

**SECURITIES AND EXCHANGE COMMISSION**

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Company Type: Stock Corporation

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COVER SHEET

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COMPANY NAME

[illegible]

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

[illegible]

Form Type

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Department requiring the report

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Secondary License Type, If
Applicable

N	/	A	
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COMPANY INFORMATION

Company's Email Address

cbs@chinabank.ph

Company's Telephone Number

8-988-95-55

Mobile Number

N/A

No. of Stockholders

1,550

Annual Meeting (Month / Day)

3rd Thursday of June

Fiscal Year (Month / Day)

12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person

Luis Bernardo A. Puhawan

Email Address

lbapuhawan.cbs@chinabank.ph

Telephone Number/s

8-988-95-55

Mobile Number

N/A

CONTACT PERSON's ADDRESS

CBS Building, 314 Sen. Gil J. Puyat, Makati City

**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17 - Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarter period ended : **March 31, 2025**
2. Commission Identification Number : **16962**
3. BIR Tax Identification Code : **000-504-532**
4. Exact name of registrant as specified in its charter : **China Bank Savings, Inc.**
5. Province, country or other jurisdiction or organization : **Makati City, Philippines**
6. Industry Classification Code : (SEC Use only)
7. Address of principal office : **CBS Building, 314 Sen. Gil J. Puyat Avenue, Makati City, 1209**
8. Issuer's telephone number, including area code : **(632) 8-988-95-55**
9. Former name, former address and former fiscal year, if changed since last report : **N/A**

10. Securities registered pursuant to Section 8 and 12 of the SRC and Section 4 and 8 of the RSA

Title of Each Class	Number of Shares Outstanding and Amount of Debt Outstanding
Common stock - ₱100 par value	115,414,149
Preferred stock - ₱100 par value	21,642

11. Are any or all of the registrant's securities listed on a Stock Exchange?

Yes [] No [X]

12. Check whether the issuer:

(a) has filed all the reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports)

Yes [X] No []

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [X] No []

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Attached are the following:

Annex 1	Interim Statements of Financial Position
Annex 2	Interim Statements of Income
Annex 3	Interim Statements of Comprehensive Income
Annex 4	Interim Statements of Changes in Equity
Annex 5	Interim Statements of Cash Flows
Annex 6	Notes to Interim Financial Statements
Annex 7	Schedule of Financial Performance Indicators

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

PART II – OTHER INFORMATION

There are no other material disclosures that were not reported under SEC Form 17-C during the period covered by this report.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant.....CHINA BANK SAVINGS, INC.

By:


LUIS BERNARDO A. PUHAWAN
Senior Vice President and
Controller


JAMES CHRISTIAN T. DEE
President

May 06, 2025

China Bank Savings, Inc.
(A Majority Owned Subsidiary of China Banking Corporation)

Unaudited Interim Condensed Financial Statements

As of March 31, 2025

(With Comparative Audited Figures as of December 31, 2024)

and for the periods ended March 31, 2025 and 2024 (Unaudited)

ITEM 1. FINANCIAL STATEMENTS

INTERIM STATEMENTS OF FINANCIAL POSITION

	March 31, 2025 (Unaudited)	December 31, 2024 (Audited)
ASSETS		
Cash and Cash Equivalents	₱20,681,246,199	₱27,129,881,265
Financial Assets at Fair Value through Profit or Loss	50,609,703	100,434,809
Financial Assets at Fair Value through Other Comprehensive Income	15,400,311,259	12,028,399,959
Investment Securities at Amortized Cost	8,502,087,538	6,827,321,051
Loans and Receivables	139,481,171,505	133,690,255,054
Non-current Assets Held for Sale	694,898,212	567,422,444
Property and Equipment	2,057,832,443	2,096,167,832
Investment Properties	1,846,017,548	1,875,111,007
Branch Licenses	74,480,000	74,480,000
Software Costs	52,126,735	53,397,982
Deferred Tax Assets	1,786,704,197	1,727,204,197
Other Assets	3,317,482,163	2,953,106,574
	₱193,944,967,502	₱189,123,182,174
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities		
Demand	₱26,668,809,625	₱27,679,939,125
Savings	22,485,365,057	22,024,151,961
Time	121,574,718,206	117,088,781,450
	170,728,892,888	166,792,872,536
Manager's Checks	292,302,951	203,678,931
Accrued Interest and Other Expenses	1,094,106,591	1,232,254,903
Income Tax Payable	199,170,159	503,404
Other Liabilities	3,153,039,677	3,056,411,729
	175,467,512,266	171,285,721,503
Equity		
Capital stock	11,543,579,100	11,543,579,100
Additional paid-in capital	475,049,814	475,049,814
Other equity stock grants	17,299,450	17,299,450
Other equity reserves	(2,248,520,637)	(2,248,520,637)
Surplus	8,600,288,717	8,034,115,444
Remeasurement gains on retirement liability	31,188,724	31,188,724
Net unrealized losses on financial assets at fair value through other comprehensive income	(14,889,110)	(93,526,964)
Cumulative translation adjustment	73,459,178	78,275,740
	18,477,455,236	17,837,460,671
	₱193,944,967,502	₱189,123,182,174

CHINA BANK SAVINGS, INC.
INTERIM STATEMENTS OF INCOME

Annex 2

	Quarters Ended March 31	
	2025	2024
	(Unaudited)	(Unaudited)
INTEREST INCOME		
Loans and receivables	₱3,496,662,692	₱2,921,937,281
Investment securities	284,384,098	298,415,113
Due from BSP and other banks	237,132,555	147,096,006
	4,018,179,345	3,367,448,400
INTEREST EXPENSE		
Deposit liabilities	1,708,804,960	1,403,507,244
Others	13,739,195	11,896,536
	1,722,544,155	1,415,403,780
NET INTEREST INCOME	2,295,635,190	1,952,044,620
Service charges, fees and commissions	84,941,522	98,085,345
Gain on asset exchange	(7,469,410)	64,493,873
Income from property rentals	14,978,499	14,661,901
Trading and securities gain	487,565	(343,543)
Miscellaneous	90,707,214	64,493,873
TOTAL OPERATING INCOME	2,478,793,015	2,191,491,724
Compensation and fringe benefits	488,264,480	400,192,937
Taxes and licenses	203,073,226	200,644,078
Documentary stamp taxes	194,317,772	169,986,518
Provision for impairment and credit losses	180,242,486	240,060,680
Depreciation and amortization	139,695,501	118,504,130
Insurance	120,612,258	104,110,321
Security, messengerial and janitorial	114,880,459	81,827,744
Acquired asset and other litigation expense	70,392,974	57,721,554
Transportation and travel	49,838,990	45,756,354
Occupancy costs	41,973,751	48,914,777
Data processing and information technology	41,968,089	22,512,793
Stationery, supplies and postage	24,750,841	14,343,524
Utilities	23,910,018	19,276,179
Entertainment, amusement and recreation	22,806,303	20,259,141
Miscellaneous	126,946,795	111,059,471
TOTAL OPERATING EXPENSES	1,843,673,943	1,655,170,201
INCOME BEFORE INCOME TAX	635,119,072	536,321,523
PROVISION FOR INCOME TAX	68,945,799	74,624,135
NET INCOME	₱566,173,273	₱461,697,388

INTERIM STATEMENTS OF COMPREHENSIVE INCOME

	Quarters Ended March 31	
	2025 (Unaudited)	2024 (Unaudited)
NET INCOME	₱566,173,273	₱461,697,388
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Items that recycle to profit or loss in subsequent periods:</i>		
Changes in net unrealized gains (losses) on financial assets at fair value through other comprehensive income:	78,637,854	(36,006,290)
Cumulative translation adjustment	(4,816,562)	7,061,213
	73,821,292	(28,945,077)
TOTAL COMPREHENSIVE INCOME	₱639,994,565	₱432,752,311

CHINA BANK SAVINGS, INC.
Annex 4
INTERIM STATEMENTS OF CHANGES IN EQUITY

	Capital Stock	Additional Paid-in Capital	Other Equity Stocks Grants	Other Equity Reserves	Surplus	Remeasurement Gains on Retirement Liability	Net Unrealized Losses on Financial Assets at Fair Value through Other Comprehensive Income	Cumulative Translation Adjustment	Total Equity
Balance at January 1, 2025 (Audited)	₱11,543,579,100	₱475,049,814	₱17,299,450	(₱2,248,520,637)	₱8,034,115,444	₱31,188,724	(₱93,526,964)	₱78,275,740	₱17,837,460,671
Total comprehensive income (loss) for the period	–	–	–	–	566,173,273	–	78,637,854	(4,816,562)	639,994,565
Balance at March 31, 2025 (Unaudited)	₱11,543,579,100	₱475,049,814	₱17,299,450	(₱2,248,520,637)	₱8,600,288,717	₱31,188,724	(₱14,889,110)	₱73,459,178	₱18,477,455,236
Balance at January 1, 2024 (Audited)	₱11,543,579,100	₱475,049,814	₱17,299,450	(₱2,248,520,637)	₱5,863,598,152	₱20,858,617	(₱70,830,608)	₱48,048,136	₱15,649,082,024
Total comprehensive income (loss) for the period	–	–	–	–	461,697,388	–	(36,006,290)	7,061,213	432,752,311
Balance at March 31, 2024 (Unaudited)	₱11,543,579,100	₱475,049,814	₱17,299,450	(₱2,248,520,637)	₱6,325,295,540	₱20,858,617	(₱106,836,898)	₱55,109,349	₱16,081,834,335

CHINA BANK SAVINGS, INC.
Annex 5
INTERIM STATEMENTS OF CASH FLOWS

	Quarters Ended March 31	
	2025	2024
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱635,119,072	₱536,321,523
Adjustments for:		
Depreciation and amortization	139,695,501	118,504,130
Provision for impairment and credit losses	180,242,486	240,060,680
Gain on asset exchange	7,469,410	(64,493,873)
Amortization of premium on investment securities	(106,511,714)	9,367,778
Interest on lease liabilities	13,739,195	11,896,536
Realized trading gains (loss) on financial assets at fair value through other comprehensive income	(487,565)	343,543
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Financial assets at fair value through profit or loss	(49,825,106)	(49,962,630)
Loans and receivables	(6,775,587,537)	(7,257,503,234)
Other assets	185,016,374	191,297,273
Increase (decrease) in the amounts of:		
Deposit liabilities	3,936,020,352	4,809,487,040
Manager's checks	88,624,020	(289,154,673)
Accrued interest and other expenses	(138,148,312)	137,197,615
Other liabilities	129,679,111	413,929,465
Net cash provided by (used in) operations	(1,754,954,713)	(1,192,708,827)
Income tax paid	129,720,956	(44,533,023)
Net cash provided by (used in) operating activities	(1,625,233,757)	(1,237,241,850)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Investment securities	(8,497,410,998)	(10,932,850,269)
Property and equipment	(63,512,678)	(125,478,986)
Software costs	(2,706,145)	(560,910)
Proceeds from sale/maturity of:		
Investment securities	3,557,210,000	9,105,781,086
Property and equipment	1,044,049	63,047,977
Investment properties	118,028,336	145,187,391
Non-current assets held for sale	195,142,404	105,790,075
Net cash used in investing activities	(4,692,205,032)	(1,639,083,636)
CASH FLOWS FROM FINANCING ACTIVITY		
Payments of principal portion of lease liabilities	(73,736,612)	(58,213,698)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENT	(57,459,665)	(72,048,847)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,448,635,066)	(6,448,635,066)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	27,129,881,265	20,001,169,247
CASH AND CASH EQUIVALENTS AT END OF PERIOD	₱20,681,246,199	₱16,994,581,216

NOTES TO FINANCIAL STATEMENTS**Basis of Preparation**

The accompanying interim financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest thousand peso unless otherwise stated.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's financial statements as of December 31, 2024.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments to PFRS Accounting Standards which became effective as of January 1, 2025. These changes in the accounting policies did not have any significant impact on the financial position or performance of the Bank.

- PFRS 17, *Insurance Contracts*
- Amendments to PAS 21, *Lack of exchangeability*

Standards Issued but Not Yet Effective

These are new PFRSs and amendments, interpretation and annual improvements to existing standards that are effective for annual periods subsequent to 2025. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

Effective beginning on or after January 1, 2026

- Amendments to PFRS 9 and PFRS 7, Classification and Measurement of Financial Instruments
- Annual Improvements to PFRS Accounting Standards-Volume 11
 - Amendments to PFRS 1, *Hedge Accounting by a First-time Adopter*
 - Amendments to PFRS 7, *Gain or Loss on Derecognition*
 - Amendments to PFRS 9, Lessee Derecognition of Lease Liabilities and Transaction Price
 - Amendments to PFRS 10, Determination of a 'De Facto Agent'
 - Amendments to PAS 7, Cost Method

Effective beginning on or after January 1, 2027

- PFRS 18, Presentation and Disclosure in Financial Statements
- PFRS 19, Subsidiaries without Public Accountability

Deferred effectivity

- Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Summary of Significant Accounting Policies

Fair Value Measurement

The Bank measures financial instruments, such as financial assets at fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI), at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If a financial instrument measured at fair value has a bid price and an ask price, the price within bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For purposes of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and fair value hierarchy as explained above.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks, and securities purchased under resale agreements (SPURA) that are convertible to known amounts of cash and which have original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in value.

Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents wherein withdrawals can be made to meet the Bank's cash requirements.

SPURA

The Bank enters into short-term purchases of securities under resale agreements of identical securities with the BSP. Resale agreements are contracts under which a party purchases securities and resells such securities to the same selling party at a specified future date at a fixed price. The amount of advances made under resale agreements are carried as SPURA in the statement of financial position. SPURA are carried at cost. Interest earned on resale agreements is reported as 'Interest income' in the statement of income.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that such asset is delivered by the Bank. Any change in fair value of unrecognized financial asset is recognized in the statement of income for assets classified as financial assets at fair value through profit or loss (FVPL), and in equity for assets classified as financial assets at FVOCI. Deposits, amounts due from banks and customers and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments

Financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and the fair value (a 'Day 1' difference) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

Classification, Reclassification and Impairment of Financial Assets

Classification and measurement

The classification and measurement of financial assets is driven by the entity's contractual cash flow characteristics of the financial assets and business model for managing the financial assets.

As part of its classification process, the Bank assesses the contractual terms of financial assets to identify whether they meet the 'solely payments of principal and interest' (SPPI) test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (e.g., if there are repayments of principal or amortization of the premium or discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are

unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- the expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Bank's measurement categories are described below:

Financial assets at amortized cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows; and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value. The amortization is included in 'Interest income' in the statement of income.

Gains or losses are recognized in statement of income when these investments are derecognized or impaired, as well as through the amortization process. Gains or losses arising from disposals of these instruments are also included in 'Gains (losses) on disposal of financial assets at amortized cost' in the statement of income. The ECL is recognized in the statement of income under provision for impairment and credit losses. The effects of revaluation or foreign currency-denominated investments are recognized in the statement of income.

The Bank's investment securities at amortized cost are presented in the statement of financial position as cash and cash equivalents, investment securities at amortized cost, loans and receivables and certain accounts under other assets.

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost.

Financial assets at FVPL

Debt instruments that neither meet the amortized cost nor the FVOCI criteria, or that meet the criteria but the Bank has chosen to designate as at FVPL at initial recognition, are classified as financial assets at FVPL. Equity investments are classified as financial assets at FVPL, unless the Bank designates an equity investment that is not held for trading as at FVOCI at initial recognition.

Financial assets at FVOCI - equity investments

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading. The Bank has designated its unquoted equity investments as at FVOCI as these are not held for trading purposes and are not intended to be sold in the foreseeable future.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in net unrealized losses on investment securities in the statements of financial position.

When the asset is disposed of, the cumulative gain or loss previously recognized in the net losses on investment securities account is not reclassified to profit or loss, but is reclassified directly to 'Surplus-free' account. Any dividends earned on holding these equity instruments are recognized in profit or loss under 'Miscellaneous income' account.

Financial assets at FVOCI - debt investments

The Bank applies the category of debt instruments measured at FVOCI when both of the following conditions are met:

- the contractual terms of the instrument give rise, or specified dates, to cash flows that are SPPI on the principal amount outstanding; and
- the instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.

Debt instruments at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value being recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. The ECL calculation for financial assets at FVOCI is explained in the 'Impairment of Financial Assets' section.

On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

Reclassification

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets:

- from amortized cost to FVPL or FVOCI, if the objective of the business model changes so that the amortized cost criteria are no longer met; and,
- from FVPL to amortized cost or FVOCI, if the objective of the business model changes so that the amortized cost or FVOCI criteria start to be met and the characteristic of the instrument's contractual cash flows are SPPI; and,
- from amortized cost to FVOCI if the business model changes so that the objective becomes both to collect contractual cash flows and sell or from FVOCI to amortized cost if the business model becomes solely for the collection of contractual cash flows.

Reclassification of financial assets designated as at FVPL or equity financial assets at FVOCI is not permitted.

A change in business model occurs when the Bank either begins or ceases to perform an activity that is significant to its operations. A change in the objective of the Bank's business model will be effected only at the beginning of the next reporting period following the change in the business model.

Impairment of financial assets

Expected credit losses (ECL) represent credit losses that reflect an unbiased and probability-weighted amount which 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. ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced an SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced an SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred control over the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Modification of financial assets

The Bank derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between its carrying

amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

The Bank considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, the Bank considers the following factors, among others:

- introduction of an equity feature;
- change in counterparty; and
- if the modification results in the asset no longer considered SPPI.

The Bank also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the Bank considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial asset.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Bank recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for ECL measurement purposes, unless the new financial asset is deemed to be originated as credit impaired (POCI).

Write-offs

Financial assets are written off either partially or in their entirety when the Bank no longer expects collections or recoveries within a foreseeable future. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to profit or loss.

Financial liabilities

Financial liabilities include deposits, manager's checks, accrued interest and other expenses, and taxes. Financial liabilities are recognized initially at their fair value and when necessary, are subsequently measured at amortized cost using the effective interest method. Deposit liabilities are stated at amounts in which they are to be paid. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Exchange or modification of financial liabilities

The Bank considers both qualitative and quantitative factors in assessing whether a modification of financial liabilities is substantial or not. The terms are considered substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value

of the remaining cash flows of the original financial liability. However, under certain circumstances, modification or exchange of a financial liability may still be considered substantial, even where the present value of the cash flows under the new terms is less than 10% different from the present value of the remaining cash flows of the original financial liability. There may be situations where the modification of the financial liability is so fundamental that immediate derecognition of the original financial liability is appropriate (e.g., restructuring a financial liability to include an embedded equity component).

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the fair value of the new liability is recognized in profit or loss.

When the exchange or modification of the existing financial liability is not considered as substantial, the Bank recalculates the gross carrying amount of the financial liability as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR and recognizes a modification gain or loss in profit or loss.

If modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the financial instrument and are amortized over the remaining term of the modified financial instrument.

NCAHS

NCAHS include repossessed vehicles acquired in settlement of loans and receivable. The Bank classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

NCAHS are measured at the lower of their carrying amount and fair value less costs to sell and are no longer depreciated or amortized. The criteria for NCAHS classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

If the Bank decides to use an asset as property and equipment, the related asset ceases to qualify as NCAHS and is reclassified to property and equipment.

Upon reclassification, the Bank measures a non-current asset that ceases to be classified as held for sale at the lower of:

- its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortization or revaluation that would have been recognized had the asset not been classified as held for sale, and
- its recoverable amount at the date of the subsequent reclassification.

Property and Equipment

Land is stated at cost less any impairment in value while depreciable properties including buildings and furniture, fixture and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred and if the recognition criteria are met, but excluding repairs and maintenance costs. Leasehold rights and improvements are stated at cost less accumulated amortization, and any impairment in value.

Depreciation and amortization are calculated using the straight-line method over the estimated useful life (EUL) of the depreciable assets as follows:

Condominium properties, buildings and improvements	20 to 40 years
Furniture, fixtures and equipment	2 to 10 years
Leasehold improvements	5 to 10 years or the related lease terms, whichever is shorter

The depreciation and amortization method and useful life are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

Investment Properties

Investment properties include real properties acquired in settlement of loans and receivables and investments in real estate.

Real properties acquired in settlement of loans and receivables

Real properties acquired in settlement of loans and receivables are booked under ROPA account as follows:

- upon the date of entry of judgment in case of judicial foreclosure; or
- upon the date of Sheriff's Certificate of Sale in case of extrajudicial foreclosure; or
- upon the date of notarization of the Deed of Dacion in case of dation in payment.

These properties are carried at cost, which is the fair value at acquisition date including certain transaction costs, less accumulated depreciation and impairment in value. Transaction costs, which include nonrefundable capital gains tax and documentary stamp tax, incurred in connection with foreclosure are capitalized as part of the carrying values of the cost of the real properties acquired. Investment properties acquired through a nonmonetary asset exchange is measured initially at fair value unless (a) the exchange lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable, where the net carrying value of the related loans and receivables is used. The difference between the fair value of the foreclosed properties and the carrying value of the related receivables given up is recognized in 'Gain (loss) on asset exchange' account in the statement of comprehensive income. Subsequent to initial recognition, real properties acquired in settlement of loans and receivables are stated at cost less accumulated depreciation and any accumulated impairment in value. Depreciation is computed on a straight-line basis over the EUL from the time of acquisition of the investment properties but not to exceed 30 years.

Investments in real estate

Investments in real estate consist of investments in land and building. The Bank applies the cost model in accounting for investments in real estate. Investment in land is carried at cost less impairment in value. Building is carried at cost less accumulated depreciation and impairment in value. All costs that are directly attributable to the acquisition and development of property are capitalized, including borrowing costs incurred to finance the property development. Depreciation is computed on a straight-line basis between 20 to 40 years.

Subsequent measurement of investment properties

The EUL of investment properties and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

The carrying values of the investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any of such indication exists and where the carrying values exceed the estimated recoverable amount, the investment property or CGUs it is related to are written down to their recoverable amounts.

Investment properties are derecognized when they have either been disposed of or when they are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in the statement of income in the year of retirement or disposal under 'Gain (loss) on asset exchange'.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Intangible Assets

Intangible assets consist of software costs and branch licenses.

Software costs

Costs related to software purchased by the Bank for use in operations are recognized as 'Software costs' in the statement of financial position. Capitalized computer software costs are amortized on a straight-line basis over 3 to 7 years.

Branch licenses

These intangible assets were determined to have indefinite useful lives and are therefore not amortized. The useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis. Branch licenses are tested for impairment annually either individually or at the CGU level.

Impairment is determined by assessing the recoverable amount of the individual asset or CGU (or group of CGUs) to which the intangible asset relates. Recoverable amount is the higher of the individual asset's or CGU's fair value less cost to sell and its value in use. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortization period or methodology, as appropriate, which are then treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is presented as a separate line item in the statement of income under 'Depreciation and amortization' account.

Investment in a Subsidiary and an Associate

Investment in a subsidiary

A subsidiary pertains to an entity over which the Bank has control. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has

the ability to affect those returns through its power over the investee. Investment in a subsidiary is carried at acquisition cost, less any impairment in value.

This policy relates to the Bank's investment in a 100% owned subsidiary recorded in 'Other equity investments' under 'Other assets'.

Investment in an associate

An associate pertains to an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investment in an associate is accounted for under the equity method of accounting.

Under the equity method, an investment in an associate is carried in the statement of financial position at cost plus post-acquisition changes in the Bank's share of the net assets of the associates. Goodwill, if any, relating to an associate is included in the carrying value of the investment and is not amortized. When the Bank increases its ownership interest in an associate that continues to be accounted for under the equity method, the cost for the additional interest is added to the existing carrying amount of the associate and the existing interest in the associate is not remeasured.

The Bank's share of its associate's post-acquisition profits or losses is recognized in the statement of income, and its share of post-acquisition movements in the associates' equity reserves is recognized directly in equity. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Profits and losses resulting from transactions between the Bank and an associate are eliminated to the extent of the interest in the associate. Dividends received, if any, are treated as a reduction in the carrying value of the investment.

In cases where an associate is in a net liability position, the equity method requires the Bank to discontinue recognizing its share of further losses when its cumulative share in the losses of the associate equals or exceeds its interest in the associate, unless the Bank has incurred legal or constructive obligations or made payments on behalf of the associate, in which case a liability is recognized.

This policy relates to the Bank's investment in a 49%-owned investee company recorded in 'Other equity investments' under 'Other assets'.

As of March 31, 2025 and December 31, 2024, the investment in an associate, which was acquired as a result of merger with PDB, is fully impaired.

Impairment of Nonfinancial Assets

At each reporting date, the Bank assesses whether there is any indication that its nonfinancial assets (i.e., property and equipment, investment properties, investment in a subsidiary and an associate, software cost) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount.

Recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against the statement of income in the period in which it arises.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations.

After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

a. Right-of-use assets

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized adjusted by lease payments made at or before the commencement date and lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the depreciable assets. The depreciation expense is presented under 'Depreciation and amortization' in the statement of income.

If ownership of the leased asset transfers to the Bank at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Impairment of Nonfinancial Assets. Right-of-use assets are presented under Property and Equipment in the statement of financial position.

b. Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects the Bank exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Bank uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

c. Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases of branch sites (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of branch sites that are considered to be low value. (i.e., those with value of less than ₱250,000). Lease payments on short-term leases and leases of low value assets are recognized as expense on a straight-line basis over the lease term.

Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Equity

Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Additional paid-in capital' account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Additional paid-in capital' account. If the 'Additional paid-in capital' is not sufficient, the excess is charged against the 'Surplus (deficit)'. The effect of positive (negative) equity adjustments arising from business combination under common control is included under 'Additional paid-in capital' ('Other equity reserves').

When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Surplus

Surplus represents cumulative balance of periodic net income or loss, dividend declarations, prior period adjustments, effect of changes in accounting policy and other capital adjustments, if any.

Revenue Recognition

Revenues within the scope of PFRS 15, Revenue from Contracts with Customers

Revenue from contract with customers is recognized upon transfer of promised goods or services to customers 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. The Bank exercises judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the five-step model to contracts with customers.

The following specific recognition criteria must be met before revenue is recognized for contracts within the scope of PFRS 15:

Service fees and commission income

Fees earned for the provision of services are recognized once services are rendered. Service fees and commission income are measured at the amount of consideration which the Bank expects to be entitled in exchange for transferring promised services to the customers. These fees include charges from usage of ATM, charges for returned checks, charges for below minimum maintaining balance, bancassurance and commission income.

Income (loss) from sale or disposal of nonfinancial assets

Gain (loss) from sale or disposal of nonfinancial assets which pertains to the difference between the consideration from the sale or disposal and the carrying amount of the asset is recognized completion of the earnings process, the transfer of control over the property to the buyer, and the collectability on the sales price is reasonably assured. This is presented as part of "Gain (loss) on asset exchange" in the statement of income.

Other income

Income from sale of properties is recognized when control has been transferred to the counterparty and when the collectability of the sales price is reasonably assured.

Revenues outside the scope of PFRS 15

Interest income

For all interest-bearing financial assets, interest income is recorded at either EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability, or at rate stated in the contract. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, as applicable, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'. Loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. If the commitment expires without the Bank making the loan, the commitment fees are recognized as other income on expiry.

Once the recorded value of the financial asset or group of financial assets has been reduced due to impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Gain (loss) on asset exchange

Gain (loss) on asset exchange transaction is recognized upon foreclosure of loan collaterals (see accounting policy on investment properties and NCAHS). The gain or loss on foreclosure represents the difference between the fair value of the asset received and book value of the asset given up.

Gain on disposal of investment securities at amortized cost

This represents results arising from sale of investment securities measured at amortized cost.

Rental income

Rental income arising from leased properties is accounted from on a straight-line basis over the lease terms on ongoing leases and is recorded in the statement of income under 'Income from property rentals'

Trading and securities gains - net

This represents results arising from trading activities and sale of FVOCI debt assets.

Dividend income

Dividend income is recognized when the Bank's right to receive payment is established.

Expense Recognition

Expenses are recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has occurred and the decrease in economic benefits can be measured reliably. Expenses are recognized when incurred.

Interest expense

Interest expense for all interest-bearing financial liabilities are recognized in 'Interest expense' in the statement of income using the EIR of the financial liabilities to which they relate.

Operating expenses

Operating expenses constitute costs which arise in the normal business operation and are recognized when incurred.

Taxes and licenses

These include all other taxes, local and national, including gross receipts tax (GRT), real estate taxes and licenses and permit fees which are recognized when incurred.

Retirement Benefits

The net defined benefit asset or liability is the aggregate of the present value of the defined benefit obligation at the reporting date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The defined benefit obligation is calculated annually by an independent actuary. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on government bonds that have terms to maturity approximating the terms of the related retirement asset or liability. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- a. service cost;
- b. net interest on the net defined benefit liability or asset; and
- c. remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on Philippine government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized

immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Bank's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain. If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Share-based Payments (Stock Grants)

Employees (including senior executives) of the Bank received remuneration in the form of share-based payments (stock grants), whereby employees rendered services as consideration for equity instruments (equity-settled transactions) of the Parent Bank. The Parent Bank has the obligation to settle the transaction with the Bank's employees by providing its own equity instruments.

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognized in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Bank's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met.

An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial

to the employee. Where an award is cancelled by the Bank or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

When the equity-settled transactions vest immediately but the grant date is not yet determined as of reporting date, the Group recognizes the expense and the corresponding increase in equity using the estimated grant date fair value as of reporting date. Subsequently, once the grant date is determined, the Bank revises the estimate based on the actual grant date fair value.

Provisions and Contingencies

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Income Taxes

Current tax

Current tax assets and current tax liabilities for the current period and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the reporting date. Effective January 1, 2019, management periodically evaluates positions taken in the tax return with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax assets and deferred tax liabilities, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each

reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity is also recognized in equity and not in the statement of income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes relate to the same taxable entity and the same taxation authority.

Events after the Reporting Date

Post year-end events that provide additional information about the Bank's position at the reporting date (adjusting events) is reflected in the financial statements. Any post-year-end event that is not an adjusting event is disclosed in the notes to the financial statements when material.

Financial Risk Management Objectives and Policies

The Bank's activities are principally related to the profitable use of financial instruments. Risks are inherent in these activities but are managed by the Bank through a rigorous, comprehensive and continuous process of identification, measurement, monitoring and mitigation of these risks, partly through the effective use of risk and authority limits, process controls and monitoring, and independent controls. As reflected in its corporate actions and organizational improvements, the Bank has placed due importance to expanding and strengthening its risk management process and considers it as a vital component to the Bank's continuing profitability and financial stability.

Central to the Bank's risk management process is its adoption of a risk management program intended to avoid unnecessary risks, manage and mitigate unavoidable risks and maximize returns from taking acceptable risks necessary to sustain its business viability and good financial position in the market.

The key financial risks that the Bank faces are: credit risk, market risk (i.e., interest rate risk), and liquidity risk. The Bank's risk management objective is primarily focused on controlling and mitigating these risks. The gravity of the risks, the magnitude of the financial instruments involved, and the regulatory requirements are the primary considerations to the scope and extent of the risk management processes put in place for the Bank.

Risk Management Structure

The BOD of the Bank has the primary responsibility for the establishment of a risk management system and is ultimately accountable for all risks taken within the Bank. The BOD has established, among others, the following committees to directly handle the Bank's risk management framework, policies and implementation in their respective risk management areas: the Executive Committee (ExeCom), Audit Committee (AudCom), Credit Committee (CreCom), Corporate Governance Committee (CGC) and the Risk Oversight Committee (ROC).

All Board committees report regularly to the BOD on their activities as follows:

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions,

products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The BOD has delegated to the ROC the formulation and supervision of the risk management process which includes, among others, determining the appropriate risk mitigating strategies and operating principles, adoption of industry standards, development of risk metrics, monitoring of key risk indicators, and the imposition of risk parameters. The ROC is composed of three members of the BOD, all of whom are independent directors. The Bank's ROC shall be responsible for the oversight and development of all risk management functions within the Bank. The ROC develops appropriate strategies through a written practical risk management plan for managing the major categories of risk events and minimizing the magnitude of expected losses, giving priority to the risk events with the largest expected losses. The Risk Management Division (RMD) supports the ROC in fulfilling its responsibilities, including overseeing the implementation of risk management strategies and specific risk control measures as approved by the Board of Directors (BOD). Additionally, the RMD actively monitors material risks on a daily basis, ensuring that the Bank engages only in risk-taking activities authorized by the ROC. The RMD is headed by the Chief Risk Officer (CRO) who reports the results of risk measurements to the ROC. Apart from RMD, each business unit has created and put in place various process controls which ensure that all the external and internal transactions and dealings of the unit are in compliance with the unit's risk management objectives.

The Bank's AudCom, on the other hand, focuses on checking whether adequate process and operational controls are in place and functioning as designed, as well as monitoring compliance thereto by the business and support units. The role of the AudCom is very critical in the proper corporate governance and effective risk management because of its independence from the Bank's top and middle level management. The AudCom is comprised of independent directors who neither participate in the Bank's daily activities nor take decision-making responsibilities. The AudCom delegates its daily control and monitoring functions to the Internal Audit Department (IAD).

The IAD is likewise independent from the business and support units and reports exclusively to the AudCom. The IAD undertakes its control function through regular process, operational and financial audits which it conducts all throughout the year. The audit covers all processes and controls in the Head Office and the branches. The audit results and exceptions, including recommendations for their resolution or improvement, are discussed initially with the business units concerned before these are presented to the AudCom on a quarterly basis.

Risk Management Reporting

The ROC discusses risk management issues on a quarterly basis. The ROC discusses key risk indicators and specific risk management issues that would need resolution from top management. The key risk indicators were formulated on the basis of the financial risks faced by the Bank. The key risk indicators contain information from all business units that provide measurements on the level of the risks taken by the Bank with its transactions, products and financial structure. Among others, the report on key risk indicators includes information on the Bank's aggregate credit exposure, credit metric forecasts, market risk analysis, utilization of market and credit limits, liquidity ratios, overall loan loss provisioning and risk profile changes.

The CreCom reviews and resolves credit-related issues such as credit facility approval, credit and collection strategies on a particular account, and credit monitoring. Loan loss provisioning and credit limit utilization are also discussed in more detail in the CreCom. On a weekly basis, the CreCom discusses detailed reporting of industry, customer and geographic risks arising from the Bank's existing loan portfolio. A comprehensive risk report is submitted to the BOD every quarter for an overall assessment of the level of risks taken by the Bank.

Risk Mitigation

The Bank uses financial instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks and exposures arising from forecast transactions. However, the nature and extent of use of these financial instruments to mitigate risks are limited to those allowed by the BSP for a thrift bank.

To further mitigate risk throughout its different business and supporting units, the Bank is in the continuous process of improving its existing risk management policies. These policies further serve as the framework and set the guidelines in the creation or revisions of operating policies and manuals for each business unit. In the process design and implementation, process controls are preferred over detection controls. Clear delineation of responsibilities and separation of incompatible duties among officers and staff as well as among business units are reiterated in these policies.

To the extent possible, reporting and accounting responsibilities are segregated from units directly involved in operations and front line activities (i.e., players must not be scorers). This is to improve the credibility and accuracy of management information. Any inconsistencies in the operating policies and manuals with the risk framework established by risk management policies are taken up and resolved in the ROC and ExeCom.

Monitoring and controlling risks are primarily performed based on various limits established by the top management covering the Bank's transactions and dealings. These limits reflect the Bank's business strategies and market environment as well as the levels of risks that the Bank is willing to tolerate, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Business Continuity Management

In the aftermath of the pandemic in the past three years, the China Bank Group has built its business resilience around policies that would ensure that the Group is able to service and respond to the requirements of its clients and to continue to fulfill the transaction cycle in its operations.

The Group implemented "The New Normal Work Force and Work Management Plan for the COVID-19 Pandemic" to provide general direction and guidance in sustaining the operations of the Group through the pandemic. The plan put in place health and safety protocols which along with the implementation of the buddy branch system ensured the uninterrupted delivery of services. Changes in the processes of business units arising from the implementation of the plan and the establishment of the extension office are continuously updated and incorporated in the risk and control self-assessment and business impact analysis tools to reflect the changes in the risk profile. Appropriate measures are also updated and implemented in light of these changes.

Excessive Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines focusing on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The Bank's AudCom is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to

the risks faced by the Bank. The Bank's AudCom is assisted in these functions by IAD. The IAD undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the AudCom.

Credit Risk

Credit Risk and Concentration of Assets and Liabilities and Off-Balance Sheet Items

Credit risk is the risk of financial loss due to one party to a financial product failing to discharge an obligation. The Bank faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients, invests funds to issuers (i.e., investment securities issued by either sovereign or corporate entities) and through implied or actual contractual agreements (i.e., on or off-balance sheet exposures). The Bank manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual credit or transaction).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented with regard to the acceptability of types of collateral and valuation parameters.

The Bank has risk limits setting for purposes of monitoring and managing credit risk from individual counterparties and groups of counterparties. It also conducts periodic assessment of the creditworthiness of its counterparties. In addition, the Bank obtains collateral where appropriate, enters into master netting agreements and collateral arrangements with counterparties, and limits the duration of exposures. The Bank adopted an internal credit scoring system for the purpose of measuring credit risk for retail borrowers in a consistent manner, as accurately as possible, and thereafter uses the risk information for business and financial decision making.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions - cash or securities
- For consumer lending - real estate and chattel over vehicle
- For corporate and commercial lending - real estate, chattel over properties, assignment of deposits, shares of stocks, bonds, and guarantees

Foreclosed collateral

The Bank's policy is to determine whether a foreclosed collateral is best used for its internal operations or should be sold. Foreclosed collaterals that pertain to real estate properties are accounted for as investment properties.

Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The Bank collateral comes in various forms such as cash, securities, letter of credits/guarantees, real estate, receivables and other non-financial assets and credit enhancements. The fair value of collateral is generally assessed, at a minimum, at inception. To the extent possible, the Bank use active market data for valuing financial assets held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate and chattel, is valued based on data provided by internal appraiser and third parties such as independent appraisers.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment and credit losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In most cases, the Bank does not occupy repossessed properties for business use.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using the BSP guidelines in identifying and monitoring problematic loans and other risk assets particularly Appendix 15 of the Manual of Regulations for Banks.

For corporate and commercial loans, including SME loans with approved credits of ₱10.00 million and above, the Bank adopts an internal credit risk rating system (ICRRS) for the purpose of measuring credit risk in a consistent manner as accurately as possible. For corporate and commercial, SME loans with approved credits below ₱10.00 million, including SmallBiz accounts, these are covered by borrower credit scoring (BCS). For consumer/retail auto and housing loans, these are covered by application scorecards which provide either a pass/fail score based on cut-off score rank.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly. The standard credit rating equivalent grades are relevant only for certain of the exposures in each risk rating class.

The rating categories are further described below.

Loans and receivable

High Grade

This includes all borrowers whose ratings are considered as Low Risk and/or those where the exposures are fully covered by Government Guarantee or cash collateral/deposit hold-out. Thus, these borrowers have a very low probability of going into default in the coming year.

In terms of borrower credit ratings, these include the following:

Unclassified

A. ICRRS - Covered

- Excellent (BRR AAA-equivalent grade)
- Strong (BRR AA-equivalent grade)
- Good (BRR A-equivalent grade)
- Satisfactory (BRR BBB-equivalent grade)

'BBB' or higher grades are considered as Low Risk similar to risk profile of investment-grades rated by international credit rating agencies (Standard and Poor's, Moody's or Fitch)

B. Application Scorecard-Covered (for consumer/retail loans)

- Score ranks 1-4 (pass/within cut-off score of "7" qualified for system approval) for retail auto and housing loans provided current/unclassified status as of reporting date.

Generally, a Low Risk (High Grade) rating is indicative of a high capacity to fulfill its obligations supported by robust financials (i.e., profitable, with returns considerably higher than the industry, elevated capacities to service its liabilities), gainful positioning in growing industries (i.e., participation in industries where conditions are very favorable and in which they are able to get a

good share of the market), and very strong leadership providing clear strategic direction and/or excellent training and development programs.

Standard Grade

This includes all borrowers whose ratings are considered as Moderate Risk and are seen to withstand typical swings in the economic cycle without going into default. However, any prolonged unfavorable economic period would create deterioration that may already be beyond acceptable levels. Standard grade may also include matured loans subject to renewal.

In terms of borrower credit ratings, these include the following:

Unclassified

A. ICRRS - Covered

- Acceptable (BRR BB-equivalent grade)
- Watchlist (BRR B-equivalent grade)- these accounts remain unclassified but require closer monitoring for any signs of further deterioration, warranting adverse classification

B. Application Scorecard-Covered (for consumer/retail loans)

- Score ranks 5-7 (pass/within cut-off score of "7") for retail auto and housing loans provided current/unclassified status as of reporting date.

For unsecured consumer/retail loan products, i.e., Automatic Payroll Deduction (APD) loans, personal and salary loans, and other employee loans as well as corporate and commercial, SME loans with approved credits below ₱10.00 million, including SmallBiz accounts that are covered by BCS, the basis for credit quality rating is the BSP classification for those that are booked as Current (i.e., Standard Grade if Unclassified and Sub-Standard Grade if Classified as either Especially Mentioned or Substandard) and impairment status for those that are booked as Past Due / Items in Litigation.

Generally, a Moderate Risk (Standard Grade) rating signifies a borrower whose financial performance is sufficient to service obligations and is at par with competitors in the industry. In terms of management, it is run by executives with adequate personal and professional qualifications and sufficient experience in similar companies. In terms of growth potential, it is engaged in an industry with stable outlook, supportive of continuing operations.

Substandard Grade

Adversely Classified accounts are automatically considered as high-risk and generally includes past due accounts. However, in some cases, even accounts that are neither past due nor impaired, qualifies for adverse classification as either Especially Mentioned or Substandard. Those accounts have the tendency to turn past due or non-performing. Reasons for this include among others the following: consecutive net losses, emerging weaknesses in terms of cash flow, negative equity, and/or breach in the covenants per term loan agreement.

In terms of borrower credit ratings, these include the following:

Adversely Classified

A. ICRRS - Covered

- Especially Mentioned (or BRR CCC-equivalent grade)
- Substandard (or BRR CC-equivalent grade)

B. BCS-Covered

- Corporate and commercial, SME loans with approved credits below Php 10 million, including SmallBiz accounts that are covered by BCS, which are neither past due nor impaired but classified as either Especially Mentioned or Substandard as of reporting date

Past due but not impaired

Loans that are more than 30 days past due but do not demonstrate objective evidence of impairment as of reporting date.

In terms of borrower credit ratings, these include the following:

Adversely Classified

A. ICRRS - Covered

- Especially Mentioned (or BRR CCC-equivalent grade)
- Substandard (or BRR CC-equivalent grade)

B. BCS-Covered

- Especially Mentioned
- Substandard

Impaired

Loans considered in default (more than 90 days past due) or demonstrate objective evidence of impairment as of reporting date. Loans with classification of doubtful and loss are included under past-due or individually impaired. Impaired accounts also include those booked as Items in Litigation.

In terms of borrower credit ratings, these include the following:

Adversely Classified

A. ICRRS-Covered

- Substandard (or BRR CC equivalent-grade)
- Doubtful (or BRR C equivalent-grade)
- Loss (or BRR D equivalent-grade)

B. BCS-Covered and Consumer/retail Loans

- Substandard
- Doubtful
- Loss

The financial assets are also grouped according to stage whose description is explained as follows:

Stage 1 - those that are considered current and up to 30 days past due, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

Stage 2 - those that, based on change in rating, delinquencies and payment history, demonstrate significant increase in credit risk, and/or are considered more than 30 days past due but does not demonstrate objective evidence of impairment as of reporting date.

Stage 3 - those that are considered in default or demonstrate objective evidence of impairment as of reporting date.

Depository accounts with the BSP and counterparty banks and investment securities

For these financial assets, outstanding exposure is rated primarily based on external risk rating (i.e., Standard and Poor's (S&P), otherwise, rating is based on risk grades by a local rating agency or included under "Unrated", when the counterparty has no available risk grade).

The external risk rating of the Bank's depository accounts with the BSP and counterparty banks and investment securities, is grouped as follows:

Credit Quality Rating	External Credit Risk Rating	Credit Rating Agency
High grade	AAA, AA+, AA, AA-	S&P
	Aaa, Aa1, Aa2, Aa3	Moody's
	AAA, AA+, AA, AA-	Fitch
Standard grade	A+, A, A-, BBB+, BBB, BBB-	S&P
	A1, A2, A3, Baa1, Baa2, Baa3	Moody's
	A+, A, A-, BBB+, BBB, BBB-	Fitch
Substandard grade	BB+, BB, BB-, B/B+, CCC, R, SD & D	S&P
	Ba1, Ba2, Ba3, B1, B2, R, SD & D	Moody's
	BB+, BB, BB-, B/B+, CCC, R, SD & D	Fitch

Following is the credit rating scale applicable for foreign banks, and government securities (aligned with S&P ratings):

AAA - An obligor has extremely strong capacity to meet its financial commitments.

AA - An obligor has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors at a minimal degree.

A - An obligor has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

BBB and below:

BBB - An obligor has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

BB - An obligor is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments.

B - An obligor is more vulnerable than the obligors rated 'BB', but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.

CCC - An obligor is currently vulnerable and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitments.

CC - An obligor is currently vulnerable. The rating is used when a default has not yet occurred, but expects default to be a virtual certainty, regardless of the anticipated time to default.

R - An obligor is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision, the regulators may have the power to favor one class of obligations over others or pay some obligations and not others.

SD and D - An obligor is in default on one or more of its financial obligations including rated and unrated financial obligations but excluding hybrid instruments classified as regulatory capital or in non-payment according to terms.

In case of PHP-denominated securities which are not rated by S&P, Moody's or Fitch, but have an external ratings by Philratings, the following groupings were applied.

Credit Quality Rating	External Credit Risk Rating
High grade	PRSAaa, PRSAa+, PRSAa, PRSAa-
Standard grade	PRSA+, PRSA, PRSA-, PRSBaa+, PRSBaa, PRSBaa-
Substandard grade	PRSBa+, PRSBa, PRSBa-, PRSB+, PRSB, PRSB-, PRSCaa+, PRSCaa, PRSCaa-, PRSCa+, PRSCa, PRSCa-, PRSC+, PRSC, PRSC-

PRSAaa - The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

PRSAa - The obligor's capacity to meet its financial commitment on the obligation is very strong.

PRSA - With favorable investment attributes and are considered as upper-medium grade obligations. Although obligations rated 'PRSA' are somewhat more susceptible to the adverse effects of changes in economic conditions, the obligor's capacity to meet its financial commitments on the obligation is still strong.

PRSBaa - An obligation rated 'PRS Baa' exhibits adequate protection parameters. However, adverse economic conditions and changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. PRSBaa-rated issues may possess certain speculative characteristics.

PRSBa - An obligation rated 'PRSBa' is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties relating to business, financial or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

PRSB - An obligation rated 'PRSB' is more vulnerable to nonpayment than obligations rated 'PRSBa', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse economic conditions will likely impair the obligor's capacity to meet its financial commitment on the obligation. The issue is characterized by high credit risk.

PRSCaa - An obligation rated 'PRSCaa' is presently vulnerable to nonpayment and is dependent upon favorable business, financial and economic conditions for the obligor to meet its financial commitments on the obligation. In the event of adverse economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation. The issue is considered to be of poor standing and is subject to very high credit risk.

PRSCa - An obligation rated "PRSCa" is presently highly vulnerable to nonpayment. Likely already in or very near default with some prospect for partial recovery of principal or interest.

PRSC - An obligation is already in default with very little prospect for any recovery of principal or interest.

Impairment assessment

The Bank measures a credit loss allowance on a financial asset based on whether it has had a significant increase in credit risk since initial recognition. Accordingly, the Bank categorizes its financial assets into three categories:

- stage 1 - financial asset that has not had a significant increase in credit risk;
- stage 2 - financial asset that has had a significant increase in credit risk; and
- stage 3 - financial asset in default.

The Bank uses internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment can be quantitative or qualitative and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors such as downgrade in the credit rating of the borrowers and a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses. For exposures without internal credit grades, if contractual payments are more than a specified days past due threshold (i.e., 30 days), the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

Default and Cure

As a part of a qualitative assessment of whether a customer is in default, the Bank considers a variety of instances that may indicate unlikelihood to pay. The Bank's definition of default is aligned with the non-performing loan criteria as prescribed in BSP Circular No. 941. Defaults refer to loans, investments, receivables, or any financial asset, even without missed contractual payments, that satisfy any of the following conditions (1) impaired under existing accounting standards, (2) classified as doubtful or loss, (3) in litigation, (4) and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any.

All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are (5) unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. (6) Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. (7) Restructured loans shall be considered nonperforming. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Defaults are characterized by financial assets that have objective evidence of impairment at the reporting date and as such classified under Stage 3 ECL treatment.

An instrument is considered to be no longer in default, i.e., to have cured, when it no longer meets any of the default criteria above and there is sufficient evidence to support full collection through payments received for at least 6 months. Cured accounts are classified under Stage 1 ECL treatment.

Restructuring

In certain circumstances, the Bank modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on

the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, changes in maturity date, principal amount from capitalization of accrued interest, terms and conditions from conversion/consolidation or interest rates/repricing cycle that results in an extension in the loan maturity. Distressed restructuring with indications of unlikelihood to pay are categorized as impaired accounts and are initially moved to Stage 3.

The Bank implements a curing policy for restructured accounts compliant with the BSP Circular No. 1011. Restructured accounts that have exhibited improvements in creditworthiness may be moved from Stage 3 after a total of one-year probation period. These accounts are transferred to Stage 2 after six months of full payments and consequently transferred to Stage 1 after making the next six months full payments.

In view of the government moratorium on loan payments, the Bank considered how the availment of the borrowers and counterparties will affect the stage classification of the financial assets. In particular, the Bank assessed how the availment of the mandatory grace period, together with other relevant information about the borrower (e.g., impact of the pandemic to its industry and operations, potential cash flow pressures affecting the borrower's capacity to pay amounts becoming due), will affect SICR and default assessments. Based on these assessments, in the absence of indicators of impairment or SICR since initial recognition, exposures to borrowers and counterparties who availed of the mandatory grace period as provided for by law are classified as stage 1.

The Bank then measures the credit loss allowance on a financial instrument at an amount equal to 12-month expected credit losses for items categorized as stage 1 and lifetime credit losses to items categorized as stage 2 and stage 3.

The Bank modeled the following inputs to the expected credit loss formula separately. The formula is applied to each financial asset, with certain exceptions wherein a collective or other general approach is applied:

Exposure at Default (EAD)

The Bank defines EAD as the principal and interests that would not be collected assuming the borrower's defaults during a future point in time. The Bank computes for a financial asset's EAD using the expected contractual cash flows during the contractual life of the financial instrument. A financial asset's EAD is defined as the sum of EAD from principal and EAD from interest.

In relation to the modification of loans and receivables, the Bank utilized the revised or modified cash flows of financial assets as EAD in calculating allowance for credit losses.

Probability of default (PD)

The Bank uses forward-looking PD estimates that are unbiased and probability-weighted using a range of possible outcomes. The PD for each individual instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Bank segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio. The Bank's PDs are mainly categorized into the following: (a) corporate and commercial loans; (b) small and medium-size enterprise financing; (c) auto and housing loans; and (d) personal and consumption loans.

The PDs used in calculating allowance for credit losses have been updated with information after considering the impact of the pandemic to current market conditions as well as expectations about future economic conditions (i.e., forward-looking information).

Loss given default (LGD)

The Bank's LGD model considers certain factors such as the historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. Generally, the model utilizes the Bank's existing loan exposure rating system which is designed to capture these factors as well as the characteristics of collaterals related to an exposure. In cases wherein this does not apply, the Bank looks into the standard characteristics of collaterals (e.g., auto and housing loans) in order to estimate an LGD factor.

Starting 2020, the Bank has considered current and forward-looking information related to the COVID-19 pandemic in assessing the aforementioned factors – i.e., significant increase in credit risk, default, EAD, PD, and LGD. The Group will continue to assess the impact of the pandemic and the ongoing economic recovery in measuring ECL in the upcoming reporting periods.

Economic Overlays

The Bank's incorporates economic overlays into the measurement of ECL to add a forward-looking risk measure parallel to the expected future macroeconomic atmosphere. A broad range of economic indicators were considered for the economic inputs. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements.

To address this, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. The Bank's loans and receivables consist of different portfolios, such as corporate and commercial loans and consumer loans, as well as other receivables (e.g., sales contract receivables). In compliance with PFRS 9, the Bank developed ECL parameters and methodologies for each portfolio, using historical data as well as forward-looking inputs and assumptions.

The Bank will continue to assess the current market conditions and forecasts of future economic conditions, and its impact to the aforementioned items, in order to update the ECL on a timely basis in the upcoming reporting periods, as the country continues to deal with this public health crisis.

Credit Review

In accordance with BSP Circular No. 855, credit reviews are conducted on loan accounts to evaluate whether loans are granted in accordance with the Bank's policies, to assess loan quality and appropriateness of classification and adequacy of loan loss provisioning. Results of credit reviews are promptly reported to management to apprise them of any significant findings for proper corrective actions.

Market Risk

Market risk is the risk of loss that may result from changes in the price of a financial product. The value of a financial product may change as a result of changes in interest rates, foreign exchange rates, equity prices and other market changes. The Bank's market risk originates from its holdings of foreign exchange instruments, debt securities, and loans and receivables.

a. Interest rate risk

The Bank's interest rate risk originates from its holdings of interest rate sensitive assets and interest rate sensitive liabilities. The Bank follows prudent policies in managing its exposures to interest rate fluctuations, and constantly monitors its assets and liabilities.

Interest rates on savings accounts are set by reference to prevailing market rates, while interest rates on time deposits and special savings accounts are usually priced by reference to

prevailing rates of short-term government bonds and other money market instruments or, in the case of foreign currency deposits, inter-bank deposit rates and other benchmark deposit rates in international money markets with similar maturities.

The Bank is likewise exposed to fair value interest rate risk due to its holdings of fixed rate government bonds as part of its financial assets at FVOCI and FVPL portfolio. Market values of these investments are sensitive to fluctuations in interest rates.

The asset-liability gap analysis method is used by the Bank to measure the sensitivity of its assets and liabilities to interest rate fluctuations. This analysis measures the Bank's susceptibility to changes in interest rates. The repricing gap is calculated by first distributing the assets and liabilities contained in the Bank's statement of financial position into tenor buckets according to the time remaining to the next repricing date (or the time remaining to maturity if there is no repricing), and then obtaining the difference between the total of the repricing (interest rate sensitive) assets and the total of repricing (interest rate sensitive) liabilities.

A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

Accordingly, during a period of rising interest rates, a bank with a positive gap would be in a position to invest in higher yielding assets earlier than it would need to refinance its interest rate sensitive liabilities. During a period of falling interest rates, a bank with a positive gap would tend to see its interest rate sensitive assets repricing earlier than its interest rate sensitive liabilities, restraining the growth of its net income or resulting in a decline in net interest income.

The Bank also monitors its exposure to fluctuations in interest rates by using scenario analysis to estimate the impact of interest rate movements on its interest income. This is done by modeling the impact to the Bank's interest income and interest expenses of different parallel changes in the interest rate curve, assuming the parallel change only occurs once and the interest rate curve after the parallel change does not change again for the next twelve months.

b. Foreign currency risk

The Bank's foreign exchange risk originates from its holdings of foreign currency-denominated assets and liabilities (foreign exchange assets and liabilities). Foreign currency risk is the risk to earnings or capital arising from changes in the foreign exchange rates.

The Bank's policy is to maintain foreign currency exposure within existing regulations, and within acceptable risk limits. The Bank believes in ensuring its foreign currency is at all times within limits prescribed for financial institutions who are engaged in the same types of businesses in which the Bank is engaged.

The monetary assets and liabilities carried in the RBU and FCDU books are all denominated in their respective functional currencies, except for small non-recurring other monetary items. Thus, risk is minimal.

Liquidity Risk and Funding Management

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they become due without incurring unacceptable losses or costs.

The Bank's management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Bank's business operations or unanticipated events

created by customer behavior or capital market conditions. The Bank seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow report, as well as an analysis of available liquid assets. Furthermore, monthly internal liquidity ratio equivalent to the ratio of volatile deposits has been set to determine sufficiency of liquid assets over deposit liabilities.

Liquidity is managed by the Bank on a daily basis, while scenario stress tests are conducted monthly.

The Bank started monitoring and reporting to the BSP the Liquidity Coverage Ratio and the Net Stable Funding Ratio in 2018. Liquidity is managed by the Bank on a daily basis, while scenario stress tests and sensitivity analysis are conducted periodically.

RELATED PARTY TRANSACTIONS

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. The Bank's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
- significant investors;
- associates; and
- post-employment benefit plans for the benefit of the Bank's employees

Generally, the related party transactions are settled in cash. There are no provisions for credit losses for the first quarter of 2025 and 2024 in relation to amounts due from related parties.

Transactions with Retirement Plans

The Bank has a business relationship with its retirement plan pursuant to which it provides trust and management services. As of March 31, 2025 and December 31, 2024, plan assets of the retirement funds are managed by CBC's Trust Department.

Significant transactions of the retirement fund, particularly with related parties, are approved by the Retirement Committee (RC) of the Bank. The members of the RC are directors and key management personnel of the Bank.

Remunerations of Directors and other Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the Management Committee as key management personnel for purposes of PAS 24.

The Bank also provides banking services to key management personnel and persons connected to them.

As of March 31, 2025 and December 31, 2024, all loans to related parties are secured and no provision for credit losses was recorded.

As of March 31, 2025 and December 31, 2024, the number of common shares held by the Parent Bank is 115.00 million. The Parent Bank does not hold preferred shares of the Bank in March 2025 and 2024.

Regulatory Reporting

As required by the BSP, the Bank discloses loan transactions with its and affiliates and investees and with certain DOSRI. Under existing banking regulations, the limit on the amount of individual loans to DOSRI, of which 70.00% must be secured, should not exceed the regulatory capital or 15.00% of the total loan portfolio, whichever is lower. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations.

BSP Circular No. 423, dated March 15, 2004, amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said Circular, and new DOSRI loans, other credit accommodations granted under said Circular:

	March 31, 2025		December 31, 2024	
	DOSRI Loans	Related Party Loans (inclusive of DOSRI Loans)	DOSRI Loans	Related Party Loans (inclusive of DOSRI Loans)
Total outstanding DOSRI loans*	₱1,123,708,520	₱1,608,356,729	₱958,186,711	₱1,443,053,958
Percent of DOSRI/Related Party loans to total loan portfolio**	0.77%	1.10%	0.71%	1.06%
Percent of unsecured DOSRI/Related Party loans to total loan portfolio	0.28%	0.20%	0.35%	0.23%
Percent past due DOSRI/Related Party loans to total loan portfolio	–	–	–	–
Percent of non-performing DOSRI/Related Party loans to total loan portfolio	–	–	–	–

* Includes deposits with CBC

** Total loan portfolio includes due from Parent Bank

The amounts of loans disclosed for related parties above differ with the amounts disclosed for key management personnel since the composition of DOSRI is more expansive than that of key management personnel.

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank 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 BOD or is appointed officer of such corporation as representative of the bank/quasi-bank.

On May 12, 2009, BSP issued Circular No. 654 allowing a separate individual limit of twenty-five (25.00%) of the net worth of the lending bank/quasi-bank to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation.

Key Variables and Other Qualitative and Quantitative Factors

a) Liquidity

The Bank manages its liquidity position to ensure that it has more than adequate funds to meet its obligations at any given time. The Bank monitors its daily liquidity and reserve position by determining inflows and outflows, short-term and long-term obligations, holdings and repayments. Short-term liquidity management identifies obligations and repayments in the next 12-months, aids in the determination of the securities trading strategy, and influences the Bank's pricing mechanism. On the other hand, long-term liquidity management covers maturing obligations and repayments of loans and investments beyond the next 12-months.

The level of liquid assets remained strong, exhibiting healthy growth in both placements with BSP/other banks and investments.

With the Bank's current capitalization, current liquidity position, strong deposit growth trend, continuing development of retail and corporate accounts, and prudent liquidity management, CBS does not anticipate encountering any cash flow or liquidity problems in the next 12 months. It remains confident of its ability to meet its obligations and is committed to providing the necessary funding to support the projected loan growth, investment activities and expenditures for 2025.

b) Events that will Trigger Direct or Contingent Financial Obligation

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are part of its lending and related businesses but due to their nature, may not be reflected in the accompanying financial statements. The Bank, however, does not anticipate significant losses as a result of these transactions. Also, several suit and claims, in behalf or against the Bank in relation to its operations, are pending before the courts and quasi-judicial bodies. In the opinion of management, these suits and claims, if decided adversely, will not involve an amount having a material effect on the financial statements.

c) Material Off-Balance Sheet Transactions, Arrangements and Obligations

The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	March 31, 2025	December 31, 2024
Credit lines	₱2,396,655,845	₱2,278,812,983
Standby domestic letters of credit	46,169,556	53,675,556
Late deposits/payments received	32,900,202	3,661,569
Outward bills for collection	2,093,590	2,116,827
Others	391,679	231,924
	₱2,478,210,872	₱ 2,338,498,859

None of these off-balance sheet transactions, arising in the ordinary course, either individually or in the aggregate, are expected to have a material adverse effect on the Bank's financial condition.

Material Commitments for Capital Expenditures

The Bank expects to incur capital expenditures related to the ongoing distribution network expansion plan and technology-related investments.

d) Causes for Any Material Changes from Period to Period of Financial Statements

See previous discussion on Analysis of Statements of Financial Position and Discussion of Results of Operations.

e) Known Trends, Events or Uncertainties or Seasonal Aspects

Changes in the Bank's financial condition or operation were due more to external factors such as interest movements and cost of borrowings rather than seasonality or cyclical aspects.

Other Disclosures

- (a) There are no unusual items of asset, liability, equity, net income or cash flow.
- (b) There are no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in the prior financial year.
- (c) There are no issuances, repurchases and repayments of debt and equity securities during the period.
- (d) No dividends were paid for ordinary and other shares during the period.
- (e) The Bank does not prepare segment revenue and segment result reports, nor are they required by the BSP.
- (f) There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements.

FINANCIAL PERFORMANCE INDICATORS

	Quarters Ended March 31	
	2025 (Unaudited)	2024 (Unaudited)
Capitalization		
Capital Adequacy Ratio (CAR)	11.85%	12.25%
Common Equity Tier (CET) 1 Ratio	10.91%	11.32%
Asset Quality		
Gross Non-Performing Loans (NPL) Ratio	2.74%	3.41%
Non-Performing Loan Cover	83.01%	81.80%
Liquidity		
Liquid Assets to Total Assets	23.01%	23.04%
Loans (net) to Deposit Ratio	81.70%	81.93%
Profitability		
Return on Equity	12.47%	11.64%
Return on Assets	1.18%	1.15%
Cost Efficiency		
Operating Expenses to Operating Income	67.11%	64.57%

Definition of Ratios

Capitalization

CAR - $\frac{\text{Total Qualifying Capital}}{\text{Total Risk Weighted Assets}}$

CET 1 Ratio - $\frac{\text{CET 1 / Tier 1 Capital}}{\text{Total Risk Weighted Assets}}$

Asset Quality

Gross NPL Ratio - $\frac{\text{Gross NPL}}{\text{Gross Loans and Receivables}}$

NPL Cover - $\frac{\text{Total Allowance for Credit Losses on Loans and Receivables}}{\text{Gross NPL}}$

Liquidity

Liquid Assets to Total Assets - $\frac{\text{Total Liquid Assets}}{\text{Total Assets}}$

Loans (net) to Deposit Ratio - $\frac{\text{Loans and Receivables, net of Allowance}}{\text{Deposit Liabilities}}$

Profitability

Return on Equity - $\frac{\text{Net Income after Tax}}{\text{Average Total Equity}}$

Return on Assets - $\frac{\text{Net Income after Tax}}{\text{Average Total Assets}}$

Cost Efficiency

Cost-to-Income Ratio - $\frac{\text{Total Operating Expenses excluding Provision for Impairment and Credit Losses}}{\text{Total Operating Income}}$

CHINA BANK SAVINGS, INC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

A. Analysis of Statements of Financial Position

As of March 31, 2025 (Unaudited) and December 31, 2024 (Audited)

The Bank's total assets as of March 31, 2025 was recorded at ₱193.94 billion, higher by 2.55% compared to ₱189.12 billion as of December 31, 2024 mainly from the significant growth in investment securities and loans and receivables.

Cash and other cash items which include due from other banks, interbank loans receivable and securities purchased under resale agreements decreased by 23.77% to ₱20.68 billion from ₱27.13 billion from the decrease in placements with the BSP and deposits with correspondent banks.

Total investment securities amounted to ₱23.95 billion, up 26.36% compared to December 2024 balance with the build-up in government securities. The Bank's securities portfolio accounted for 12.35% and 10.02% of total assets as of March 31, 2025 and December 31, 2024, respectively.

Loans and receivables, net of allowance and unearned interest and discounts, is at ₱139.48 billion, higher by ₱5.79 billion from December 2024 level of ₱133.69 billion representing 71.92% of total assets. The 4.33% increase is mainly due to the significant loan releases during the period, resulting from the Bank's strategy to grow the higher-yielding loans and accordingly, focus on the retail and SME segments of the market. On a per product basis, the consumer loans led by the retail housing and auto loans, and the Bank's APD or teachers' loans reported consistent increases in their share of the total loan portfolio.

Investment properties slightly decreased to ₱1.85 billion as of March 31, 2025 from ₱1.88 billion in December 2024 due to sale of properties, while non-current assets held for sale increased to ₱694.90 million from ₱567.42 million in December 2024 due to repossession on defaulted auto loans. Meanwhile, property and equipment decreased by 1.83% or ₱38.34 million in March 2025.

Deposit liabilities increased by 2.36% and ended at ₱170.73 billion as of March 31, 2025, of which CASA (demand and savings deposits) totaled ₱49.15 billion. CASA represents 28.79% of the total deposits, slightly lower than the 29.80% recorded in December 2024. Meanwhile, high-cost funds composed of time deposits, increased by 3.83% to ₱121.57 billion due to the increase in funding requirements brought by the growing loan demand.

Manager's checks increased by 43.51% to ₱292.30 million and accrued interest and other expenses was 11.21% lower at ₱1.09 billion.

Total capital improved to ₱18.48 billion, a 3.59% increase from the ₱17.84 billion posted as of December 31, 2024, or an increase of ₱639.99 million largely due to the net income during the period and due to the increase in net unrealized gains on financial assets at fair value through other comprehensive income.

Discussion of Results of Operations

For the period ended March 31, 2025 and March 31, 2024 (Unaudited)

The Bank posted a net income after tax of ₱566.17 million for the first quarter of 2025. This is 22.63% or ₱104.48 million better compared to the same period last year, mainly attributed to the loans and receivables and lower NPL ratio.

Total interest income reached ₱4.02 billion, higher by 19.32% or ₱650.73 million versus the same period last year mainly due to the significant expansion in the lending books. Interest income from loans and receivables improved by 19.67% to ₱3.50 billion on the back of robust loan portfolio expansion. Interest income from trading and investments securities decreased by 4.70% to ₱284.38 million while interest income from due from BSP and other banks increased from ₱147.10 million to ₱237.13 million due to the higher volume of placements with the BSP and other banks.

Total interest expense increased to ₱1.72 billion, ₱307.14 million or 21.70% larger than last year as interest expense on deposit liabilities increased by 21.75% to ₱1.71 billion arising from the deposit expansion and higher funding cost.

Despite the growth in interest expense, the net interest income for the quarter ended March 31, 2025, increased to ₱2.30 billion. This is a 17.60% improvement compared to the same period last year. Other operating income consisting of service fees from lending and deposit-generation and recovery-related activities was recorded at ₱183.16 million.

Total operating expenses increased by 11.39% to ₱1.84 billion mainly from higher revenue-related costs due to business expansion and funds generation activities. The Bank continued its investment in distribution network expansion, technology, system upgrades, and customer acquisition initiatives. Compensation and fringe benefits increased by 22.01% to ₱488.26 million. Depreciation and amortization of Bank's properties and leasehold improvements increased from ₱118.50 million to ₱139.70 million. Taxes and licenses increased by 1.21% to ₱203.07 million from ₱200.64 million mainly from higher revenue- and volume-related taxes arising from business growth. Documentary stamp taxes increased to ₱194.32 million due to the deposits growth, while insurance which includes PDIC premium payments, grew 15.85% to ₱120.61 million with the annual expansion in deposits. Acquired asset and other litigation expense increased by 21.95% attributed to the Bank's continued recovery efforts. Miscellaneous expenses was higher than the previous year at ₱126.95 million with the overall ramp-up in business activities, and lending and deposit generation initiatives.

For the first quarter of 2025, the Bank set aside ₱180.24 million in provision for impairment and credit losses, 24.92% lower than the previous year due to better asset quality.

B. Analysis of Key Performance Indicators

Capitalization

The Bank's total capital adequacy ratio (CAR) ratio was registered at 11.85%. The Bank's capital is largely comprised of CET 1 / Tier 1 (core) capital at 10.91%.

Asset Quality

Gross non-performing loans (NPL) ratio improved to 2.74% and non-performing loan coverage increased to 83.01%.

Liquidity

Liquid assets to total assets ratio is at 23.01% and ratio of loans to deposits is at 81.70%.

Profitability

The Bank's net income of ₱566.17 million resulted to an annualized return on equity (ROE) of 12.47% and annualized return on assets (ROA) of 1.18%. Cost-to-income ratio is at 67.11%.