loans Receivables also increased by 3.25% to ₱23.0 billion.

Financial assets at fair value declined 12.44% to ₱5.53 billion due to the drop in financial assets at FVTPL and FVOCI by 6.11% and 13.36%, respectively, to ₱753.52 million and ₱4.77 billion. Investment in securities at amortized cost, meanwhile, went up by 28.09% to ₱45.18 billion.

Loans and receivables which accounts for 41.03% of the total assets, posted 16.29% increase to ₱84.68 billion from the previous year's ₱72.81 billion.

Total Liabilities increased by 0.60% or ₱1.07 billion to ₱179.70 billion vs. the previous year level of ₱178.63 billion driven by growths in manager's checks, accrued interest, taxes, and other expenses, and other liabilities.

Deposit Liabilities, which comprises 84.13% of the bank's total assets, fell by 0.50% to ₱173.62 billion from the decrease in Savings and Time Deposits. Savings and time deposits decreased by 5.80% and 1.22%, respectively, to ₱105.17 billion and ₱12.16 billion. Meanwhile, demand deposits went up by 12.63% from ₱45.51 billion to ₱51.26 billion. Longterm Negotiable Certificate of Deposits (LTNCTD) remained unchanged at ₱5.029 billion.

Manager's Checks and Accrued Interest, Taxes and Other Expenses increased by 92.51% and 11.32%, respectively, to ₱1.10 billion and ₱950 million. Other liabilities increased to ₱4.03 billion, 48.73% higher than the ₱2.71 billion the previous year.

As of March 31, 2022, the Bank's total capital funds stood at ₱26.69 billion, an increase of 59.27% from the previous year of ₱16.75 billion.

11.5.2 For the year ended 31 December 2021 compared with year ended 31 December 2020

Analysis of Statements of Income

	December 31, 2021	December 31, 2020	Horizontal analysis Increase / (Decrease)		Vertical analysis 2021	2020
INTEREST INCOME						
Loans and receivables	4,284,456	4,840,144	(555,688)	-11.48%	68.83%	70.42%
Investment securities at FVOCI and at amortized cost	1,251,564	919,374	332,189	36.13%	20.11%	13.38%
Due from Bangko Sentral ng Pilipinas and other banks	228,435	265,528	(37,093)	-13.97%	3.67%	3.86%
Interbank loans receivable and SPURA	316,281	238,044	78,237	32.87%	5.08%	3.46%
Financial assets at FVPL	14,420	16,991	(2,571)	-15.13%	0.23%	0.25%
	6,095,156	**6,280,081**	**(184,926)**	**-2.94%**	**97.92%**	**91.37%**
INTEREST EXPENSE						
Deposit liabilities	645,261	1,127,728	(482,468)	-42.78%	10.37%	16.41%
Lease liabilities	35,033	42,921	(7,888)	-18.38%	0.56%	0.62%
Bills payable and others	16,691	1,106	15,586	1409.58%	0.27%	0.02%
	696,985	**1,171,755**	**(474,770)**	**-40.52%**	**11.20%**	**17.05%**
NET INTEREST INCOME	**5,398,171**	**5,108,326**	**289,845**	**5.67%**	**86.72%**	**74.32%**
OTHER INCOME						
Trading and investment securities gains - net	(78,709)	1,147,574	(1,226,283)	-106.86%	-1.26%	16.70%
Service charges, fees and commissions	531,128	444,637	86,491	19.45%	8.53%	6.47%
Foreign exchange gains - net	48,367	48,876	(509)	-1.04%	0.78%	0.71%
Gains on foreclosure, and sale of property and equipment and foreclosed assets - net	274,986	58,765	216,221	367.94%	4.42%	0.85%
Miscellaneous	50,565	65,418	(14,852)	-22.70%	0.81%	0.95%
	826,337	**1,765,269**	**(938,933)**	**-53.19%**	**13.28%**	**25.68%**
GROSS INCOME	**6,224,508**	**6,873,596**	**(649,088)**	**-9.44%**	**100.00%**	**100.00%**
OTHER EXPENSES						
Compensation and fringe benefits	1,820,969	1,819,392	1,577	0.09%	29.25%	26.47%
Taxes and licenses	802,193	830,158	(27,965)	-3.37%	12.89%	12.08%
Rent and utilities	532,284	476,343	55,940	11.74%	8.55%	6.93%
Depreciation and amortization	462,533	567,851	(105,318)	-18.55%	7.43%	8.26%
Insurance	334,826	280,638	54,188	19.31%	5.38%	4.08%
Service Fees and Commissions	229,706	183,374	46,333	25.27%	3.69%	2.67%
Subscription fees	107,646	96,595	11,051	11.44%	1.73%	1.41%
Entertainment and recreation	97,394	107,305	(9,911)	-9.24%	1.56%	1.56%
Management and professional fees	85,022	79,453	5,569	7.01%	1.37%	1.16%
Amortization of software costs	53,595	45,908	7,687	16.74%	0.86%	0.67%
Provision for credit and impairment losses	(634,820)	962,510	(1,597,329)	-165.95%	-10.20%	14.00%
Miscellaneous	501,812	381,759	120,052	31.45%	8.06%	5.55%
	4,393,161	**5,831,286**	**(1,438,126)**	**-24.66%**	**70.58%**	**84.84%**
INCOME BEFORE SHARE IN NET LOSS OF ASSOCIATE AND INCOME TAX	**1,831,347**	**1,042,309**	**789,038**	**75.70%**	**29.42%**	**15.16%**
SHARE IN NET LOSS OF ASSOCIATE	1,039	753	286	38.01%	0.02%	0.01%
INCOME BEFORE INCOME TAX	**1,830,308**	**1,041,556**	**788,752**	**75.73%**	**29.40%**	**15.15%**
INCOME TAX EXPENSE	623,689	257,122	366,566	142.56%	10.02%	3.74%
NET INCOME	**1,206,619**	**784,434**	**422,185**	**53.82%**	**19.38%**	**11.41%**

For the year ending December 31, 2021, the Bank earned ₱1.21 billion in net income. The increase was mainly due to higher net interest income brought about by lower interest expense and service charges, fees, and commissions.

Total Interest Income was down by 2.94% at ₱6.10 billion from ₱6.28 billion last year. Interest income on loans and receivables declined by 11.48% to Php4.28 billion mainly due to the lower interest rate environment. On the other hand, interest income on investment securities at fair value through other comprehensive income (FVOCI) and at amortized cost went up by 36.13% to ₱1.25 billion primarily from the additional purchases of investment securities at amortized cost. Interest income on interbank loans receivable and securities purchased under resale agreements increased by 32.87% to ₱316.28 million, meanwhile interest income on due from BSP and other banks decreased by 13.97% to ₱228.43 million. Interest income on financial assets at fair value through profit or loss (FVTPL) declined by 15.13% to Php14.42 million.

Total Interest Expense went down by 40.52% to ₱696.99 million from the ₱1.17 billion in the same period last year, primarily due to lower interest expense on deposit liabilities which decreased by 42.78% to ₱645.26 million. Interest expense on lease liabilities also went down by 18.38% to ₱35.03 million. On the other hand, interest expense on bills payable increased to ₱16.69 million, mainly due to tax accruals.

Given the more significant decline of Interest Expenses, Net Interest Income for 2021 increased to ₱5.40 billion, up 5.67% from the previous year's ₱5.11 billion.

Total Other Income was at ₱826.34 million, 53.19% lower than the previous year. This is owing to a loss of ₱78.71 million in trading and investment securities for 2021, compared to the gain of ₱1.15 billion the previous year. Meanwhile, service charges, fees and commissions increased by 19.45% to ₱531.13 million. Gains on foreclosure, and sale of property and equipment and foreclosed assets rose by 3.68x to ₱274.99 million as a result of higher sale of foreclosed assets. Foreign exchange gains and miscellaneous income fell by 1.04% and 22.7%, respectively, to ₱48.37 million and ₱50.57 million.

Total Expenses, excluding provision for credit and impairment losses went up by 3.27% to ₱5.03 billion. Compensation and fringe benefits slightly went up by 0.09% to ₱1.82 billion as a result of the provisions on the collective bargaining agreement (CBA). Taxes and licenses decreased by 3.37% to ₱802.19 million from lower documentary stamp taxes. Rent and utilities increased by 11.74% to ₱532.28 million. Depreciation and amortization declined by 18.55% to ₱462.53 million from lower depreciation expense on foreclosed assets. Insurance, on the other hand, grew by 19.31% to ₱334.83 million on account of higher PDIC insurance from higher deposit volume. Service fees and commissions and subscription fees also increased by 25.27% and 11.44%, respectively, to ₱229.71 million and ₱107.65 million as a result of new subscriptions on systems. Entertainment and recreation expenses declined by 9.24% to ₱97.39 million. Management and professional fees and amortization of software costs went up by 7.01% and 16.74%, respectively, to ₱85.02 million and ₱53.6 million. Miscellaneous expense also increased by 31.45% to ₱501.81 million from ₱381.76 million.

As a result of the reversal of provisions, the Bank's provision for credit and impairment losses is at negative ₱634.82 million for the year 2021.

The Bank recorded its share in the net loss of associate at ₱1.04 million in 2021, 38.01% higher than the previous year of ₱0.75 million.

Income Tax Expense amounted to ₱623.69 million, 142.56% higher from ₱257.12 million the previous year.

Analysis of Statements of Condition

	as of Dec 31, 2021	as of Dec 31, 2020	Dec 21 vs Dec 20 (Change)	Dec 21 vs Dec 20 (% Change)	% to Total Assets Dec 2021	% to Total Assets Dec 2020
Resources						
Cash & Other Cash Items	2,747,781	2,420,505	327,276	13.52%	1.38%	1.42%
Due from the BSP - net	45,367,143	39,547,211	5,819,932	14.72%	22.72%	23.14%
Due from Other Banks - net	1,039,456	1,023,256	16,201	1.58%	0.52%	0.60%
Interbank Loans Receivables - net	19,133,505	22,055,828	(2,922,323)	-13.25%	9.58%	12.90%
Investment Securities	6,049,729	16,689,667	(10,639,938)	-63.75%	3.03%	9.76%
Financial Assets At Fair Value	6,049,729	16,689,667	(10,639,938)	-63.75%	3.03%	9.76%
At Fair Value through Profit/Loss	994,613	1,265,419	(270,807)	-21.40%	0.50%	0.74%
At FVOCI	5,055,117	15,424,248	(10,369,131)	-67.23%	2.53%	9.02%
Available for Sale Invesments	0	0	-	0.00%	0.00%	0.00%
Investment Securities at amort cost	42,909,057	9,146,278	33,762,780	369.14%	21.49%	5.35%
Loans and Receivables - net	74,374,125	71,628,349	2,745,776	3.83%	37.24%	41.91%
Non-current Assets Held for Sale	0	0	-	0.00%	0.00%	0.00%
Investment in Associate - net	39,662	40,687	(1,026)	-2.52%	0.02%	0.02%
Property and Equipment - net	1,472,398	1,659,401	(187,003)	-11.27%	0.74%	0.97%
Investment Properties - net	3,448,315	3,624,987	(176,672)	-4.87%	1.73%	2.12%
Deferred Tax Assets - net	743,505	955,380	(211,875)	-22.18%	0.37%	0.56%
Other Assets - net	2,387,937	2,129,133	258,805	12.16%	1.20%	1.25%
Total Assets	**199,712,614**	**170,920,681**	**28,791,933**	**16.85%**	**100.00%**	**100.00%**
Liabilities and Capital						
Deposit Liabilities	**171,713,823**	**149,105,611**	**22,608,212**	**15.16%**	**85.98%**	**87.24%**
Demand	48,702,340	39,659,286	9,043,054	22.80%	24.39%	23.20%
Savings	108,874,920	83,743,821	25,131,099	30.01%	54.52%	49.00%
Time	9,107,144	20,673,084	(11,565,940)	-55.95%	4.56%	12.10%
Long-term Negotiable Certificate	5,029,420	5,029,420	-	0.00%	2.52%	2.94%
Bills Payable	0	19	(19)	-100.00%	0.00%	0.00%
Financial Liabilities at FVPL	0	0	-	0.00%	0.00%	0.00%
Manager's Checks	951,460	870,080	81,381	9.35%	0.48%	0.51%
Accrued Interest, Taxes and Other Expenses	1,021,626	892,463	129,162	14.47%	0.51%	0.52%
Other Liabilities	2,662,971	3,286,046	(623,075)	-18.96%	1.33%	1.92%
Total Liabilities	**176,349,881**	**154,154,219**	**22,195,662**	**14.40%**	**88.30%**	**90.19%**
Capital Funds	**23,362,734**	**16,766,463**	**6,596,271**	**39.34%**	**11.70%**	**9.81%**
Total Liabilities & Capital	**199,712,614**	**170,920,681**	**28,791,933**	**16.85%**	**100.00%**	**100.00%**

The Bank ended 2021 with total assets amounting to ₱199.71 billion, 16.85% higher than previous year's ₱170.92 billion mainly from the increase in investment securities at amortized cost alongside with the increase in loans and other receivables, and these were partially offset by the decrease in investment securities at fair value and lower interbank loans receivables.

Cash and Other Cash Items and Due from BSP accounts went up by 13.52% and 14.72%, respectively, to ₱2.75 billion and ₱45.37 billion. Due from other banks also increased by 1.58% to ₱1.04 billion. Interbank loans receivable however went down by 13.25% to ₱19.13 billion in 2021.

Financial assets at fair value declined by 63.75% to ₱6.05 billion driven by the sale of financial assets at FVTPL and FVOCI which decreased to ₱994.61 million and ₱5.06 billion, respectively. Investment securities at amortized cost, on the other hand, increased by 3.69x to ₱42.91 billion.

Loans and other receivables amounted to ₱74.37 billion, 3.83% higher than the same period last year largely driven by increase in corporate loans. The Bank's loan-to-deposit ratio was recorded at 43.9%.

Investment in Associate continued its downtrend to ₱39.66 million from ₱40.69 million the previous year. Property and Equipment decreased by 11.27% to ₱1.47 billion from ₱1.66 billion in 2020. Investment Properties also went down to ₱3.45 billion from ₱3.62 billion. From ₱955.38 million in 2020, deferred tax assets fell by 22.18% to ₱743.51 million. Other Assets, on the other hand, increased by 12.16% to ₱2.39 billion from ₱2.13 billion in 2020.

Total liabilities increased to ₱176.35 billion as of December 31, 2021, driven by the 15.16% increase in deposit liabilities. Increase in deposit liabilities to ₱171.71 billion in 2021 was driven by higher demand and savings volumes which were up by 22.8% and 30.01%, respectively, to ₱48.7 billion and ₱108.87 billion, respectively. Manager's Checks and Accrued Interest, Taxes and Other Expenses also went up by 9.35% and 14.47%, respectively, to ₱951.46

million and ₱1.02 billion. Other liabilities, on the other hand, fell by 18.96% to ₱2.66 billion from ₱3.29 billion the previous year.

The Bank's total capital funds rose by 39.34% to ₱23.36 billion as of December 31, 2021 from ₱16.77 billion the previous year, owing to a ₱5.5 billion capital infusion in 2021.

11.5.3 For the year ended 31 December 2020 compared with year ended 31 December 2019

Analysis of Statements of Income

	December 31, 2020	December 31, 2019	Horizontal analysis		Vertical analysis	
			Increase / (Decrease)		2020	2019
INTEREST INCOME						
Loans and receivables	4,840,144	4,920,061	(79,917)	-1.62%	70.42%	84.35%
Investment securities at FVOCI and at amortized cost	919,374	1,117,092	(197,718)	-17.70%	13.38%	19.15%
Due from Bangko Sentral ng Pilipinas and other banks	265,528	163,457	102,071	62.45%	3.86%	2.80%
Interbank loans receivable and SPURA	238,044	315,570	(77,526)	-24.57%	3.46%	5.41%
Financial assets at FVPL	16,991	16,059	932	5.81%	0.25%	0.28%
	6,280,081	**6,532,238**	**(252,157)**	**-3.86%**	**91.37%**	**111.99%**
INTEREST EXPENSE						
Deposit liabilities	1,127,728	2,346,267	(1,218,538)	-51.94%	16.41%	40.22%
Lease liabilities	42,921	45,361	(2,439)	-5.38%	0.62%	0.78%
Bills payable and others	1,106	4,856	(3,750)	-77.23%	0.02%	0.08%
	1,171,755	**2,396,483**	**(1,224,728)**	**-51.11%**	**17.05%**	**41.09%**
NET INTEREST INCOME	**5,108,326**	**4,135,755**	**972,571**	**23.52%**	**74.32%**	**70.90%**
OTHER INCOME						
Trading and investment securities gains - net	1,147,574	355,689	791,885	222.63%	16.70%	6.10%
Service charges, fees and commissions	444,637	477,274	(32,637)	-6.84%	6.47%	8.18%
Foreign exchange gains - net	48,876	67,994	(19,118)	-28.12%	0.71%	1.17%
Gains on foreclosure, and sale of property and equipment and foreclosed assets - net	58,765	336,288	(277,524)	-82.53%	0.85%	5.77%
Miscellaneous	65,418	459,861	(394,444)	-85.77%	0.95%	7.88%
	1,765,269	**1,697,107**	**68,163**	**4.02%**	**25.68%**	**29.10%**
GROSS INCOME	**6,873,596**	**5,832,862**	**1,040,734**	**17.84%**	**100.00%**	**100.00%**
OTHER EXPENSES						
Compensation and fringe benefits	1,819,392	1,684,538	134,854	8.01%	26.47%	28.88%
Taxes and licenses	830,158	773,892	56,266	7.27%	12.08%	13.27%
Depreciation and amortization	567,851	480,445	87,406	18.19%	8.26%	8.24%
Rent and utilities	476,343	505,773	(29,430)	-5.82%	6.93%	8.67%
Provision for credit and impairment losses	962,510	52,095	910,415	1747.60%	14.00%	0.89%
Insurance	280,638	245,451	35,187	14.34%	4.08%	4.21%
Service Fees and Commissions	183,374	278,525	(95,152)	-34.16%	2.67%	4.78%
Entertainment and recreation	107,305	123,336	(16,031)	-13.00%	1.56%	2.11%
Subscription fees	96,595	69,303	27,292	39.38%	1.41%	1.19%
Management and professional fees	79,453	65,801	13,652	20.75%	1.16%	1.13%
Amortization of software costs	45,908	34,144	11,764	34.45%	0.67%	0.59%
Miscellaneous	381,759	399,785	(18,026)	-4.51%	5.55%	6.85%
	5,831,286	**4,713,088**	**1,118,198**	**23.73%**	**84.84%**	**80.80%**
INCOME BEFORE SHARE IN NET LOSS OF ASSOCIATE AND INCOME TAX	**1,042,309**	**1,119,774**	**(77,465)**	**-6.92%**	**15.16%**	**19.20%**
SHARE IN NET LOSS OF ASSOCIATE	753	2,865	(2,112)	-73.72%	0.01%	0.05%
INCOME BEFORE INCOME TAX	**1,041,556**	**1,116,909**	**(75,353)**	**-6.75%**	**15.15%**	**19.15%**
INCOME TAX EXPENSE	257,122	464,186	(207,064)	-44.61%	3.74%	7.96%
NET INCOME	**784,434**	**652,723**	**131,711**	**20.18%**	**11.41%**	**11.19%**

As of 31 December 2020, the Bank reported a Net Income after Tax of ₱784.43 million or ₱131.71 million increased from ₱652.72 million for the same period last year. The increase in net income was mainly due to higher gains in trading and investment securities.

Total Interest Income went down by 3.86% to ₱6.28 billion from ₱6.53 billion recorded last year.

Interest Income on Loans and Receivables dropped by 1.62% to ₱4.84 billion, from ₱4.92 billion in 2019. Interest Income from deposits with BSP and Other Banks went up by 62.45% to ₱265.53 million in 2020, while Interest earned from Interbank Loans Receivable and SPURA decreased to ₱238.04 million in 2020 from ₱315.57 million. On the other hand, Interest Income on Investment Securities at Fair Value through Other Comprehensive Income and at Amortized Cost amounted to ₱919.37 million in 2020 and lower by ₱197.72 million in 2019, while Interest earned from Financial Assets at Fair Value though Profit or Loss slightly increased to ₱16.99 million from ₱16.06 million in 2019.

Interest Expense on Deposit Liabilities decreased by 51.94% to ₱1.13 billion from ₱2.35 billion in 2019 due to lower rates in 2020 versus 2019. Interest incurred from Bills Payable and Others also went down by 77.23% to ₱1.11 million from ₱4.86 million the same period last year. Interest Expense on Lease Liabilities dropped to ₱42.92 million from ₱45.36 million in 2019.

The Bank's Net Interest Income grew by 23.52% to ₱5.11 billion from P4.14 billion in 2019.

Total Other Operating Income increased by 4.02% to ₱1.77 billion from ₱1.70 billion in 2019 due to higher Trading and Investment Securities Gains.

The Bank posted a ₱1.15 billion trading and investment securities gains versus a ₱355.69 million in 2019. Service Charges, Fees and Commissions dropped by 6.84% to ₱444.64 million from ₱477.27 million in 2019. Foreign Exchange gains also decreased to ₱48.88 million from ₱67.99 million in 2019. The Bank recorded ₱58.76 million Gains on Foreclosure and Sale of Property and Equipment and Foreclosed Assets, lower than the ₱336.29 million in 2019. Miscellaneous Income went down to ₱65.42 million in 2020 from ₱459.86 million due to impact of previous year's gain on exchange of property.

Other Operating Expenses, excluding provision for credit and impairment losses, increased by 4.46% to ₱4.87 billion in 2020 from ₱4.66 billion. Compensation and Fringe Benefits went up by 8.01% to ₱1.82 billion while Taxes and Licenses rose to ₱830.16 million, or 7.27% higher than the ₱773.89 million for the same period last year. Rent and Utilities went down to ₱476.34 million in 2020 from ₱505.77 million. Depreciation and Amortization increased by 18.19% from ₱480.44 million in 2019. Service Fees and Commission were lower at ₱183.37 million from ₱278.52 million in 2019.

The Bank posted ₱280.64 million Insurance while Entertainment and Recreation was at ₱107.30 million. Management and Professional Fees increased to ₱79.45 million from ₱65.80 million in 2019 while Amortization of Software Costs increased by 34.45% from ₱34.14 million the same period last year. Miscellaneous Expense was at ₱381.76 million in 2020 from ₱399.78 million.

The Bank set aside ₱962.51 million in Provision for Credit and Impairment Losses in 2020.

The Bank recorded its share in the net loss of BIC at ₱0.75 million, 73.72% lower than the ₱2.86 million in 2019.

Analysis of Statements of Condition

	as of Dec 31, 2020	as of Dec 31, 2019	Dec 20 vs Dec 19 (Change)	Dec 20 vs Dec 19 (% Change)	% to Total Assets 2020	% to Total Assets 2019
Resources						
Cash & Other Cash Items	2,420,505	1,776,399	644,106	36.26%	1.42%	1.22%
Due from the BSP - net	39,547,211	21,955,496	17,591,715	80.12%	23.14%	15.14%
Due from Other Banks - net	1,023,256	670,482	352,774	52.62%	0.60%	0.46%
Interbank Loans Receivables - net	22,055,828	13,429,280	8,626,548	64.24%	12.90%	9.26%
Investment Securities	16,689,667	2,443,617	14,246,050	582.99%	9.76%	1.68%
Financial Assets At Fair Value	16,689,667	2,443,617	14,246,050	582.99%	9.76%	1.68%
At Fair Value through Profit/Loss	1,265,419	1,053,760	211,660	20.09%	0.74%	0.73%
At FVOCI	15,424,248	1,389,857	14,034,391	1009.77%	9.02%	0.96%
Available for Sale Invesments	0	0	-	0.00%	0.00%	0.00%
Investment Securities at amort cost	9,146,278	22,547,833	(13,401,555)	-59.44%	5.35%	15.55%
Loans and Receivables - net	71,628,349	73,742,262	(2,113,912)	-2.87%	41.91%	50.85%
Non-current Assets Held for Sale	0	48,122	(48,122)	-100.00%	0.00%	0.03%
Investment in Associate - net	40,687	41,444	(756)	-1.82%	0.02%	0.03%
Property and Equipment - net	1,659,401	1,741,075	(81,674)	-4.69%	0.97%	1.20%
Investment Properties - net	3,624,987	3,729,769	(104,783)	-2.81%	2.12%	2.57%
Deferred Tax Assets - net	955,380	880,301	75,079	8.53%	0.56%	0.61%
Other Assets - net	2,129,133	2,027,207	101,925	5.03%	1.25%	1.40%
Total Assets	**170,920,681**	**145,033,286**	**25,887,396**	**17.85%**	**100.00%**	**100.00%**
Liabilities and Capital						
Deposit Liabilities	**149,105,611**	**123,856,188**	**25,249,423**	**20.39%**	**87.24%**	**85.40%**
Demand	39,659,286	34,158,478	5,500,808	16.10%	23.20%	23.55%
Savings	83,743,821	72,016,565	11,727,256	16.28%	49.00%	49.66%
Time	20,673,084	17,681,145	2,991,939	16.92%	12.10%	12.19%
Long-term Negotiable Certificate	5,029,420	0	5,029,420	0.00%	2.94%	0.00%
Bills Payable	187	105	82	77.70%	0.00%	0.00%
Financial Liabilities at FVPL	0	0	-	0.00%	0.00%	0.00%
Manager's Checks	870,080	923,460	(53,380)	-5.78%	0.51%	0.64%
Accrued Interest, Taxes and Other Expens	892,463	815,035	77,429	9.50%	0.52%	0.56%
Other Liabilities	3,286,046	3,343,506	(57,461)	-1.72%	1.92%	2.31%
Total Liabilities	**154,154,387**	**128,938,294**	**25,216,093**	**19.56%**	**90.19%**	**88.90%**
Capital Funds	**16,766,463**	**16,094,991**	**671,471**	**4.17%**	**9.81%**	**11.10%**
Total Liabilities & Capital	**170,920,849**	**145,033,286**	**25,887,564**	**17.85%**	**100.00%**	**100.00%**

The Bank's Total Assets as of 31 December 2020 stood at ₱170.92 billion, which was 17.85% higher than the ₱145.03 billion level in December 2019. The significant improvement in assets was due to the increased in due from banks and investment portfolios.

Loans and Receivables, net of allowance for credit losses and unearned interest income, representing 41.91% of total assets went down 2.87% or ₱2.11 billion to ₱71.63 billion in December 2020 from ₱73.74 billion.

Cash and Other Cash Items increased by 36.26% to ₱2.42 billion as of 31 December 2020 from ₱1.78 billion. Due from BSP, representing 23.14% of total assets, increased to ₱39.55 billion from ₱21.96 billion in December 2019, and Due from Other Banks increased by 52.62% to ₱1.02 billion in December 2020 from ₱0.67 billion. On the other hand, Interbank Loans Receivable and Securities Purchased under Resale Agreements as of 31 December 2020 went up by 64.24% or ₱8.63 billion to ₱22.06 billion from ₱13.43 billion in December 2019.

Investment Securities at Amortized Cost decreased by 59.44% to P9.15 billion in December 2020 from ₱22.55 billion. These investment securities represent 5.35% of total assets as of 31 December 2020

Financial Assets at Fair Value through Profit or Loss stood at ₱1.27 billion as of 31 December 2020. This was 20.09% higher than the ₱1.05 billion level in December 2019.

Financial Assets at Fair Value through Other Comprehensive Income increased by ₱14.03 billion to ₱15.4 billion from ₱1.39 billion in December 2019.

Investment in Associate slightly decreased to ₱40.69 million from ₱41.44 million in December 2019.

Property and Equipment decreased by 4.69% to ₱1.66 billion in December 2020 from ₱1.74 billion.

Investment Properties went down to ₱3.62 billion as of 31 December 2020 from ₱3.73 billion in December 2019.

Deferred Tax Assets increased by 8.53% to ₱0.96 billion as of 31 December 2020 from ₱0.88 billion in December 2019. On the other hand, Other Assets went up to ₱2.13 billion as of 31 December 2020 from ₱2.03 billion in December 2019.

The Bank's deposit levels, representing 96.72% of total liabilities, went up by 20.39% or ₱25.25 billion to ₱149.11 billion with the addition of ₱5.03B LTNCD, from ₱123.86 billion as of 31 December 2019. Savings and Time Deposits increased by 16.28% to ₱83.74 billion and 16.92% to ₱20.67 billion, respectively, while Demand Deposits grew by 16.10% to ₱39.66 billion.

Manager's Checks and Acceptances Payable was recorded at ₱0.87 billion as of 31 December 2020 from ₱0.92 billion. Accrued Interest, Taxes and Other Expenses went up by 9.50% to ₱0.89 billion from P0.82 billion in December 2019. Other liabilities decreased to ₱3.29 billion as of 31 December 2020 from ₱3.34 billion.

The Bank's Equity went up by 4.17% to ₱16.77 billion from ₱16.09 billion as of 31 December 2019. The increase was mainly due to the Net Income for the year of 2019.

As of 31 December 2020, CAR was at 16.6%. This is above the minimum regulatory requirement of 10.0%. The Bank posted losses on 'Cumulative Translation Adjustment' under equity amounting to ₱15.04 million, as compared with December 2019 which posted a gain of ₱2.01 million.

11.5.4 For the year ended 31 December 2019 compared with year ended 31 December 2018

Analysis of Statements of Income

	December 31, 2019	December 31, 2018	Horizontal analysis Increase / (Decrease)		Vertical analysis 2019	2018
INTEREST INCOME						
Loans and receivables	4,920,061	3,668,711	1,251,350	34.11%	84.35%	84.47%
Investment securities at FVOCI and at amortized cost	1,117,092	1,123,886	(6,794)	-0.60%	19.15%	25.88%
Due from Bangko Sentral ng Pilipinas and other banks	163,457	62,668	100,789	160.83%	2.80%	1.44%
Interbank loans receivable and SPURA	315,570	96,860	218,709	225.80%	5.41%	2.23%
Financial assets at FVPL	16,059	266,130	(250,072)	-93.97%	0.28%	6.13%
	6,532,238	**5,218,256**	**1,313,982**	**25.18%**	**111.99%**	**120.15%**
INTEREST EXPENSE						
Deposit liabilities	2,346,267	1,508,937	837,330	55.49%	40.22%	34.74%
Lease liabilities	45,361	-	45,361		0.78%	0.00%
Bills payable and others	4,856	10,024	(5,168)	-51.56%	0.08%	0.23%
	2,396,483	**1,518,961**	**877,523**	**57.77%**	**41.09%**	**34.97%**
NET INTEREST INCOME	**4,135,755**	**3,699,295**	**436,460**	**11.80%**	**70.90%**	**85.18%**
OTHER INCOME						
Trading and investment securities gains - net	355,689	(109,415)	465,103	-425.08%	6.10%	-2.52%
Service charges, fees and commissions	477,274	391,813	85,461	21.81%	8.18%	9.02%
Foreign exchange gains - net	67,994	58,755	9,239	15.72%	1.17%	1.35%
Gains on foreclosure, and sale of property and equipment and foreclosed assets - net	336,288	207,380	128,909	62.16%	5.77%	4.77%
Miscellaneous	459,861	95,335	364,526	382.36%	**7.88%**	**2.20%**
	1,697,107	**643,868**	**1,053,239**	**163.58%**	**29.10%**	**14.82%**
GROSS INCOME	**5,832,862**	**4,343,164**	**1,489,698**	**34.30%**	**100.00%**	**100.00%**
OTHER EXPENSES						
Compensation and fringe benefits	1,684,538	1,557,771	126,767	8.14%	28.88%	35.87%
Taxes and licenses	773,892	702,954	70,939	10.09%	13.27%	16.19%
Depreciation and amortization	480,445	259,042	221,403	85.47%	8.24%	5.96%
Rent and utilities	505,773	683,571	(177,798)	-26.01%	8.67%	15.74%
Provision for credit and impairment losses	52,095	(181,118)	233,213	-128.76%	0.89%	-4.17%
Insurance	245,451	229,304	16,146	7.04%	4.21%	5.28%
Service Fees and Commissions	278,525	-	278,525		4.78%	0.00%
Entertainment and recreation	123,336	142,180	(18,844)	-13.25%	2.11%	3.27%
Subscription fees	69,303	-	69,303		1.19%	0.00%
Management and professional fees	65,801	89,015	(23,214)	-26.08%	1.13%	2.05%
Amortization of software costs	34,144	57,382	(23,238)	-40.50%	0.59%	1.32%
Miscellaneous	399,785	562,357	(162,573)	-28.91%	6.85%	12.95%
	4,713,088	**4,102,458**	**610,630**	**14.88%**	**80.80%**	**94.46%**
INCOME BEFORE SHARE IN NET LOSS OF ASSOCIATE AND INCOME TAX	**1,119,774**	**240,706**	**879,068**	**365.20%**	**19.20%**	**5.54%**
SHARE IN NET LOSS OF ASSOCIATE	2,865	1,844	1,021	55.33%	0.05%	0.04%
INCOME BEFORE INCOME TAX	**1,116,909**	**238,861**	**878,048**	**367.60%**	**19.15%**	**5.50%**
INCOME TAX EXPENSE	464,186	255,406	208,780	81.74%	7.96%	5.88%
NET INCOME	**652,723**	**(16,545)**	**669,267**	**-4045.19%**	**11.19%**	**-0.38%**

As of 31 December 2019, the Bank reported a Net Income after Tax of ₱652.72 million or ₱669.27 million increased from ₱16.54 million Net Loss after Tax for the same period last year. The increase in net income was due to higher core and other operating income.

Total Interest Income grew by 25.18% to ₱6.53 billion from ₱5.22 billion recorded last year.

Interest Income on Loans and Receivables improved by 34.11% or ₱1.25 billion, from ₱3.67 billion in 2018. Interest Income from deposits with BSP and Other Banks went up by 68.76% to ₱163.46 million in 2019, while Interest earned from Interbank Loans Receivable and SPURA increased to ₱315.57 million in 2019 from ₱266.13 million. On the other hand, Interest Income on Investment Securities at Fair Value through Other Comprehensive Income and at Amortized Cost amounted to ₱1.12 billion both in 2019 and 2018, while Interest earned from Financial Assets at Fair Value though Profit or Loss declined by 74.38% to ₱16.06 million from ₱62.67 million in 2018.

Interest Expense on Deposit Liabilities increased by 55.49% to ₱2.35 billion from ₱1.51 billion in 2018 while total deposits declined by 5.58% in 2018. The increase in Interest Expense on Deposit Liabilities was due to higher rates in 2019 versus 2018. Interest incurred from Bills Payable and Others went down by 51.56% to ₱4.86 million from ₱10.02 million the same period last year. As a result of the adoption of PFRS 16 Leases, the Bank recognized ₱45.36 million Interest Expense on Lease Liabilities in 2019.

The Bank's Net Interest Income grew by 11.80% to ₱4.14 billion from ₱3.70 billion in 2018.

Total Other Operating Income increased by 163.58% or ₱1.05 billion to ₱1.70 billion from ₱643.87 million in 2018 due to higher Trading and Investment Securities Gains and Miscellaneous Income for the same period last year.

The Bank posted a ₱355.69 million trading and investment securities gains versus a ₱109.41 million trading and investment securities losses in 2018. Service Charges, Fees and Commissions improved by 21.81% to ₱477.27 million from ₱391.81 million in 2018. Foreign Exchange gains increased to ₱67.99 million from ₱58.76 million in 2018. The Bank recorded ₱336.29 million Gains on Foreclosure and Sale of Property and Equipment and Foreclosed Assets, 62.16% higher than the ₱207.38 million in 2018. Miscellaneous Income went up by 382.36% to ₱459.86 million in 2019 from ₱95.33 million due to gain on exchange of property.

Other Operating Expenses, excluding provision for credit and impairment losses, increased by 8.81% to ₱4.66 billion in 2019 from ₱4.28 billion. Compensation and Fringe Benefits went up by 8.14% to ₱1.68 billion while Taxes and Licenses rose to ₱773.89 million, or 10.09% higher than the ₱702.95 million for the same period last year. Rent and Utilities went down to ₱505.77 million in 2019 from ₱683.57 million. Depreciation and Amortization increased by 85.47% or ₱221.40 million from ₱259.04 million in 2018 due to adoption of PFRS 16 Leases. Service Fees and Commission were higher at ₱278.53 million from ₱140.65 million in 2018.

The Bank posted ₱245.45 million Insurance while Entertainment and Recreation was at ₱123.34 million. Management and Professional Fees decreased to ₱65.80 million from ₱89.01 million in 2018 while Amortization of Software Costs declined by 40.50% from ₱34.14 million the same period last year. Miscellaneous Expense was at ₱469.09 million in 2019 from ₱421.71 million.

The Bank set aside ₱52.10 million in Provision for Credit and Impairment Losses in 2019. On the other hand, Reversal of Provision for Credit and Impairment Losses was posted at ₱181.12 million in 2018.

The Bank recorded its share in the net loss of BIC at ₱2.87 million, 55.33% higher than the ₱1.84 million in 2018.

Analysis of Statements of Condition

	as of Dec 31, 2019	as of Dec 31, 2018	Dec 19 vs Dec 18 (Change)	Dec 19 vs Dec 18 (%Change)	% to Total Assets 2019	% to Total Assets 2018
Resources						
Cash & Other Cash Items	1,776,399	1,748,071	28,328	1.62%	1.22%	1.15%
Due from the BSP - net	21,955,496	21,424,140	531,356	2.48%	15.14%	14.15%
Due from Other Banks - net	670,482	3,838,048	(3,167,567)	-82.53%	0.46%	2.53%
Interbank Loans Receivables - net	13,429,280	11,983,627	1,445,653	12.06%	9.26%	7.91%
Investment Securities	2,443,617	9,810,592	(7,366,975)	-75.09%	1.68%	6.48%
Financial Assets At Fair Value	2,443,617	9,810,592	(7,366,975)	-75.09%	1.68%	6.48%
At Fair Value through Profit/Loss	1,053,760	1,836,409	(782,649)	-42.62%	0.73%	1.21%
At FVOCI	1,389,857	7,974,183	(6,584,326)	-82.57%	0.96%	5.27%
Available for Sale Invesments	-	0	-	0.00%	0.00%	0.00%
Investment Securities at amort cost	22,547,833	23,211,088	(663,255)	-2.86%	15.55%	15.33%
Loans and Receivables - net	73,742,262	72,271,061	1,471,201	2.04%	50.85%	47.73%
Non-current Assets Held for Sale	48,122	48,122	-	0.00%	0.03%	0.03%
Investment in Associate - net	41,444	39,982	1,461	3.66%	0.03%	0.03%
Property and Equipment - net	1,741,075	1,149,839	591,236	51.42%	1.20%	0.76%
Investment Properties - net	3,729,769	3,122,625	607,144	19.44%	2.57%	2.06%
Deferred Tax Assets - net	880,301	1,003,191	(122,890)	-12.25%	0.61%	0.66%
Other Assets - net	2,027,207	1,761,721	265,486	15.07%	1.40%	1.16%
Total Assets	**145,033,286**	**151,412,108**	**(6,378,822)**	**-4.21%**	**100.00%**	**100.00%**
Liabilities and Capital						
Deposit Liabilities	**123,856,188**	**131,178,223**	**(7,322,035)**	**-5.58%**	**85.40%**	**86.64%**
Demand	34,158,478	28,834,196	5,324,282	18.47%	23.55%	19.04%
Savings	72,016,565	77,608,568	(5,592,003)	-7.21%	49.66%	51.26%
Time	17,681,145	24,735,460	(7,054,315)	-28.52%	12.19%	16.34%
Long-term Negotiable Certificate	-	-	-	0.00%	0.00%	0.00%
Bills Payable	105	557,472	(557,367)	-99.98%	0.00%	0.37%
Financial Liabilities at FVPL	-	0	-	0.00%	0.00%	0.00%
Manager's Checks	923,460	615,496	307,964	50.04%	0.64%	0.41%
Accrued Interest, Taxes and Other Expens	815,035	956,487	(141,452)	-14.79%	0.56%	0.63%
Other Liabilities	3,343,506	2,597,311	746,195	28.73%	2.31%	1.72%
Total Liabilities	**128,938,294**	**135,904,989**	**(6,966,695)**	**-5.13%**	**88.90%**	**89.76%**
Capital Funds	**16,094,991**	**15,507,118**	**587,873**	**3.79%**	**11.10%**	**10.24%**
Total Liabilities & Capital	**145,033,286**	**151,412,108**	**(6,378,822)**	**-4.21%**	**100.00%**	**100.00%**

The Bank’s Total Assets as of 31 December 2019 stood at ₱145.03 billion, which was 4.21% lower than the ₱151.41 billion level in December 2018. The significant decrease in assets was due to the declined in due from other banks and investment portfolios.

Loans and Receivables, net of allowance for credit losses and unearned interest income, representing 50.85% of total assets increased by 2.04% or ₱1.47 billion to ₱73.74 billion in December 2019 from ₱72.27 billion. Mortgage and Auto Loans grew by 22.06% and 28.79%, respectively.

Cash and Other Cash Items increased by 1.62% to P1.78 billion as of 31 December 2019 from ₱1.75 billion. Due from the BSP, representing 15.14% of total assets, increased to ₱21.96 billion from ₱21.42 billion in December 2018, while Due from Other Banks decreased by 82.53% to ₱670.48 million in December 2019 from ₱3.84 billion. On the other hand, Interbank Loans Receivable and Securities Purchased under Resale Agreements as of 31 December 2019 went up by 12.06% or ₱1.45 billion to ₱13.43 billion from ₱11.98 billion in December 2018.

Investment Securities at Amortized Cost decreased by 2.86% to ₱22.55 billion in December 2019 from ₱23.21 billion. These investment securities represent 15.55% of total assets as of 31 December 2019.

Financial Assets at Fair Value through Other Comprehensive Income declined by 82.57% or ₱6.58 billion to ₱1.39 billion from ₱7.97 billion in December 2018. The significant decrease in these securities was due to sale of investments in 2019.

Financial Assets at Fair Value through Profit or Loss stood at ₱1.05 billion as of 31 December 2019. This was 42.62% lower than the ₱1.84 billion level in December 2018.

Investment in Associate increased to ₱41.44 million from ₱39.98 million in December 2018.

Property and Equipment increased by 51.42% or ₱591.24 million to ₱1.74 billion in December 2019 from ₱1.15 billion. The increase in Property and Equipment was due to the adoption of PFRS 16 Leases, which became effective 1 January 2019. As result of this adoption, the Bank recognized Right-of-Use assets amounting to ₱550.48 million. The new standard introduced a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Prior to the adoption of PFRS 16, the Bank classified property leases as operating leases under PAS 17.

Investment Properties went up to ₱3.73 billion as of December 31, 2019 from ₱3.12 billion in December 2018 due to foreclosure and exchange of real estate properties. Meanwhile, Non-current Assets Held for Sale stood at ₱48.12 million both in December 2019 and 2018.

Deferred Tax Assets decreased by 12.25% to ₱880.30 million as of 31 December 2019 from ₱1.00 billion in December 2018. On the other hand, Other Assets went up to ₱2.03 billion as of December 2019 from ₱1.76 billion in December 2018 due to the increase in creditable withholding tax and intangible assets.

The Bank's deposit levels, representing 96.06% of total liabilities, went down by 5.58% or ₱7.32 billion to ₱123.86 billion from ₱131.18 billion as of 31 December 2018. Savings and Time Deposits decreased by 7.21% to ₱72.02 billion and 28.52% to ₱17.68 billion, respectively, while Demand Deposits grew by 18.47% to ₱34.16 billion.

Bills Payable declined by 99.98% to ₱0.11 million as of 31 December 2019 from ₱557.47 million. This was mainly due to the settlement of securities sold under repurchase agreement transactions.

Manager's Checks and Acceptances Payable was recorded at ₱923.46 million as of 31 December 2019 from ₱615.50 million. Accrued Interest, Taxes and Other Expenses went down by 14.79% to ₱815.03 million from ₱956.49 million in December 2018. Other liabilities increased to ₱3.43 billion as of 31 December 2019 from ₱2.60 billion.

The Bank's Equity went up by 3.79% to ₱16.09 billion from ₱15.51 billion as of 31 December 2018. The increase was mainly due to the Net Income for the year of 2019. Net Unrealized Gains on Financial Assets at Fair Value through Other Comprehensive Income increased by ₱165.87 million to ₱36.11 million. Remeasurement Losses on Retirement Liability stood at ₱320.00 million as of 31 December 2019 from ₱95.31 million.

As of 31 December 2019, CAR was at 15.93%. This is above the minimum regulatory requirement of 10.0%. The Bank posted gains on 'Cumulative Translation Adjustment' under equity amounting to ₱2.01 million, as compared with December 2018 which posted a gain of ₱12.64 million.

11.6 LIQUIDITY

The following table sets forth selected information from the Bank's Statement of Cash Flows in (₱ thousands) for the periods indicated.

	For the year ended 31 December			**For the 3-month period ended 31 March**	
	2019	**2020**	**2021**	**2021**	**2022**
Net cash from (used in) operating activities	(7,956,750)	26,984,187	21,606,952	23,848,727	(6,430,455)
Net cash from (used in) investing activities	7,399,684	430,650	(23,545,853)	(16,379,160)	(2,227,362)
Net cash from (used in) financing activities	(705,423)	(177,893)	5,264,073	(46,223)	3,255,084
Net cash	(1,273,113)	27,219,525	3,347,587	7,437,724	(5,419,160)
Cash and cash equivalents at	38,993,886	37,720,773	64,940,298	64,940,298	68,287,885

	For the year ended 31 December			For the 3-month period ended 31 March	
	2019	2020	2021	2021	2022
beginning of the period					
Cash and cash equivalents at end of the period	37,720,773	64,940,298	68,287,885	72,378,022	62,868,725

11.6.1 Cash flows from operating activities

As of 31 March 2022, the bank generated net cash outflow from operating activities amounting to ₱6.43 billion. The main source of cash came from income from continuing operations of ₱493.24 million which is subjected to adjustments from noncash income/loss such as depreciation and amortization (₱106.15 million), gain on foreclosure and sale of property and equipment and foreclosed assets (₱85.02 million), unrealized losses on financial assets at fair value through profit or loss (₱19.54 million), amortization of software costs (₱15.00 million), provisions (₱1.45 million), share in net loss of associate (₱0.25 million), and the net inflow is primarily driven by the ₱1.91 billion and ₱1.38 billion increase in deposit liabilities and other liabilities, respectively. The main uses of cash are mainly driven by loans and receivables of ₱10.33 billion and decrease of financial assets at fair value through profit or loss of ₱221.55 million.

As of 31 March 2021, the bank generated net cash inflow from operating activities amounting to ₱23.85 billion. The main source of cash came from income from continuing operations of ₱237.14 million which is subjected to adjustments from noncash income/loss such as depreciation and amortization (₱129.62 million), provisions (₱58.83 million), gain on foreclosure and sale of property and equipment and foreclosed assets (₱49.30 million), unrealized losses on financial assets at fair value through profit or loss (₱24.30 million), amortization of software costs (₱10.30 million), gain on sale of financial assets at fair value through other comprehensive income (₱5.29 million), share in net loss of associate (₱0.61 million), and the net inflow is primarily driven by the ₱25.40 billion increase in deposit liabilities. The main uses of cash are mainly driven by loans and receivables of ₱1.27 billion and decrease of financial assets at fair value through profit or loss of ₱438.58 million.

As of 31 December 2021, the bank generated net cash inflow from operating activities amounting to ₱21.61 billion. The main source of cash came from income from continuing operations of ₱1.83 billion which is subjected to adjustments from noncash income/loss such as reversal of credit and impairment losses (₱635.19 million), depreciation and amortization (₱462.53 million), gain on foreclosure and sale of property and equipment and foreclosed assets (₱274.99 million), loss on sale of financial assets at fair value through other comprehensive income (₱68.88 million), amortization of software costs (₱53.60 million), unrealized loss on financial assets at fair value through profit or loss (₱4.19 million), share in net loss of associate (₱1.04 million), and the net inflow is primarily driven by the ₱22.61 billion increase in deposit liabilities. The main uses of cash are mainly driven by loans and receivables of ₱2.05 billion and decrease of financial assets at fair value through profit or loss of ₱266.62 million.

As of 31 December 2020, the bank generated net cash inflow from operating activities amounting to ₱26.98 billion. The main source of cash came from income from continuing operations of ₱1.04 billion which is subjected to adjustments from noncash income/loss such as Provisions (₱958.88 million), Gain on sale of investment securities at amortized cost (₱767.03 million), depreciation and amortization (₱567.85 million), Gain on sale of financial assets at fair value through other comprehensive income (₱280.74 million), Unrealized gains on financial assets at fair value through profit or loss (₱69.73 million), gain on foreclosure and sale of property and equipment and foreclosed assets (₱58.76 million), amortization of software costs (₱45.91 million), miscellaneous income (₱6.60 million), share in net loss of associate (₱0.75 million), and the net inflow is primarily driven by the ₱25.25 billion increase in deposit liabilities. The main uses of cash are mainly driven by loans and receivables of ₱1.14 billion and acquisition of financial assets at fair value through profit or loss of ₱141.93 million.

As of 31 December 2019, the bank generated net cash outflow from operating activities amounting to ₱7.96 billion. The main source of cash came from income from continuing operations of ₱1.12 billion which is subjected to adjustments from noncash income/loss such as provisions (₱52.23 million), depreciation and amortization (₱480.44 million), gain on sale of financial assets at fair value through other comprehensive income (₱198.83 million), unrealized gains on financial assets at fair value through profit or loss (₱135.54 million), gain on foreclosure and sale of property and equipment and foreclosed assets (₱336.29 million), amortization of software costs (₱34.14 million), miscellaneous income (₱363.45 million), share in net loss of associate (₱2.87 million), and decrease in deposit liabilities of ₱7.32 billion. The main uses of cash are mainly driven by increase in loans and receivables of ₱1.64 billion and decrease of financial assets at fair value through profit or loss of ₱0.92 billion.

11.6.2 Cash flows from investing activities

As of 31 March 2022, net cash used in investing activities was recorded at ₱2.23 billion. Total inflows were from the proceeds from sale or redemption of investment securities at amortized cost (₱8.13 billion), investment properties (₱82.73 million), and property and equipment (₱9.15 million). These were offset with additions to investment securities at amortized cost (₱10.40 billion), property and equipment (₱25.52 million), software costs (₱19.37 million), and investment properties (₱0.78 million).

As of 31 March 2021, net cash used in investing activities was recorded at ₱16.38 billion. Total inflows were from the proceeds from sale or redemption of financial assets at fair value through other comprehensive income (₱12.13 billion), investment securities at amortized cost (₱1.32 billion), investment properties (₱48.49 million), and property and equipment (₱13.47 million). These were offset with additions to investment securities at amortized cost (₱27.46 billion), financial assets at fair value through other comprehensive income (₱2.38 billion), property and equipment (₱45.81 million), and software costs (₱9.84 million).

As of 31 December 2021, net cash used in investing activities was recorded at ₱23.55 billion. Total inflows were from the proceeds from sale or redemption of financial assets at fair value through other comprehensive income (₱17.43 billion), investment securities at amortized cost (₱15.17 billion), investment properties (₱308.01 million), and property and equipment (₱45.24 million). These were offset with additions to investment securities at amortized cost (₱48.93 billion), financial assets at fair value through other comprehensive income (₱7.36 billion), property and equipment (₱157.00 million), software costs (₱48.97 million), and investment properties (₱1.10 million).

As of 31 December 2020, net cash provided by investing activities was recorded at ₱430.65 million. Total inflows were from the proceeds from sale or redemption of investment securities at amortized cost (₱20.04 billion), financial assets at fair value through other comprehensive income (₱16.02 billion), investment properties (P50.09 million), and property and equipment (₱45.45 million). These were offset with additions to financial assets at fair value through other comprehensive income (₱29.74 billion), investment securities at amortized cost (₱5.87 billion), property and equipment (₱98.23 million), software costs (₱16.16 million), and investment properties (₱2.10 million).

As of 31 December 2019, net cash provided by investing activities was recorded at ₱7.40 billion. Total inflows were from the proceeds from sale or redemption of: investment securities at amortized cost (₱1.56 billion), financial assets at fair value through other comprehensive income (₱10.02 billion), investment properties (₱94.05 million), and property and equipment (₱49.15 million). These were offset with additions to financial assets at fair value through other comprehensive income (P3.07 billion), investment securities at amortized cost (₱0.89 billion), property and equipment (₱207.30 million), software costs (₱131.60 million), and investment properties (₱21.24 million).

11.6.3 Cash flows from financing activities

As of 31 March 2022, net cash provided by financing activities was recorded at ₱3.26 billion. This is primarily due to issuance of common stock of ₱3.30 billion and payment of lease liability amounting to ₱49.13 million.

As of 31 March 2021, net cash used in financing activities was recorded at ₱46.22 million. This is primarily due to payment of lease liability and settlement of bills payable amounting to ₱46.21 million and ₱0.01 million, respectively.

As of 31 December 2021, net cash provided by financing activities was recorded at ₱5.26 billion. This is primarily due to issuance of preferred stock of ₱5.45 billion and payment of lease liability and settlement of bills payable amounting to ₱188.45 million and ₱0.02 million, respectively.

As of 31 December 2020, net cash used for financing activities was recorded at ₱177.89 million. This is primarily due to payment of lease liability and settlement of bills payable amounting to ₱177.81 million and ₱0.09 million, respectively.

As of 31 December 2019, net cash used for financing activities was recorded at ₱705.42 million. This is primarily due to payment of lease liability and settlement of bills payable amounting to ₱148.06 million and ₱557.37 million, respectively.

11.7 MATERIAL COMMITMENTS FOR CAPITAL EXPENDITURES

The Bank's commitments for capital expenditures will be funded from the proceeds of the sale of acquired assets and cash flows from the Bank's operations. This generally covers investments relating to the Bank's digital transformation initiatives, enhancement of customer banking experience, technology upgrades and branch physical infrastructure.

The Bank's capital expenditures for the years ended 31 December 2019, 2020, and 2021, and three (3) months ended 31 March 2022 were ₱338.88 million, ₱114.39 million, ₱205.97 million and ₱44.89 million, respectively. The Bank's primary capital expenditures during those periods were mainly invested in IT-related expenses, repairs and maintenance, and refurbishment of branch network.

11.8 CONTINGENT FINANCIAL OBLIGATIONS AND OFF-BALANCE SHEET TRANSACTIONS

The Bank has outstanding commitments and contingent liabilities from the normal course of operations. The Bank does not anticipate losses that will materially affect its financial condition and results of operations as a result of these transactions.

The following is a summary of the Bank's commitments and contingencies at their peso equivalent contractual amounts arising from off-books accounts as at 31 March 2022 in:

	For the year ended 31 December			**For the period ended 31 March**
	2019	**2020**	**2021**	**2022**
Contingent assets				
Future/ spot exchange bought	101,270,000	168,080,500	229,495,500	1,262,181,968
Outward bills for collection	1,012,065	3,286,476	2,999,218	207,275
Fixed income securities purchased	60,938,300	248,291	25,218,255	59,684,517
TOTAL	**163,220,364**	**171,615,267**	**257,712,973**	1,322,073,760
Commitments and Contingent Liabilities				
Trust department accounts	41,432,823,122	39,422,371,051	63,687,480,988	68,907,791,507
Credit card lines	4,114,539,042	3,708,362,146	3,362,130,139	3,334,860,248
Committed credit line	3,325,000,000	3,577,500,000	6,828,080,056	6,185,580,056
Outstanding guarantees	1,695,038,981	1,165,637,379	2,271,624,364	2,270,274,796
Unused commercial letters of credit	382,345,641	800,505,453	8,417,817,547	8,895,486,576

	For the year ended 31 December			For the period ended 31 March
	2019	**2020**	**2021**	**2022**
Future/ spot exchange sold	658,255,000	528,253,000	841,483,500	2,400,550,154
Late deposits/ payments received	99,280,942	171,532,610	4,636,985	16,675,794
Fixed income securities sold	19,752	496,582	-	158,460,967
Items held for safekeeping/ securities held as collateral	851,068	54,088	42,112	46,797
TOTAL	**51,708,153,548**	**49,374,712,309**	**85,413,295,691**	92,169,726,895

The assets pledged by the Bank are strictly for the purpose of providing collateral for the counterparty. To the extent that the counterparty is permitted to sell and/or re-pledge the assets, they are classified in the statements of financial position as pledged collateral. The pledged assets will be returned to the Bank when the underlying transaction is terminated but, in the event of the Bank's default, the counterparty is entitled to apply the collateral in order to settle the liability.

No asset is being pledged by the Bank to secure outstanding liabilities as of 31 March 2022.

11.9 CAPITAL ADEQUACY

The Philippines adopted capital adequacy requirements based on the Basel II Capital Accord through the issuance of BSP Circular 538, as amended by BSP Circular No. 781. BSP Circular No. 781 embodies the implementing guidelines of the revised Basel II standards and the reforms introduced by Basel III.

As of 31 March 2022, the Bank's total capital adequacy ratio as reported to BSP (the ratio of total qualifying capital to risk-weighted assets), on a consolidated basis, was 22.10%, and the Bank's consolidated CET1 capital adequacy ratio as reported to BSP was 16.69%. Both ratios were above the capital adequacy requirements of the BSP applicable to the Bank as of 31 March 2022.

The following table sets out details of capital resources and capital adequacy ratios of the Bank as of the dates indicated:

	For the year ended 31 December			For the period ended 31 March
	2019	**2020**	**2021**	**2022**
Common Equity Tier 1 (CET1)	15,987,237,953	16,080,422,257	17,452,240,252	20,717,809,987
Paid-up common stock	11,224,111,200	11,224,111,200	11,224,111,200	14,030,139,200
Additional paid-in capital	5,594,079,646	5,594,079,646	5,542,922,931	6,037,786,078
Retained earnings	-925,581,647	-1,096,816,388	417,830,498	1,146,235,304
Undivided profits	160,593,744	647,529,562	702,985,757	264,926,115
Other comprehensive income	-65,964,990	-288,481,763	-435,610,133	-761,276,711
Deduction from CET1	1,272,496,333	960,093,190	1,705,253,402	1,540,693,680

	For the year ended 31 December			For the period ended 31 March
	2019	**2020**	**2021**	**2022**
Deferred tax assets	135,389,474	22,152,524	875,659,689	743,505,416
Other intangible assets	302,788,504	273,039,369	268,417,082	272,788,833
Other equity investments in non-financial allied undertakings and non-allied undertakings	42,346,048	41,076,452	39,830,242	39,661,590
Reciprocal investments in common stock of other banks/quasi-banks and financial allied undertakings including securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases)	21,101,617	21,420,998	30,458,405	35,182,273
Securitization tranches and structured products which are rated below investment grade or are unrated	770,870,690	602,403,847	490,887,983	449,555,569
Total CET1 Capital	14,714,741,620	15,120,329,067	15,746,986,850	19,177,116,307
Additional Tier 1 Capital	-	-	5452543902	5,400,438,639
Instruments issued by the bank that are eligible as AT1 capital – Perpetual preferred shares	-	-	4166666700	4,166,666,700
Additional paid-in capital-Preferred Shares	-	-	1285877202	1,233,771,939
Total Tier 1 Capital	14,714,741,620	15,120,329,067	21,199,530,752	24,577,554,945
Tier 2 Capital	-	-		
Appraisal increment reserve – bank premises, as authorized by the Monetary Board	9,704,425	-	0	0
General loan loss provision, limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio	827,327,228	984,152,889	929,773,976	804,754,972

	For the year ended 31 December			For the period ended 31 March
	2019	**2020**	**2021**	**2022**
Total Tier 2 Capital	837,031,653	984,152,889	929,773,976	804,754,972
Total Qualifying Capital	15,551,773,273	16,104,481,956	22,129,304,729	25,382,309,917
Capital Ratios				
CET1 capital ratio	15.10%	15.60%	15.35%	16.69%
Capital Conservation Buffer	9.10%	9.60%	9.30%	10.70%
Tier 1 capital ratio	15.10%	15.60%	20.70%	21.40%
Total capital adequacy ratio	15.90%	16.60%	21.57%	22.10%

	For the year ended 31 December			For the period ended 31 March
	2019	**2020**	**2021**	**2022**
Risk-weighted on-balance sheet assets	**86,461,700,251**	**84,429,512,851**	**81,927,847,003**	**93,089,343,981**
20%	1,315,894,669	1,248,432,243	549,388,608	573,699,776
50%	4,341,110,328	4,961,205,699	5,442,028,566	6,258,794,666
100%	76,690,220,647	73,487,245,671	71,507,526,091	81,624,369,457
150%	4,114,474,607	4,732,629,238	4,428,903,737	4,632,480,082
Risk-weighted off-balance sheet	**3,260,595,245**	**3,547,011,197**	**11,036,737,139**	**10,851,186,529**
100%	3,260,595,245	3,547,011,197	11,036,737,139	10,851,186,529
Counterparty risk-weighted assets in the trading book	12,722,044	12,065,779	12,813,499	15,530,675
Total credit risk-weighted assets	89,735,017,539	87,988,589,827	92,873,736,585	103,956,061,185
Market risk-weighted assets	409,222,674	733,210,431	332,907,695	466,192,968
Operational risk-weighted assets	7,472,406,961	8,310,351,034	9,404,089,062	10,450,669,752
Total risk-weighted assets	**97,616,647,174**	**97,032,151,292**	**102,610,733,342**	**114,872,923,905**

11.10 SECURITIES OFFERINGS

The Bank issues securities from time to time to raise funds and maintain its capital adequacy ratios.

11.10.1 Primary Offer of Common Shares by Way of an Initial Public Offering ("IPO")

On 31 March 2022, the Bank issued 280,602,800 new common shares (the "**Offer Shares**") on the Philippine Stock Exchange ("**PSE**") at a price of ₱12.00 per share raising a total amount of ₱3,367.2 million from its initial public offering. The Bank intends to use the net proceeds from the sale of the Offer Shares to fund its lending activities, acquisition of investment securities, and financial capital expenditure requirements in connection with the upgrading of its automated teller machine (ATM) fleet and its core banking system.

The IPO is part of the Bank's Universal Banking license application. With a unibank license, the Bank will have more opportunities to generate and warehouse interest bearing assets like marketable securities, generate more fee-based income, and manage risk of securities underwritten and held for trading. This will also enable the bank to enhance its marketing relationship with existing and prospective clients in the large corporate and middle market segments as it will be carrying a broader range of products, from traditional working capital lines and term loans to project finance, initial public offerings, mergers and acquisitions, financial advisory, etc. The latter services are essential to large businesses in planning their expansion programs as a response to the increasing demand brought about by the robust economy.

11.10.2 Maiden Long Term Negotiable Certificates of Time Deposit Issuance

On 17 March 2020, the Bank issued ₱5.0 billion unsecured LTNCD with 4.5% fixed interest rate and maturing on 17 September 2025. The issuance of the LTNCD was approved by the BOD on 25 June 2019 and by the BSP on 31 October 2019.

11.10.3 ₱5.5 billion Preferred Shares Private Placement

On 5 August 2021, SMC Equivest Corporation ("**SMC Equivest**"), a wholly owned subsidiary of San Miguel Corporation, subscribed to 41,666,667 Series 1 Preferred Shares of Bank of Commerce for ₱5,500,000,044.00, which was fully paid on the same date. The preferred shares are cumulative, non-voting, non-participating, perpetual, and convertible into common shares at a ratio of 1:1 (i.e. one preferred share is convertible into one common share) and at the option of the preferred shareholder after five (5) years from the date of issuance, subject to requirements under laws, rules, and regulations. Dividends shall accrue at a rate of 2.50% p.a. in the first year, 3.00% p.a. in the second year, 4.00% p.a. in the third year, 5.00% p.a. in the fourth year, and 5.50% p.a. beginning on the fifth year onwards from issuance. The dividends shall be payable either in cash or in shares at the discretion of the Bank. The foregoing capital infusion is in compliance with the requirement of the BSP for the Bank to meet the minimum capitalization requirements for banks applying for a universal banking license. Prior to such subscription, SMC Equivest owned 4.69% of the outstanding capital stock of the Bank comprising of common shares. The terms and conditions of the Preferred Shares, including the dividend rate, were approved by the BSP.

11.11 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has loan transactions with investees and certain DOSRI. Under the Bank's policies, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks. For more information, see the section titled "*Related Party Transactions*" beginning on page [•] of this Offering Circular.

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 31 March 2022. 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 31 March 2022
Board of Directors		
Francis C. Chua	Chairman, Non-Executive Director	13 yrs. & 10 mos.
Benedicta Du-Baladad	Vice-Chairperson Non-Executive Director	8 yrs & 2mos.
Michelangelo R. Aguilar	President and CEO, Executive Director	3 yrs. & 9 mos.
Roberto C. Benares	Former President and CEO, Non-Executive Director	8 yrs. & 11 mos.
Fe B. Barin	Non-Executive Director	7 yrs. & 11mos.
Carolina G. Diangco	Non-Executive Director	9 yrs & 6mos.
Marito L. Platon	Non-Executive Director	11 yrs. & 11 mos.
Mariano T. Katipunan, Jr.	Non-Executive Director	3 yrs & 11 mos. 2nd appointment as Caritas nominee, previously for 2yrs – 1st appointment as Caritas nominee
Alexander R. Magno	Non-Executive Director	7 yrs. & 7mos.
Aniano A. Desierto	Independent Director	8 yrs. & 7mos.
Jose C. Nograles	Independent Director	6 yrs & 11 mos.
Melinda S. Gonzales-Manto	Independent Director	8 yrs & 6mos.
Rebecca Maria A. Ynares	Independent Director	5 yrs. & 8mos
Ricardo D. Fernandez	Independent Director	1yr & 2mos.
Board Appointees		
Jose T. Pardo	Board Advisor	18 yrs & 4 mos. as Director, 10 yrs as Chairman of the Board, and Board Advisor since 16 February 2022
Aurora T. Calderon	Board Advisor	10 yrs. & 8mos
Ferdinand K. Constantino	Board Advisor	3yrs. and 2mos. as Director and 11yrs. and 9mos. as Advisor
Cecile L. Ang	Board Advisor	6 yrs. & 5mos.

Name	Position	Years of Service As of 31 March 2022
Antonio M. Cailao	Board Advisor	3 yrs. & 9mos.
Evita C. Caballa	Corporate Secretary	11 yrs. and 9 mos. as Corporate Secretary and 1yr. & 11mos. as Asst. Corporate Secretary

FRANCIS C. CHUA
Chairman, Non-Executive Director
Filipino, 73 years old

Amb. Francis C. Chua has been a member of the Board of Directors of the Bank since 20 May 2008, sat as Vice Chairman from 2013 to 2022, and became Chairman effective on 16 February 2022. Mr. Chua used to chair the Executive Committee (ExCom) of the Bank when he was Vice Chairman of the Board. With his constant feedback and insights on best banking practices, he has been instrumental in promoting the Bank in the business community and in marketing its products and services. Amb. Chua continuously serves in the Philippine Chamber of Commerce and Industry, Inc. (PCCI), and as Consul General conferred by the Honorary Consulate General of the Republic of Peru in Manila since 2006. He was also a Board Adviser of the Office of Alternative Dispute Resolution under the Department of Justice. He was the Special Adviser on Economic Affairs under the Office of the Speaker of the House of Representatives, Congress of the Philippines since 1997. He is Honorary Trade and Investment Representative of the Department of Trade and Industry, appointed Commissioner in the Constitutional Commission, Board of Trustee of Technical Education and Skills Development Authority (TESDA), and Special Envoy on Trade and Investment (China) of the Department of Foreign Affairs since 2007. He was also a member of the Board of Directors of the Philippine Stock Exchange where he served as the Chairman of the Committee of Demutualization. He demutualized the PSE with the unanimous support of its members.

He currently serves as Chairman of BA Securities Inc., and a member of the Board of Directors of DITO Telecommunity Corporation, National Grid Corporation of the Philippines (NGCP), Global Ferronickel, Inc., and Platinum Group Metals Corp. He holds the Chairmanship of CLMC Group of Companies and Dongfeng Automotive Inc. and serves as Vice Chairman of Negros Navigation/2Go. He was the Vice Chairman of Basic Energy and Mabuhay Satellite Corp., and President of the Philippine Satellite Corp. He obtained his degree in B.S. Industrial Engineering (Cum Laude) from the University of the Philippines and was conferred Doctor in Humanities from Central Luzon State University.

BENEDICTA A. DU-BALADAD
Vice-Chairperson, Non-Executive Director
Filipino, 60 years old

Ms. Benedicta A. Du-Baladad has been a member of the Board of Directors of the Bank since 31 January 2014. She is the Vice Chairperson of the Board of Directors, Chairperson of the Executive Committee and a member of the Audit Committee. She was previously a member of the Bank's Board Risk Oversight Committee (BROC) from 2014-2017. She is the Founding Partner and CEO of Du-Baladad and Associates (BDB Law), a law firm specializing in taxation and related corporate services. Ms. Du-Baladad has over 30 years of practice in the field of taxation, 17 years of which was spent with the Bureau of Internal Revenue (BIR) working on tax administration policy development and in operations. In 2001, she joined the private sector and is now on her 16th year of private practice. She has authored three (3) books on the taxation of the financial sector.

She was the lead tax and legal consultant of the Philippine Government's Department of Finance (DOF) on its program to reform the taxation of capital income and financial intermediation services. She has been the Co-Chair of the Capital Markets Development Council (CMDC) in the Philippines from 2017 up to the present. Ms. Du-Baladad holds leadership role in major professional and business organizations in the country such as the Management Association of the Philippines (MAP) as Governor, the Financial Executives of the Philippines (FINEX) as past President, the Philippine Chamber of Commerce and Industry as Chair of the Tax Committee, the Tax Management Association of the Philippines (TMAP) as past President, and the Women Business Council of the Philippines (Womenbiz) as Vice President. She is currently a Professorial lecturer in taxation at the University of Santo Tomas (UST) and the University of the Philippines (UP). She was also a Partner and Head of Tax Compliance and Advisory of Punongbayan & Araullo from 2001 to 2009. Prior to that, she was an officer of the Bureau of Internal Revenue where she worked from 1984 to 2001. Ms. Du-Baladad is a Certified Public Accountant, graduated Magna Cum Laude with a Bachelor's Degree in Accountancy from Saint Louis University, Baguio, Philippines (1982), and holds a Bachelor of Laws degree from the University of Santo Tomas, Manila, Philippines (1989). Her educational background includes Advanced Management Program at Wharton School of the University of Pennsylvania, Pennsylvania, USA (2007) and Master of Laws and International Tax Program at the Harvard University, Cambridge, MA, USA. She is a fellow at the Institute of Corporate Directors. She is a regular columnist of the Business Mirror's 'Tax Law for Business'.

MICHELANGELO R. AGUILAR
President and CEO, Executive Director
Filipino, 65 years old

Mr. Michelangelo R. Aguilar was elected member of the Board of Directors and appointed President and Chief Executive Officer (CEO) of the Bank on 16 July 2018. He is a member of the following committees: Executive Committee (Excom), Information Technology Steering Committee (ITSC), and Trust and Investment Committee (TIC).

Mr. Aguilar has over 38 years of banking experience in the areas of Corporate and Investment Banking, Global Markets and Treasury. He has 22 years of experience with international banks starting his career as an Executive Trainee at Citibank Philippines and rising through the ranks in the areas of Banking Operations, Treasury and Sovereign Risk as Assistant Manager, Manager, and Assistant Vice President. He held senior positions as Country Treasurer and then as Managing Director and Head of Wholesale Bank at Standard Chartered Philippines. For 13 years prior to joining the Bank, he was Treasurer and Head of Corporate Banking in Solid Bank Corporation and Rizal Commercial Banking Corporation, respectively. He was also a Director of RCBC Rental Corporation and RCBC Leasing and Finance Corporation. He graduated with a degree in Bachelor of Science in Mechanical Engineering from De La Salle University and later acquired a Master's Degree in Business Management from the Asian Institute of Management. He is a licensed Mechanical Engineer and a Certified Treasury Professional by the Bankers Association of the Philippines (BAP).

ROBERTO C. BENARES
Former President and CEO, Non-Executive Director
Filipino, 68 years old

Mr. Roberto C. Benares has been elected as member of the Board of Directors of the Bank since 30 April 2013. He assumed his position as President and CEO of Bank of Commerce on 1 August 2013 and was succeeded by Mr. Michelangelo R. Aguilar on 16 July 2018. He currently sits as Director and chairs the Information Technology Steering Committee (ITSC). He is also a member of the Board Risk Oversight Committee (BROC). During his tenure as President and CEO, he took the lead in strengthening the Bank by framing its superior service culture to achieve its recent milestones.

Previously, Mr. Benares was the Managing Director of Maybank ATR Kim Eng Capital Partners, Inc. He started his banking career at Bancom Development Corp. as Assistant Treasurer prior to holding the position of Vice President of Account Management at United Coconut Planters Bank. He also served as Managing Director at Asian Alliance and Executive Vice President at Insular Investment & Trust Corporation, and Vice President at Philamlife. He holds a degree in Bachelor of Science in Mechanical Engineering from De La Salle University and has a Master's Degree in Business Management at the Asian Institute of Management.

FE B. BARIN
Non-Executive Director
Filipino, 87 years old

Mrs. Fe B. Barin has been a member of the Board of Directors since April 24, 2014. Mrs. Barin's career in the government service has been in the regulatory and supervisory agencies. She spent a total of fifty three (53) years of service in the government, forty four of which in the then Central Bank of the Philippines and the Bangko Sentral ng

Pilipinas where she served as Member of the Monetary Board from 2002 to 2004. She was the first Chairperson of the Energy Regulatory Commission created under the EPIRA in 2001, which position she occupied from August 2001 to September 2002 prior to her appointment as Monetary Board member. In Sept. 2004, she was appointed Chairperson of the Securities and Exchange Commission for a seven year term ending 2011. As Chairperson of the SEC, she was ex Officio member of the Anti Money Laundering Council and Chairperson of the Credit Information Corporation. She also served as Assistant Legal Counsel in the Philippine Deposit Insurance Corporation on secondment from the then Central Bank.

Mrs. Barin graduated from the College of Law, University of the Philippines, passed the Bar examinations given the same year and admitted to the Philippine Bar in 1957.

She is a Lifetime Fellow of the Institute of Corporate Directors and one of the Institute's Teaching Fellows, a Fellow of the Institute of Solidarity in Asia, a founding member of the Judicial Reform Initiative, a Member of the Board of Trustees of the Philippine Good Works Mission Foundation, Inc., all non stock non profit associations. She is also a member of the Board of Directors of the General Milling Corporation and Executive Vice President, Manila Bulletin Publishing Company.

CAROLINA G. DIANGCO
Non-Executive Director
Filipino, 78 years old

Ms. Carolina G. Diangco has been a member of the Board of Directors of the Bank since April 2012. In July 2018, she briefly served as adviser for the Related Party Transactions Committee (RPTCom) and Board Risk Oversight Committee (BROC). She is currently a member of the Executive Committee (Excom), and the RPTCom. Previously, she served as member of the Board Risk Oversight Committee, Audit Committee and Nominations, Compensation and Remuneration Committee (NCRC). Ms. Diangco is also a member of the Board of Directors of Cocolife Asset Management Co., Inc., and UGPB General Insurance Co., Inc. since 2009.

Since 1998, she has been a member of the Board of Directors of United Coconut Planters Life Assurance Corp. and sits as an executive member in its Executive Committee, Finance and serves as the Chairperson of the Audit Committee. She was a member of the Board of Directors of the United Coconut Planters Bank (UCPB) from 2002 up to 2007 where she served as executive member of the Loans Committee and the Chairperson of the Audit Committee. She held various senior positions in UCPB Rural Bank, as member of the Board of Directors; CIIF Finance Corporation, UCPB Foundation and UCPB Securities, Inc., as Treasurer; and as Controller in Mastercaterers, Inc., UCPB Condominium Corporation and UCPB Properties, Inc. From UCPB, she brings with her 38 years of core banking experience rising from the ranks to Senior Vice President-Controller upon retirement in 2002. Ms. Diangco also served as consultant at Central Visayas Finance Corporation (CVFC) taking an advisory role on over-all management and controllership of the company and was conferred to on aspects of Accounting, Treasury, Credit Cards and Risk Management from 2004 to 2015. She holds a degree in B.S. Business Administration Major in Accounting at the University of the Philippines and is a Certified Public Accountant.

MARITO L. PLATON
Non-Executive Director
Filipino, 68 years old

Mr. Marito L. Platon was elected last 30 April 2010 as member of the Board of Directors of the Bank. He is currently a member of the Information Technology Steering Committee (ITSC), Corporate Governance Committee (CGCom), Board Risk Oversight Committee (BROC) (former Chairman), Related Party Transactions Committee (RPTCom), and previously, of the Audit Committee. Mr. Platon has been the driving force behind the consistent growth of the Bank’s business in partnership with clients.

Mr. Platon has 27 years of treasury and corporate finance experience at San Miguel Corporation and Coca-Cola Bottlers Philippines, Inc. (CCBPI) as Vice-President and Treasurer supervising various departments/functions in the areas of Treasury management and operations, funds planning and loans management, banking relationship, working capital management, capital budgeting and project coordination, tax administration and management, insurance and risk management, credit and collection, systems design and development, and provident fund operations as he was also the former Managing Trustee of the CCBPI Retirement Plan. Aside from formerly holding directorship and/or management positions in various companies or undertakings involved in investment banking, corporate leasing, internal auditing, security services, aquaculture operations, food retailing, among others, including education as former Chairman at non-sectarian Institute for Esoteric Studies, he was also formerly director and CFO of CCBPI's real estate companies Marangal Properties, Inc. and Luzviminda Landholdings, Inc. Mr. Platon likewise has over 30 years of rural banking experience being former Chairman and President of Rural Bank of Talisay (Batangas), Inc. Currently, he serves as Chairman and President of Villa Maria Resorts and Development Corporation, a tourism and property development family-owned corporation. A Fellow candidate at the Institute of Corporate Directors, Mr. Platon graduated in 1973 at De La Salle University with a degree in Bachelor of Science, Major in Accounting.

MARIANO T. KATIPUNAN, JR.
Non-Executive Director
Filipino, 70 years old

Mr. Mariano T. Katipunan, Jr. was first elected into the Board of Directors of the Bank in May 2015 as nominee of Caritas Health Shield, Inc. He also served as a member of the Bank's Audit and Corporate Governance committees. He was replaced by Mr. Ronnie U. Collado in June 2017. He was elected again as Director in April 2018. He is currently a member of the Bank's Audit Committee.

Mr. Mariano T. Katipunan, Jr. brings with him an extensive experience in finance and controllership having been Treasurer and Chief Finance Officer of Caritas Health Shield since its inception in 1995. He oversaw the company's financial position, including its trust fund/reserves and overseas investments. He was elected President and Chief Executive Officer in April 2018. Mr. Katipunan has likewise been Managing Director of Megacenter Diagnostics Corp. since its establishment in 1994. He was an Investment Account Officer of Equitable Financial Services in Edison, New Jersey from 1984 to 1986. He was Vice President & Division Head for Account Management Group at the International Corporate Bank in Makati from 1977 to 1983. He also previously handled account management at Citytrust Banking Corporation and market research at Far East Bank and Trust Company. Mr. Katipunan was an instructor in Business Management and Finance at the Ateneo de Manila University and in Economics and Mathematics at St. Theresa's College in Quezon City. He holds a degree in Bachelor of Arts in Economics (Honors Course) and graduated with Honors in 1972 from the Ateneo de Manila University. In addition, he has a Master's Degree in Business Management from the Asian Institute of Management (1975). He underwent training at the Foreign Exchange/Bullion Trading & Money Market departments of the Swiss Bank Corporation in New York City from 1983 to 1984 and at Citibank, N.A. in Binondo, Manila under its Executive Development Program in 1975.

ALEXANDER R. MAGNO
Non-Executive Director
Filipino, 67 years old

Mr. Alexander R. Magno became a member of the Board of Directors of the Bank on 1 August 2014 and currently sits as a member of Trust and Investment Committee (TIC); and Nominations, Compensation, and Remuneration Committee (NCRC). He is a columnist of the Philippine Star and consults for both the Department of Finance and the Steel Asia Manufacturing Corporation. Mr. Magno's career best describes him as a policy advocate, public intellectual and an activist. He served as a member of the Board of the Development Bank of the Philippines, helping supervise such programs as the Nautical Highway System from 2001 to 2010. He was Director of Steel Asia Manufacturing from 1995 to 1999 and a professor at the University of the Philippines from 1976 to 2018. After the EDSA Revolution, he served as interim director of the President's Center for Special Studies, a think tank put together during the Marcos period which supplied regular briefing papers for President Corazon C. Aquino. He helped establish the Foundation for Economic Freedom (FEF), a research and advocacy institution proposing market-driven economic policies providing research for key liberalization policies including the Liberalization of the Retail Trade, the Electricity Power Industry Reform Act and the Procurement Law. He consulted for the privatization program of the Metropolitan Waterworks and Sewerage System (MWSS) and the liberalization of the telecommunications sector. In 2005, he was appointed Commissioner of the Consultative Commission on Charter Change and served as a commissioner of the EDSA People Power Commission.

His social activism during the martial law led to his career as an instructor of political science at UP Diliman. Mr. Magno supported student representation in 1975, winning a seat at the UP Student Conference and served as Vice Chairman of the organization. Mr. Magno had regular editorial columns at the Manila Times, the Manila Chronicle, and the Manila Standard. He remains an important columnist at the Philippine Star since 2003 and his columns became main reference points for building democratic and reformist public opinion.

ANIANO A. DESIERTO
Independent Director
Filipino, 86 years old

Mr. Aniano A. Desierto has been elected as member of the Board of Directors of the Bank since 26 July 2013. He currently chairs the Bank's Corporate Governance Committee (CGCom) and Nominations, Compensation and Remuneration Committee (NCRC), and is a member of the Trust and Investment Committee (TIC). Mr. Desierto is currently the Vice President of the Philippine Constitution Association, and a member of the Paul Haris and Rotary Club.

Notably, he embodies legal, political and government expertise having served five (5) administrations as government prosecutor. He was the Ombudsman of the Republic of the Philippines from 1995 until 2002. He previously was The Special Prosecutor (formerly Tanodbayan) between 1991–1995, Deputy Chief Judge Advocate General in 1988 to 1991, General Court Martial from 1986 to 1990, and Fact-Finding Member of the Armed Forces of the Philippines from 1985 to 1986, and Judge Advocate from 1974 to 1991. He also held the position of Provincial Division Manager at the Manila Broadcasting Corporation from 1967 to 1972. He brings with him various experiences in other fields as a marketing consultant and as a member of the Board of Directors of several companies. He was the Chairman of the PNOC Development and Management Corporation from 2004 up to 2005. He was Program and Production Manager in 1961 to 1967 at the Cebu Broadcasting Company and he was Proprietor and Director of the Top Promotion, Inc. and Top Taxi Company in Cebu City. He also held the position of Provincial Division Manager at the Manila Broadcasting Corporation from 1967 to 1972. He received various awards and commendations as a government official and Ombudsman. He holds Bachelor of Laws and Bachelor of Arts degrees from the University of the Philippines, Bachelor of Management and Marketing Courses at the Ateneo de Manila University and Associated in Arts (Pre-Law) at the University of San Carlos, Cebu City.

JOSE C. NOGRALES
Independent Director
Filipino, 72 years old

Mr. Jose C. Nograles has been an elected member of the Board of Directors of the Bank since 20 April 2015. He chairs the Bank's Board Risk Oversight Committee (BROC) and serves as a member of the following Committees: Audit Committee, Corporate Governance Committee (CGCom) and Nomination, Compensation and Remuneration Committee (NCRC). He continues to be a strict advocate of the Bank's conscientious and efficient use of resources towards sustainable care for the environment. A seasoned investment banker and economist, Jose C. Nograles was President of the Philippine Deposit Insurance Corporation (PDIC) from January 2008 to May 2011 where he led PDIC's transformation to a more responsive and innovative institution. Previously, he was the Senior Executive Vice President of the Land Bank of the Philippines (LBP). In 2005, he headed LBP's Operations and Corporate Services Sector. Five years earlier, as Senior Vice President and Treasurer, he organized LBP's combined Treasury and Investment Banking. He was also concurrently Board Vice-Chairman and President of Land Bank Insurance Brokerage Inc., LBP's subsidiary engaged in insurance brokerage and foreign exchange trading.

Mr. Nograles started his career in 1969 as part of the management services staff of SGV and Company. By 1973, he worked in government as a Senior Consultant to former Secretary Arturo R. Tanco, Jr. of the Department of Agriculture and Natural Resources. After three years, he rejoined the private sector as General Manager of Sarmiento Management Corporation. He moved to Anflo Management & Investment Corporation as Vice President in 1977 to head its Automotive Group of car dealerships and the Corporate Planning Department. He later founded his family's realty company engaged in commercial building and hotel operations in Davao City in 1980. In 1984, he was appointed Assistant Minister for Planning and Project Management of the Ministry of Natural Resources. In 1991, he joined Columbian Autocar Corporation as Vice President and General Manager that introduced the Kia brand in the

Philippines. He obtained his BA in Economics with honors (Cum Laude) from the Ateneo de Manila University in 1969 and his Master's Degree in Business Administration from the Asian Institute of Management in 1973. He is a fellow of the Institute of Corporate Directors.

MELINDA S. GONZALES-MANTO
Independent Director
Filipino, 69 years old

Ms. Melinda S. Gonzales-Manto (Linda) has been a member of the Board of Directors of the Bank since January 2014. She currently Chairs the Audit Committee and serves as member of the Related Party Transactions Committee (RPTCom) and Board Risk Oversight Committee (BROC).

Ms. Manto likewise sits in the board of Eagle Cement Corporation (Eagle Cement), Petrogen Insurance Corporation (Petrogen) and RSA Foundation, Inc. She functions as Chairman of the Audit Committee and member of the Corporate Governance Committee of Eagle Cement. She chairs the Audit and Risk Oversight Committee and sits as member of the Corporate Governance Committee and Related Party Transactions Committee of Petrogen. She has been appointed as the Lead Independent Director of Eagle Cement and Petrogen.

Ms. Manto is presently a stockholder, director and the Vice-President of Linferd & Company, Inc. and ACB Corabern Holdings Corporation. She is also the Resident Agent of some multinational companies in the country and the Treasurer of a foreign company doing business in the Philippines. She is also a member of the NextGen Organization of Women Corporate Directors Phils., Inc. She was formerly a board member of the GSIS Family Bank.

Ms. Manto started her career in SyCip, Gorres, Velayo & Co. (SGV). She is a celebrated accountant and is looked up to as an expert in assurance and business advisory. Her areas of specialization include retail, manufacturing, food processing and distribution, real estate, radio and television broadcasting, technology, steam power generation, agribusiness, semiconductors and electronics. She is highly respected as well in initial public offerings, due diligence engagements, and mergers and acquisitions. Her stint in the audit corporate world lasted for more than three decades. She retired as a Partner in the Assurance and Advisory Business Services Division of SGV. While in SGV, she served as the Head of the Consumer Products Industry for Asia and the Pacific of SGV/Ernst & Young Philippines and SGV/Arthur Andersen. Wanting to expand her horizon, she also functioned as a board member and auditor of the Philippine Retailers Association for almost a decade. She was previously assigned to the Cincinnati Office of Arthur Andersen in Ohio where she spearheaded the audit engagements of manufacturing and retail clients.

Ms. Manto finished elementary and high school as valedictorian and graduated cum laude with a degree of Bachelor of Science in Business Administration, major in Accounting at the Philippine School of Business Administration. She is a Certified Public Accountant and a lifetime member of the Philippine Institute of Certified Public Accountants. She completed the Management Development Program at the Asian Institute of Management and had computer training at the Institute of Advanced Computer Technology.

REBECCA MARIA A. YNARES
Independent Director
Filipino, 45 years old

Ms. Rebecca Maria A. Ynares has been a member of the Board of Directors of the Bank since July 2016. She currently serves as member of its Related Party Transactions Committee (RPTCom), Board Risk Oversight Committee (BROC), and Audit Committee. Ms. Ynares manages the following family-owned endeavors TJCMB Enterprises, a warehousing and logistics company; Tutoring Club Franchise Philippines; and Octagon Realty and Development Corporation, where she is also the Corporate Secretary and account management lead. Ms. Ynares spearheads various sustainability and environment restoration initiatives in the Province of Rizal, including the Save Hinulugang Taktak and Ynares Eco System (YES) Programs. With the ongoing YES program, she continues to lead on projects such as installation of waste water clean-up systems, tree-planting activities, medical missions with the Provincial Health Office, feeding programs with the Department of Social Welfare and Development (DSWD), and Youth Program. She lends support to other projects devoted to finding the right balance between the diligent care of the ecosystem and economic viability of affected businesses in Rizal. On top of her advocacies as a dedicated socio-economic philanthropist, Ms. Ynares is a member of the Philippine Red Cross-Rizal Chapter and is an avid resource speaker in various trainings and seminars in the province.

Previously, she has served as a financial analyst for the Bahay Co. Real Estate Agents in Burlingame, California, USA from 2005 until 2007. She started her investment, banking and finance career at the Asia United Bank (AUB) on the areas of branch operations, marketing and investment portfolio management. Ms. Ynares holds a degree in Bachelor of Science in Business Administration and Computer Applications from De La Salle University (1999) and Associate for Arts for Professional Designation Fashion & Merchandising in San Francisco, California (2002).

RICARDO D. FERNANDEZ
Independent Director
Filipino, 67 years old

Mr. Ricardo D. Fernandez was elected as an Independent Director of the Bank effective 1 January 2021. He is currently the Chairman of the Related Party Transactions Committee (RPTCom), and a member of the Corporate Governance Committee (CGCom) and the Nomination, Compensation and Remuneration Committee (NCRC). He has worked in the investment banking industry for 40 years. Mr. Fernandez was employed at Unicapital Incorporated (UI) from 1995 to 2019, where he was appointed as President from 1997 to March 2019, became a Consultant until December 2019, and Director until March 2020. From 1980 to 1995, he was employed at Multinational Investment Bancorporation (MIB). He graduated from the De La Salle University with degrees in Behavioral Science and Business Management. He also holds a Master's degree in Business Administration from the University of the Philippines.

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 31 March 2022:

SENIOR EXECUTIVE TEAM	
Joel T. Carranto *Branch Banking Group Head*	▪Maybank Philippines Inc – *Former Community Distribution Head* ▪ Security Bank – *Former Area Business Manager/Region Head OIC* ▪Premiere Development Bank – *Former Branch Banking Group Head* ▪Eastwest Bank – *Former Branch Manager* ▪AMWAL – *Former Sr. Financial Sales Consultant* ▪RCBC – *Former Branch Center Manager, Former Account Officer, Former Senior Marketing Assistant, Former Branch Officer-at-Large, Former Branch Operations officer, Former Teller, Former Bookkeeper*
Mary Assumpta Gail C. Bautista *Transaction Banking Group Head*	▪Deutsche Bank - *Former Vice President/Senior Relationship Manager, Former Corporate Cash Management Head* ▪BDO/Equitable PCI Bank - *Former Cash Management Sales and Marketing Department Head* ▪Standard Chartered Bank (Singapore) - *Former Regional Product Manager* ▪Standard Chartered Bank (Philippines) – Former Product Manager ▪Citibank N.A. Philippines – Assistant Product Manager, Former Program Administrator
Gamalielh Ariel O. Benavides *Chief Trust Officer*	▪Sunlife of Canada Philippines, Inc. – *Former Licensed Insurance Agent* ▪BDO Private Bank, Inc. - *Former Senior Vice President / Business Development & Marketing Strategy Head, Former Trust Officer* ▪Banco Santander Philippines, Inc. – *Former Trust & Investment Services Head/ Vice President, Former Product Development, Assistant Vice President* ▪Abacus Securities Corporation – *Former Operations Head* ▪Citibank N.A. Philippines Branch – *Former Securities Services Unit Head, Former Official Assistant, Treasury, Treasury Operations* ▪Citibank N.A. Singapore Branch – *Former Manager*

SENIOR EXECUTIVE TEAM	
Manuel A. Castañeda III *Corporate Banking Group Head*	▪ Bank of Commerce – Former Corporate Banking Group 1 Head ▪ Producers Savings Bank - *Former President, CEO and Director* ▪Maybank Philippines - *Former Global Banking Head* ▪Unionbank of the Philippines - *Former Commercial Banking 1 Head* ▪International Exchange Bank - *Former Corporate Banking Team 1 and Project Finance Head and Former Relationship Manager & Head of Project Finance* ▪AsiaTrust Development Bank – *Former Unit Head, Investment Banking Group and Former Unit Head Portfolio Management* ▪BPI Express Card Corp. – *Former Merchant Assistant*
Maria Ana P. dela Paz *Credit Group Head*	▪Bank of Commerce - *Former Credit Evaluation and Review Division Head* ▪Planters Development Bank - *Former Department Head, Former Product Officer, Former Account Officer, Former Project Officer*
Ma. Katrina A. Felix *Credit Card Group Head*	▪ Best Inc- *Former Director* ▪ Boracay Gateway Hotel & Resorts - *Director* ▪ Prudentialife Foundation Inc - *Director* ▪ Prudentialife Memorial Park Inc - *Director* ▪ Prudentialife Tarlac Memorial Park Inc. - *Director* ▪ Prudentialife Travel Services Inc. – *Director* ▪Finscore Inc (sister company of Cash Credit) - *Former President* ▪Cash Credit/ CC Mobile Financial Services Phil. – *Former Country Manager* ▪Prudential Financial Services- *Former President & Managing Director, Former Chief Operating Officer* ▪Prudential Life Plan, Inc. – *Former Vice President Personnel Department* ▪Bank of America NT & SA Manila – *Former Operations Manager, MIS Department*
Louella P. Ira *Legal Services Division Head*	▪Bank of Commerce - *Former Legal Services-Operations Department Head* ▪Metropolitan Bank & Trust Co- *Former Legal Officer* ▪Metrobank Card Corporation – *Former Assistant Corporate Secretary* ▪Insular Life & Assurance Co. – *Former Legal officer* ▪Padilla Jimenez Kintanar & Asuncion – *Former Associate*
Antonio S. Laquindanum *Chief Financial Officer*	▪Australia and New Zealand Banking Group - *Former CFO Philippines and Acting COO, Former Philippine Head of Finance and Administration* ▪Ernst & Young, LLP (USA) – *Former Manager* ▪Accenture – Former *Senior Consultant/Senior Team Lead*
Marie Kristin G. Mayo *Human Resource Mgt. and Dev't. Division Head*	▪Bank of Commerce - *Former Recruitment Head* ▪The Royal Bank of Scotland (ABN AMRO Bank, Inc.) - *Former HR Head* ▪My Resource Solutions - *Former HR and Admin Manager* ▪Photokina Marketing Corporation - *Former HR Supervisor* ▪LTS Philippines Corporation – *Former Personnel Specialist* ▪Phil. Long Distance Tel. Co. – *Former Engineering Assistant*
Reginald C. Nery *Chief Audit Executive*	▪Bank of Commerce – *Former Officer-in-Charge, Compliance Division, Former Chief Audit Executive* ▪Project Management Institute Philippine Chapter - *Board of Trustee (Treasurer)* ▪Diaz Murillo Dalupan and Company, CPAs - *Former Partner and Head (Technology Performance and Governance)* ▪RCNERY and Associates - *Former President and Principal Consultant* ▪KPMG ManabatSanAgustin& Company (Formerly LayaMananghaya& Company) - *Former Partner and Head (Performance and Technology)*
Jeremy H. Reyes *Chief Risk Officer*	▪Bank of Commerce - *Former Internal Audit Division Quality Assurance Review Dept. Head* ▪HSBC – *Former Commercial Banking Business Risk & Control Management Head, Former Assistant Vice President, Management Internal, Former Assistant Manager, Credit Administration*

SENIOR EXECUTIVE TEAM	
	▪HSBC Savings - *Former Deputy Head of Audit*
Felipe Martin F. Timbol *Treasurer/ Treasury Management Group Head*	▪Bank of Commerce –*Former Treasury Management Sector Head, and Former Treasury & Fee Based Business Sector Head* ▪Rizal Commercial Banking Corp. – *Former Vice President/Fund Management Group Head* ▪Eastwest Banking Corporation - *Former Sr. Asst. Vice President/Treasury Department* ▪Bank of Southeast Asia – Former Assistant Manager/Trust Department ▪United Coconut Planters Bank – *Former Senior Trader, Former Senior Analyst, and Former General Teller*
Jay S. Velasco *Operations Group Head*	▪Bank of Commerce - *Former Loans Operations Division Head and Former Head Office Operations Support Division Head* ▪Tiaong Rural Bank - *Former Chief Operations Officer* ▪PS Bank - *Former Head Office Operations Division Head, Former Centralized Branch Operations & Support Division Head, Former Process Services Division Head* ▪BPI - *Former Funds Transfer Dept. Head, Former Central Clearing Unit Head, Former Central Clearing Unit Officer, Former Transit Center Officer, and Former Verification Officer* ▪DBS Bank Philippines – *Former Central Clearing Unit Head, Former ATM Center Head, Former Processing Center Head, and Former Centralized Verification Head*
Jose Mari M. Zerna *Consumer Banking Group Head*	▪Bank of Commerce - *Former Chief Risk Officer and Former Credit Risk Management Dept. Head* ▪ANZ Banking Group Limited – *Former Account Officer* ▪BPI Capital Corporation – *Former Corporate Finance Officer* ▪Bank of the Philippine Islands – *Former Account Officer (Institutional Banking Group)* ▪Reuters Limited - *Former Treasury Applications Specialist* ▪Misys Banking Systems Inc - *Former Senior Functional Consultant* ▪Citytrust Bank and Trust – *Former Management Trainee*
Donald Benjamin G. Limcaco *Chief Technology Officer/Digital Services Group Head*	▪Bank of Commerce – *Former Executive Support Group Head* ▪Banco de Oro Unibank – *Former Business Strategy Design Head/SVP, Former Digital Development Head/SVP, Former Virtual Banking Operations Head/SVP* ▪Bank of America- *Former Consumer Marketing & Technology Head* ▪Countrywide Financial Corporation – *Former Application Development Head* ▪DRGrace Management – *Former Managing Principal* ▪ROUNDARCH Isobar- *Former Engagement Director* ▪Deloitte Consulting – *Former Manager* ▪Electronic Data Systems – *Former Systems Engineer* ▪IBM – *Former Channel Marketing Showroom Representative*
Francisco Raymund P. Gonzales *Corporate Communication & Consumer Protection Division Head*	▪Bank of Commerce – *Former Product Development & Customer Protection Department Head* ▪ChinaBank – *Former Product Manager* ▪Metrobank – *Former Product Manager* ▪AB Capital and Investment Corp. – *Former Deal Officer* ▪Citytrust / BPI – *Former CorPlan Officer* ▪Punongbayan and Araullo – *Former Consulting Staff*
Gregorio M. Yaranon Jr. *Chief Compliance Officer*	▪City Savings Bank – *Former Chief Compliance Officer* ▪CIMB Bank Philippines Inc. – *Former Chief Compliance & Legal Officer* ▪ CIMB Bank Berhad (Malaysia) – *Former Consultant for Compliance & Legal* ▪Maybank Philippines Inc – *Former Chief Compliance Officer*

SENIOR EXECUTIVE TEAM	
	▪Unionbank – *Former Security Officer, Former Litigation Lawyer, Former HR Legal Officer/Industrial & Labor Relations Manager, and Former Compliance Officer*
Luis Martin E. Villalon *Investment Banking Group*	▪First Metro – *Former Head of Coverage Team 1 and Former Deputy Head of Equity Capital Markets* ▪Ampersand Capital Incorporated – *Former Head of Capital Markets* ▪Philippine Commercial Capital Inc – *Former Head of Capital Markets* ▪SB Capital Investment Corporation - *Former Investment Banking Director* ▪HSBC (New York Office) - *Former Vice President of Global Corporate Banking* ▪Citibank (New York Office) - *Former Assistant Vice President of Corporate and Investment Banking* ▪Houlihan Lokey Howard And Zukin - *Former Technical Assistant*

12.3 FAMILY RELATIONSHIPS AMONG MANAGEMENT

Mr. Roberto C. Benares, a Director and former President of the Bank, is related within the third civil degree of affinity to Mr. Jose T. Pardo, Chairman of the Board of Advisors. Mr. Benares is married to Mr. Pardo's niece. Other than this, no other family relationships among the directors or senior executives, either by consanguinity or affinity.

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 Pesos	Q1 2022	FY2021	FY2020	FY2019
Short-term Employee Benefits	₱133,615,816	₱544,595,527	₱530,809,650	₱536,003,622
Post Employment Benefits	₱11,595,879	₱44,934,032	₱37,430,582	₱29,240,005

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 Senior Executive Officers

Amounts in Pesos	**Salary**	**Bonuses**	**Other Annual Compensation**
Q1 2022	₱127,037,423	₱25,311,898	₱8,205,954
FY 2021	₱127,037,423	₱25,311,898	₱8,205,954
FY 2020	₱108,751,304	₱14,323,916	₱0
FY 2019	₱110,681,124	₱15,460,032	₱2,947,031

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 established a number of Board committees.

Executive Committee

The Executive Committee (Excom) is empowered to approve and/or implement any or all corporate acts within the competence of the Board except those acts expressly reserved by the Philippine Corporation Code to the Board of Directors. The Excom approves the results of performance appraisals of senior management by the President; credit related proposals within its authority; proposals to open new or relocate existing branches; proposals to sell real and other properties acquired (ROPA) by the Bank within its authority; and to engage in new products or services.

The Bank's Excom is composed of five (5) directors. The Vice-Chairman of the Board, Mr. Francis C. Chua serves as the committee's Chairman. The Executive Committee meets as often as it may be necessary to address all matters referred to it. Proposals are normally taken up *En Banc* and resolved by a majority vote of all its members. Committee meetings may be conducted through modern technologies such as, teleconferencing and video-conferencing as long as the committee members attending the meeting can actively participate in the deliberations on matters taken-up. Every member is required by regulation to participate in at least fifty percent (50%) and to physically attend at least twenty-five (25%) of all the committee meetings every year.

Audit Committee

The Audit Committee represents and assists the Board of Directors in the general oversight of the Bank's financial reporting policies, practices and controls and internal and external audit functions. It is responsible for the setting up of the internal audit division and for the appointment, removal and remuneration of the Chief Audit Executive, as well as the appointment of the External Auditor, both of whom report directly to the Audit Committee.

The Audit Committee ensures that the financial reporting framework enables the generation and preparation of accurate and comprehensive information and reports. It approves the disclosures in the annual and monthly financial statements. It also monitors and evaluates the adequacy and effectiveness of the Bank's internal control system, including information technology security and controls.

The Audit Committee reviews and approves the internal audit charter, scope and frequency of internal audits, budget, frequency, activities, staffing and organizational structure of the internal audit function, including subsequent changes. It receives key audit reports and ensures that Senior Management is taking necessary corrective actions in a timely manner to address the weaknesses, fraud, non-compliance with policies, laws and regulations and other issues identified by the internal auditors. The Audit Committee oversees also the appointment, fees and replacement of external auditors and approves the engagement contract and ensures that the scope of audit covers areas specifically prescribed by the BSP and other regulators. It also ensures that the internal audit service providers is independent and complies with sound internal auditing standards such as the Institute of Internal Auditor's Internal Standards for the Professional

Practice of Internal Auditing and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics.

The Audit Committee also establishes and maintains whistle blowing mechanism by which officers and staff, in confidence, raise concerns about possible improprieties or malpractice in matters of financial reporting, internal control, auditing or other issues and ensures that arrangements are in place for the independent investigation, appropriate follow-up action and subsequent resolution of complaints.

The Audit Committee is composed of five (5) members, three (3) of whom including the Committee Chairman, are independent directors. Independent Director Melinda Gonzales-Manto serves as the Committee Chairman.

The Bank's Internal Audit Division through the Chief Audit Executive reports functionally to the Audit Committee and administratively to the President.

The Audit Committee meets once a month but with authority to convene additional meetings, as circumstances require.

Board Risk Oversight Committee

The Board Risk Oversight Committee (BROC) is responsible for the development and supervision of the risk management program of the Bank and its trust unit. The BROC assists the BOD in identifying and evaluating risk exposure, developing risk management strategies and promoting a risk management culture in the Bank. Duties and responsibilities include, but are not limited to, the following (1) overseeing adherence to the Bank's risk appetite and risk limits; (2) endorsing for Board approval bank-wide policies on definition, assessment, management, monitoring and reporting credit, market, liquidity, operational, and IT related risks; (3) promoting continuous development and upgrade of risk practices, policies, procedures and structures; and (4) reviewing current and emerging risk exposures to prevent undue concentration of risk in any one product, market, industry or business. The Committee is composed of five (5) members, majority of whom are independent directors. Mr. Jose C. Nograles serves as the committee's Chairman.

Corporate Governance and Compensation Committee

The Corporate Governance Committee (CGCom) assists the Board in fulfilling its corporate governance responsibilities. It is responsible for ensuring the Board's effectiveness, the performance of its statutory and fiduciary responsibilities, enhancing shareholder value, and protecting shareholders' interest through effective oversight of corporate governance practices, the due observance of corporate governance principles and guidelines across all levels of the Bank's personnel and oversight in the implementation of the Bank's Compliance System.

The Committee is composed of five (5) members, majority of whom, including the committee chairman, are independent directors.

Nominations Compensation and Remuneration Committee

The Nominations, Compensation, and Remuneration Committee (NCRC) reviews and evaluates the qualifications of all persons nominated to the Board, as well as those nominated to other positions requiring appointment by the Board. The NCRC also assesses the qualifications of senior officers recommended for promotion, reviews the Bank's table of organization, succession plan, benefit proposals and outsourcing activities and providers. At the minimum, the NCRC meets quarterly but meetings may be set more frequently to enable the NCRC to properly discharge its duties and responsibilities. The Committee is composed of five (5) members, two (2) of whom, including the committee chairman, are independent directors.

Trust and Investments Committee

The Trust and Investments Committee (TIC) is primarily responsible for overseeing the trust and other fiduciary activities of the Bank. The TIC reviews and approves transactions of trust and/or fiduciary accounts trusteed or managed by the Trust Services Group including the establishment and renewal of lines and limits with financial institutions, investment outlets and counterparties. vets new investment outlets and proposed products and services to be offered to clients. It evaluates trust and other fiduciary accounts, reviews the overall business performance, governance and risk management of the Trust Services Group.

The Committee is composed of five (5) members, three (3) of whom are non-executive directors, including its chairman who is an independent director, the President of the Bank who is also a director, and the Bank’s Trust Officer.

Related Party Transactions Committee

The Related Party Transactions Committee (RPTCom) assists the Board in fulfilling its responsibility of ensuring that transactions with related parties are handled in an efficient and prudent manner, with integrity, and in compliance with relevant laws and regulations to protect the interest of depositors, creditors, and other stakeholders. For this purpose, the RPTCom evaluates on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. It likewise evaluates and vets 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 identical circumstances. The RPTCom receives the monthly report on outstanding balances of all Related Party Transactions and reports to the Board on a monthly basis the Bank’s aggregate exposure to Related Parties. The Committee is composed of five (5) members, all of whom are independent and non-executive directors. Majority of the Committee members, including the committee chairman, Mr. Aniano A. Desierto, are independent directors.

Information Technology Steering Committee

The Information Technology Steering Committee (ITSC), as tasked by the Board of Directors, has the responsibility for IT oversight function to cohesively monitor IT performance and institute appropriate actions to ensure that the Bank’s technology strategy and significant technology investments support the Bank’s business needs, strategies and objectives.

The Committee is composed of three (3) members, two (2) of whom are non-executive directors, including the committee chairman, Mr. Roberto C. Benares.

Management Committees

The Bank has also established the following management committees.
Anti-Money Laundering Committee
Asset Liability Management Committee
Bids and Awards Committee
Business Continuity Management Committee (Crisis Management Team)

Business Continuity Management Committee (BCP Team)
Cleahr (Controllership, Compliance, Legal, Audit, Human Resources, and Risk) Committee
Committee on Disciplinary Action
Credit and Collection Committee
Information Technology Steering Committee
ICAAP (Internal Capital Adequacy Assessment Process) Committee
Operations and Policies Committee
Security Committee

SECTION 13. RELATED PARTY TRANSACTION

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) 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 Circular 895 issued in March 2015. The Bank has constituted a Related Party Transactions Committee (RPTCom) which meets regularly, 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 or if they are subjected to common control or common significant influence such as subsidiaries and associates of subsidiaries or other related parties. Related parties may be individuals or corporate entities.

The Bank has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral terms, as those prevailing at the time for comparable transactions with unrelated parties. These transactions did not involve more than the normal risk of collectability or present other unfavorable conditions.

The Bank's loan transactions are in the ordinary course of business. Its loan transactions with certain DOSRIs follow the approval process for loans to DOSRI which include vetting of the RPT Committee. Further, these loans 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 31 March 2022, there were no unsecured direct or indirect loans to DOSRI.

BSP Circular No. 914 provides the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and QBs. Under the said Circular, the total outstanding loans, other credit accommodations and guarantees to each of the bank's/QB's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/QB, 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/QB; and the subsidiaries and affiliates of the lending bank/QB are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the board of directors or is appointed officer of such corporation as representative of the bank/QB as reported to the BSP.

The BSP issued Circulars No. 914 and No. 1001 allow a separate individual limit to loans of banks/QBs to their subsidiaries and affiliates engaged in energy and power generation, i.e., a separate individual limit of 25.0% of the net worth of the lending bank/QB: provided, that the unsecured portion thereof shall not exceed 12.5% of such net worth: provided further, that these subsidiaries and affiliates are not related interests of any of the director, officer and/or stockholder of the lending bank/QB; except where such director, officer or stockholder sits in the board of directors or is appointed officer of such corporation as representative of the bank/QB.

Total interest income on the DOSRI loans for the years ended 31 December 2020 and 2021 amounted to ₱26,611.00 and, respectively, and for quarter ended 31 March 2022 amounted to ₱0.00 for the Bank.

The year-end balances as of 31 December 2019, 2020, and 2021 and as of 31 March 2022 included in the Bank's financial statements are as follows (amounts in ₱ millions):

	2019	2020	2021	31 March 2022
Loans and receivables, net	24,588	21,450	29,152	30,917
Deposit liabilities	28,796	42,747	56,884	60,066

The accrued interest receivable and accrued interest payable for the years ended 31 December 2019, 2020, and 2021 and for quarter ended 31 March 2022 included in the Bank's financial statements are as follows (amounts in ₱ millions):

	2019	2020	2021	31 March 2022
Accrued interest receivable	171	131	175	195
Accrued interest payable	14	2	8	11

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 32 to the Bank's audited financial statements as of and for the years ended 31 December 2020 and 2021.

SECTION 14. SHAREHOLDERS

Based on its Public Ownership Report dated 31 March 2022, the Bank has a total outstanding and listed common shares of 1,403,013,920 of which 1,069,505,440 is non-public shares and the remaining 333,508,480 is owned by the public. This results to public float of 23.77%. 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	San Miguel Properties, Inc. (SMPI)	Filipino	447,711,800	31.91%
Common	San Miguel Corporation Retirement Plan (SMCRP)	Filipino	432,626,860	30.84%
Common	Caritas Health Shield, Inc.	Filipino	109,666,640	7.81%
Subtotal			**990,005,300**	**70.56%**
Affiliates				
Common	SMC Equivest Corporation	Filipino	68,305,560	4.87%
Common	Bancommerce Capital Corp.	Filipino	1,476,350	0.11%
Common	Bank of Commerce - Trust Services Group as Trustee for Bank of Commerce Retirement Plan	Filipino	730,670	0.05%
Subtotal			**70,512,580**	**5.03%**

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 31 March 2022:

Director	Total Direct and Indirect Shares
FRANCIS C. CHUA	10
BENEDICTA A. DU-BALADAD	10
MICHELANGELO R. AGUILAR	40,110
ROBERTO C. BENARES	10
RICARDO D. FERNANDEZ	10
MARITO L. PLATON	10
JOSE C. NOGRALES	10
CAROLINA G. DIANGCO	20,010
MELINDA S. GONZALES-MANTO	83,310
MARIANO T. KATIPUNAN, JR	10
FE B. BARIN	10
ALEXANDER R. MAGNO	10
ANIANO A. DESIERTO	10
REBECCA MARIA A. YNARES	10
JOSE T. PARDO (Board Advisor)	10
AURORA T. CALDERON (Board Advisor)	0
FERDINAND K. CONSTANTINO (Board Advisor)	70,000
CECILE L. ANG (Board Advisor)	0

Director	Total Direct and Indirect Shares
ANTONIO M. CAILAO (Board Advisor)	0
Total	**213,550**

Officer	Total Direct and Indirect Shares
MICHELANGELO R. AGUILAR (same as the other table)	-
EVITA C. CABALLA	10
FELIPE MARTIN F. TIMBOL	100,100
JOEL T. CARRANTO	20,100
MARY ASSUMPTA GAIL C. BAUTISTA	10,100
GAMALIELH ARIEL O. BENAVIDES	100
MANUEL A. CASTANEDA III	20,100
MARIA ANA P. DELA PAZ	8,100
MA. KATRINA A. FELIX	30,100
LOUELLA P. IRA	8,500
ANTONIO S. LAQUINDANUM	15,100
MARIE KRISTIN G. MAYO	5,100
REGINALD C. NERY	100,100
JEREMY H. REYES	5,100
JAY S. VELASCO	8,100
JOSE MARI M. ZERNA	8,100
DONALD BENJAMIN G. LIMCACO	1,000
FRANCISCO RAYMUND P. GONZALES	20,100
GREGORIO M. YARANON, JR.	0
LUIS MARTIN E. VILLALON	12,600
Total	**372,510**

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 following is a general description of certain Philippine tax aspects of the investment in the Bank. The following discussion is based on the laws, regulations, rulings, income tax treaties, administrative practices and judicial decisions in effect as of the date of this Offering Circular and is subject to any changes in law or regulation occurring after such date, which changes could be made on a retroactive basis. 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 following discussion 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.

The tax treatment of a prospective investor may vary depending on such investor's particular situation and certain investors may be subject to special rules not discussed below. This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to invest in the Bonds and does 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 rates. This discussion does not provide information regarding the tax aspects of acquiring, owning, holding or disposing of the Bonds under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Bonds in such other jurisdictions.

EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE BONDS, INCLUDING THE EFFECT OF ANY NATIONAL OR LOCAL TAXES, UNDER THE TAX LAWS OR REGULATIONS RELEVANT THERETO (SUCH AS BUT NOT LIMITED TO REVENUE MEMORANDUM CIRCULAR NO. 7-2015 AND RELATED ISSUANCES OF THE BIR) THAT MAY BE APPLICABLE IN THE PHILIPPINES OR ANY OTHER COUNTRY OF WHICH THEY MAY BE NATIONALS OR RESIDENTS.

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 whose residence is not within the Philippines and who is not a citizen thereof. 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 engaged in trade or 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 engaged in trade or business in the Philippines. A "domestic corporation" is created or organized under the laws of the Philippines; a "resident foreign corporation" is a non-Philippine corporation engaged in trade or business in the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business in the Philippines.

15.1 TAXATION OF INTEREST INCOME

15.1.1 Individuals

Under the Tax Code, interest income earned by individual citizens (resident or non-resident), resident aliens, and nonresident aliens engaged in trade or business in the Philippines as holders of the Bonds will generally be subject to a 20% final withholding tax. Depending on their tenor, however, Bonds issued under the Programme may qualify as long-term deposits or investments, in which case, pursuant to Revenue Regulations No. 14-2012 and Revenue Memorandum Circular No. 81- 2012, interest income derived by said individuals may be exempt from the said 20.0% final withholding tax provided the following characteristics or conditions are present:

1. The depositor or investor is an individual citizen (resident or non-resident) or resident alien or non-resident alien engaged in trade or business in the Philippines;

2. The long-term deposits or investment certificates should be under the name of the individual and not under the name of the corporation or the bank or the trust department/unit of the bank;

3. The long-term deposits or investments 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;

4. The long-term deposits or investments must be issued by banks only and not by other financial institutions;

5. The long-term deposits or investments must have a maturity period of not less than five (5) years;

6. The long-term deposits or investments must be in denominations of Ten Thousand Pesos (₱10,000) and other denominations as may be prescribed by the BSP;

7. The long-term deposits or investments 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

8. Except those specifically exempted by law or BSP rules, any other income such as gains from trading, foreign exchange gain, shall not be covered by income tax exemption.

Additionally, interest income derived from the Bonds held by common or individual trust funds or investment management accounts will be exempt from income tax, provided that: (a) the Bonds are registered in the name of the individual and not under the name of the bank or the trust department/unit administering the common or individual trust funds or investment management accounts; (b) the investment of the individual investor in the common or individual trust fund or investment management account is held/managed by a duly licensed bank for at least five (5) years; and (c) the common or individual trust account or investment management account holds on to such Bonds for at least five(5) years.

Should the holder pre-terminate Bonds with an original maturity of at least five years before the fifth (5^{th}) year (or, in the case of Bonds held by a common or individual trust fund or investment management account, the other requirements mentioned above are not met) a final tax shall be imposed on the entire income and shall be deducted and withheld by the Bank from the proceeds of the Bonds based on the remaining maturity thereof, at the rates set out below:

Holding Period	**Tax Rate**
Four years to less than five years	5%
Three years to less than four years	12%
Less than three years	20%

Thus, if Bonds are issued under the Programme with a tenor of 10 years and 6 months and are held by an Individual ("A") for five (5) years but are transferred to another Individual ("B") who, in turn, held such Bonds until their maturity (or for an additional five (5) years and six (6) months), both A and B are tax exempt. If A holds such Bonds for only four (4) years and transfers those Bonds to B who holds them until maturity (or for six (6) years and six (6) months), the entire proceeds derived by A from the Bonds would subject to a 5% final withholding tax and shall be deducted and withheld by the Bank from the proceeds of the Bonds, whereas B would exempt from withholding tax. If A holds the Bonds for six (6) years and transfers those Bonds to B, who holds the same until maturity (or for four (4) years and six (6) months), A would not be subject to final withholding tax, whereas the entire proceeds derived by B from the Bonds would be subject to 5% final withholding tax and shall be deducted and withheld by the Bank from the proceeds of the Bonds. The full illustration can be seen in RR 14-2012.

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.

15.1.2 Corporations

Interest income received by domestic and resident foreign corporations shall be subject to a final withholding tax of

20%. Interest income received by non-resident corporations not engaged in trade or business in the Philippines shall generally be subject to a final withholding tax of 25%.

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 holder. 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 holders are required to submit to the Bank, through the Paying Agent, their respective BIR-issued Tax Identification Numbers.

15.2 TAX EXEMPT STATUS

Bondholders who are exempt from 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. Such Bondholders shall submit the following requirements to the Registrar or the Selling Agents (together with their completed Application to Purchase) who shall then forward the same to the Registrar:

a. Current and valid/revalidated BIR-certified true copies of a certificate, ruling or opinion issued by the BIR, confirming the Bondholders' tax exemption;

b. For qualified individual investors and corporations/banks/trust departments or units of banks holding common or individual trust funds or investment management accounts on behalf of qualified individual investors, a duly notarized declaration (in substantially the form attached to the Registry and Paying Agency Agreement) warranting the Bondholder's tax-exempt status and undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax exemption and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities arising from the non-withholding or reduced withholding of the required tax;

c. such other documentary requirements as may be reasonably required by the Issuer or the Registrar or Paying Agent, or required under applicable regulations of the relevant taxing or other authorities.

Transfers taking place in the Register of holders 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.

15.3 DOCUMENTARY STAMP TAX

Under Republic Act No. 10963, which amended certain provisions of the Tax Code, the original issuance of the Bonds will be subject to documentary stamp taxes at the rate of ₱1.50 for every ₱200.00 of the issue value of the Bonds. The Bank is liable for the payment of the documentary stamp tax on the original issuance of the Bonds. No documentary stamp tax is imposed on the secondary transfer of the Bonds. 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.

15.4 TAXATION ON GAINS UPON THE SALE OR OTHER DISPOSITION OF THE BONDS

15.4.1 Income Tax

For Bonds that have a maturity period of less than five years, gains realized from the sale, exchange, or retirement of the Bonds are subject to income tax. However, under the Tax Code, any gain realized from the sale, exchange or retirement of Bonds, debentures and other certificates of indebtedness with an original maturity date of more than five (5) years (as measured from the date of issuance of such Bonds, debentures or other certificates of indebtedness) shall not be subject to income tax.

If the Bonds are not classifiable as capital assets and are considered ordinary assets of individual Bondholders (see discussion on capital gains below), gains from the sale or disposition of such Bonds are included in the computation of their taxable income, which is subject to the following graduated tax rates for Philippine citizens (whether residents or non-residents), or resident foreign individuals or non-resident aliens engaged in trade or business in the Philippines, effective 1 January 2018 until 31 December 2022:

Not over ₱250,000	0%
Over ₱250,000 but not over ₱400,000	20% of the excess over ₱250,000
Over ₱400,000 but not over ₱800,000	₱30,000 + 25% of the excess over ₱400,000
Over ₱800,000 but not over ₱2,000,000	₱130,000 + 30% of the excess over ₱800,000
Over ₱2,000,000 but not over ₱8,000,000	₱490,000 + 32% of the excess over ₱2,000,000
Over ₱8,000,000	₱2,410,000 + 35% of the excess over ₱8,000,000

and effective 2 January 2023 and onwards:

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 engaged in trade or business, any gain shall be subject to a 25% final withholding tax.

15.4.2 Capital Gains Tax

If the Bonds are considered as capital assets of individual holders of the Bonds, 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 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 12 months or less, 100% of the gain will be included in the computation of the taxable income. Under current law and regulations, "capital assets" excludes (i) stock in trade of the taxpayer; (ii) other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year; (iii) property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business; (iv) property used in the trade or business, of a character which is subject to the allowance for depreciation provided; or (iv) real property used in trade or business of the taxpayer.

Gains derived by domestic or resident foreign corporations from the sale or other disposition of the Bonds are included in the computation of their taxable income which is subject to income tax at the rate of 20% or 25%, respectively, effective 1 July 2020. in view of the amendments introduced by the Corporate Recovery and Tax Incentives for Enterprises ("**CREATE**") Act. 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 effective 1 January 2021, due to the CREATE Act amendments. Any gains realized by non-residents on the sale of the Bonds may be exempt from Philippine income tax or subject to preferential tax rates under an applicable tax treaty, subject to such other documentary requirements as may be reasonably required under the applicable regulations of the Philippine taxing or other authorities for purposes of claiming tax treaty relief.

15.4.3 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%.

A "dealer in securities" pertains to 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.

15.4.4 Gross Receipts Tax

Banks and non-bank financial intermediaries performing quasi-banking functions are subject to Gross Receipts Tax ("**GRT**") at the following rates:

(a) 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 5 years or less — 5%
Maturity period is more than 5 years — 1%

(b) On dividends and equity shares and net income of subsidiaries — 0%

(c) On royalties, rentals of property, real or personal, profits, from exchange and all other items treated as gross income under the Tax Code — 7%

(d) On net trading gains within the taxable year on foreign currency, debt securities, derivatives, and other similar financial instruments — 7%

Other non-bank financial intermediaries are subject to gross receipts tax at the following rates:

(a) On interest, commissions, discounts and all other items treated as gross income under the Tax Code — 5%

(b) On interests, 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 5 years or less — 5%
Maturity period is more than 5 years — 1%.

In case the maturity period is shortened thru pre-termination, the maturity period shall be reckoned to end as of the date of pre-termination for purposes of classifying the transaction and the correct rate 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%.

The pending legislation for the enactment of the PIFITA, as described above, also seeks to provide a single gross receipt tax rate of 5% to be imposed on banks, quasi banks, and certain non-bank financial intermediaries. The distinction between lending and non-lending income, as well as the maturity of the instrument, will be removed. All types of income will be taxed at 5%, except dividends, equity shares, and net income of subsidiaries, which will remain exempt.

15.4.5 Estate and Gift Taxes

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 Bonds by way of gift or donation are liable to pay Philippine donor's tax at the fixed rate of 6% based on the total gifts in excess of ₱250,000 made during the calendar year, whether the donor is a stranger or not.

The estate or donors' taxes payable in the Philippines may be credited with the amount of any estate or donors' taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor.

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.

Subject to the qualifications discussed above, in case the Bonds are transferred for less than 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 be deemed a gift and donors' taxes may be imposed on the transferor of the Bonds. The transfer of the Bonds made in the ordinary course of business (a transaction which is *bona fide*, at arm's length, and free from any donative intent) is considered as made for an adequate and full consideration in money or money's worth.

15.4.6 Package Four of the Comprehensive Tax Reform Program

As discussed, HB No 304 or the PIFITA seeks to amend the taxation of passive income, financial intermediaries, and financial transactions, including: (i) passive income taxes (*e.g.*, taxes on interest, dividends, capital gains from the sale of shares of stocks not traded through the local stock exchange); (ii) stock transaction tax and initial public offering tax; (iii) business taxes on financial intermediaries (*e.g.*, gross receipts tax, premium tax and value-added tax on certain financial institutions); and (iv) documentary stamp tax on certain financial products and transactions.

With respect to interest, HB No. 304 seeks to lower the final tax on interest from the current rate of 20% to 15%. Notably, the current tax exemption applicable to interest derived from long-term deposits and investments is removed under HB 304, and interest derived from long-term and short-term deposits and investments will be subject to final income taxes at a rate of 15%. HB No. 304 also provides that the proceeds from the sale of listed debt instruments shall be taxed at a rate of 0.1%. Gains from the sale of unlisted debt instruments shall be taxed at 15%.

It also seeks to provide a single gross receipt tax rate of 5% to be imposed on banks, quasi banks, and certain non-bank financial intermediaries. The distinction between lending and non-lending income, as well as the maturity of the instrument, will be removed. All types of income will be taxed at 5%, except dividends, equity shares, and net income of subsidiaries, which will remain exempt.

Section 36 of HB No. 304 provides that the changes contemplated thereby will be applied prospectively and only to transactions taking effect beginning 1 January 2020. Assuming that the same provision is enacted into law, any tax exemption applicable to interest income and gains derived from the sale of long-term instruments and securities issued prior to the effectivity of HB No. 304 would remain in force.

HB 304 was passed on third reading by the House of Representatives on 9 September 2019. As of 22 June 2022, HB 304 is undergoing committee hearings at the Senate. Nevertheless, the Philippine government is expected to expedite the passage of HB 304 to avert any further downgrade in the country's credit rating, especially after New York-based Fitch Ratings downgraded the country's credit outlook from stable to negative.

15.4.7 Package Two of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act

Signed by the President on 26 March 2021, the CREATE Act amends certain income tax provisions of the Tax Code. Some of the more significant amendments include the following:

(a) Reduction of Income Tax Rate for Domestic Corporations – effective 1 July 1, 2020, the taxable income derived by domestic corporations from all sources within and without the Philippines will be subject to tax at the rate of 25% (in general) or 20% (for corporations with net taxable income not exceeding ₱5 Million and with total assets not exceeding ₱100 Million, excluding land on which the corporation's office, plant and equipment are situated). The previous income tax rate was 30%;

(b) Reduction of Income Tax Rate for Resident Foreign Corporations– effective 1 July 2020, the taxable income derived by resident foreign corporations from Philippine sources shall be subject to tax at the rate of 25%. The previous income tax rate was 30%.

(c) Reduction of Income Tax Rate for Nonresident Foreign Corporations– effective 1 July 2020, the gross income derived by resident foreign corporations from Philippine sources shall be subject to tax at the rate of 25%. The previous income tax rate was 30%.

(a) ***Temporary Reduction of Minimum Corporate Income Tax ("MCIT") Rate for Domestic Corporations and Resident Foreign Corporations*** – effective only from 1 July 2020 to 30 June 2023, the gross income of domestic corporations and resident foreign corporations will be subject to MCIT at the rate of 1%. Generally, the applicable MCIT rate is 2%. MCIT shall only apply if the amount of MCIT is greater than the taxpayer's regular corporate income tax payable.

15.5 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 Joint Lead Arrangers and Joint Bookrunners, 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 Joint Lead Arrangers and the Joint 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, and Islamic banks.

According to BSP's Directory of Banks and Non-Bank Financial Institutions, as of 31 March 2022, the commercial banking sector, comprising universal and commercial banks, consisted of 45 banks, of which 20 were universal banks and 25 were commercial banks. Among the 25 commercial banks, 5 are private domestic banks, 2 are foreign bank subsidiaries, and 18 are foreign bank branches. From the 20 universal banks, 11 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 evidences 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 31 March 2022, there were 8 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 31 March 2022, there were 407 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.

During the past decade, the Philippine banking industry has been marked by two (2) major trends – the liberalization of the industry and mergers and consolidation.

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.

As of 31 March 2020, there were 24 foreign banks with branches and 2 foreign banks with subsidiaries in the Philippines, and as of 25 October 2020. Under RA 10641 and BSP Circular No. 858, Series of 2014 dated 21 November 2014 which amended the relevant provisions of the MORB implementing RA 10641, established, reputable and financially sound foreign banks may be authorized by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing or owning up to 100% of the voting stock of an existing domestic bank (including banks under receivership or liquidation, provided no final court liquidation order has been issued); (b) by investing in up to 100% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches and sub-branches with full banking authority. The foreign bank applicant must also be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. Such established subsidiaries and branches of foreign banks shall be allowed to perform the same functions and enjoy the same privileges of, and be subject to the same limitations imposed upon, a Philippine bank 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.

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 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. Based on BSP data, since the new package of incentives took effect in September 1998, there have been at least 49 mergers, acquisitions, and consolidations of banks. However, while recent mergers increased market concentrations, BSP studies showed that they were not enough to pose a threat to the overall competition levels since market share remained relatively well dispersed among the remaining players.

Pursuant to the liberalization, and to the mergers and consolidation trend, the BSP issued Circular No. 902, Series of 2016 dated 15 February 2016 to implement the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks. As provided in the Circular "the suspension of the grant of new banking licenses or the establishment of new banks under the MORB is lifted under a two-phased approach. Under Phase 1 of the liberalisation, the grant of new universal/commercial banking license shall be allowed in connection with the upgrading of an existing domestic thrift bank. Under Phase 2, the moratorium on the establishment of new domestic banks shall be fully lifted and locational restrictions shall be fully liberalized starting 1 January 2018."

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, as of 31 March 2022:

Name	Market Capitalization[1]	Total Equity[2]	Total Assets[2]	Loans and Receivables-net[2]	Deposit Liabilities[2]	No. of Branches[3]
			(in ₱ millions, except number of branches)			
BDO Unibank, Inc.	582,054	429,864	3,670,511	2,427,856	2,817,841	1,193
Metropolitan Bank & Trust Co.	256,353	313,156	2,643,835	1,218,442	2,042,099	701
Bank of the Philippine Islands	449,508	302,129	2,378,242	1,462,141	1,891,096	1,176
Philippine National Bank	29,295	161,940	1,136,624	561,459	869,863	637
China Banking Corporation	72,665	125,351	1,126,663	615,681	879,279	670

Notes:
(1) *Market Capitalization as of 31 March 2022.*
(2) *Financial data taken from each bank's unaudited interim financial statements as of 31 March 2022.*
(3) *From BSP directory of banks, filings with the PSE.*

According to the results of the Senior Bank Loan Officers' Survey conducted by BSP, most of the respondent banks, generally maintained overall lending standards for commercial real estate loans in Q1 2022. The diffusion index approach indicated a net tightening of overall credit standards for commercial real estate loans for the 25th consecutive quarter. The tighter overall credit standards for commercial real estate loans reflected respondent banks' wider loan margins, reduced credit line sizes, stricter collateral requirements and loan covenants, increased use of interest rate floors, and shorter loan maturities.

The BSP issued Circular No. 839 Series of 2014 dated 27 June 2014 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.

On 29 October 2014, the BSP issued Circular No. 854, which increased the minimum capital requirement for all bank categories: universal, commercial, thrift, rural, and cooperative banks to strengthen the banking system. Below are the amended minimum capital requirements for banks.

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

Bank Category/Network Size	Existing Minimum Capitalisation (₱)	Reviewed Minimum Capitalisation (₱)
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)		
Head Office only		500 million
Up to 10 branches*		750 million
11 to 50 branches*		1.00 billion
More than 50 branches*		2.00 billion
Head Office in All Other Areas Outside NCR		
Head Office only		200 million
Up to 10 branches*		300 million
11 to 50 branches*		400 million
More than 50 branches*		800 million
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		
Head Office only		50 million
Up to 10 branches*		75 million
11 to 50 branches*		100 million
More than 50 branches*		200 million
Head Office in All Other Areas Outside NCR (All Cities up to 3rd Class Municipalities)		
Head Office only		20 million
Up to 10 branches*		30 million
11 to 50 branches*		40 million
More than 50 branches*		80 million
Head Office in All Other Areas Outside NCR (4th to 6th Class Municipalities)		
Head Office only		10 million
		15 million

Bank Category/Network Size	Existing Minimum Capitalisation (₱)	Reviewed Minimum Capitalisation (₱)
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

On 29 October 2014, the BSP issued Circular No. 854 to effect the foregoing amendment to the minimum capital requirement. The amendment became effective in November 2014.

16.1 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. On 21 January 2016, the Monetary Board approved the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks. The moratorium on the establishment of new domestic banks and locational restrictions was fully liberalized effective 1 January 2018.

Since September 1998, the BSP has been encouraging consolidation among banks in order to strengthen the Philippine banking system. Mergers and consolidation result in greater competition, as a smaller group of "top tier" banks compete for business.

As of 31 March 2022, universal and commercial banks (including unlisted banks such as Land Bank of the Philippines and the DBP) account for approximately 94.0% of total resources and 94.0% of total deposits of the Philippine banking system based on their published balance sheets.

Certain factors arising from the 1997 Asian crisis and the 2008 global financial crisis also resulted in greater competition and exert downward pressure on margins. Banks instituted more restrictive lending policies as they focused on asset quality and reduction of their NPLs, which resulted in increasing liquidity. As Philippine economic growth further accelerates and banks apply such liquidity in the lending market, greater competition for corporate, commercial and consumer loans is expected. As of 30 September 2020, the ten (10) largest commercial banks (including unlisted banks such as Land Bank of the Philippines and DBP) account for approximately 85% of the net customer loan portfolio of the Philippine banking system, based on published statements of condition.

Republic Act No. 10667, or the Philippine Competition Act was signed into law on 21 July 2015 and took effect on 8 August 2015. This is the first anti-trust statute in the Philippines and it provides the competition framework in the Philippines. The Philippine Competition Act was enacted to provide free and fair competition in trade, industry and all commercial economic activities. To implement its objectives, the Philippine Competition Act provides for the creation of a Philippine Competition Commission (the "**PCC**"), an independent quasi-judicial agency with five (5) commissioners. Among its powers are to: conduct investigations, issue subpoenas, conduct administrative proceedings, and impose administrative fines and penalties. To conduct a search and seizure, the PCC must apply for a warrant with the relevant court.

The Philippine Competition Act prohibits anti-competitive agreements between or among competitions, 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 dominant position, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing, and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to exceptions.

On 3 June 2016 the PCC issued the implementing rules and regulations of the Philippine Competition Act ("**PCA IRR**"). Under the PCA IRR, 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 the acquiring or the acquired entities exceed ₱1 billion ("**Size of Party**"); and (b) the value of the transaction exceeds ₱1 billion, as determined in the PCA IRR ("**Size of Transaction**"); while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱1 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 ₱1 billion.

PCC issued Memorandum Circular No. 18-001 dated 1 March 2018, which increased the initial thresholds on the Size of Transaction and Size of Party to ₱2.0 billion and ₱5.0 billion, respectively. It further provides that beginning 1 March 2019 and on March 1st of every succeeding year, the notification thresholds will be indexed based on the official estimates of the Philippine Statistics Authority of the nominal Gross Domestic Product of the previous calendar Year rounded to the nearest hundred millions. The thresholds were again adjusted to ₱2.2 billion and ₱5.6 billion, respectively, which adjustment took effect on 1 March 2019 pursuant to Commission Resolution No. 03-2019 dated 21 February 2019.

Violations of the Philippine Competition Act and its IRR have severe consequences. Under the Philippine Competition Act and the IRR, a transaction that meets the thresholds and does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of one percent (1%) to five percent (5%) of the value of the transaction. Criminal penalties for entities that enter into these defined anti-competitive agreements include: (i) a fine of not less than ₱50 million but not more than ₱250 million; and (ii) imprisonment for two (2) to seven (7) years for directors and management personnel who knowingly and willfully participate in such criminal offenses. Administrative fines of ₱100 million to ₱250 million may be imposed on entities found violating prohibitions against anti-competitive agreements and abuse of dominant position. 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 published the 2017 Rules of Procedure ("**PCC Rules**") 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 PCC Rules also include non-adversarial remedies such as the issuance of binding rulings, show cause orders, and consent orders.

On 23 November 2017, the PCC published the 2017 Rules on Merger Procedures ("**Merger Rules**") which provides the procedure for the review or investigation of mergers and acquisition pursuant to the Philippine Competition Act. The Merger Rules provides, among others, that parties to a merger that meets the thresholds in Section 3 of Rule 4 of the IRR are required to notify the PCC within thirty (30) days from signing of definitive agreements relating to the merger. This was further supplemented by the 2019 Rules on Expedited Merger Review approved on 28 May 2019 which applies to mergers and acquisitions qualified for expedited review.

On 18 May 2020, the PCC published the Interim Guidelines on the Operations of the Mergers and Acquisitions Office (the "**MAO"**) during the Modified ECQ (the "**Interim Guidelines"**) which allow for the submission of notification forms, letters of non-coverage and other documents requested by the MAO for evaluation through the online filing facility of the PCC. The effectivity of the Interim Guidelines was extended during the GCQ through the PCC's Resolution No. 012-2020.

On 16 July 2020, the PCC, through Commission Resolution No. 18-2020, approved the MAO Interim Guidelines on the Operations of the MAO during the GCQ and MGCQ. Such resolution modifies PCC's Resolution No. 11-2020 and 12-2020 insofar as they are inconsistent with or contrary to Resolution No. 18-2020 with respect to the procedures and processes of the MAO.

Pursuant to the Bayanihan 2, which was signed into law on 11 September 2020, all mergers and acquisitions with transaction values below ₱ 50 billion shall be exempt from compulsory notification under the Philippine Competition Act if entered into within a period of 2 years from the effectivity of Bayanihan 2. Further, such mergers and acquisitions shall also be exempt from the PCC's power to review mergers and acquisitions *motu proprio* for a period of one year from the effectivity of Bayanihan 2. After 15 September 2022, the thresholds for the "*Size of Party*" test (generally defined as "*the value of assets and revenues in, into or from the Philippines of the ultimate parent entity of any of the parties and all entities it controls*") and the "*Size of Transaction*" test (generally defined as "*the value of the assets or revenues in, into, or from the Philippines of the acquired entity*") under Philippine competition regulations will revert to ₱6 billion and ₱2.4 billion, respectively (unless the PCC adjusts the amount thereafter to account for inflation).
Transactions that may qualify for expedited review include the following (i) when there are no actual or potential horizontal or vertical relationships in the Philippines between acquiring entity, including its notifying group, and the acquired entity and the entities it controls; (ii) when the merger is a global transaction where the acquiring and acquired entities identified in the definitive agreement are foreign entities ("**foreign parents**"), and their subsidiaries in the Philippines act merely as manufacturers or assemblers of products with at least 95% of such products exported to the foreign parents, subsidiaries, affiliates or third parties located in the Philippines: Provided, that the remaining 5% product sales in a market in the Philippines is minimal in relation to the entirety of such Philippine product market: (iii) when the candidate relevant geographic market of the merger is global and the acquiring and acquired entities have negligible or limited presence in the Philippines: (iv) when the joint ventures, whether incorporated or not, formed purely for the construction and development or a residential and/or commercial real estate development project.

16.2 CERTAIN GOVERNMENT POLICIES AND REGULATIONS IN RELATION TO THE PHILIPPINE BANKING SYSTEM

The Philippine banking industry is highly regulated by the BSP and operates within a framework that includes requirements on capital adequacy, corporate governance, management, anti-money laundering and provisioning for NPLs. The BSP can alter any of these requirements and can introduce new regulations to control any particular line of business. Certain policies that the Bank believes could affect its results of operations include the following:

- *BSP Issuances related to COVID-19.* On 14 March 2020, the BSP issued BSP Memorandum No. M-2020-008. Recognising the significant impact of the COVID-19 pandemic on the operations of BSFIs, the BSP offered a regulatory relief package which all BSFIs were eligible to avail of within one year from 8 March 2020, the date of declaration of the President of the state of public health emergency under Presidential Proclamation No. 922. The period of eligibility could be extended depending on the developments of the COVID-19 pandemic. The relief package includes exclusion from the past due loan ratio of loans to affected borrowers for a year and the staggered booking of provision for probable losses for five years for all types of credits extended to individuals and businesses directly affected by the COVID-19 pandemic as of 8 March 2020, subject to the prior approval of the BSP. On 20 March 2020, in response to the enhanced community quarantine imposed by the Philippine government to prevent the spread of COVID-19, the BSP issued Memorandum No. M-2020-013, which amended standard operating procedures for Philippine holidays in view of the COVID-19 pandemic.
- *Implementation of Basel III Framework on Liquidity Standards.* On 10 March 2016, the BSP issued Circular No. 905 which provided guidelines for the implementation of Basel III framework (which was recently amended by BSP Circular No. 1035) on Liquidity Standards as it relates to Liquidity Coverage Ratio ("**LCR**") and Disclosure Standards. The amendments introduced by BSP Circular No. 1035 provide enhancements to the LCR and 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 was revised. The revised MLR computation converges with the LCR framework as interbank placements are now counted as eligible liquid assets.

  The Monetary Board approved the LCR framework with an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP.

Beginning on 1 January 2018, the LCR threshold that banks will be required to meet will be 90%, which will be increased to 100% commencing on 1 January 2019. 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. Likewise, 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. The internationally agreed start date for the phase-in of liquidity requirements is 1 January 2015. On 3 November 2017, the BSP issued BSP Circular No. 981 which amended the guidelines on liquidity risk management. The banks have until 1 September 2018 to develop or make appropriate changes to their policies and procedures, provided that banks complete a gap analysis of the requirements in Circular No. 981 vis-à-vis their existing risk management systems by 31 March 2018, the result of such gap analysis shall be documented and made available for review of the BSP.

- *Implementation of Basel III Framework for Dealing with Domestic Systemically Important Banks.* On 29 October 2014, the BSP issued Circular No. 856 which provided the guidelines for implementing the Framework for dealing with D-SIBs under Basel III. Recent enhanced guidelines in the assessment methodology of D-SIBS was introduced by Circular No. 1051 issued on 27 September 2019. Banks deemed as D-SIBs by the BSP will be imposed with capital surcharge to enhance their loss absorbency and thus mitigate any adverse side effects both to the banking system and to the economy should any of the D-SIBs fail. To determine the banks' systemic importance, the BSP will assess and assign weights using the indicator-based measurement approach based on the following: size, interconnectedness, substitutability, and complexity. Depending on how they score against these indicators and the buckets to which the scores correspond, the D-SIBs will have varying levels of additional loss absorbency requirements ranging from 1.0% to 2.5%. Aside from the added capital pressure, D-SIBs may be put at an undue disadvantage compared to G-SIBs (or Global Systemically Important Banks) given that this framework was patterned for regional/global banks and which may not thus be appropriate for local banks. The phased-in compliance started on 1 January 2017 and will become fully effective on 1 January 2019.

- *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 January 2008 amending the existing regulations governing the derivatives activities of banks. 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. In February 2017, BSP issued Memorandum No. M-2017-004 advising all banks and QBs that cross-border derivative transactions involving non-centrally cleared derivatives shall be subject to margin requirements pursuant to the policy framework adopted by the Basel Committee on Banking Supervision and the International Organisation of Securities Commissions. The framework requires all covered entities that engage in non-centrally cleared derivatives to exchange initial and variation margins. Assets collected as collateral for margin purposes should be highly liquid and should, after the application of an appropriate haircut, be able to hold their value in time of stress. Variation margin requirements are being phased in from 1 September 2016 to 1 March 2017 while initial margin requirements are being phased in from 1 September 2017 to 1 September 2020. As an initial step, banks and QBs should make a determination of the transactions that will be subject to margin requirements implemented in other jurisdictions and assess whether they will be able to comply with the margin requirements implemented in other jurisdictions and assess whether they will be able to comply with the pertinent legal and operational arrangements. The Bank expects increased competition in the swaps and other derivative transactions allowed under the regulations. The Bank has already obtained its limited dealer authority for Foreign Exchange Forwards (including non-deliverables), Foreign Exchange Swaps, Interest Rate Swaps, Cross Currency Swaps, Asset Swaps, Forward Rate Agreements, European Vanilla Foreign

Exchange Options and Credit Default Swaps. Meanwhile, there are currently no changes in the application process.

- *Amendments to unit investment trust fund ("**UITF**") Regulations*. In September 2004, the BSP issued Circular No. 447 which provided guidelines for the launching and offering of new products to be known as UITFs, and was intended to completely phase out common trust funds or convert them into UITFs within two years from the date of the circular. UITFs are open-ended pooled trust funds denominated in any acceptable currency that are to be operated and administered by trust entities. Eligible assets of UITFs include bank deposits, securities issued by or guaranteed by the Government or the BSP, tradable securities issued by the government of a foreign country, exchange listed securities, marketable instruments that are traded in an organized exchange, loans traded in an organized market, loans arising from repo agreements which are transacted through an exchange recognized by the Philippine SEC and such other tradable investments outlets/categories as the BSP may allow. These assets are subject to mark-to-market valuation on a daily basis. The stated objective of the BSP is to align the operation of pooled funds with international best practices and enhance the credibility of pooled funds to investors. In January 2008, the BSP issued Circular No. 593 to improve risk disclosure on investing in UITFs, by requiring banks to conduct a client suitability assessment to profile the risk-return orientation and suitability of the client to the specific type of UITF that he wants to participate in, and to update the client's profile at least every three years. The Bank has joined with the BSP in this endeavor to guide clients in choosing investment outlets that are best suited to their objectives, risk tolerance, preferences and experience. In September 2012, the BSP issued Circular No. 767 to include investments by UITFs in units/ shares in collective investment schemes as an allowable investment and recognizing UITF structures such as feeder funds and fund-of-funds. On 21 October 2014, the BSP issued Circular 852, amending the UITF Regulations. Through this circular, the BSP strengthened the disclosure requirements for UITFs by prescribing the use of the Key Information and Investment Disclosure Statement and online posting of UITF information via a website. On 10 March 2016, the BSP issued Circular 907 to amend certain exposure limits, and allowable investment and valuation on UITFs invested in feeder fund and fund-of-funds. UITF investments shall only be limited to bank deposits and collective investment schemes (e.g., target fund, exchange-traded funds), subject to such target fund not being structured or similarly structured as a feeder fund or a fund-of-funds. To ensure the competence and integrity of all duly designated UITF marketing personnel, BSP Circular No. 1018 issued on 26 October 2018 required all personnel involved in the sales of UITF must be certified as a UITF Marketing Personnel through a UITF Certification Program (UCP) administered by a reputable financial services industry association /organization.

- *Limit on Real Estate Loans of Universal Banks.* In 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.

- *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 March 2008 exempting warrants paired with ROP Global Bonds from capital charge for market risk to the extent of a bank's holdings of bonds paired with warrants equivalent to not more than 50.0% of total qualifying capital. The Bank holds such investments which give it additional flexibility for capital deployment.

- *Guidelines on Securities Borrowing and Lending Transactions.* Guidelines by the PSE on securities borrowing and lending ("**SBL**") govern SBL transactions between local/foreign borrowers and local/foreign lenders. BSP Circular No. 611, Series of 2008, provides guidelines on SBL transactions in the PSE involving borrowings by foreign entities of PSE-listed shares from local investors/lenders. In May 2008, the BSP Monetary Board authorized the issuance of BSP Registration Documents to cover the PSE-listed shares of stock borrowed by foreign entities from local investors and lenders.

This will allow foreign borrowers to purchase foreign exchange from the banking system for remittance abroad using the Peso sales proceeds of the borrowed shares including the related income from the SBL transaction, such as rebates or shares in the income earned on the reinvestment of the cash collateral, interest and dividends earned on the Peso denominated government securities and PSE-listed shares used as collateral.

- *Mandatory Adoption of PFRS 9: Financial Instruments.* The adoption of PFRS in the recording transactions and preparation of financial statement ensures consistency of application and comparability of financial reports across the industry. Effective 1 January 2018, BSP-supervised financial institutions are required to adopt as part of PFRS framework, PFRS 9: Financial Instruments. As such, banks shall classify and measure financial assets and financial liabilities, including those which are designated as hedged items, in accordance with the provisions of PFRS 9. Financial assets should be classified based on their contractual cash flow characteristics and the business model for holding such instruments. Financial liabilities should be classified and subsequently measured at amortized cost using effective interest method except for certain financial liabilities measured at fair value through profit and lost. The enabling circular, Circular No. 1011 requires banks to determine the business model or the manner by which a portfolio of financial assets will be managed to generate cash flows such as by collecting contractual cash flows or by both collecting contractual cash flows and selling the financial assets, among others, based on scenarios that are reasonably expected to occur, taking into consideration the expected changes to asset allocations or to balance sheet structure as a result of business strategies.

- *Taxes*. In Addition, banks are subject to certain tax rules specific to Financial Institutions. On 19 December 2017, the President signed into law package 1 of the TRAIN bill which became effective on 1 January 2018. The law contains amendments to several provisions of the Tax Code on individual income taxation, passive income for both individuals and corporations, estate tax, donor's tax, VAT, excise tax, and DST, among others. The government continues to establish some changes in the comprehensive tax reform program of the country. Any further changes in the regulatory or tax environment as pertaining to the Philippine banking industry could have a material impact on the Bank's results of operations and financial position.
- *Adjustment of Reserve Requirements of Peso Deposits Liabilities and Deposit Substitutes Taxes.* The current year, saw the relaxation of the reserve requirements to be maintained by banks for its deposit liabilities. From as high as 20% under BSP Circular No. 732 (2011), as further amended by BSP Circular No. 753 (2012), BSP Circular No. 830 (2014),BSP Circular No. 832 (2014), BSP Circular No. 983 (2017), recent issuances such as BSP Circular No. 1041 (issued in May 2019), Circular Nos. 1054 &1056 (issued in October 2019), Circular 1063 (issued in December 2019) and Circular 1082 & 1092 (issued in March & July 2020), lowered the regular reserves universal and commercial banks are required to maintain: (a) 12% against demand deposits, negotiable order of withdrawal (NOW) accounts, savings deposit, time deposit and deposit substitutes, Peso deposits lodged under due to foreign banks, Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank); ; (b) 12% against long-term negotiable certificates of time deposits; (c) 0% against deposit substitutes evidenced by repossession agreement; and (d) 3% against bonds.
- *Rules and Regulations on the Mandatory Allocation for Agriculture and Agrarian Reform Credit.* In July 2011, the BSP issued Circular No. 736 as a component of the Implementing Rules and Regulations of the Republic Act No. 10000 or the Agri-Agra Reform Credit Act. Aside from retaining the mandatory credit allocation, it also rationalizes the modes of compliance. In addition to direct compliance through loans to qualified borrowers, a list of alternative compliance mechanisms is also provided. In July 2018, a revised rules and regulations governing the mandatory credit allocation for agriculture and agrarian reform credit was implemented thru BSP Circular No. 1009. Which revised the allowable alternative compliance to the mandatory credit.

SECTION 17. BANKING REGULATION AND SUPERVISION

17.1 INTRODUCTION

Republic Act No. 7653 or the New Central Bank Act of 1993 (the "**New Central Bank Act**"), as amended by Republic Act No. 11211, and Republic Act No. 8791 or the General Banking Law of 2000 vest the Monetary Board of the BSP with the power to supervise the operations of banks such as universal banks, commercial banks, thrift banks (composed of savings and mortgage banks, stock savings and loan associations, and private development banks), rural banks, co-operative banks as well as branches and agencies of foreign banks in the Philippines. The BSP also exercises regulatory and examination powers over the quasi-banking operations of non-bank financial institutions and as may be determined by the Monetary Board, it shall likewise exercise regulatory and examination powers over money service businesses, credit granting businesses, and payment system operators. Entities performing quasi-banking functions, trust companies, building and loan associations, non-stock savings and loan associations and other non-deposit accepting entities, while not considered banking institutions, are also subject to regulation by the Monetary Board of the BSP. Based on R.A 11211, money service business, credit granting businesses, and payment system operators are now also under the supervision of the BSP.

The supervisory power of the BSP under the New Central Bank Act, as amended, extends to the subsidiaries and affiliates of banks and QBs engaged in allied activities. A subsidiary is defined as a corporation with more than 50% of its voting stock owned by a bank or QB. An affiliate is defined as a corporation whose voting stock, to the extent of 50% or less is owned by a bank or QB or which is related or linked or such other factors as determined by the Monetary Board. In this regard, an affiliate is defined under the MORB as an entity linked directly or indirectly to a bank by means of: (a) ownership, control (as defined under the relevant portion of the Manual), 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, 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 favor of the bank constituting at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa.

The supervisory power of the BSP under the New Central Bank Act extends to the subsidiaries and affiliates of banks and QBs engaged in allied activities. A subsidiary is defined as a corporation with more than 50% of its voting stock (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 QB or which is related or linked (directly or indirectly) to such institution or intermediary through common stockholders or such other factors as determined by the Monetary Board.

The power of supervision of the BSP under the General Banking Law includes the issuance of rules of conduct or standards of operation for uniform application, conduct examination to determine compliance with laws and regulations, to oversee compliance with such rules and regulations and inquire into the solvency and liquidity of the covered entities. Section 7 of the General Banking Law provides that the BSP in examining a bank shall have the authority to examine an enterprise which is owned or majority-owned or controlled by a bank.

As a general rule, no restraining order or injunction may be issued by a court to enjoin the BSP from exercising its powers to examine any institution subject to its supervision. The BSP may compel any officer, owner, agent, manager or officer-in-charge of an institution subject to its supervision or examination to present books, documents, papers or records necessary in its judgment to ascertain the facts relative to the true condition of the institution as well as the books and records of persons and entities relative to or in connection with the operations, activities or transactions of the institution under examination, to the extent permitted by law. In addition to the general laws such as the General Banking Law and Republic Act No. 9160 or the AMLA, as amended, among others, banks must 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.

The Financial Supervision Sector (FSS) of the BSP is primarily responsible for the regulation of banks and other BSP-supervised financial institutions (BSFIs). It also exercises oversight and supervision of financial technology and the operations of payment systems. The FSS is responsible for ensuring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines (including Government credit institutions, their subsidiaries and affiliates, non-bank financial intermediaries, and subsidiaries and affiliates of non-bank financial intermediaries performing quasi-banking functions, non-bank financial intermediaries performing trust and other fiduciary activities under the General Banking Law, non-stock and savings loans associations under Republic Act No. 3779 or the Savings and Loan Association Act, and pawnshops under Presidential Decree No. 114 or the Pawnshop Regulation Act).

17.2 BAYANIHAN TO HEAL AS ONE ACT AND COVID-19 RELATED ISSUANCES OF THE BSP

Republic Act No. 11469 or the Bayanihan to Heal As One Act provides that all BSFIs are directed to implement a minimum of a 30-day grace period for the payment of all loans, including but not limited to salary, personal, housing, and motor vehicle loans, as well as credit card payments, falling due within the period of the ECQ without incurring interests, penalties, fees, or other chargers. Persons with multiple loans shall likewise be given the minimum 30-day grace period for every loan.

Pursuant to the said law, the BSP issued Memorandum No. M-2020-017 which contains the Implementing Rules and Regulations of Republic Act No. 11469. It provides, among others, that BSFIs shall not charge or apply interest on interest, fees and charges during the 30-day grace period to future payments/amortizations of the borrowers. They are likewise prohibited from requiring their clients to waive the application of the provisions of Republic Act No. 11469. No waiver previously executed by borrowers covering payments falling due during the ECQ period shall be valid.

Further, the accrued interest for the 30-day grace period may be paid by the borrower on staggered basis over the remaining life of the loan. Nonetheless, this shall not preclude the borrower from paying the accrued interest in full on the new due date. The initial 30-day grace period shall automatically be extended if the ECQ period is extended by the President of the Republic of the Philippines.

The grace period provided under the Bayanihan Act ceased to be effective on 1 June 2020, in accordance with BSP Memorandum No. M-2020-45.

On 11 September 2020, Bayanihan 2 was signed into law and directed banks and other covered institutions to implement a one-time 60-day grace period to be granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before 31 December 2020, including, but not limited to, salary, personal, housing, commercial, and motor vehicle loans, amortizations, financial lease payments and premium payments, as well as credit card payments, without incurring interest on interests, penalties, fees, or other charges and thereby extending the maturity of the said loans. The said law also provides that all loans may be settled on staggered basis without interest on interests, penalties and other charges until 31 December 2020 or as may be agreed upon by the parties and that parties may mutually agree on a grace period longer than 60 days.

Further, pursuant to Bayanihan 2, banks and other non-bank financial institutions that agree to further loan term extensions or restructuring shall be entitled to regulatory relief, as may be determined by the BSP, which includes, but is not limited to, (i) staggered booking of allowances for credit losses, (ii) exemption from loan-loss provisioning, (iii) exemption from the limits on real estate loans, when applicable, (iv) exemption from related party transaction restrictions, and (v) non-inclusion in the bank's reporting on non-performing loans. The loan term extensions or restructuring under Bayanihan 2 shall be exempt from documentary stamp taxes.

However, the abovementioned provisions on Bayanihan 2 shall not apply to interbank loans and bank borrowings.

17.2.1 BSP Circulars and Memoranda

On 14 March 2020, the BSP issued BSP Memorandum No. M-2020-008. Recognising the significant impact of the COVID-19 pandemic on the operations of BSFIs, the BSP offered a regulatory relief package which all BSFIs were eligible to avail of within one year from 8 March 2020, the date of declaration of the President of the state of public health emergency under Presidential Proclamation No. 922. The period of eligibility could be extended depending on the developments of the COVID-19 pandemic. The relief package includes exclusion from the past due loan ratio of loans to affected borrowers for a year and the staggered booking of provision for probable losses for five years for all types of credits extended to individuals and businesses directly affected by the COVID-19 pandemic as of 8 March 2020, subject to the prior approval of the BSP.

In an effort to mitigate the adverse effects of the COVID-19 pandemic on the operations of BSFIs, the BSP issued BSP Memorandum No. M-2020-011 dated 19 March 2020, as amended by BSP Memorandum Circular No. M-2020-049 dated 9 June 2020 and Memorandum No. M-2020-057 dated 21 July 2020. BSP Memorandum No. M-2020-049 provides for the relaxation in the regulations governing the submission of reports and other documents to the BSP-Financial Supervision Sector ("**FSS**"). Thus, the submission of required reports to the BSP-FSS that fall due within the months of March to June 2020 is suspended until further notice, except for the submission of the Financial Reporting Package for Banks ("**FRP**"), the Consolidated Foreign Exchange ("**FX**") Position Report, event-driven report requirements and reserve requirement-related reports. Memorandum No. M-2020-057, on the other hand, increased the single borrower's limit from 25% to 30% until 19 March 2021.

BSP Memorandum No. M-2020-008 was further amended by Memorandum No. M-2020-032 issued on 27 April 2020. Memorandum No. M-2020-032 provides that the exclusion from the past due and non-performing classification shall be allowed from 8 March 2020, the date of declaration of the President of the state of public health emergency under Presidential Proclamation No. 922, until 31 December 2021. For this purpose, the BSP documentary requirements for restructuring of loans may be waived, provided that the BSFI will adopt appropriate and prudent operational control measures.

On 19 March 2020, in a bid to spur the economy amid the slowdown caused by COVID-19, the BSP announced it would be pulling down the interest rate on the BSP's overnight reverse repurchase ("**RRP**") facility by 50 basis points to 3.25%. Overnight deposit and lending rates were likewise trimmed to 2.75% and 3.75%, respectively, effective 20 March 2020.

On 20 March 2020, in response to the ECQ imposed by the Philippine government to prevent the spread of COVID-19, the BSP issued Memorandum No. M-2020-013, which amended standard operating procedures for Philippine holidays in view of the COVID-19 outbreak.

On 27 March 2020, the BSP issued Circular No. 1080, which granted some operational relief measures to BSP stakeholders for the duration of the community quarantine imposed to contain the spread of COVID-19 (including the general, modified, and enhanced versions thereof). The Circular allowed for, among others, the submission of documentary requirements for the sale of foreign exchange by authorized agent banks through electronic means; documents with e-signatures/digital signatures, soft copies of duly accomplished forms; and grace periods for the registration of unregistered foreign investments.

On 31 March 2020, BSP Circular No. 1082 was issued, which lowered the rates of required reserves against deposit and deposit substitute liabilities in local currency of banks, with effect from reserve week of 3 April 2020 for universal and commercial banks, to 12% against demand deposits, "NOW" accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, deposit substitutes, peso deposits lodged under due to foreign banks and Peso deposits lodged under due to Head Office/Branches/Agencies Abroad of banks.

On 15 April 2020, the BSP issued Memorandum No. M-2020-031 which provides for the suspension of PESONet and InstaPay fees for the duration of the ECQ period. The same suspension was further strongly encouraged to be extended for the fees charged by BSFIs for other fund transfer services and interbank ATM transactions.

On 22 April 2020, as part of the Government's financial assistance program and in light of the effects of the COVID-19 pandemic on micro, small and medium-sized enterprises ("**MSMEs**"), the BSP issued Circular No. 1083, which provides that loans that are granted to MSMEs shall be allowed as alternative compliance with the required reserves against deposit and deposit substitute liabilities, subject to the following conditions: (1) that the MSME loan was granted after 15 March 2020; and (2) that the MSME loan is not hypothecated or encumbered in any way, or rediscounted with the BSP, or earmarked for any other purpose. Qualified MSME loans are to be valued at amortised cost, gross of allowance for credit losses. The use of MSME loans as allowable alternative compliance with the reserve requirement is available to banks from 24 April 2020 to 30 December 2021.

On 27 May 2020, the BSP issued Circular No. 1087 amending Circular No. 1083, which provides the following allowable alternative modes of compliance with the required reserves against deposit and deposit substitute liabilities:

a. Peso-denominated loans that are granted to MSMEs, excluding banks and non-bank financial institutions with quasi-banking license ("**NBQB"**), subject to the following conditions:

    i. that the MSME loan was granted, renewed or restructured after 15 March 2020;

    ii. that the MSME loan that was granted on or before 15 March 2020 but has been renewed or restructured after 15 March 2020 may be used as alternative compliance with the reserve requirements; provided, that the bank demonstrates an increase in its MSME loan portfolio during the month preceding the reserve day. For purposes of determining the increase in the bank's MSME loan portfolio, the bank shall exclude accrued interest and accumulated charges which have been capitalized or made part of the principal restructured MSME loans; and

    iii. that the MSME loan is not hypothecated or encumbered in any way, or rediscounted with the BSP, or earmarked for any other purpose.

    The use of MSME loans as allowable alternative compliance with the reserve requirement shall be available to banks from 24 April 2020 to 30 December 2021; and

b. Peso-denominated loans that are granted to large enterprises, excluding banks and NBQBs, subject to the following conditions:

    i. that the loan to the large enterprise was granted, renewed or restructured after 15 March 2020;

    ii. that the loan to the large enterprise that was granted on or before 15 March 2020 but has been renewed or restructured after 15 March 2020 may be used as alternative compliance with the reserve requirements; provided, that the bank demonstrates an increase in its loan portfolio to large enterprises during the month preceding the reserve day. For purposes of determining the increase in the bank's loan portfolio to large enterprises, the bank shall exclude accrued interest and accumulated charges which have been capitalized or made part of the principal restructured MSME loans; and

    iii. that the loan to the large enterprise is not hypothecated or encumbered in any way, or rediscounted with the BSP, or earmarked for any other purpose.

A large enterprise shall refer to a sole proprietorship, partnership, corporation or cooperative that meets all of the following criteria: (a) it does not belong to a conglomerate structure; (b) it has an asset size (less land) of more than ₱100 million and an employment size of two-hundred (200) employees or more; and (c) it is a critically-impacted business enterprise that has been directly and adversely impacted by the COVID-19 pandemic such that: (x) its liabilities has become more than its assets; or (y) it has experienced at least a 50% decline in gross receipts for at least one calendar quarter; and, in either instance, is generally unable to pay or perform its obligations as they fall due in the ordinary course of business, as a result of COVID-19 pandemic, or as determined by the appropriate regulatory agency or agencies, as applicable.

The use of loans to large enterprises as allowable alternative compliance with the reserve requirement shall be available to banks from 29 May 2020 to 30 December 2021.

On 21 July 2020, the BSP issued Memorandum No. M-2020-057, which relaxed the maximum penalty to be imposed for deficiencies under Section 255 of the MORB/Section 215-Q of the MORNFBI. For the duration of the ECQ until 31 March 2021, the maximum penalty that may be imposed by the BSP for reserve deficiencies shall be the Overnight

Lending Facility rate plus 10 basis points, provided that the maximum reserve deficiency of the institution is 200 basis points, and the excess above that will be subject to regular penalties. The same Memorandum also relaxed notification requirements related to changes in banking days and hours, the temporary closure of branches, branch-lite units, and offices or service units, and the submission of documents and reports to the FSS of the BSP.

On 27 July 2020, the BSP issued BSP Memorandum Circular No. 1092 reducing the reserve requirements against deposit and deposit substitute liabilities in local currency of banks, with effect from 31 July 2020 for thrift banks, to 3% against demand deposits, "NOW" accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, and deposit substitutes.

On 3 August 2020, the BSP issued Memorandum No. M-2020-061 which provides for the supervisory expectations on the measurement of expected credit losses ("**ECL**") and the treatment of regulatory relief measures granted amid the COVID-19 pandemic. The supervisory expectations provide, among others, that BSFIs that will avail of the regulatory relief measures to exclude eligible loans from past due and non-performing classifications and to stagger the booking of allowance for credit losses shall continue to report actual past due and non-performing loans and allowance for credit losses in the Financial Reporting Package (FRP) and the Capital Adequacy Ratio (CAR) reports. This is to facilitate the generation of industry statistics and provide the BSP with information on the true health of the banking system.

BSP Memorandum No. M-2020-062 dated 5 August 2020 directs BSFIs to ensure continuous availability of financial services to the general public as well as to reinforce their operational capabilities to support the anticipated increase in account opening and basic financial and payment transactions through online financial platforms (i.e. internet and mobile banking). BSFIs should likewise ensure that basic cash services are always available through timely and adequate provisioning of cash in the ATM terminals and to closely monitor other operational issues that may have significant business impact.

On 24 September 2020, the BSP issued Circular No. 1098 which provides for the ceiling on interest or finance charges for credit card receivables. The said Circular shall take effect starting 03 November 2020 after publication and states that banks and credit card issuers shall impose an interest or finance charge on all credit card transactions not to exceed an annual interest rate of 24%, except credit card installment loans which shall be subject to monthly add-on rate not exceeding 1%. For credit card cash advances, aside from the foregoing applicable maximum interest rate caps, no other charge or fee shall be imposed or collected apart from the processing fee in the maximum amount of ₱200 per transaction.

Further, the Circular also provides that the rate of interest and other charges on any loan or forbearance of any money, goods or credits regardless of maturity and whether secured or unsecured shall not be subject to any regulatory ceiling, except for the interest or finance charges imposed on credit card receivables, including cash advances and installment purchases and the maximum processing fee for credit card cash advances.

17.3 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 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. Any stock so purchased or acquired must be sold within six months from the time of its purchase or acquisition.

Under Section 121 of the MORB, universal banks are required to have capital accounts of at least ₱3 billion for head office only, ₱6 billion for head office with up to 10 branches, ₱15 billion for head office with 11 to 100 branches, and ₱20 billion for head office with more than 100 branches. Commercial banks are required to have capital accounts of at least ₱2 billion for head office only, ₱4 billion for head office with up to 10 branches, ₱10 billion for head office with 11 to 100 branches, and ₱15 billion for head office with more than 100 branches. Thrift banks with head office in Metro Manila are required to have capital accounts of at least ₱500 million for head office only, ₱750 million for head office with up to 10 branches, ₱1 billion for head office with 11 to 50 branches, and ₱2 billion for head office with more than 50 branches. Thrift Banks with Head Office in all other areas outside area are required to have capital accounts of at least ₱200 million (for Head Office only); ₱300 million (for up to 10 branches); ₱400 million (for 11 to 50 branches); and ₱800 million (for more than 50 branches). These minimum levels of capitalization may be changed by the Monetary Board from time-to-time.

For purposes of these requirements, the 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:

- unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI granted by the bank;
- total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries;
- total outstanding unsecured loans, other credit accommodations and guarantees granted to related parties that are not at arm's length terms as determined by BSP;
- deferred income tax;
- appraisal increment reserve (revaluation reserve) as a result of appreciation or an increase in the book value of bank assets;
- equity investment of a bank in another bank or enterprise, whether foreign or domestic, if the other bank or enterprise has a reciprocal equity investment in the investing bank, in which case, the investment of the bank or the reciprocal investment of the other bank or enterprises, whichever is lower; and
- in the case of rural banks, the government counterpart equity, except those arising from conversion of arrearages under the BSP rehabilitation program.

On 15 July 2014, 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 though any one of the following modes of entry: (a) by acquiring, purchasing or owning up to 100% of the voting stock of an existing bank; (b) by investing in up to 100% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches with full banking authority. The foreign bank applicant must also be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. 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. 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 was authorized to issue such rules and regulations as may be needed to implement the provisions of RA 10641. On 6 November 2014, the Monetary Board issued Resolution No. 1794 providing for the implementing rules and regulations of RA10641 and on 21 November 2014, the BSP issued Circular No. 858, amending the relevant provisions of the Manual, 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.

The stockholders of individuals related to each other within the fourth degree of consanguinity or affinity, whether legitimate, illegitimate or common-law, shall be considered family groups or related interests, the relationship of which must be fully disclosed in all transactions by such an individual with the bank. Moreover, two (2) or more corporations owned or controlled by the same family group or same group of persons shall be considered related interests, the relationship of 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, unless at the time of declaration, it has complied with the following:

- clearing account with BSP is not overdrawn;
- liquidity floor for government funds for five or more consecutive days;
- minimum capitalization requirement and risk-based capital ratios as provided under applicable and existing capital adequacy framework;
- capital conservation buffer requirement as defined in Appendix 59, Part III of the MORB;
- higher loss absorbency ("**HLA**") requirement, phased-in starting 1 January 2017 with full implementation by 1 January 2019, in accordance with D-SIB Framework as provided under Section 128 of the MORB; or
- has not committed any unsafe or unsound banking practice as defined under existing regulations and/or major acts or omissions as determined by 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, Supervision and Examination Sector of the BSP.

Banks are required to ensure compliance with the minimum capital requirements and risk-based capital ratios even after the dividend distribution.

In addition, since the purchase of Traders Royal Bank (TRB) assets, the Bank has been restricted by BSP from declaring dividends until it fully provisions for various miscellaneous assets from the transaction. While these assets have been fully provisioned in the Bank's audited Financial Statements, ₱1.48 billion still remains to be provisioned in its regulatory reporting to BSP. The Bank annually books a provision of ₱160 million to reduce this balance. There are plans to accelerate this provisioning to fully provision the miscellaneous TRB assets in the near future.

17.4 REGULATIONS WITH RESPECT TO BRANCHES

Section 20 of the General Banking Law provides that universal and commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision of law allows banks, with prior approval from the Monetary Board, to use any or all of their branches as outlets for the presentation and/or sale of financial products of their allied undertakings or investment house units. In line with this, BSP Circular No. 854 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 to a maximum of ₱20 billion for more than 100 branches of universal banks).

BSP Circular No. 759 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. It permitted a bank to establish as many branches as its qualifying capital can support in accordance with existing rules. In BSP Circular No. 987 Series of 2017, the BSP approved the guidelines on the establishment of branch-lite units amending relevant provisions of the Manual. BSP Circular No. 987 was amended by BSP Circular No. 1031, including the licensing requirements of branch-lite units. A branch-lite unit refers to any permanent office or place of business of a bank, other than its head office or a branch which performs limited banking activities and records its transactions in the books of the head office or the branch to which it is annexed.

At present, pursuant to BSP Circular No. 932, issued in 2016, all banks, including rural and cooperative banks, as a general rule are allowed to establish branches anywhere in the Philippines, including in cities previously considered as restricted areas.

BSP Circular No. 847, series of 2014, imposed licensing fees on relocation of head offices, branches and other banking offices, approved but unopened branches and other banking offices to restricted areas.

17.5 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, at least one-third but not less than two of whom shall be independent directors. In case of merged or consolidated banks, the number of directors shall not exceed 21.

An independent director is a person who: (i) is not or was not a director, officer or employee of the bank, its subsidiaries, affiliates or related interests during the past three years counted from the date of his election/appointment; (ii) is not or was not a director, officer, or employee of the bank's substantial stockholders and their related companies during the past three (3) years counted from the date of his election/appointment; (iii) is not an owner of more than two percent (2%) of the outstanding shares or a stockholder with shares of stock sufficient to elect one (1) seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders; (iv) is not a close family member of any director, officer or stockholder holding shares of stock sufficient to elect one (1) seat in the board of directors of the bank or any of its related companies or of any of its substantial stockholders; (v) is not acting as a nominee or representative of any director or substantial shareholder of the bank, any of its related companies or any of its substantial shareholders; (vi) is not or was not retained as professional adviser, consultant, agent or counsel of the bank, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm during the past three (3) years counted from the date of his election; (vii) is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the bank or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment; (viii) was not appointed in the bank, its subsidiaries, affiliates or related interests as Chairman "Emeritus", "Ex-Officio", Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the board of directors in the performance of its duties and responsibilities during the past three (3) years counted from the date of his appointment; (ix) is not affiliated with any non-profit organization that receives significant funding from the bank or any of its related companies or substantial shareholders; and (x) is not employed as an executive officer of another company where any of the bank's executives serve as directors.

Non-Filipino citizens may become members of the board of directors to the extent of the foreign participation in the equity of the bank. Further, SEC Memorandum Circular No. 24, Series of 2019, on the Code of Corporate Governance for Publicly-Listed Companies requires the board of directors of publicly-listed companies to have a Board composed of a majority of non-executive directors and at least two independent directors, or such number as to constitute at least one-third (1/3) of the members of the Board, whichever is higher.

Under the Manual, bank directors and officers must meet certain minimum qualifications. For instance, directors must be at least 25 years old, have a college degree or have at least five years' business experience, while officers must be at least 21 years old, have a college degree, or have at least five years' banking or trust experience or related activities or in a field related to his position and responsibilities, and be fit and proper for the position he is being proposed/appointed to.

Certain persons are permanently disqualified from acting as bank directors, including (a) persons who have been convicted by final judgment of a court (i) for an offense involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of Batas Pambansa Blg. 22 (which penalizes the issuance of checks that are not sufficiently funded), violation of Anti-Graft and Corrupt Practices Act and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees), (ii) sentencing them to serve a maximum term of imprisonment of more than six years, (iii) for violation of banking laws, rules and regulations; (b) persons who have been judicially declared insolvent or incapacitated; (c) directors, officers or employees of closed banks who were found to be culpable for such institution's closure as determined by the Monetary Board; (d) directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board has become final and executory; and (e) directors and officers of banks or any person found by the Monetary Board to be unfit for the position of directors or officers because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency has become final and executory.

Meanwhile, certain persons are temporarily disqualified from holding a director position including (a) persons who refuse to fully disclose the extent of their business interests or any material information to the appropriate department of the SES when required pursuant to a provision of law or of a circular, memorandum, rule or regulation of the BSP; (b) directors who have been absent for more than half of directors' meetings during their incumbency and directors who failed to physically attend 25% of all board meetings in any year; (c) persons who are delinquent in the payment of their obligations with the bank where he/she is a director or officer or at least two obligations with other banks or financial institutions under different credit lines or loan contracts are past due; (d) directors and officers of closed banks pending their clearance by the Monetary Board; (e) directors disqualified for failure to observe their duties and responsibilities prescribed under existing regulations; (f) directors who failed to attend the required special seminar for board of directors; (g) persons who have been dismissed/terminated from employment for cause; (h) those under preventive suspension; (i) persons with derogatory records as certified by, or on official files of, the judiciary, National Bureau of Investigation, Philippine National Police, quasi-judicial bodies, other government agencies, international police, monetary authorities and similar agencies or authorities; (j) directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by court; and (k) directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of suspension from office or fine is imposed.

When the ground for disqualification ceases to exist, the director or officer concerned may subsequently become a director or officer of institutions regulated by the BSP only upon approval of the Governor of the BSP. In addition, except as may be permitted by the Monetary Board of the BSP, directors or officers of banks are also generally prohibited from simultaneously serving as directors or officers of other banks or non- bank financial intermediaries. The same prohibition applies to persons appointed to such positions as representatives of the government or government-owned or controlled entities holding voting shares of stock of banks/QBs/nonbank financial institutions/trust corporations unless otherwise provided under existing laws (see BSP Circular No. 953 dated 27 March 2017).

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, 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.

On 22 August 2017, the BSP issued Circular No. 971, prescribing the Guidelines on Risk Governance for BSFIs, and requiring the appointment of a Chief Risk Officer (CRO) in universal and commercial banks to head the risk management function. In addition to overseeing the risk management function, the CRO shall also support the board of directors in the development of the risk appetite of the BSFI and for translating the risk appetite into a risk limits structure. The appointment, dismissal and other changes to the CRO requires the prior approval of the board of directors. On the same date, the BSP also issued Circular No. 972, prescribing the Enhanced Guidelines in Strengthening Compliance Frameworks for BSFIs, and requiring the appointment of a Chief Compliance Officer ("**CCO"**). The CCO is tasked to oversee the identification and management of the BSFI's compliance risk and shall supervise the compliance function staff. Additionally, the board of directors should ensure that a compliance program is defined for the BSFI and that compliance issues are resolved expeditiously. For this purpose, a board-level committee, chaired by a non-executive director, shall oversee the compliance program.

17.6 REGULATIONS WITH RESPECT TO BANK OPERATIONS

A commercial 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 shall be treated as one unit. A bank, with prior approval of BSP, may likewise use any of its branches as outlets for presentation and/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 bank and their 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 commercial bank has , in addition to the general powers incident to corporations, (i) all such powers as may be necessary to carry on the business of commercial banking, such as accepting drafts and issuing letters of credit; discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; accepting or creating demand deposits; receiving other types of deposits and deposit substitutes; buying and selling foreign exchange and gold or silver bullion; acquiring marketable bonds and other debt securities; and extending credit, subject to such rules as the Monetary Board may promulgate, and (ii) to invest in allied enterprise.

17.7 REGULATION WITH RESPECT TO TRANSACTIONS WITH RELATED PARTIES

BSP Circular No. 895 issued on 14 December 2015 provides for the guidelines on related party transactions of banks and their non-bank financial subsidiaries and affiliates. Related parties cover three (3) groups: (i) the bank's subsidiaries as well as affiliates and any party the bank exerts direct/indirect control over or that exerts direct/indirect control over the bank; (ii) the bank's directors, officers, stockholders and related interests (DOSRI), and their close family members, as well as corresponding persons in affiliated companies; and (iii) such other person/juridical entity whose interest may pose potential conflict with the interest of the financial institution. Circular No. 895 covers outstanding transactions entered into with an unrelated party that subsequently becomes a related party. Further, there is disputable presumption of control whenever there is ownership or holding – direct or indirect – of 20% or more of a class of voting shares of a company.

BSP Circular No. 895 requires the board of directors to adopt and approve a group-wide related party transaction (RPT) policy which shall encompass all entities within the banking group. The said RPT policy shall cover not only transactions that give rise to credit and/or counterparty risks, but also those that could pose material/special risk or potential abuse to the bank/financial institution and its stakeholders.

The RPT policy shall provide clear guidelines in ensuring the RPTs are conducted at arm's length terms, provide for measures to identify and prevent or manage conflicts of interest, identify materiality thresholds and excluded transactions, whistle blowing mechanisms and measures for restitution of losses and other remedies for abusive RPTs or those not engaged at arm's length terms. BSP Circular No. 895 likewise mandates the creation of an RPT Committee, especially for banks that are part of a conglomerate, which will monitor and evaluate RPTs and oversee the implementation of the system for identifying, monitoring, measuring, controlling and reporting RPT including, periodic review of RPT policies and procedures.

In addition to the required reports on DOSRI and transactions with subsidiaries and affiliates under existing regulations, universal/commercial banks which are part of conglomerates are now required to report all entities in the conglomerate structure and likewise disclose the beneficial owners of shareholdings that are in the name of PCD nominee corporation. The report on conglomerate structure shall be submitted within 30 calendar days after the end of every calendar year. Aside from this report, banks are also required under Circular No. 895 to submit a report on material exposures to related parties including the material RPTs of their non-bank financial subsidiaries and affiliates within 20 calendar days after the end of the reference quarter starting with the quarter ending 31 March 2016. In this connection, the circular provides that supervised non-bank financial subsidiaries and affiliates are expected to report their material RPTs to the parent bank, which in turn shall report the same to the BSP. The reportorial requirement on conglomerate structure is not applicable to branches of foreign banks. Moreover, the governance principles including the adoption of group-wide RPT policy shall be complied with by the branches of foreign banks only to the extent possible since these entities have a distinct organizational set-up.

BSP Circular No. 969, dated 22 August 2017, further codified the BSP's thrust to strengthen oversight over related party transactions by enhancing corporate governance guidelines which includes improvement of the duties and responsibilities of the related party transactions committee of BSP supervised financial institutions.

On 25 April 2019, the Philippine SEC issued Memorandum Circular No. 10, series of 2019 (Rules on Material Related Party Transactions for Publicly Listed Companies), mandating additional disclosure/reportorial requirements for material related party transactions ("**MRPTs"**) amounting to 10% or higher of a publicly listed company's total assets. The circular requires all publicly listed companies to submit to the Philippine SEC a policy on MRPTs. Advisement Reports on MRPTs shall also be filed with the SEC in accordance with the circular within three calendar days after the execution of a covered transaction. Finally, a summary of MRPTs entered into by the company during the reporting year shall be disclosed in the company's Integrated Annual Corporate Governance Report ("**I-ACGR"**) submitted annually every 30 May.

17.8 CAPITAL ADEQUACY REQUIREMENTS AND RESERVE REQUIREMENTS

The Philippines adopted capital requirements based on the Basel Capital Accord in July 2001.

On 1 July 2007, the BSP issued Circular No. 538, which is 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 BCBS containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios. To align with the international standards, the BSP adopted part of the Basel Committee's eligibility criteria to determine eligibility of capital instruments to be issued by Philippine banks and QBs as Hybrid Tier 1 capital and Tier 2 with the issuance of BSP Circular No. 709 effective 1 January 2011, as amended by BSP Circular Nos. 716, 768, and 781.

In January 2012, the BSP announced that the country's universal and commercial banks, including their subsidiary banks and QBs, will be required to adopt in full the capital adequacy standards under Basel III with 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 1 and Tier 1 issues.

On January 2013, the BSP issued Circular No. 781 entitled the BASEL III Implementing Guidelines on Minimum Capital Requirements, which took effect last January 2014. Notable amendments include the following:

- Keeping minimum CAR at 10%, subject to following minimum capital ratios:
  - CET1 ratio of 6.0%;
  - Tier 1 ratio of 7.50%; and
  - Capital conservation buffer of 2.50%.
- Adopting a new categorization of capital.
- As applicable, allowing the BSP to adopt regulatory deductions in BASEL III.
- Removing existing limits on eligible Tier 1 and Total Tier 2 capital.
- 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 BSP Circular No. 709 and BSP Circular No. 716 before the revised capital framework became effective.
- By subjecting covered banks and QBs to the enhanced disclosure requirements pertaining to regulatory capital.

On 14 February 2014, the BSP issued Circular No. 826 which provides for amendments to the risk disclosure requirements on loss absorbency features of capital instruments. The said circular requires the following from banks or QBs when marketing, selling and/or distributing Additional Tier 1 and Tier 2 instruments eligible as capital under BASEL III framework in the Philippines:

- The banks/QBs must subject investors to a client suitability test to determine their understanding of the specific risks related to these investments and their ability to absorb risks arising from these instruments;

- The banks/QBs must provide appropriate Risk Disclosure Statement for the issuance of Additional Tier 1 and Tier 2 capital instruments;
- The banks/QBs must secure a written certification from each investor stating that:
  - The investor has been provided a Risk Disclosure Statement which, among others, explains the concept of loss absorbency for Additional Tier 1 and Tier 2 capital instruments as well as the resulting processes should the case triggers be breached;
  - The investor has read and understood the terms and conditions of the issuance;
  - The investor is aware of the risks associated with the capital instruments; and
  - Said risks include permanent write-down or conversion of the debt instrument into common equity at a specific discount;
- The banks/QBs must make available to the BSP, as may be required, the:
  - Risk Disclosure Statement;
  - Certificate from the investor; and

    Client Suitability Test of the Investor.

For offshore issuances of Additional Tier 1 and Tier 2 capital instruments, the risk disclosure requirements will be governed by the rules and regulations of the country where these instruments are issued. The subsequent sale and/or distribution of Additional Tier 1 and Tier 2 capital instruments in the Philippines, originally issued overseas, shall comply with all the risk disclosure requirements for issuance in the Philippines.

This allowed local banks one (1) full year for a parallel run of the old and new guidelines prior to the effectiveness of the new standards in 2014, marking an accelerated implementation compared to the Basel Committee's staggered timeline that stretches from January 2013 to January 2017. 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 Common Equity Tier 1 ("**CET1**") capital and Tier 1 ("**T1**") capital in addition to the Capital Adequacy Ratio ("**CAR**"). The BSP maintained the minimum CAR at 10.0% and set a minimum CET1 ratio of 6.0% and a minimum T1 ratio of 7.5%. The new guidelines also introduced a capital conservation buffer of 2.5% which shall be made up of CET1 capital.

In addition, banks which issued capital instruments from 2011 will be allowed to count these instruments as Basel III-eligible until end-2015. However, capital instruments that are not eligible in any of the three (3) components of capital were derecognized from the determination of the regulatory capital on 1 January 2014.

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to BSP on the amount of any deficiency.

BSP Circular No. 1092, issued on 31 July 2020, requires a commercial bank to maintain regular reserves of 12% against Philippine Peso demand, savings and time deposits, negotiable order of withdrawal accounts, deposit substitutes and certain managed funds.

On 23 March 2020, the Monetary Board authorized BSP Governor Benjamin E. Diokno to reduce the reserve requirement ratios of BSP-supervised financial institutions by up to a maximum of 400 basis points for 2020. The Monetary Board also authorized the BSP Governor to determine the timing, extent, and coverage of the reduction in the reserve requirement. The authority was granted to buttress the negative impact of the COVID-19 pandemic on the Philippine economy and followed announcements of an enhanced community lockdown on the entirety of Luzon by President Duterte. On 24 March 2020, pursuant to the authority, BSP Governor Diokno announced that the BSP was

reducing the reserve requirement ratio by 200 basis points for universal/commercial banks effective 30 March 2020. Potential cuts on the reserve requirements for other banks and non-bank financial institutions would also be explored. Subsequently, BSP Circular No. 1082 was issued, which lowered the rates of required reserves against deposit and deposit substitute liabilities in local currency of banks, effective reserve week of 3 April 2020 for universal and commercial banks, to 12% against demand deposits, "NOW" accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, deposit substitutes, peso deposits lodged under Due to foreign banks and peso deposits lodged under Due to Head Office/Branches/Agencies Abroad of banks. The same reserve requirements were reiterated in BSP Circular No. 1092, Series of 2020.
On 29 October 2014, the Monetary Board approved the guidelines for the implementation of higher capital requirements on D-SIBs by the BSP under Basel IIII. Banks deemed as D-SIBs by the BSP will be imposed capital surcharge to enhance their loss absorbency and thus mitigate any adverse side effects both to the banking system and to the economy should any of the D-SIBs fail. The assessment started in 2014 with the BSP informing banks confidentially of their D-SIB status in 2015.

Under BSP Circular No. 1051, series of 2019 issued on 27 September 2019, 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/financial institution infrastructure, and complexity. Depending on how they score against these indicators and the buckets to which the scores correspond, the D-SIBs will have varying levels of additional loss absorbency requirements ranging from 1.5% to 2.5%. Aside from the added capital pressure, D-SIBs may be put at an undue disadvantage compared to G-SIBs (or Global Systemically Important Banks) 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 will become fully effective on 31 December 2019.

In May 2015, the BSP approved the guidelines for the implementation of Basel III leverage ratio (computed as banks' Tier 1 capital divided by its total on-book and off-book exposure). On 9 June 2015, the BSP issued Circular No. 881 on the implementing guidelines and accordingly, amending the relevant provisions of the guidelines. Under the guidelines, 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. The guidelines also provide for a monitoring period up to end-2016 during which banks are required to submit periodic reports; however, sanctions will not be imposed on banks whose leverage ratios fall below the required 5% minimum during the period.

On 26 January 2017, the BSP issued Circular No. 943 which approved the one-year extension of the Basel III Leverage Ratio monitoring period from 31 December 2016 to 31 December 2017, and set new deadlines for the submission of the reporting and disclosure requirements. During the monitoring period, the BSP will continue to assess the calibration and treatment of the components of the leverage ratio. 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 increasing regulatory burden on banks.

On 22 January 2018, the BSP issued Circular No. 990 which approved the extension of the Basel III Leverage Ratio monitoring period from 31 December 2017 to 30 June 2018, and set new deadlines for the submission of the reporting and disclosure requirements. The monitoring of the leverage ratio shall be implemented as a Pillar 1 minimum requirement effective on 1 July 2018.

Further, local banks face new liquidity requirements, namely, the LCR and the NFSR, under Basel III. The LCR requires banks to hold sufficient level of High-Quality Liquid Assets ("**HQLAs**") to enable them to withstand a 30 day-liquidity stress scenario. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. While both ratios are intended to strengthen banks' ability to absorb shocks and minimize negative spillovers to the real economy, compliance with these ratios may also further increase competition among banks for deposits as well as HQLAs. In March 2016, the Monetary Board approved the LCR framework with an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. Starting 1 January 2018, the LCR threshold that banks will be required to meet will be 90%, which will be increased to 100% commencing on 1 January 2019. 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. Likewise, 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. The internationally agreed start date for the phase-in of liquidity requirements is 1 January 2015.

On 12 February 2016, the Monetary Board approved the guidelines on the submission of a recovery plan by D-SIBs which shall form part of the D-SIBs' Internal Capital Adequacy Assessment Process ("**ICAAP**") submitted to the BSP every 31st of March of each year. The recovery plan identifies the course of action that a D-SIB should undertake to restore its viability in cases of significant deterioration of its financial condition in different scenarios. At the latest, the recovery plan shall be activated when the D-SIB breaches the total required CET1 capital, the HLA capital requirement and/or the minimum liquidity ratios as may be prescribed by the BSP. As a preemptive measure, the recovery plan should use early warning indicators with specific levels (*i.e.*, quantitative indicators supplemented by qualitative indicators) that will activate the recovery plan even before the above-said breaches happen. This preparatory mechanism, including the operational procedures, monitoring, escalation and approval process should be clearly defined in the recovery plan. The ICAAP document which includes the first recovery plan was submitted on 30 June 2016 and will be re-submitted on the 31st of March of each year.

In addition, Basel III capital rules for banks include setting up a countercyclical capital buffer ("**CCB**") 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. The CCB will require banks to hold additional common equity or other fully loss absorbing capital in amounts ranging from 0% to 2.5% of the risk-weighted assets. The credit-to-GDP gap, defined as the difference between the credit-to-GDP ratio and its long-term trend, has been chosen as the guide or EWI (early warning indicator) for activating the CCB. However, some economists have raised the issue that the credit-to-GDP gap is not the best EWI for banking crises or system vulnerabilities, especially for emerging markets (including the Philippines). Under the BIS, the countercyclical capital buffer will be phased in beginning on 1 January 2016 and will become fully effective on 1 January 2019.

In October 2014, the BSP issued Circular No. 855 which provides for new guidelines on sound credit risk management practices. BSP Circular No. 855 mandates banks to establish appropriate credit risk strategy and policies, processes and procedures including cash flow-based credit evaluation process, and tighter provisioning guidelines. These are seen to increase costs as banks may have to upgrade their risk management systems and provisioning requirements.

Additionally, BSP Circular No. 855 sets the collateral value ("**CV**") for a loan backed up by real estate to only 60% of its appraised value. Banks will still be allowed to lend more than 60% of the CV; however, the portion above 60% will be considered unsecured, thus requiring banks to set up loan loss provisions accordingly. The CV ruling should not be mistaken for the loanable value ("**LV**"), which is the loan amount extended by banks to its borrowers. The current industry practice is a loan-to-value ("**LTV**") ratio of 70%-80%, which some banks may continue to grant provided that they have strict and consistent lending standards, adequate capital buffer and provisions. This new ruling, along with other BSP regulations intended to avert a property bubble, could result in an overall slowdown in lending to the real estate sector as banks adjust to these rulings.

On 20 October 2014, the Monetary Board decided to increase the minimum capital requirement for all bank categories including universal, commercial, thrift, rural and cooperative banks. This is in line with the BSP's efforts of further strengthening the banking system. Under this regulation, the minimum capital for universal and commercial banks will be tiered based on network size as indicated by the number of branches. Existing banks that will not immediately meet the new minimum capital requirement may avail of a five (5)-year transition period to fully comply. Such banks will be required to submit a capital build-up program that is acceptable. Banks that fail to comply with the minimum capital requirements or fail to propose an acceptable capital build-up program face curtailment of future expansion plans. For Universal Banks, the minimum capitalization was changed from the previous ₱4.95 billion, which was applicable to all, to ₱3.0 billion for banks with Head Office only, ₱6.0 billion for banks with up to 10 branches, ₱15.0 billion for banks with 11 to 100 branches and ₱20.0 billion for banks with more than 100 branches.

To better monitor the banking industry's exposure to the property sector, the BSP in September 2012 approved the guidelines that effectively widened the scope of banks' real estate exposures ("**REEs**") to include mortgages and loans extended to the following: individuals to finance the acquisition/construction of residential real estate for own occupancy as well as land developers and construction companies for the development of socialized and low-cost housing. Securities investments issued for purposes of financing real estate activities are also included under the new guidelines. Banks were required to submit the expanded report starting end-December 2012.

Further 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 to ensure that they have adequate capital to absorb potential losses to the property sector. Universal and commercial banks ("**UKBs**") as well as thrift banks ("**TBs**") must meet a CAR of 10% of qualifying capital after adjusting for the stress test results. Further, UKBs and their thrift bank subsidiaries are required to maintain a level of CET1 capital that is at least 6% of qualifying capital after factoring in the stress scenario. In addition, banks are mandated to submit quarterly report of their real estate exposures, in line with the new REST capital requirements.

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 23 November 2017, the BSP issued Circular No. 983 that prescribes the reduction in the reserve requirement rate on repurchase transactions, as well as sets forth the features of the repurchase program that shall be eligible for the zero-reserve rate requirement. Deposit substitutes evidenced by repurchase agreements covering government securities that are transacted in an organized market under the Government Securities Repo Program shall be subject to the reserve requirement of zero percent (0%) beginning the first week of December 2017. Recently, the Monetary Board reduced the reserve requirement ratios of selected reservable liabilities of banks in BSP Circular No. 1041, series of 2019.

17.9 LIMITATIONS ON OPERATIONS

17.9.1 The Single Borrower's Limit

Consistent with national interest, the total amount of loans, credit accommodations and guarantees that may be extended by a bank to any person or entity shall at no time exceed twenty five percent (25%) of the net worth of the bank. The ceiling may be increased as follows:

- By an additional ten percent (10%) of the net worth of such bank, so long as the additional liabilities are adequately secured by trust receipts, shipping documents, warehouse receipts or other similar documents transferring or securing title covering readily marketable, non-perishable goods which must be fully covered by insurance;
- By an additional twenty-five percent (25%) of the net worth of such bank, provided that the additional loans, credit accommodations and guarantees are granted to entities, which act as value chain aggregators of the lending banks' clients, and/or economically-linked entities that are also actors/players in the value chain,; that the additional twenty five percent (25%) will apply only to non-DOSRI/RPT loans; and that such additional twenty-five percent (25%) shall only be for a period of three (3) years, subject to review after the said period.

The limitations do not apply to secured obligations of the BSP or the Republic of the Philippines, those covered by assignment of deposits maintained in the lending bank and held in the Philippines, those under letters of credit to the extent covered by margin deposits and those which the Monetary Board may from time to time prescribe as non-risk items.

In an effort to mitigate the adverse effects of the COVID-19 pandemic on the operations of BSFIs, the BSP issued BSP Memorandum No. M-2020-011 dated 19 March 2020 and Memorandum No. M-2020-057 dated 21 July 2020, which granted additional operational relief to BSFIs. The reliefs include an increase in this single borrower's limit from 25% to 30% until 31 March 2021.

On 22 July 2020, the BSP issued BSP Memorandum Circular No. 1091, excluding debt securities held by market makers from the SBL. The circular also said that the debt securities will be excluded from the SBL for a period of time, such as 90 days from date of acquisition if this happened on 1 August 2020 until 31 July 2021 or not exceeding 60 days if acquired 1 August 2021 and onwards.

Except as prescribed by Monetary Board for reasons of national interest, the total amount of loan, credit accommodations and guarantees (determined on the total credit commitment) that may be extended by a bank to any person or entity shall at no time exceed 20.0% of the net worth of the bank (or 30.0% of the net worth of the bank in the event that certain types and levels of security are provided). This ceiling may be adjusted by the Monetary Board from time to time. As of 31 December 2011, the ceiling applicable to the Bank was 25.0% (or 35.0% of the net worth of the bank in the event that certain types and levels of security are provided).

The limitations shall not apply to secured obligations of the BSP or the Republic of the Philippines, those covered by assignment of deposits maintained in the lending bank and held in the Philippines, those under letters of credit to the extent covered by margin deposits and those which the Monetary Board may from time to time prescribe as non-risk items.

On 5 July 2017, the BSP issued Circular No. 965, approving the guidelines on the exclusion from the Single Borrower's Limit of banks and QBs' short-term exposures to clearing and settlement banks arising from payment transactions.

17.9.2 Limitation on DOSRI Transactions

No director or officer of any bank shall directly or indirectly, for himself or as the representative or agent of others, borrow from such bank nor shall he 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 shall be subject to the penal provisions of the New Central Bank Act. The DOSRI account shall be limited to an amount equivalent to their respective unencumbered deposits and book value of their paid-in capital contribution in the bank. The limitation excludes loans, credit accommodations and guarantees secured by assets which the Monetary Board considers as non-risk.

On 2 June 2016, the Monetary Board approved the revisions to prudential policy on loans, other credit accommodations, and guarantees granted to DOSRIs. The Monetary Board approved the exclusion of loans, other credit accommodation and guarantees 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 bank shall ensure that standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include 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.

As a general rule, loan and other credit accommodation against real estate shall not exceed 60% of the appraised value of the real estate security plus 60% of the appraised value of the insured improvements, and such loans may be made to the owner of the real estate or to his assignees, except for the following which shall be allowed a maximum value of 70% of the appraised value of the insured improvements: (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 23 June 2016, the BSP issued Circular No. 914, Series of 2016 amending the prudential policy on loans, other credit accommodations, and guarantees granted to DOSRI, subsidiaries and affiliates. Circular No. 914 has raised the ceilings on the exposures of subsidiaries and affiliates of banks to priority programs particularly infrastructure projects under the Philippine Development Plan / Public Investment Program ("**PDP/PIP**") needed to support economic growth. The exposures to subsidiaries and affiliates in PDP/PIP projects will now be subject to higher individual and unsecured limits of 25% instead of 10% and 12.5% instead of 5% of the net worth of the lending bank, respectively, subject to conditions. Further, the circular also provides for a refined definition of “related interest” and “affiliates” to maintain the prudential requirements and preempt potential abuse in a borrowing transaction between the related entities. The circular also amends the capital treatment of exposures to affiliates by weighing the risk of both the secured and unsecured loans granted to the latter.

On 27 October 2017, the BSP issued Circular No. 978 which provided for exclusion of the portion of loans and other credit accommodation covered by guarantees of international/regional institutions/multilateral financial institutions where the Philippine Government is a member/shareholder, from the ceilings on total outstanding loans, other credit accommodations and guarantees granted to banks' subsidiaries and affiliates. BSP Circular No. 978 excluded the following in determining compliance with the ceilings provided under Circular No. 914: (1) Loans, other credit accommodations and guarantees secured by assets considered as non-risk under existing BSP regulations; (2) Interbank call loans; and (3) The portion of loans and other credit accommodations covered by guarantees of international/regional institutions/multilateral financial institutions where the Philippine Government is a member/shareholder, such as the International Finance Corporation and the Asian Development Bank.

17.9.3 Limitation on Investments

The total investment of a universal bank in equities of allied and non-allied enterprises shall not exceed 50% of its net worth. 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 BSP. The Monetary Board must approve such acquisition of equities.
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 shall be 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 (5) 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.

17.9.4 Prohibition to act as Insurer

A bank is prohibited from directly engaging in insurance business as the insurer.

17.9.5 Permitted Services

In addition to the operations incidental to its banking functions, a bank may perform the following services:

- receive in custody funds, documents and valuable objects;
- 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;
- upon prior approval of the Monetary Board, act as the managing agent, adviser, consultant or administrator of investment management/advisory/consultancy accounts; and
- rent out safety deposit boxes.

The AMLA requires covered institutions such as banks including its subsidiaries and affiliates, to provide for customer identification, record keeping and reporting of covered and suspicious transactions. Under its provisions, as amended, certain financial intermediaries including banks, offshore banking units, QBs, and all other institutions including their subsidiaries and affiliates supervised and/or regulated by the BSP, and insurance companies and/or institutions regulated by the Insurance Commission, are required to submit a “covered” transaction report involving a single transaction in cash or other equivalent monetary instruments in excess of ₱0.5 million within one banking day.

Republic Act No. 10167 has expanded the coverage of the Anti-Money Laundering Council (“**AMLC**”) to enable inquiries into so-called “related accounts,” defined as: “funds and sources of which originated from and/or are materially linked to the monetary instrument(s) or property(ies) subject of the freeze order(s)." the high threshold level for covered transactions, the coverage of "covered institutions" and the existing Bank Secrecy Law, the amendments to the Anti-Money Laundering Act of 2001 were signed into law on 7 March 2003 under Republic Act No. 9194. The amendments included the following: (i) lowering the threshold for covered transactions to ₱500,000; (ii) authorizing the BSP to inquire or examine any deposit or investment with any banking institution without court order in the course of a periodic or special It also addressed concerns such as examination; and (iii) removing the provision prohibiting the retroactivity of the law.

On 15 February 2013, Republic Act No. 10365, which took effect on 7 March 2013, expanded the AMLA covered institutions and crimes. The revised implementing rules and regulations were published on 23 and 24 December 2016. On 15 March 2017, the BSP issued BSP Circular No. 950 to amend the Manual in order to effectively implement the provisions of the AMLA, as amended, and the revised implementing rules and regulations of the AMLA.

On 27 November 2018, the 2018 Implementing Rules and Regulations of the Anti-Money Laundering Act of 2001 took effect. This incorporated the amendments under Republic Act No. 10972, which included casinos as covered persons. However, implementation by casinos of Anti-Money Laundering Act of 2001 will continue to be governed by the existing Casino Implementing Rules and Regulations. These implementing rules and regulations feature new rules on the AMLC’s coordination with law enforcement agencies, beneficial ownership, customer due diligence, and national risk management and assessment, among others. In relation thereto, on 14 January 2019, BSP issued Circular Letter No. CL-2019-002, addressed to all BSFIs of the guidelines issued by the AMLC on digitization of customer records and identification of beneficial owners. On 29 January 2020, the AMLC issued AMLC Regulatory Issuance (“**ARI**”) A, B, and C No. Series of 2020, which amends certain provisions of the 2018 Implementing Rules and Regulations of Republic Act No. 9160, as amended. The ARI added provisions on immediate family members and close associates of politically-exposed persons (“**PEP**s”), and expanded the definition of a customer or client to include juridical persons. Such resolution also provided that the suspicious transaction report shall cover all transactions, whether completed or attempted, and shall be promptly filed within the next working day from the occurrence thereof.

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:

- there is no underlying legal or trade obligation, purpose or economic justification;
- the customer or client is not properly identified;
- the amount involved is not commensurate with the business or financial capacity of the client;
- the transaction is structured to avoid being the subject of reporting requirements under the AMLA;
- there is a deviation from the client’s profile or past transaction;
- the transaction is related to an unlawful activity or offence under the AMLA;
- similar or analogous transactions to the above.

Failure by any responsible official or employee of a bank to maintain and safely store all records of all transactions of the bank, including closed accounts, for five years from date of transaction/closure of account shall be subject to a penalty of six months to one-year imprisonment and/or fine of ₱500,000.00.

Malicious reporting of 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 one hundred thousand pesos (₱100,000.00) but not more than five hundred thousand pesos (₱500,000.00). Pursuant to the authority delegated to it by Congress under the implementing rules & regulations of Republic Act No. 9160, as amended by Republic Act No. 9194, the Anti-Money Laundering Council promulgated the Rules on the Imposition of Administrative Sanctions which took effect on 9 August 2017. The AMLC also approved the 2018 Implementing Rules and Regulations of the Anti-Money Laundering Act which took effect last 27 November 2018.

In compliance with the law, banks, their officers and employees are prohibited from communicating directly or indirectly to any person or entity, the media, the fact that a covered or suspicious transaction has been reported or is about to be reported, the contents of the report, or any information relating to such report. Neither may such report be published or aired in any manner or form by the mass media, electronic mail, or other similar devices. A violation of this rule is deemed a criminal act.

Money laundering is committed by any person who, knowing that any monetary instrument or property represents, involves, or relates to the proceeds of any unlawful activity:

1. transacts said monetary instrument or property;
2. converts, transfers, disposes of, moves, acquires, possesses or uses said monetary instrument or property;
3. conceals or disguises the true nature, source, location, disposition, movement or ownership of or rights with respect to said monetary instrument or property;
4. attempts or conspires to commit money laundering offenses referred to in paragraphs (a), (b) or (c);
5. aids, abets, assists in or counsels the commission of the money laundering offenses referred to in paragraphs (a), (b), or (c) above; and
6. performs or fails to perform any act as a result of which the person facilitates the offense of money laundering referred to in paragraphs (a), (b), or (c) above.

Money laundering is also committed by any covered person who, knowing that a covered or suspicious transaction is required under this Act to be reported to the Anti-Money Laundering Council, fails to do so.

On 26 November 2018, the BSP issued BSP Circular No. 1022 where the BSP recognized the Philippine Identification System (PhilSys) ID card as an official document for financial transactions. The BSP also included a person's PhilSys number as part of the minimum information to be collected by financial institutions before carrying out a transaction and allowed the use of information and communication technology to "capture and record" personal data of customers.

17.10 TAXATION OF BANKS

Banks are subject to corporate income tax. The taxable income of banks from all sources within and without the Philippines is subject to income tax at the rate of 20% effective 1 July 2020 (if such banks are classifiable as domestic corporations). Effective as of the same date, only the taxable income derived by banks from Philippine sources is subject to income tax at the rate of 20% (if such banks are classifiable as resident foreign corporations).

Taxable net income refers to items of income specified under Section 32 (A) the Tax Code 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 regular corporate income tax. Any excess MCIT paid over the regular corporate income tax can be carried forward as tax credit 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. Under the CREATE Act, however, the MCIT rate is lowered to 1% of gross income for the period commencing 1 July 2020 and ending 30 June 2023.

An Improperly Accumulated Earning Tax ("**IAET**") equivalent to 10% of improperly accumulated taxable income of a corporation is not applicable to banks.

Since banks are in the regular business of lending, interest income derived by banks which is generally considered passive income by non-banks, is considered ordinary income of banks subject to 30% corporate income tax. Banks may also claim interest expense as tax deduction if such expense complies with the requirements laid down in Revenue

Regulations No. 13-00. The amount of interest expense which banks may claim as tax deduction shall be reduced by an amount equal to 33% of the banks' interest income that is subject to final tax.

The Tax Code does not allow banks to deduct interest expense or bad debts 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.

The banks' passive income such as interest income earned from bank deposits is subject to final withholding tax.

Banks are subject to percentage tax or GRT which is a tax levied on the gross receipts of banks and non-bank financial intermediaries. 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 and should itself be subject to a GRT of either 5% or 7% depending on the provision of the Tax Code covering the type of income or activity.

Real and Other Properties Acquired ("**ROPA**") of banks are considered as ordinary assets. The income derived from their sale is subject to the regular corporate income tax. 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.

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.

Interbank call loans 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 ("**DST**") except if they have a maturity of more than seven days.

On 19 December 2017, the President of the Philippines signed into law, package 1 of TRAIN which took effect on 1 January 2018. The TRAIN amends certain provisions of the Tax Code. The relevant changes of the TRAIN are incorporated in the section titled "Philippine Taxation" of this Offering Circular.

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 18. OFFER PROCEDURES

18.1 METHOD OF DISTRIBUTION

The Bonds are being issued pursuant to Section 246 of the Manual of Regulations for Banks, as amended to date. The issuance of the Bonds is exempt from the registration requirement under the Securities Regulation Code pursuant to Section 9.1(e) thereof.

No action has been or will be taken by the Bank or the Joint Lead Arrangers and Joint Bookrunners, in any jurisdiction (other than the Philippines), that would permit a public offering 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.

The Joint Lead Arrangers and Joint Bookrunners are required to comply with all laws, regulations and directives as may be applicable in the Philippines, including without limitation any regulations 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 Joint Lead Arrangers and Joint Bookrunners in connection therewith.

The Joint Lead Arrangers and Joint Bookrunners are third-parties in relation to the Bank, such that, (i) the Joint Lead Arrangers and Joint Bookrunners have no subsidiary/affiliate relationship with the Bank; and (ii) the Joint Lead Arrangers and Joint Bookrunners are not related in any manner to the Bank as would undermine the objective conduct of due diligence on the Bank. The Registrar and Paying Agent is likewise a third-party in relation to the Bank, such that, (i) it has no subsidiary/affiliate relationship with Bank; and (ii) it is not related in any manner to Bank as would undermine its independence.

The Joint Lead Arrangers and Joint Bookrunners and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. In the ordinary course of their various business activities, the Joint Lead Arrangers and Joint Bookrunners and their affiliates may make or hold 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. Such investments and securities activities may involve securities and instruments of the Bank.

The Joint Lead Arrangers and Joint Bookrunners and/or their affiliates may purchase Bonds for their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Bonds and/or other securities of the Bank or its respective subsidiaries or associates at the same time as the offer and sale of the Bonds, or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds).

18.2 APPLICATIONS TO PURCHASE THE BONDS DURING THE OFFER PERIOD

Applicants may purchase the Bonds during the Offer Period by submitting fully and duly accomplished Application to Purchase ("**ATP**") forms, in triplicate, 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 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 or manager's checks made out to the order of Bank of Commerce, ING, or PCCI, debit instructions or such other forms of instructions that are acceptable to the relevant Selling Agent and which cover the entire purchase price shall be accepted. In addition to duly executed ATP forms, each applicant shall submit the following documents to the Selling Agents:

18.2.1 Documents to be provided by individuals

- Copies of at least one valid identification document ("ID") of the applicant that is acceptable to the Selling Agents and the Issuer, including those enumerated in the Application to Purchase for each Tranche; and
- two duly accomplished signature cards containing the specimen signature of the applicant.

18.2.2 Documents to be provided by corporate and institutional applicants

- an original notarized certificate of the Corporate Secretary of the applicant setting forth resolutions of its Board of Directors authorizing the purchase of the Bonds, and designating the signatories, with their specimen signatures, for the said purposes;
- copies of the applicant's articles of incorporation and by-laws (or equivalent documents) and latest amendments thereof, together with the certificate of incorporation issued by the Securities and Exchange Commission (or equivalent agency), stamped and signed as certified as true copies by such agency or by the Corporate Secretary (or duly authorized equivalent officer) of the applicant; and
- two duly accomplished signature cards containing the specimen signatures of the persons designated as authorized signatories of the applicant for purposes of investing in the Bonds, validated by the applicant's Corporate Secretary (or duly authorized equivalent officer), and further validated or signed by the relevant Selling Agent's authorized signatories whose authority and specimen signatures have been submitted to the Registrar

18.2.3 Additional documents to be provided by Tax-Exempt Holders

- a current and valid certified true copy of the tax exemption certificate, ruling, or opinion issued by the BIR confirming the Eligible Holder's exemption from taxation of interest on fixed income securities;
- an original of the duly notarized declaration warranting its tax-exempt status or entitlement to reduced treaty rates and undertaking to immediately notify the Bank and the Registrar and Paying Agent of any suspension or revocation of its tax exemption, and agreeing to indemnify and hold the Bank and the Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities resulting from the non-withholding or reduced withholding of the required tax substantially in the forms attached to the Registry and Paying Agency Agreement; and
- such other documentary requirements as may be reasonably required under the Registry and Paying Agency Agreement, or by the Registrar, the Bank and the Selling Agents as proof of the Eligible Holders' tax-exempt status or as may be required under the applicable regulations of the relevant taxing or other authorities.

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 Bank. The Joint Lead Arrangers and Joint Bookrunners, in consultation with the Bank, may accept, reject, scale down or reallocate any application to purchase the Bonds applied for.

In the event that payment supporting any ATP is returned by the drawee bank for any reason whatsoever, the ATP shall be automatically cancelled and any prior acceptance of the ATP shall be deemed revoked. If any ATP is rejected or accepted in part only, the corresponding portion of the tendered purchase price will be returned without interest by the relevant Selling Agent.

On the Issue Date, the Selling Agents shall, on behalf of the Bank, accept the relevant ATPs. The acceptance of an ATP shall ipso facto convert such ATP into a purchase agreement between the Bank and the relevant Holder.

Upon confirmation by the Bank of acceptance of the relevant applications and the respective amounts of Bonds, the Selling Agents shall issue the relevant purchase advice (the "**Purchase Advice**") to successful applicants confirming the acceptance of their offer to purchase the Bonds and consequent ownership thereof and stating the pertinent details including the amount accepted, and shall furnish a copy of the Purchase Advice to the Registrar.

The Registrar shall rely solely on the Sales Report submitted by the Selling Agents in its preparation of the Registry and the issuance of the Registry Confirmation for each Holder. Within seven (7) Banking Days from the Issue Date, the Registrar shall distribute the Registry Confirmations directly to the Holders in the mode elected by the Holder as indicated in the Sales Report.

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 the applicable fees and charges of PDEx and the Registrar. Trading and transfers of Bonds shall be subject to the procedures of the BSP, the Registrar and Paying Agent, 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 on PDEx for secondary market trading. Upon listing of the Bonds, 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 specified in the Terms and Conditions of the Bonds and/or Pricing Supplement must be observed 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 prescribed minimum denomination.

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.

Secondary market trading in PDEx shall follow the applicable PDEx rules, conventions, and guidelines governing trading and settlement between bondholders of different tax status and shall be subject to the relevant fees and charges of PDEx and PDTC.

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 and endorsed by the PDEx Trading Participant;
- The relevant Purchase Advice of the buyer/transferee (with the information provided therein duly set forth in typewritten form);
- 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 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 Bank, make available to the Bondholders the amounts net of taxes and fees (if any), by way of direct credits to the bank accounts through the identified Cash Settlement Banks by the Holders as reflected in the Application 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 Holder 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 ₱200.00 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 PDS Clear 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).

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. LEGAL MATTERS

Certain Philippine legal matters in connection with the Offer have been passed upon for the Bank by Picazo Buyco Tan Fider & Santos, Manila, Philippines, the independent legal counsel of the Bank, and for ING and PCCI by SyCip Salazar Hernandez & Gatmaitan.

The aforesaid counsels have no shareholdings in the Bank, or any right, whether legally enforceable or not, to nominate persons or to subscribe to the securities of the Bank, in accordance with the standards or independence required in the Code of Professional Responsibility and as prescribed by the Supreme Court of the Philippines.

The aforesaid legal counsels have not acted and will not act as promoter, underwriter, voting trustee, officer or employee of the Bank.

SECTION 20. INDEPENDENT AUDITORS

The limited review financial statements as of and for the period ended 31 March 2022 and audited financial statements as of and for the years ended 31 December 2021, 2020, and 2019, respectively, were audited by R.G. Manabat & Co., independent auditors.

PARTIES TO THE OFFER

The Issuer

Bank of Commerce
San Miguel Properties Centre
7 St. Francis St.
Mandaluyong City
Philippines 1550

The Joint Lead Arrangers and Joint Bookrunners

ING Bank N.V. Manila Branch
22nd Floor ArthaLand Century Pacific Tower
5th Avenue corner 30th Street, Bonifacio Global City
Taguig, Philippines

Philippine Commercial Capital, Inc.
6th Floor PCCI Corporate Centre
118 L.P. Leviste St. Salcedo Village,
Makati City, Philippines

Legal Counsel to the Bank

Picazo Buyco Tan Fider & Santos
Penthouse, Liberty Center – Picazo Law
104 H.V. dela Costa Street
Salcedo Village
Makati City, Philippines

Legal Counsel to the Joint Lead Arrangers And Joint Bookrunners

SyCip Salazar Hernandez & Gatmaitan
SyCipLaw Center
105 Paseo de Roxas
Makati City, Philippines

Independent Auditors

R.G. Manabat & Co.
KPMG Center
6787 Ayala Ave,
Makati, Philippines

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AUDITED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED 31 DECEMBER 2021, 2020, AND 2019

REVIEWED FINANCIAL STATEMENTS AS OF AND FOR THE PERIOD ENDED 31 MARCH 2022