COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A	2	0	0	1	1	8	9	6	6		

Company Name

BANK OF CHINA (HONG KONG) LIMITED - MANILA BRANCH

Principal Office (No./Street/Barangay/City/Town/Province)

28TH FLOOR THE FINANCE CENTER 26TH STREET CORNER 9TH AVE., BONIFACIO GLOBAL CITY TAGUIG, PHILIPPINES

Form Type	Department requiring the report	Secondary License Type, if applicable
AFS		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number(s)	Mobile Number

No. of Stockholders	Annual Meeting (Month/Day)	Fiscal Year (Month/Day)

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number(s)	Mobile Number
Daila Aragon	daila_aragon@bankofchina.com.ph	(632) 8297-7888	N/A

Contact Person's Address

28th Floor, The Finance Centre, 26th Street corner 9th Ave., Bonifacio Global City, Taguig, Philippines

Note: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

Independent Auditor's Report

To the Board of Directors and Shareholders of
Bank of China (Hong Kong) Limited
Operating under the trade name of
Bank of China (Hong Kong) Limited - Manila Branch
28th Floor, The Finance Centre
26th Street corner 9th Ave.
Bonifacio Global City, Taguig, Philippines

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Bank of China (Hong Kong) Limited - Manila Branch (the "Manila Branch") as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended, as shown in the books maintained in the Philippines, in accordance with Philippine Financial Reporting Standards (PFRSs).

What we have audited

The financial statements of the Manila Branch comprise:

- the statements of financial position as at December 31, 2023 and 2022;
- the statements of income for the years ended December 31, 2023 and 2022;
- the statements of total comprehensive income for the years ended December 31, 2023 and 2022;
- the statements of changes in Head Office account for the years ended December 31, 2023 and 2022;
- the statements of cash flows for the years ended December 31, 2023 and 2022; and
- the notes to the financial statements, including material accounting policy information.

Basis for Opinion

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

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

Independence

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required by the Bangko Sentral ng Pilipinas under Circular No. 1074 and by the Bureau of Internal Revenue under Revenue Regulations No. 15-2010 as disclosed in Notes 23 and 24, respectively, to the financial statements is presented for the purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRSs. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audits of the basic financial statements and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

Ruth F. Blasco
Partner
CPA Cert No. 112595
P.T.R. No. 0018519, issued on January 11, 2024, Makati City
TIN 235-725-236
BIR A.N. 08-000745-133-2023, issued on May 9, 2023; effective until May 8, 2026
BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City
April 24, 2024

Bank of China (Hong Kong) Limited
Manila Branch

Statements of Financial Position
As at December 31, 2023 and 2022
(As shown in the books maintained in the Philippines)
(All amounts in Philippine Peso)

	Notes	2023	2022
ASSETS			
Cash and other cash items		66,960,697	98,097,524
Due from Bangko Sentral ng Pilipinas	2	8,725,421,554	7,295,940,929
Due from other banks	2	4,220,292,919	60,612,207
Interbank loans receivable and securities purchased under resale agreements, net	2	9,259,433,109	8,182,906,718
Due from Head Office, Parent Bank and other branches, net	10	11,536,063,512	15,573,634,554
Financial assets at fair value through profit or loss (FVTPL)	4	2,842	13,882,705
Financial assets at fair value through other comprehensive income (FVOCI), net	4	5,049,569,202	5,125,669,381
Investment securities at amortized cost, net	4	1,998,130,723	-
Loans and receivables, net	3	32,460,698,025	31,800,054,701
Property and equipment, net	5	273,212,421	79,954,890
Other assets, net	6	85,967,650	61,893,140
Total assets		**73,675,752,654**	**68,292,646,749**
LIABILITIES AND HEAD OFFICE ACCOUNT			
Deposit liabilities	8		
Demand		5,182,326	6,137,944
Savings		30,352,631,751	19,890,898,868
Time		3,286,873,950	12,717,517,622
		33,644,688,027	32,614,554,434
Due to Head Office, Parent Bank and other branches	10,18	23,967,496,624	19,840,507,044
Interbank loans payable	2	1,242,842,335	1,703,886,400
Financial liabilities at fair value through profit or loss (FVTPL)	4	2,912	13,877,798
Income tax payable		41,692,304	21,365,865
Accrued interest and other liabilities	9	1,018,871,432	1,189,032,175
Total liabilities		**59,915,593,634**	**55,383,223,716**
Head Office account			
Permanently assigned capital	11	9,977,390,606	9,977,390,606
Special remittances from Head Office	11	106,716,690	106,716,690
Accumulated profit		3,683,579,600	2,821,500,810
Cumulative translation adjustment		(14,393,676)	(8,503,035)
Net unrealized gain on financial assets at FVOCI, net of tax		17,207,470	9,558,082
(Loss) gain on remeasurement of retirement plan	13	(10,341,670)	2,759,880
Total Head Office account		**13,760,159,020**	**12,909,423,033**
Total liabilities and Head Office account		**73,675,752,654**	**68,292,646,749**

(The notes on pages 1 to 73 are an integral part of these financial statements.)

Bank of China (Hong Kong) Limited
Manila Branch

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

	Notes	2023	2022
Interest income			
Loans and receivables	3	2,063,615,401	1,479,701,261
Due from Bangko Sentral ng Pilipinas	2	457,998,493	270,406,804
Due from Head Office, Parent Bank and other branches	10, 18	393,184,473	131,296,927
Interbank loans receivable and securities purchased under resale agreements	2	168,170,650	70,463,346
Due from other banks	2	7,738,960	507,994
Investment securities	4	255,396,272	291,563,198
		3,346,104,249	2,243,939,530
Interest expense			
Due to Head Office, Parent Bank and other branches	10, 18	769,175,422	276,178,072
Deposit liabilities	8	252,188,655	214,809,820
Finance lease	14	5,779,168	2,951,947
Interbank loans payable	2	25,226,990	12,693,319
		1,052,370,235	506,633,158
Net interest income		**2,293,734,014**	**1,737,306,372**
Other income, net			
Foreign exchange gains, net		429,418,384	152,333,007
Service charges and commission income	12	246,436,761	245,109,171
Other income		803,913	462,499
		676,659,058	397,904,677
Total operating income		**2,970,393,072**	**2,135,211,049**
Other operating expenses			
Provision for credit and impairment losses	7	620,370,210	187,439,872
Compensation and other related staff costs		608,931,588	625,576,168
Taxes and licenses		194,803,211	174,098,667
Depreciation and amortization	5	82,847,827	82,189,594
Insurance		63,916,413	68,451,229
Entertainment, amusement and recreation		37,745,468	8,604,294
Professional fees		31,367,924	25,653,287
Information technology expenses		23,399,016	20,730,568
Supervision fees		18,849,183	18,860,461
Occupancy and equipment - related costs		12,251,468	2,542,571
Service charges and commissions	12	11,810,757	13,907,369
Advertising expense		3,256,616	10,040,794
Miscellaneous	15	64,041,204	61,815,229
		1,773,590,885	1,299,910,103
Income before income tax		**1,196,802,187**	**835,300,946**
Provision for income tax	16	334,723,397	182,448,623
Net income for the year		**862,078,790**	**652,852,323**

(The notes on pages 1 to 73 are an integral part of these financial statements.)

Bank of China (Hong Kong) Limited
Manila Branch

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

	Note	2023	2022
Net income for the year		**862,078,790**	**652,852,323**
Other comprehensive income (loss)			
Items that may be subsequently reclassified to profit or loss			
Changes in net unrealized gain on debt financial assets at FVOCI, net of tax		7,649,388	(34,480,215)
Net movement in cumulative translation adjustment		(5,890,641)	(9,661,904)
Item that will not be subsequently reclassified to profit loss			
Loss on remeasurement of retirement plan, net of tax	13	(13,101,550)	(4,394,406)
Total other comprehensive loss		**(11,342,803)**	**(48,536,525)**
Total comprehensive income for the year		**850,735,987**	**604,315,798**

(The notes on pages 1 to 73 are an integral part of these financial statements.)

Bank of China (Hong Kong) Limited
Manila Branch

Statements of Changes in Head Office Account
For the years ended December 31, 2023 and 2022
(As shown in the books maintained in the Philippines)
(All amounts in Philippine Peso)

	Permanently assigned capital (Note 11)	Special remittances from Head Office (Note 11)	Accumulated profit		Cumulative translation adjustment	Net unrealized gain (loss) on financial assets at FVOCI (Note 4)	(Loss) gain on remeasurement of retirement plan (Note 13)	Total
			Appropriated	Unappropriated				
At January 1, 2022	**9,977,390,606**	**106,716,690**	**65,700,000**	**2,102,948,487**	**1,158,869**	**44,038,297**	**7,154,286**	**12,305,107,235**
Total comprehensive income								
Net income for the year	-	-	-	652,852,323	-	-	-	652,852,323
Other comprehensive loss	-	-	-	-	(9,661,904)	(34,480,215)	(4,394,406)	(48,536,525)
Total comprehensive income (loss) for the year	-	-	-	652,852,323	(9,661,904)	(34,480,215)	(4,394,406)	604,315,798
At December 31, 2022	**9,977,390,606**	**106,716,690**	**65,700,000**	**2,755,800,810**	**(8,503,035)**	**9,558,082**	**2,759,880**	**12,909,423,033**
Total comprehensive income								
Net income for the year	-	-	-	862,078,790	-	-	-	862,078,790
Other comprehensive (loss) income	-	-	-	-	(5,890,641)	7,649,388	(13,101,550)	(11,342,803)
Total comprehensive income (loss) for the year	-	-	-	862,078,790	(5,890,641)	7,649,388	(13,101,550)	850,735,987
At December 31, 2023	**9,977,390,606**	**106,716,690**	**65,700,000**	**3,617,879,600**	**(14,393,676)**	**17,207,470**	**(10,341,670)**	**13,760,159,020**

(The notes on pages 1 to 73 are an integral part of these financial statements.)

Bank of China (Hong Kong) Limited
Manila Branch

Statements of Cash Flows
For the years ended December 31, 2023 and 2022
(As shown in the books maintained in the Philippines)
(All amounts in Philippine Peso)

	Notes	2023	2022
Cash flows from operating activities			
Income before income tax		1,196,802,187	835,300,946
Adjustments for:			
Provision for credit and impairment losses	7	620,370,210	187,439,872
Depreciation of property and equipment	5	82,847,827	82,189,594
Retirement expense	13	15,249,666	16,629,849
Unrealized foreign exchange (gain) loss		(21,009,173)	55,752,524
Gain on sale of financial assets at FVOCI		-	(42,255,482)
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Financial assets at FVTPL		13,879,863	(13,882,705)
Loans and receivables		(1,303,427,904)	1,184,142,234
Other assets		(37,029,813)	(673,428)
Increase (decrease) in:			
Deposit liabilities		1,030,133,593	1,795,293,742
Interbank loans payable		(461,044,065)	676,156,300
Financial liabilities at FVTPL		(13,874,886)	13,877,798
Accrued interest and other liabilities		(368,052,118)	195,478,358
Net cash from operations		754,845,387	4,985,449,602
Income taxes paid		(314,396,958)	(199,226,947)
Contributions to retirement fund	13	(36,241,010)	(46,277,727)
Net cash from operating activities		404,207,419	4,739,944,928
Cash flows from investing activities			
Acquisitions of property and equipment	5	(3,414,652)	(12,400,310)
Placements in:			
Financial assets at FVOCI	4	(4,716,288,195)	(3,934,996,302)
Investments at amortized cost		(2,000,214,902)	-
Head Office, Parent Bank and other branches	18	(1,714,501,796,043)	(747,344,886,989)
Proceeds from:			
Maturities of placements with Head Office, Parent Bank and other branches	18	1,718,539,367,085	738,306,235,017
Maturity of investment securities at amortized cost	4		796,142,004
Maturities/sales of financial assets at FVOCI	4	4,800,930,000	6,967,729,583
Net cash from (used in) investing activities		2,118,583,293	(5,222,176,997)

(forward)

Bank of China (Hong Kong) Limited
Manila Branch

Statements of Cash Flows
For the years ended December 31, 2023 and 2022
(As shown in the books maintained in the Philippines)
(All amounts in Philippine Peso)

	Notes	2023	2022
Cash flows from financing activities			
Proceeds from borrowings from Head Office, Parent Bank and other branches	20	372,348,387,513	551,035,276,784
Payments to Head Office, Parent Bank and other branches	20	(368,221,397,933)	(550,207,099,670)
Payment of principal and interest portion of lease liabilities	14	(29,785,643)	(55,995,559)
Net cash from financing activities		4,097,203,937	772,181,555
Net increase in cash and cash equivalents		**6,619,994,649**	**289,949,486**
Cash and cash equivalents			
As at January 1		15,637,557,378	15,355,023,055
Effect of foreign exchange rate		14,556,252	(7,415,163)
As at December 31	20	22,272,108,279	15,637,557,378
Non-cash investing and financing activities	20		

(The notes on pages 1 to 73 are an integral part of these financial statements.)

Notes to the Financial Statements
As at and for the years ended December 31, 2023 and 2022
(As shown in the books maintained in the Philippines)
In the notes, all amounts are shown in Philippine Peso unless otherwise indicated

1 General information

Bank of China (Hong Kong) Limited, a foreign corporation organized under the laws of the Hong Kong SAR, People's Republic of China, was authorized by the Bangko Sentral ng Pilipinas (BSP) to operate as a full-service commercial Manila Branch (the "Manila Branch") on November 21, 2001.

The Manila Branch deals primarily in providing banking services (i.e., deposit-taking, trade, lending and treasury) to customers, including acting as broker of fixed income/debt securities, dealer of government securities, and all other allied banking services authorized under the applicable laws and regulations, and to facilitate Sino-Philippine bilateral trade.

On November 22, 2017, the Manila Branch acquired its secondary license as government securities eligible dealer from the SEC.

On December 7, 2017, the Bangko Sentral ng Pilipinas (BSP) approved the transfer of the Manila Branch's commercial banking license resulting from the transfer of its assets and liabilities from Bank of China Limited (Parent Bank) to Bank of China (Hong Kong) Limited (the Head Office or BOCHK). This transfer was further reflected in the amended license of the Manila Branch with the SEC on September 24, 2019.

On January 29, 2018, the Manila Branch received additional capital from the Head Office amounting to United States Dollar (USD) 150.0 million, with Philippine Peso equivalent of P7.6 billion. This was recorded as part of the Manila Branch's Permanently Assigned Capital under the Head Office account section in the statement of financial position (Note 11).

On October 27, 2020, the Philippine Securities and Exchange Commission (SEC) approved the change in registered business name of the Manila Branch from Bank of China Limited to Bank of China (Hong Kong) Limited - Manila Branch.

The Manila Branch's principal office is located at the 28th floor, The Finance Centre, 26th Street corner 9th Avenue, Bonifacio Global City, Taguig. The Manila Branch has 125 employees as at December 31, 2023 (2022 - 119 employees).

Approval and authorization for issuance of the financial statements

These financial statements have been approved and authorized for issuance by the Manila Branch's Country Head, who has been authorized by the Head Office to approve such financial statements, on April 24, 2024.

2 Due from BSP, Due from Other Banks, Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA), and Interbank Loans Payable

(a) Due from BSP

This account represents overnight deposit facility (ODF), demand deposit facility (DDF) and term deposit facility (TDF) maintained by the Manila Branch with the BSP. DDF are generally maintained to meet the regulatory reserve requirements while ODF and TDF are maintained to manage excess liquidity.

Peso-denominated and non-interest-bearing demand deposits are maintained to meet the regulatory reserve requirements of the BSP.

The account as at December 31 is as follows:

	2023	2022
Overnight deposit facility	5,383,000,000	3,124,000,000
Demand deposit	1,045,408,153	1,481,940,929
Term deposit facility	2,297,013,401	2,690,000,000
	8,725,421,554	7,295,940,929

As at December 31, 2023 and 2022, there are no allowance for credit losses recognized on due from BSP as these are fully-performing assets.

In 2023, deposits under ODF earn interest ranging from 5.00% to 6.00% (2022 - 1.50% to 5.00%), with maturities of one to six days (2022 - one to five days).

In 2023, deposits under TDF earn interest ranging from 6.28% to 6.69% (2022 - 1.84% to 6.33%), with maturities of five to 16 days (2022 - six to 28 days).

Interest earned on due from BSP for the year ended December 31, 2023 amounts to P458.0 million (2022 - P270.4 million).

(b) Due from other banks

As at December 31, 2023, due from other banks amounting to P4,220.3 million (2022 - P60.6 million) represent deposits which are due on demand and earn annual interest of 0.0% to 0.62% in 2023 (2022 - 0.1% to 4.1%).

As at December 31, 2023, there is no allowance for credit losses recognized on due from other banks as these are considered fully-performing assets (Note 7).

Interest earned on due from other banks for the year ended December 31, 2023 amounts to P7.7 million (2022 - P508.0 thousand).

(c) Interbank loans receivable and SPURA, net

This represents interbank loans to foreign and local banks with maturities of two months or less and placements with BSP under reverse repurchase facility (RRF).

As at December 31, 2023, allowance for credit losses on interbank loans receivable amounts to P47.1 thousand (2022 - P30.0 thousand) (Note 7).

The range of the annual fixed interest rates on these accounts follows:

	2023	2022
Interbank loans receivable - foreign	0.2% - 6.5%	0.1% - 4.6%
Interbank loans receivable - local	4.5% - 6.7%	0.8% - 3.3%

As at December 31, 2023, deposits with BSP under reverse repurchase facility (RRF) included within interbank loans receivable and SPURA amounts to P3.7 billion (2022 - P2.3 billion), and earns interest of 6.4% in 2023 (2022 - 3.3%) with tenors of one to five days (2022 - one to four days).

Interest earned on interbank loans receivable and SPURA for the year ended December 31, 2023 amounts to P168.2 million (2022 - P70.5 million).

(d) Interbank loans payable

This represents short-term interbank borrowings from local banks with maturities of three months or less, paying annual interest ranging from 1.65% to 5.33% in 2023 (2022 - 0.6% to 1.60%).

Interest expense on interbank loans payable for the year ended December 31, 2023 amounts to P25.2 million (2022 - P12.7 million).

3 Loans and receivables, net

The account at December 31 consists of:

	Note	2023	2022
Receivables from customers			
Corporate loans		33,454,892,507	32,140,672,060
Consumer loans		1,960,890	1,722,480
		33,456,853,397	32,142,394,540
Accrued interest receivable		318,440,211	329,471,165
		33,775,293,608	32,471,865,705
Allowance for credit losses	7	(1,314,595,583)	(671,811,004)
		32,460,698,025	31,800,054,701

As at December 31, 2023, the total percentage of receivables from customers subject to periodic interest repricing is 31.0% (2022 - 20.1%). The remaining loans earn annual fixed interest rates ranging from 0.70% to 9.13% in 2023 (2022 - 1.9% to 9.0%).

Accrued interest receivable as at December 31 consists of:

	Note	2023	2022
Loans and receivables		194,940,473	207,174,554
Government debt securities		100,628,343	93,231,740
Interbank loans receivable and SPURA		18,195,197	19,977,713
Due from Head Office, Parent Bank and other branches	18	4,676,198	9,087,158
		318,440,211	329,471,165

There were no loans written-off in 2023 and 2022.

Total interest income earned on loans and receivables for the year ended December 31, 2023 amounts to P2.06 billion (2022 - P1.48 billion).

4 Financial assets at FVTPL; Financial assets at FVOCI, net; Investment securities at amortized cost, net

The account at December 31 consists of:

	2023	2022
Financial assets at FVTPL		
Currency swaps	2,842	13,882,705
Financial assets at FVOCI		
Government debt securities	5,041,601,392	5,117,701,571
Equity securities	7,967,810	7,967,810
	5,049,569,202	5,125,669,381
Investment securities at amortized cost, net		
Government debt securities	1,998,130,723	-
Financial liabilities at FVTPL		
Currency swaps	2,912	13,877,798

<u>Financial assets and liabilities at FVTPL</u>

The Manila Branch enters into currency swaps to manage its foreign exchange risks. These are contractual agreements to exchange foreign exchange differentials based on specific notional amounts.

As at December 31, 2023, the outstanding financial assets and liabilities at FVTPL of the Manila Branch pertain to currency swaps to manage its USD and Hong Kong Dollar (HKD) positions (2022 - USD and Chinese Yuan (CNH) positions).

The table below shows information on the outstanding financial assets and liabilities at FVTPL of the Manila Branch at December 31, along with their equivalent Peso notional amounts and respective fair value.

	2023			2022		
	Notional amounts	Positive fair values	Negative fair values	Notional amounts	Positive fair values	Negative fair values
Currency swap sold	5,537,935	2,842	-	354,920,982	13,882,705	-
Currency swap bought	5,537,000	-	2,912	369,711,200	-	13,877,798
		2,842	2,912		13,882,705	13,877,798

Financial assets at FVOCI

The movement and composition of the account at December 31 consist of:

Government debt securities

	2023	2022
At January 1	5,117,701,571	8,157,081,791
Purchases/placements	4,716,288,195	3,934,996,302
Maturities/sales	(4,800,930,000)	(6,975,441,990)
	5,033,059,766	5,116,636,103
Unrealized fair value gain	10,256,366	2,719,319
Allowance for credit losses	(1,714,740)	(1,653,851)
	5,041,601,392	5,117,701,571

In 2023, the Manila Branch purchased treasury bills amounting to P4,716.3 million with average yields of 6.83% to 7.05% and with maturities ranging from July 2023 to January 2024.

In 2022, the Manila Branch purchased Chinese Bonds amounting to CNY487.0 million or P3,935.0 million with average yields of 1.86% to 2.50% and maturities ranging from April 2023 to January 2025.

Equity securities

As at December 31, 2023 and 2022, financial assets at FVOCI consist of investments in non-marketable equity securities of the Bankers Association of the Philippines (BAP) and Philippine Dealing System Holdings Corp. (PDSH) amounting to P8.0 million.

In 2023 and 2022, the Manila Branch recognized dividend income, recorded as part of Other income in the statement of income, from its investments in PDSH shares amounting to P0.3 million.

Investment securities at amortized cost, net

Government debt securities

As at December 31, 2023, the Manila Branch's investments in government securities measured at amortized cost amount to P2.00 billion (2022 - nil). The allowance for credit losses on these debt securities amounts to P1.9 million as at December 31, 2023 (2022 - nil).

As at December 31, 2022, there are no investment securities at amortized cost. The outstanding balance of investment securities measured at amortized cost as at December 31, 2021 was settled at maturity date, on May 20, 2022, with a carrying value of P787.2 million.

Interest income from investment securities

Interest earned from the investment securities for the years ended December 31 are as follows:

	2023	2022
FVOCI	150,250,439	279,706,423
Amortized cost	105,145,833	11,856,775
	255,396,272	291,563,198

Classification of investment securities

Financial assets at FVTPL, at FVOCI and at amortized cost classified as current are those which are expected to be realized within 12 months after the reporting date while non-current balances pertain to those expected to be realized beyond 12 months after the reporting date.

The current and non-current classification of debt investment securities, gross of related allowance for credit losses, at December 31 are as follows:

	2023	2022
Current		
FVOCI	3,437,425,022	200,990,882
Non-current		
FVOCI	1,605,891,110	4,918,364,540
Amortized cost	1,998,130,724	-
	3,604,021,834	4,918,364,540

5 Property and equipment, net

The details of and movements in the account are summarized as follows:

	2023				
	Leasehold improvements	Furniture and equipment	Right-of-use (ROU) assets		Total
			Building	Other assets	
Cost					
At January 1	113,623,229	157,065,255	194,325,870	8,600,181	473,614,535
Additions	640,954	2,773,698	256,779,304	19,444,654	279,638,610
Disposals/retirement	-	-	(184,431,508)	(8,600,180)	(193,031,688)
At December 31	114,264,183	159,838,953	266,673,666	19,444,655	560,221,457
Accumulated depreciation					
At January 1	91,472,381	140,127,213	155,284,296	6,775,755	393,659,645
Depreciation	21,835,356	13,550,526	44,482,736	2,979,209	82,847,827
Disposals/retirement	-	-	(184,431,508)	(8,600,180)	(193,031,688)
Adjustments	-	48,056	3,072,572	412,624	3,533,252
At December 31	113,307,737	153,725,795	18,408,096	1,567,408	287,009,036
Net book value	956,446	6,113,158	248,265,570	17,877,247	273,212,421

5 Property and equipment, net (continued)

	2022				
	Leasehold improvements	Furniture and equipment	Right-of-use assets Building	Right-of-use assets Other assets	Total
Cost					
At January 1	113,623,229	163,689,238	187,974,680	8,747,204	474,034,351
Additions	-	2,505,947	9,894,363	-	12,400,310
Disposals/retirement	-	(9,004,952)	(3,690,196)	-	(12,695,148)
Reclassification	-	-	147,023	(147,023)	-
Other movements	-	(124,978)	-	-	(124,978)
At December 31	113,623,229	157,065,255	194,325,870	8,600,181	473,614,535
Accumulated depreciation					
At January 1	69,552,409	131,187,713	118,279,915	5,117,246	324,137,283
Depreciation and amortization	20,889,302	19,017,415	40,627,302	1,655,575	82,189,594
Disposals/retirement	-	(9,004,952)	(3,690,196)	-	(12,695,148)
Adjustments	1,030,670	(1,072,963)	67,275	2,934	27,916
At December 31	91,472,381	140,127,213	155,284,296	6,775,755	393,659,645
Net book value	22,150,848	16,938,042	39,041,574	1,824,426	79,954,890

In August 2023, the Manila Branch renewed their lease contract for its office space with a five-year term until August 2028, subject to an annual escalation rate of 5.0% beginning on second year (Note 14). Accordingly, P276.2 million of additions to right-of-use assets were recognized in 2023.

As at December 31, 2023 and 2022, the gross carrying values of property and equipment which are fully depreciated but are still being used by the Manila Branch amount to P71.7 million.

The details of depreciation and amortization for the years ended December 31 presented in the statement of income follow:

	Note	2023	2022
Property and equipment		35,385,882	39,906,717
Right-of-use assets	14	47,461,945	42,282,877
		82,847,827	82,189,594

There are no restrictions on titles of property and equipment and the Manila Branch does not have any contractual commitments for acquisition of property and equipment as at December 31, 2023 and 2022.

Property and equipment are classified as non-current assets.

6 Other assets, net

The account at December 31 consists of:

	Note	2023	2022
Financial assets			
Refundable rental deposits		62,571,310	39,886,356
Accounts receivables		4,742,936	5,498,805
Other receivables		981,793	1,889,869
		68,296,039	47,275,030
Allowance for impairment loss	7	(2,819,772)	(4,354,510)
		65,476,267	42,920,520
Non-financial assets			
Other deferred assets		8,989,925	9,151,163
Software costs, net		11,501,458	9,821,457
		20,491,383	18,972,620
		85,967,650	61,893,140

The movements in software costs for the years ended December 31 follow:

	2023	2022
Cost		
At January 1	24,988,621	15,167,164
Additions	1,680,000	9,821,457
At December 31	26,668,621	24,988,621
Accumulated amortization		
At January 1 and December 31	15,167,164	15,167,164
Net book value at December 31	11,501,457	9,821,457

Refundable rental deposits include prepayments for contracts on leased premises entered into by the Manila Branch. Term of lease ranges from three months to five years.

Accounts receivables are advances received related to international settlement business.

Other deferred assets pertain to prepayments for short-term leases and are classified as current assets.

In 2023, the Manila Branch recognized P1.6 million (2022 - P9.8 million) software costs that are still under development. All of the intangible assets of the Manila Branch are still under development, hence no amortization is recognized for the years ended December 31, 2023 and 2022.

As at December 31, 2023 and 2022, the gross carrying values of software costs which are fully amortized but are still being used by the Manila Branch amount to P15.2 million.

Software costs are classified as non-current assets.

7 Allowance for credit and impairment losses

The details of and movements in this account as at and for years ended December 31 follow:

	2023								
	Loans and receivables (Note 3)								
	Receivable from customers								
	Corporate loans	Consumer loans	Total	Loans and advances to banks*	Financial assets at FVOCI and amortized cost (Note 4)	Other financial assets**	Off-balance sheet exposures (Note 9)	Total	Grand total
At January 1	671,808,468	2,536	671,811,004	265,796	1,653,851	4,354,510	35,218,984	41,493,141	713,304,145
Provision for (reversal of) credit and impairment losses	642,597,276	(943)	642,596,333	(29,595)	1,972,064	(1,493,449)	(22,675,143)	(22,226,123)	620,370,210
Effect of foreign currency translation	188,242	4	188,246	(26,161)	(41,898)	(41,289)	501,245	391,897	580,143
At December 31	1,314,593,986	1,597	1,314,595,583	210,040	3,584,017	2,819,772	13,045,086	19,658,915	1,334,254,498

	2022								
	Loans and receivables (Note 3)								
	Receivable from customers								
	Corporate loans	Consumer loans	Total	Loans and advances to banks*	Financial assets at FVOCI and amortized cost (Note 4)	Other financial assets**	Off-balance sheet exposures (Note 9)	Total	Grand total
At January 1	444,844,817	2,175	444,846,992	5,344,240	4,716,046	5,336,424	32,924,397	48,321,107	493,168,099
Provision for (reversal of) credit and impairment losses	176,278,976	352	176,279,328	(130,076)	(3,450,703)	(1,195,802)	15,937,125	11,160,544	187,439,872
Effect of foreign currency translation	50,684,675	9	50,684,684	(4,948,368)	388,508	213,888	(13,642,538)	(17,988,510)	32,696,174
At December 31	671,808,468	2,536	671,811,004	265,796	1,653,851	4,354,510	35,218,984	41,493,141	713,304,145

**Loans and advances to banks consist of Due from BSP, Due from other banks, Interbank loans receivable and SPURA and Due from Head Office, Parent Bank and other branches (Notes 2 and 10)*
*** Other financial assets consist of Refundable rental deposits, Accounts receivables and other receivables booked under Other assets (Note 6)*

With the foregoing level of allowance for impairment and credit losses, management believes that the Manila Branch has sufficient allowance for any losses that the Manila Branch may incur from the non-collection or non-realization of its receivables and other risk assets.

The tables below present the movements in credit exposures and related allowance for credit and impairment losses, grouped according to the different stages for the years ended December 31, after the effect of any applicable currency translation.

Loans and receivables

	2023			
Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
At January 1	28,627,819,526	3,049,374,463	794,671,716	32,471,865,705
Newly originated assets that remained in Stage 1 as at December 31, 2023	12,230,470,475	-	-	12,230,470,475
Movements in receivable balance (excluding write-offs)	(10,074,881,216)	(223,599,640)	(628,561,716)	(10,927,042,572)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	(2,200,774,823)	2,200,774,823	-
At December 31	30,783,408,785	625,000,000	2,366,884,823	33,775,293,608

	2023			
Allowance for credit losses	Stage 1	Stage 2	Stage 3	Total
At January 1	170,946,282	288,227,261	212,637,461	671,811,004
Newly originated assets that remained in Stage 1 as at December 31, 2023	53,787,131	-	-	53,787,131
Movements in receivable balance (excluding write-offs)	35,005,885	(13,304,619)	(46,527,461)	(24,826,195)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	(225,390,477)	839,214,120	613,823,643
At December 31	259,739,298	49,532,165	1,005,324,120	1,314,595,583

	2022			
Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
At January 1	30,449,964,353	3,002,361,902	152,997,000	33,605,323,255
Newly originated assets that remained in Stage 1 as at December 31, 2022	8,836,177,182	-	-	8,836,177,182
Movements in receivable balance (excluding write-offs)	(11,266,773,963)	(1,959,043)	29,011,248	(11,239,721,758)
Transfers to Stage 1	2,620,458,846	(2,464,837,708)	-	155,621,138
Transfers to Stage 2	(2,012,006,892)	3,049,374,463	-	1,037,367,571
Transfers to Stage 3	-	(535,565,151)	612,663,468	77,098,317
At December 31	28,627,819,526	3,049,374,463	794,671,716	32,471,865,705

Allowance for credit losses	2022 Stage 1	Stage 2	Stage 3	Total
At January 1	215,099,548	81,341,832	148,405,612	444,846,992
Newly originated assets that remained in Stage 1 as at December 31, 2022	98,832,013	-	-	98,832,013
Movements in receivable balance (excluding write-offs)	(101,780,799)	228,598,917	33,602,611	160,420,729
Transfers to Stage 1	11,551,918	(42,195,998)	-	(30,644,080)
Transfers to Stage 2	(52,756,398)	288,227,260	-	235,470,862
Transfers to Stage 3	-	(267,744,750)	30,629,238	(237,115,512)
At December 31	170,946,282	288,227,261	212,637,461	671,811,004

The transfers from Stage 1 to Stage 2 and from Stage 2 to Stage 3 were due to credit rating deterioration of certain corporate clients. The transfers from Stage 2 to Stage 1 were due to credit rating improvement of certain corporate clients.

*Loans and advances to other banks**

Gross carrying amount	2023 Stage 1	Stage 2	Stage 3	Total
At January 1	31,113,360,000	-	-	31,113,360,000
Newly originated assets that remained in Stage 1 as at December 31, 2023	14,030,999,029	-	-	14,030,999,029
Net movements in balance (excluding write-offs)	(11,402,937,895)	-	-	(11,402,937,895)
At December 31	33,741,421,134	-	-	33,741,421,134

Allowance for credit losses	2023 Stage 1	Stage 2	Stage 3	Total
At January 1	265,796	-	-	265,796
Newly originated assets that remained in Stage 1 as at December 31, 2023	163,016	-	-	163,016
Net movements in balance (excluding write-offs)	(218,772)	-	-	(218,772)
At December 31	210,040	-	-	210,040

Gross carrying amount	2022 Stage 1	Stage 2	Stage 3	Total
At January 1	21,787,347,608	-	-	21,787,347,608
Newly originated assets that remained in Stage 1 as at December 31, 2022	15,539,460,065	-	-	15,539,460,065
Net movements in balance (excluding write-offs)	(6,213,447,673)	-	-	(6,213,447,673)
At December 31	31,113,360,000	-	-	31,113,360,000

Allowance for credit losses	2022 Stage 1	Stage 2	Stage 3	Total
At January 1	5,344,240	-	-	5,344,240
Newly originated assets that remained in Stage 1 as at December 31, 2022	265,856	-	-	265,856
Net movements in balance (excluding write-offs)	(5,344,300)	-	-	(5,344,300)
At December 31	265,796	-	-	265,796

**Loans and advances to banks consist of Due from BSP, Due from other Banks, Interbank loans receivable and SPURA and Due from Head Office, Parent Bank and other branches (Notes 2 and 10)*

Financial assets at FVOCI and amortized cost

Gross carrying amount	2023 Stage 1	Stage 2	Stage 3	Total
At January 1	5,119,355,000	-	-	5,119,355,000
Newly originated assets that remained in Stage 1 as at December 31, 2023	2,013,270,833	-	-	2,013,270,833
Net movements in balance (excluding write-offs)	(81,341,891)	-	-	(81,341,891)
At December 31	7,051,283,942	-	-	7,051,283,942

Allowance for credit losses	2023 Stage 1	Stage 2	Stage 3	Total
At January 1	1,653,851	-	-	1,653,851
Newly originated assets that remained in Stage 1 as at December 31, 2023	1,869,277	-	-	1,869,277
Net movements in balance (excluding write-offs)	60,889	-	-	60,889
At December 31	3,584,017	-	-	3,584,017

Gross carrying amount	2022 Stage 1	Stage 2	Stage 3	Total
At January 1	8,997,810,088	-	-	8,997,810,088
Newly originated assets that remained in Stage 1 as at December 31, 2022	3,934,996,302	-	-	3,934,996,302
Net movements in balance (excluding write-offs)	(7,813,451,390)	-	-	(7,813,451,390)
At December 31	5,119,355,000	-	-	5,119,355,000

Allowance for credit losses	2022 Stage 1	Stage 2	Stage 3	Total
At January 1	4,716,046	-	-	4,716,046
Newly originated assets that remained in Stage 1 as at December 31, 2022	1,816,971	-	-	1,816,971
Net movements in balance (excluding write-offs)	(4,879,166)	-	-	(4,879,166)
At December 31	1,653,851	-	-	1,653,851

Other financial assets

	2023			
Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
At January 1	47,275,030	-	-	47,275,030
Net movements in balance (excluding write-offs)	21,021,009	-	-	21,021,009
At December 31	68,296,039	-	-	68,296,039

	2023			
Allowance for credit losses	Stage 1	Stage 2	Stage 3	Total
At January 1	4,354,510	-	-	4,354,510
Net movements in balance (excluding write-offs)	(1,534,738)	-	-	(1,534,738)
At December 31	2,819,772	-	-	2,819,772

	2022			
Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
At January 1	17,102,120	-	-	17,102,120
Net movements in balance (excluding write-offs)	30,172,910	-	-	30,172,910
At December 31	47,275,030	-	-	47,275,030

	2022			
Allowance for credit losses	Stage 1	Stage 2	Stage 3	Total
At January 1	5,336,424	-	-	5,336,424
Net movements in balance (excluding write-offs)	(981,914)	-	-	(981,914)
At December 31	4,354,510	-	-	4,354,510

Off-Balance sheet exposures

	2023			
Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
At January 1	35,971,587,165	-	-	35,971,587,165
Net movements in balance (excluding write-offs)	(10,705,451,207)	-	-	(10,705,451,207)
At December 31	25,266,135,958	-	-	25,266,135,958

	2023			
Allowance for credit losses	Stage 1	Stage 2	Stage 3	Total
At January 1	35,218,984	-	-	35,218,984
Net movements in balance (excluding write-offs)	(22,173,898)	-	-	(22,173,898)
At December 31	13,045,086	-	-	13,045,086

	2022			
Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
At January 1	33,970,131,407	-	-	33,970,131,407
Newly originated assets that remained in Stage 1 as at December 31, 2022	26,127,404,831	-	-	26,127,404,831
Net movements in balance (excluding write-offs)	(24,125,949,073)	-	-	(24,125,949,073)
At December 31	35,971,587,165	-	-	35,971,587,165

	2022			
Allowance for credit losses	Stage 1	Stage 2	Stage 3	Total
At January 1	32,924,397	-	-	32,924,397
Newly originated assets that remained in Stage 1 as at December 31, 2022	35,950,429	-	-	35,950,429
Net movements in balance (excluding write-offs)	(33,655,842)	-	-	(33,655,842)
At December 31	35,218,984	-	-	35,218,984

8 Deposit liabilities

Under Section 251 of Manual of Regulations for Banks (MORB), and as amended by BSP Circular No. 1175 dated June 23, 2023, the deposit liabilities of the Manila Branch are subject to a unified statutory reserve of 9.5% in 2023 (2022 -12%).

As at December 31, 2023, due from BSP amounting to P0.94 billion (2022 - P1.48 billion), were set aside as reserves for deposit liabilities. As at December 31, 2023 and 2022, the Manila Branch is compliant with the reserve requirements of the BSP.

Savings deposit liabilities include settlement accounts of participating banks for the clearing and settlement of Renminbi account. As at December 31, 2023, the settlement account amounted to P5.7 billion (2022 - P4.1 billion).

In 2023, the Manila Branch's Peso-denominated savings and time deposit liabilities paid interest at average annual fixed rates ranging from 0.0% to 4.3% (2022 - 0.0% to 1.98%).

In 2023, the foreign currency-denominated savings and time deposit liabilities paid average annual fixed interest rates ranging from 0.0% to 4.85% (2022 - 0.0% to 1.46%).

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

	2023	2022
Time	220,830,455	192,904,070
Savings	31,358,200	21,905,750
	252,188,655	214,809,820

9 Accrued interest and other liabilities

The account at December 31 consists of:

	Notes	2023	2022
Financial liabilities			
Cashier's checks and payment orders payable		44,304,059	157,341,992
Accrued expenses		185,864,207	145,754,101
Accounts payable		169,877,069	174,071,461
Lease liabilities	14	261,117,950	23,349,220
Accrued interest payable		67,755,612	106,668,225
Other liabilities		9,976,328	249,840,567
		738,895,225	857,025,566
Non-financial liabilities			
Other taxes payable		191,929,248	176,807,745
Unearned income		50,822,490	81,415,992
Net retirement liability	13	14,051,032	21,940,826
Withholding taxes payable		10,128,351	16,623,062
Off-balance sheet impairment	7	13,045,086	35,218,984
		279,976,207	332,006,609
		1,018,871,432	1,189,032,175

Cashier's checks and payment orders payable pertain to outward and inward remittances, drafts and promissory notes issued by the Manila Branch to its suppliers.

Accrued expenses include accrued salaries and remuneration of the employees, expenses shared with the Head Office and insurance expense payable to Philippine Deposit Insurance Corporation.

Accounts payable includes salaries payable and advances from customers.

Lease liabilities pertain to renewable long term lease contract, mainly on the Manila Branch's office space and IT back-up site (Note 14).

As at December 31, 2023, other taxes payable includes gross receipts tax payable amounting to P32.71 million (2022 - P28.6 million).

Unearned income refers to advanced handling fees related to international trade settlement business and deferred revenue from loan commitment related fees.

10 Due from/to Head Office, Parent Bank and other branches

Due from Head Office, Parent Bank and Other Branches consist of working capital, investments, loans, and placements with the Head Office, Parent Bank and other branches (Note 18). CNY denominated placements as at December 31, 2023 amount to P10.2 billion and have interest rates ranging from 0.80% to 4.50% (2022 - EUR-denominated P0.9 billion; 0.60% to 1.85%). Other foreign currency-denominated assets have interest rates ranging from 0.50% to 5.60% in 2023 (2022 - 0.01% to 4.42%).

Due to Head Office, Parent Bank and Other Branches consist of short-term borrowings from the Head Office, Parent Bank and other branches (Note 18). USD-denominated borrowings as at December 31, 2023 amounting to P18.5 billion have average annual fixed interest rates ranging from 4.30% to 5.60% in 2023 (2022 - EUR-denominated borrowings amount to P1.1 billion; 0.05% to 2.0%). Other foreign currency-denominated borrowings have average annual fixed interest rates ranging from 0.85% to 5.75% in 2023 (2022 - 0.1% to 5.0%).

As at December 31, 2023, allowance for credit losses on due from Head Office, Parent Bank, and other Branches amounts to P0.16 million (2022 - P0.24 million).

11 Head Office account

(a) Reserves

Under BSP Circular No. 1011, banks are required to appropriate a portion of their surplus at an amount necessary to bring to at least 1% the allowance for credit losses on loans classified under Stage 1. As at December 31, 2023 and 2022, the appropriated accumulated profit of the Manila Branch for General Loan Loss Provision (GLLP) amounts to P65.7 million.

(b) Special remittances from Head Office and Parent Bank

The Manila Branch received an aggregate amount of USD2.4 million from the Parent Bank in 2005, representing reimbursements of the unadjusted accumulated losses at the time of remittances. Under the terms of the special remittances, these shall be treated as normal business investment of the Head Office to the Manila Branch to serve as additional working capital for the Manila Branch. These remittances do not include contractual obligation to repay.

The Head Office remitted additional capital to the Manila Branch amounting to USD150.0 million on January 25, 2018. This amount was converted to Philippine Peso on January 29, 2018 amounting to P7.6 billion which was recorded as part of the Manila Branch's permanently assigned capital. As at December 31, 2023 and 2022, the outstanding balance of permanently assigned capital amounts to P9.98 billion.

As at December 31, 2023 and 2022, the outstanding balance of special remittances from Head Office amounts to P106.7 million.

12 Service charges and commissions

The account for the years ended December 31 consists of:

	2023	2022
Service charges and commissions income		
International settlement	148,466,694	199,719,690
Remittances	24,113,618	16,365,513
Bank notes fee income	30,098,951	15,134,259
Loans and loan commitments	20,623,957	9,644,048
Agency fee	22,470,808	3,980,222
Others	662,733	265,439
	246,436,761	245,109,171
Service charges and commissions expense		
Remittance fees	11,810,757	13,907,369

13 Retirement benefits

The Manila Branch has a funded non-contributory defined benefit retirement plan that was set up in 2004 covering all their respective regular and full-time and local rank file and officers, but excluding officers and employees who are seconded from the Head Office. Under this retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. The date of the last actuarial valuation is December 31, 2023.

The funds are administered by the Board of Trustee (BoT). The Board may appoint a trustee institution or an investment manager, as the case may be, to manage the investments of the fund. The BoT is responsible for the investment of assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes into account the plan's objectives, benefit obligations and risk capacity. The BoT oversees the entire investment process of the Manila Branch.

The retirement plan provides a retirement benefit based on the employees' years of credit service and their final salary. Under the existing regulatory framework, RA No. 7641, 'The Philippine Retirement Pay Law', requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employees' retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The net retirement benefit liability recognized in the statement of financial position as at December 31, 2023 follow:

	Note	2023	2022
Present value of defined benefit obligation		143,433,772	119,396,994
Fair value of plan assets		(129,382,740)	(97,456,168)
Net retirement liability	9	14,051,032	21,940,826

The components of net retirement benefit liability accrued for the year recognized in the statement of income under Compensation and other related staff costs follow:

	2023	2022
Current service cost	14,987,592	15,071,319
Net interest cost on benefit obligation	262,074	1,558,530
	15,249,666	16,629,849

The remeasurement effects, net of tax, recognized in other comprehensive loss in the statement of total comprehensive income follow:

	2023	2022
Remeasurement loss on plan assets	(8,300,549)	(5,512,781)
Remeasurement (losses) gains due to:		
Liability assumption changes - financial	(7,362,579)	10,755,384
Liability assumption changes - experience	2,561,578	(9,637,009)
	(13,101,550)	(4,394,406)

The movements in net retirement liability for the years ended December 31 follow:

	2023		
	Presented value of defined obligation	Fair value of plan assets	Net defined benefit liability
At January 1	119,396,994	(97,456,168)	21,940,826
Net benefit cost in statement of income			
Current service cost	14,987,592	-	14,987,592
Net interest	6,211,662	(5,949,588)	262,074
	21,199,254	(5,949,588)	15,249,666
Remeasurements in other comprehensive income			
Remeasurement losses (gains) due to:			
Liability assumption changes - financial	7,362,579	-	7,362,579
Liability assumption changes - experience	(2,561,578)	-	(2,561,578)
Remeasurement loss on plan assets	-	8,300,549	8,300,549
	4,801,001	8,300,549	13,101,550
Benefits paid	(1,963,477)	1,963,477	-
Contribution by employer	-	(36,241,010)	(36,241,010)
At December 31	143,433,772	(129,382,740)	14,051,032

	2022		
	Presented value of defined obligation	Fair value of plan assets	Net defined benefit liability
At January 1	102,268,636	(55,074,338)	47,194,298
Net benefit cost in statement of income			
Current service cost	15,071,319	-	15,071,319
Net interest	4,568,801	(3,010,271)	1,558,530
	19,640,120	(3,010,271)	16,629,849
Remeasurements in other comprehensive income			
Remeasurement (gains) losses due to:			
Liability assumption changes - financial	(10,755,384)	-	(10,755,384)
Liability assumption changes - experience	9,637,009	-	9,637,009
Remeasurement loss on plan assets	-	5,512,781	5,512,781
	(1,118,375)	5,512,781	4,394,406
Benefits paid	(1,393,387)	1,393,387	-
Contribution by employer	-	(46,277,727)	(46,277,727)
At December 31	119,396,994	(97,456,168)	21,940,826

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The fair value of plan assets by each class as at December 31 are as follows:

	2023	2022
Cash and cash equivalents	4,815	31,857,677
Equity securities	1,055,998	20,749,720
Debt securities:		
Government bonds	91,286,775	42,720,649
Private bonds	1,643,927	1,770,047
Other assets	35,432,475	445,678
Liabilities	(41,250)	(87,603)
Fair value of plan assets	129,382,740	97,456,168

All equity and debt instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The cost of defined benefit retirement plan as well as the present value of the defined benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension for the defined benefit plan as at December 31 are shown below:

	2023	2022
Discount rate	6.23%	6.86%
Future salary increase rate	5.00%	6.00%
Retirement age	60	60

There were no changes from the previous period in the methods and assumptions used in preparing the sensitivity analysis. The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at the end of the reporting period, assuming all other assumptions were held constant:

	2023		2022	
	Increase (decrease) in basis points	Increase (decrease) in present value of obligation	Increase (decrease) in basis points	Increase (decrease) in present value of obligation
Discount rate	+100	(5,388,848)	+100	(4,474,774)
	-100	5,862,678	-100	4,883,280
Future salary increase	+100	6,341,018	+100	5,256,930
	-100	(5,931,475)	-100	(4,460,000)

The Manila Branch expects to contribute P24.9 million to the defined benefit pension plan in 2024.

The average duration of the defined benefit obligation at the end of the reporting period is 5.35 years for 2023 (2022 - 5.59 years).

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31:

	2023	2022
Less than 1 year	60,107,275	53,005,553
More than 1 year to 5 years	51,952,861	45,424,226
More than 5 years to 10 years	139,923,694	106,903,536
More than 10 years to 15 years	44,219,847	64,379,311
More than 15 years to 20 years	27,471,024	24,745,313
More than 20 years	13,518,758	13,840,626

14 Lease contracts

Manila Branch as a lessee

In June 2017, the Manila Branch entered into a lease agreement for a period of five years until June 2022 for its IT back-up site, which was renewed for another lease term of five years until June 2027.

In September 2018, another lease agreement was entered into for the Manila Branch's office space for a period of five years until August 2023. Lease rental contracts include annual escalation clause of 5.0%. In August 2023, the Manila Branch renewed its leases for a period of five years until August 2028. Lease rental contracts include annual escalation clause of 5.0% beginning on second year.

The following are the amounts recognized in statement of income in relation to the lease commitment of the Manila Branch for the years end December 31:

	Note	2023	2022
Depreciation expense of right-of-use assets	5	47,461,945	42,282,877
Expenses relating to short-term leases		27,623,451	23,615,231
Interest expense on lease liabilities		5,779,168	2,951,947
Total amount recognized in statement of income		80,864,564	68,850,055

The roll forward analysis of lease liabilities follows:

	Note	2023	2022
At January 1		23,349,220	72,706,448
Additions		261,775,205	9,894,363
Interest expense		5,779,168	2,951,947
Adjustment		-	(6,207,979)
Payments		(29,785,643)	(55,995,559)
At December 31	9	261,117,950	23,349,220

As at December 31, 2023 and 2022, the Manila Branch has no contingent rent payable.

Shown below is the maturity analysis of the undiscounted lease payments:

	2023	2022
One year	60,372,853	25,475,628
More than 1 year to 2 years	63,346,732	1,133,871
More than 2 years to 3 years	66,498,018	1,147,532
More than 3 years	110,367,258	7,865,695
	300,584,861	35,622,726

15 Miscellaneous expenses

The account for the years ended December 31 consists of:

	2023	2022
Fines and penalties	19,851,268	20,589,795
Security, messengerial and janitorial	12,478,181	12,694,193
Membership fees and dues	11,129,945	10,727,136
Communication	9,837,021	11,834,024
Stationeries and office supplies	5,561,245	2,908,179
Travel and transportation	3,884,603	1,600,403
Printing	798,941	1,010,099
Donation and charitable contribution	500,000	400,000
Others	-	51,400
	64,041,204	61,815,229

Fines and penalties include accrual of penalties for non-compliance with Agriculture, Fisheries and Rural Development Financing Enhancement Act (AFRD) of 2022 (Republic Act No. 11901 or the previously "Agri-Agra Reform Credit Act of 2009").

16 Taxation

Provision for income tax for the years ended December 31 consist of the following:

	2023	2022
Current		
Final	131,077,297	54,086,937
Regular Corporate Income Tax (RCIT)	203,646,100	128,361,686
	334,723,397	182,448,623

Deferred income tax assets (DTA) are determined using the applicable income tax rate in the period the temporary differences are expected to be recovered or settled. The recognition of deferred income tax assets depends on management’s assessment of the probability of available future taxable income against which the temporary differences can be utilized. The Manila Branch did not recognize deferred tax assets as it is not probable that future taxable income will be available against which the temporary differences can be utilized.

The unrecognized deferred tax assets, net as at December 31 consist of the following:

	Notes	2023	2022
Allowance for credit losses	7	333,563,625	178,326,036
Retirement liability	13	11,449,682	4,586,882
Unrealized foreign exchange loss		(96,398)	2,305,488
Lease-related accounts		(874,554)	1,370,047
		344,042,355	186,588,453

As at December 31, 2023 and 2022, there are no outstanding MCIT and NOLCO.

The reconciliation between the statutory income tax and the provision for income tax for the years ended December 31 is shown below:

	2023	2022
Statutory income tax of 25%	299,200,547	208,825,237
Adjustments resulting from:		
Non-deductible expenses	240,676,994	85,419,313
Change in unrecognized deferred tax assets	157,453,902	7,306,143
Tax-exempt and tax-paid income	(140,859,403)	(15,956,505)
FCDU income	(221,748,643)	(103,145,565)
Provision for income tax	334,723,397	182,448,623

Under the Philippine tax laws, the Manila Branch is subject to percentage and other taxes (presented as 'Taxes and licenses' in the statement of income) as well as income taxes.

Republic Act (RA) No. 9294, which became effective in May 2004, exempts from income tax the income derived by the FCDU from foreign currency transactions with non-residents, offshore banking units (OBUs) and local commercial banks including branches of foreign banks authorized by the BSP to transact business with the FCDUs and other depository banks under the expanded foreign currency deposit system. Interest income on foreign currency-denominated loans by the FCDUs to residents other than OBUs or other depository banks under the expanded foreign currency deposit system is subject to 10% gross income tax.

17 Commitments and contingent liabilities

In the ordinary course of business, the Manila Branch enters into various commitments and incurs contingent liabilities. The Manila Branch does not anticipate any material losses as a result of these commitments and contingent liabilities.

The Manila Branch has suits and claims that remain unsettled. Management believes, based on the opinion of its legal counsels, that the ultimate outcome of such cases and claims will not involve sums having a material or adverse effect on the financial statements.

As at December 31, the commitments and contingent liabilities at their equivalent Peso contractual amounts follow:

	2023	2022
Guarantees issued	21,613,226,104	25,162,341,974
Corporate loan commitment	3,631,949,522	9,877,684,075
Letters of credit issued	20,960,332	931,561,116
	25,266,135,958	35,971,587,165

18 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercises significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities.

The Manila Branch's related parties include its Head Office and other branches, and key management personnel. Transactions with such parties are made in the ordinary course of business. These transactions also did not involve more than the normal risk of collectibility or present other unfavorable conditions.

(a) Remuneration of key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Manila Branch, directly or indirectly. The Manila Branch considers officer positions, starting from department heads and above, to constitute key management personnel for purposes of PAS 24, Related Party Transactions.

Total remuneration of key management personnel for the years ended December 31 are as follows:

	2023	2022
Gross compensation	87,062,411	94,319,376
Profit-sharing and bonuses	61,962,294	58,294,731
Short-term benefits	29,603,617	23,329,851
Other non-monetary benefits	2,437,734	7,461,388
	181,066,056	183,405,346

As at December 31, 2023, the Manila Branch has outstanding loans extended to its officers, which is part of the BSP-approved fringe benefit program, amounting to P1.24 million (2022 - P1.18 million).

(b) Transactions with Head Office and Parent Bank

In the ordinary course of business, the Manila Branch has transactions with its Head Office and the Parent Bank consisting of cash placements and borrowings. In addition, the Manila Branch shares in the use of computer systems operated and maintained by the Parent Bank, which bills the former its share in the information technology-related expenses.

The significant transactions and outstanding balances with the Head Office and other branches included in the financial statements follow:

	December 31, 2023		December 31, 2022		
Category	Amount	Outstanding balance	Amount	Outstanding balance	Terms and conditions
Parent Bank					
Due from Head Office, Parent Bank and Other Branches (Note 10)		3,043,547,432		5,613,357,724	Unsecured and unimpaired; with average annual fixed interest rates 0.00% to 5.75% in 2023 (2022 - 0.0% to 4.0%), with maturities of less than one (1) year; collectible in cash with no offsetting against Due to Head Office, Parent Bank, and Other branches.
Placements	2,220,763,206		4,599,246,410		
Withdrawals	(4,790,573,498)		(27,328,663)		
Service charges and commissions income (Note 12)	2,399,367	-	2,416,050	-	Share in Bank notes fee income and customer referral income; agency fee for syndicated loan services. Collectible monthly through cash remittance to Head Office.
Due to Head Office, Parent Bank and Other Branches (Note 10)	-	913,605,000	-	1,254,703,600	Unsecured; with annual fixed interest rates ranging from 4.62% to 5.75% in 2023 (2022 - 0.0% to 4.62%), and maturity period of one month to one year; payable in cash on demand, at gross amount.
Borrowings	14,894,530,000		19,307,925,750		
Payments	(15,235,628,600)		(19,914,901,750)		
Other liabilities (Note 9)	-	-	-	47,677,694	Payable to Parent Bank for excess remittance for tax payment; payable in cash within 1 to five (5) years at gross amount.
Interest expense/ payable (Note 9)	10,183,050	60,754,733	10,250,827	2,414,916	Interest expense from interbranch borrowings payable in cash within 1 month to 1 year at gross amount.

(forward)

	December 31, 2023		December 31, 2022		
Category	Amount	Outstanding balance	Amount	Outstanding balance	Terms and conditions
Head Office					
Due from Head Office, Parent Bank and Other Branches (Note 10)	-	8,492,516,080	-	9,960,276,830	Unsecured and unimpaired; with average annual fixed interest rates ranging from 0.50% to 5.60% in 2023 (2022 - 0.40% to 5.00%), and with maturities of less than one year; collectible in cash on demand, at gross amount.
Placements	1,712,281,032,837		742,745,640,579		
Withdrawals	(1,713,748,793,586)		(738,278,906,354)		
Interest income/ receivable (Note 3)	393,184,473	305,078,992	131,296,927	7,997,379	Interest income on investments, loans and placements; collectible in cash within one year at gross amount.
Service charges and commissions income (Note 12)	30,421,759	-	19,068,874	-	Share in Bank notes fee income and customer referral income; agency fee for syndicated loan services. Collectible monthly through cash remittance to Head Office.
Due to Head Office, Parent Bank and Other Branches (Note 10)	-	23,053,891,624	-	18,585,803,444	Unsecured; with annual fixed interest rates ranging from 0.85% to 5.75% in 2023 (2022 - 0.40% to 4.42%), maturity period of one month to one year; payable in cash on demand, at gross amount.
Borrowings	357,453,857,513		531,727,351,034		
Payments	(352,985,769,333)		(530,292,197,920)		
Interest expense/ payable (Note 9)	769,175,422	696,516,630	265,927,243	69,859,589	Interest expense from Head Office borrowings.
Information technology expense/accrual (Note 9)	3,320,406	-	5,476,627	-	Allocated IT expenses related to shared computer systems operated and maintained by the Head Office; collectible on demand through cash remittance to the Head Office.

Other liabilities are recorded as part of Accrued interest and other liabilities in the statement of financial position.

19 Financial risk management policies and objective

The Manila Branch is committed to establishing a comprehensive risk management system and a risk and compliant culture that promotes risk management that continuously endeavors to identify, manage and control areas of risk exposure. In carrying out this mandate, the Manila Branch has established a governance system that establishes policies and procedures consistent with regulatory expectations and aligned with policies of BOCHK. There is close coordination between the Management Committee (ManCom), Risk Oversight and Internal Control Committee (ROICC), Risk Management Department, AML Legal Compliance and Operational Risk Department and business units, particularly in the establishment of its Risk Appetite and limits and in development of key risk indicators and early warning triggers. In this way, the Manila Branch believes the balance between achieving strategic goals and objectives as well as prudent risk-taking activity is achieved.

The Manila Branch adheres to a moderate risk appetite, and manages the relationship between risk and return on a balanced, rational, steady and prudent manner. The Manila Branch adheres to a proactive, timely and forward-looking view of its risk appetite according to its business development objectives, regulatory and Bank of China Group requirements, and market conditions. The risk appetite incorporates both qualitative statements and quantitative risk indicators to guide the Manila Branch's risk-taking activities, particularly its corporate lending, deposit-taking activities, and treasury operations. Risks are inherent in these activities but are managed by the Manila Branch through a rigorous, comprehensive and continuous process of identification, measurement, monitoring and controlling of these risks, partly through effective management oversight, system of limits, process controls, regular monitoring, early warning and independent validation.

<u>Risk Management Structure</u>

The Manila Branch's risk management structure ensures that responsibilities and accountabilities across the three lines of defense are clear and implemented. Working on the principle of "Every line is the only line of defense and every line of defense is the last line of defense". The first line covers customer facing units and other units which are directly responsible for risk management and first-in-line responsibility for acquiring risk information. The second line of defense is responsible for formulating risk management policies, major risk management regulations and procedures, monitoring and managing risks, providing guidance, training, supervision and inspection to the first line of defense. The third line of defense is responsible for auditing the duty performance by business and risk management departments. It shall identify problems, reveal risks and put forward audit suggestions.

The ManCom is the governing body of the Manila Branch composed of the Country Head (CH) and Managing Directors. ManCom oversees the two (2) main committees of the Manila Branch, namely: ALCO and Risk Oversight and Internal Control Committee. The Manila Branch's Internal Audit Department reports directly to the BOCHK Group Audit.

Risk Oversight and Internal Control Committee (ROICC)

The ROICC is responsible for the development, implementation and oversight of the risk management and internal control of the Manila Branch. The ROICC reviews, oversees and monitors risk-related activities that may significantly alter the Branch's risk profile. The Committee reviews and endorses the Risk Appetite Indicators prepared by Risk Management Department at least every year or according to the Manila Branch's business plan for the coming year for Mancom approval.

The sub-committees of ROICC are as follows:

- Credit Review Committee ("CreCom") is responsible for the development, implementation and oversight of the credit management principles and program for the Manila Branch. The purpose of the Committee is to act as a discussion body to make sound and prudent lending dialogue based on facts and figures presented in the credit proposal, memos, negative news reports, and reports coming from the business unit for consideration by the final approver - Country Head, except for proposed limits beyond CH's approval limit, subject to Risk Management Department of Bank of China (Hong Kong) Limited's (the "BOCHK") approval.

- Business Continuity Committee (“BCC”) is responsible for developing the Business Continuity Plan (“BCP”) and strategies necessary for the continuity of critical business functions. The Committee must ensure that at minimum, the necessary administrative support functions in the recovery effort, such as human resources, insurance, legal, and security are in place. The BCC should also ensure that all levels of staff are aware of the importance of BCP and the business recovery objectives.

- AML Committee ("AMLC") shall assist the ROICC in ensuring the Manila Branch's effectiveness and due observance of anti-money-laundering and prevention of terrorist financing policies and procedures. AMLC shall maintain and evaluate mechanisms by which officers and staff shall, in confidence, raise concerns about possible improprieties, malpractices, or unacceptable activities, transactions, and behaviors that could result or potentially result in conflict of interest or personal gain at the expense of the Branch. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

The functional departments such as the Risk Management Department, Anti-Money laundering Legal Compliance and Operational Risk Department (“AML LCO”) and the Financial Management Department are mainly responsible for the management of various risks under the direction of the ManCom.

The Risk Management Department (“RMD”) takes the lead in overseeing Manila Branch’s credit risk, credit concentration, country risk, market risk, interest rate risk in the banking books and liquidity risk.

The Financial Management Department (“FMD”) is responsible for the Manila Branch’s strategic risk and asset and liability management including managing risks from currency and tenor mismatch and capital management.

The AML LCO is responsible for Manila Branch’s money laundering risk, compliance risk, operational risk, technology risk, outsourcing risk and legal risk.

The AML LCO Department and Internal Audit stand as independent functional departments responsible for reviewing and assessing the adequacy and effectiveness of internal controls and governance procedures as designed and implemented.

<u>Risk Measurement and Reporting Systems</u>

Risk measurement and full disclosure of credit, market and other inherent risks are important measures to bring the overall portfolio of exposures under control.

Risk measurement means estimating credit and other losses. These are measured for single exposure and aggregated for the overall portfolio of exposures and are monitored versus risk. The Manila Branch also assesses evidence whether a financial asset is impaired such as when there is significant credit deterioration on the obligor or issuer, a breach of contract, such as default or delinquency in interest or principal repayments and the probability that the counterparty will enter bankruptcy or financial reorganization.

The Manila Branch’s risk exposure measurement, monitoring, and control functions are reviewed on a regular basis by independent parties, i.e., the internal auditors. The assumptions of the risk measurement system are well-documented, data are accurately processed, and data aggregation is proper and reliable.

Risk Reporting Systems

The Risk Management Department reports, on a quarterly basis or as the need arises, to the ROICC regarding the compliance of the Manila Branch on the Risk Appetite and the system of risk limits and specific risk management issues that would need resolution from Senior management.

The system of limits is formulated on the basis of the financial risk faced by the Manila Branch. The limit structure contains information from all departments that provide measurement on the level of risk taken by the Manila Branch with its transactions, products and financial structure. Among others, the report covers the Manila Branch's Top and Emerging Risks, credit and credit concentration risk, non-performing loan levels, utilization of market, interest rate risk in the banking book and credit limits, liquidity risk limits, overall loan loss provisioning, and capital adequacy.

The Compliance Office and Operational Risk Management collates Key Risk Indicators (KRI) on a monthly basis that includes operational risk incidents, amount of operational loss booked, regulatory penalties, compliance-related customer complaints, key vacancies, internal/external audit findings, new products launched without completed due diligence, and material IT system information security incidents. Each KRI has a set threshold with traffic light indicator to assess risk areas and mitigate any emerging risk issue. Substantiated reporting of KRI is discussed in the ROICC. Operational Risk Management also collect data on operational risk incidents, monitors the implementation of corrective and preventive action.

Risk Mitigation

As part of its overall risk mitigation, the Manila Branch uses collateral, guarantees, loan covenants, and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from transactions.

Risk management and internal control procedures are established by the respective business units, with guidance from the risk units, to address their respective business risks. The extent and nature of the controls adopted by each business unit encompass areas such as delegation of authority, segregation of duties, dual control, audit coverage, compliance testing, succession planning, mandatory leave, mandatory training and certification, record keeping and archive management, management information system, and physical controls, among others.

The head of each risk unit spearheads the Manila Branch-wide risk identification and self-assessment process. This enables the determination of priority risk areas, assessment of mitigating controls in place, and institutionalization of additional measures to ensure a controlled operating environment. In particular, AML LCO Department facilitates the annual exercise of Compliance Risk Assessment (CRA) and Risk and Control Assessment (RACA) which is completed by the first line of defense.

Monitoring and controlling risk are primarily performed based on various limits established by the Mancom as well as Head Office regulations. These limits reflect the Manila Branch's business strategies and the level of risk that the Manila Branch is willing to accept.

Excessive Risk Concentration

Concentrations arise when the Manila Branch engages a number of counterparties that 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 Manila Branch's performance to developments affecting a particular industry or geographic location.

In order to avoid excessive concentrations of credit risk, appropriate limits and/or trigger points are set per industry and geographical locations. These limits and/or trigger points are considered in developing business strategies, identifying potential credit concentration risk and responding to changing market conditions.

In addition, the Manila Branch observes compliance with the interbank limits assigned by the Institutional Business Department of BOCHK and transactions.

The Manila Branch focuses on participation in loan syndication of borrowers with credit ratings acceptable to the BOC Group standards. The Manila Branch established concentration limits to manage total loan portfolio and to ensure risk diversification.

The following summarizes the review performed by management on the Manila Branch's policies for managing each risk:

19.1 Credit risk

Credit risk is the risk to earnings or capital arising from counterparty's failure to meet the terms of any contract with the Manila Branch. It is the risk that the Manila Branch's counterparties may not be able to or willing to pay interest, repay capital, or otherwise fulfill their contractual obligations under loan agreements, other credit facilities or in respect of other financial instruments. Credit risk arises mainly from loans and trade finance.

Credit risk is monitored by the Risk Management Department of the Manila Branch. It is their responsibility to review and manage credit risk for Global Corporate and Commercial Banking counterparties.

The Manila Branch has established a credit review process to provide early identification of possible changes in the creditworthiness of counterparties, including their collateral valuations. Counterparty limits are identified by the Head Office for Institutional Banking counterparties while the limits for the Corporate Clients are handled by the Manila Branch's Credit Risk Team. The limits are established by the use of credit risk classification systems, which assign each counterparty a risk rating. Risk ratings are subject to regular revision. The review process aims to allow the Manila Branch to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

Counterparty credit risk

The Manila Branch manages and controls credit risk through credit line management. Before conducting any treasury business, the Manila Branch applies to BOCHK for credit line authorization to the local counterparty banks and strictly follows the relevant regulations of the BOCHK.

Meanwhile, the Manila Branch also abides by the following BOCHK principles in the credit risk control:

- In local capital operations required by local regulations, lending to local counterparty banks shall be constrained. The capital is preferred to be invested in government bonds and open market businesses of local central banks so as to transfer the credit risks of commercial banks into country risks.
- After investing in securities, the branches in the high-risk areas must closely follow the changes of the issuer's credit and report to BOCHK whenever significant events occur.

Lending to local counterparty banks is limited to one year. Investment in certificate of deposits issued by banks is limited to five years and investment in securities is normally limited to three years with the longest term limited to five years.

In addition, the Manila Branch considers the BSP regulations in setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations.

Loans and receivables

In compliance with the BSP requirements, in assessing the financial performance of the borrower and deriving a Borrower Risk Rating, Manila Branch uses the ASEAN Corporate Model (ACM), which was developed by the Credit Model Management Team (CMM) of BOCHK. The said rating model was broadly considered the expert comments of ASEAN entities.

ACM covers obligor risk from different perspective such as Financial, Non-Financial factors (Competitive Position, Relationship with Bank, Management Integrity, Financial/Strategic Planning, Payment History, Ability to Raise New Funds, Succession Plan, Quasi, Off Balance Sheet, and Company Track record), Industry Risk Assessment, Warning Signals, and Group Logic.

The ASEAN Corporate Model is consistent with other SEA entities; thus, creating an aligned approach on the rating methodology for all subsidiaries and branches.

Credit-related commitment risk

The Manila Branch offers customer guarantees, which require the Manila Branch to make payments on behalf of the clients and enters into commitments to extend credit lines to secure the clients' liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Manila Branch to make payments on behalf of the clients related to the import and/or export of goods or on the performance of an obligation. Such commitments expose the Manila Branch to similar risks to loans and are mitigated by the same control processes and policies.

Maximum exposure to credit risk after taking into account any collateral held or other credit enhancements

The tables below show the analysis of the maximum exposure to credit risk, excluding those financial instruments whose carrying values reflected in the statement of financial position already represent its maximum exposure, as at December 31, 2023 and 2022 (in thousands):

	2023			
	Maximum exposure*	Fair value of collaterals	Net exposure to credit risk	Financial effect of collaterals
SPURA	3,722,480	3,722,480	-	3,722,480

**Includes the related accrued interest receivable*

	2022			
	Maximum exposure*	Fair value of collaterals	Net exposure to credit risk	Financial effect of collaterals
SPURA	2,328,783	2,328,783	-	2,328,783

**Includes the related accrued interest receivable*

Collateral and other credit enhancement

The amount and type of collateral required depend on the assessment of the credit risk of the borrower or counterparty. The Manila Branch follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral accepted by the Manila Branch for corporate accounts include cash, real estate mortgage, chattel mortgage, deed of assignment and guarantees.

As at December 31, 2023 and 2022, the Manila Branch does not hold any collateral or other credit enhancements to cover the credit risks associated with its other financial assets, other than those presented in the table above. Hence, the carrying values of those financial assets best represent the maximum exposure to credit risk.

The amendments to PFRS 7, *Financial Instruments: Disclosures,* require the Manila Branch to disclose information about rights of offset and related arrangements (such as collateral requirements) for financial instruments under an enforceable master netting agreements or similar arrangements.

The effects of these arrangements are disclosed below (in thousands):

Financial instruments recognized at end of reporting period by type	Gross carrying amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in statement of financial position [a-b] [c]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Effect of remaining rights of set-off: Fair value of financial collateral [d]	Net exposure [c-d] [e]
2023						
Financial assets						
SPURA	3,722,480	-	3,722,480	-	3,722,480	-
2022						
Financial assets						
SPURA	2,328,783	-	2,328,783	-	2,328,783	-

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

As at December 31, 2023 and 2022, the Manila Branch does not have financial instruments that can be offset under enforceable master netting agreements or similar agreements.

Concentration of risks of financial assets with credit risk exposure

The Manila Branch monitors concentrations of credit risk of its counterparties by industry and by geographical area. Shown below is the analysis of concentrations of credit risk at the reporting date by industry (in thousands):

	2023						
	Financial institutions	Consumer	Manufacturing	Real estate	Others	Allowance	Total
Loans and receivables, net	123,500	1,893	1,278,842	5,409,673	26,961,386	(1,314,596)	32,460,698
Loans and advances to banks*	33,741,421	-	-	-	-	(210)	33,741,211
Financial assets at FVTPL	3	-	-	-	-	-	3
Financial assets at FVOCI and amortized cost	7,051,284	-	-	-	-	(3,584)	7,047,700
Others**	20,999,671	-	501,758	914,498	2,913,398	(15,865)	25,313,460
At December 31, 2023	61,915,879	1,893	1,780,600	6,324,171	29,874,784	(1,334,255)	98,563,072

**Loans and advances to banks consist of due from BSP, Due from other banks, Interbank loans receivable and SPURA and Due from Head Office, Parent Bank and other branches (Notes 2 and 10)*

*** Others include other financial assets (Note 6) and credit commitment items (Note 7)*

	2022						
	Financial institutions	Consumer	Manufacturing	Real estate	Others	Allowance	Total
Loans and receivables, net	-	4,307,536	1,493,723	5,954,436	20,716,171	(671,811)	31,800,055
Loans and advances to banks*	31,113,360	-	-	-	-	(266)	31,113,094
Financial assets at FVTPL	13,883	-	-	-	-	-	13,883
Financial assets at FVOCI and amortized cost	5,119,355	-	-	-	-	(1,654)	5,117,701
Others**	9,877,684	-	920,877	1,102,962	24,117,339	(39,573)	35,979,289
At December 31, 2022	46,124,282	4,307,536	2,414,600	7,057,398	44,833,510	(713,304)	104,024,022

**Loans and advances to banks consist of due from BSP, Due from other banks, Interbank loans receivable and SPURA and Due from Head Office, Parent Bank and other branches (Notes 2 and 10)*

*** Others include other financial assets (Note 6) and credit commitment items (Note 7)*

In the normal course of the Manila Branch's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are not reflected in the accompanying financial statements. The Manila Branch, however, does not anticipate significant losses as a result of these transactions.

As at December 31, 2023, off-balance sheet exposures amount to P25.3 billion (2022 - P36.0 billion) (Note 17). The amount of allowance for credit losses on off-balance sheet exposures, presented as part of Accrued interest and other liabilities, as at December 31, 2023 amounts to P13.0 million (2022 - P35.0 million) (Note 9).

Presented below is the analysis of concentrations of credit risk by geographical area, at gross amounts, as at December 31 (in thousands):

	2023					
	Philippines	Asia (excluding Philippines)	Australia	Europe	America/ Canada	Total
Loans and receivables	33,244,357	530,937	-	-	-	33,775,294
Loans and advances to banks*	19,149,956	14,558,925	13,396	10,827	8,317	33,741,421
Financial assets at FVTPL	3		-	-	-	3
Financial assets at FVOCI and at amortized cost	2,304,797	4,746,487	-	-	-	7,051,284
Other financial assets**	25,334,432	-	-	-	-	25,334,432
	80,033,545	19,836,349	13,396	10,827	8,317	99,902,434
Allowance for credit losses	(1,323,936)	(10,319)	-	-	-	(1,334,255)
	78,709,609	19,826,030	13,396	10,827	8,317	98,568,179

** Loans and advances to banks consist of Due from BSP, Due from other banks, Interbank loans receivable and SPURA and Due from Head Office, Parent Bank and other branches*

*** Other financial assets include other assets and credit commitment items*

	2022					
	Philippines	Asia (excluding Philippines)	Australia	Europe	America/ Canada	Total
Loans and receivables	31,940,335	531,531	-	-	-	32,471,866
Loans and advances to banks*	9,661,005	21,452,355	-	-	-	31,113,360
Financial assets at FVTPL	13,883	-				13,883
Financial assets at FVOCI and at amortized cost	3,235,169	1,884,186	-	-	-	5,119,355
Other financial assets**	36,018,861	-	-			36,018,861
	80,869,253	23,868,072	-	-	-	104,737,325
Allowance for credit losses	(705,331)	(7,973)	-	-	-	(713,304)
	80,163,922	23,860,099	-	-	-	104,024,021

** Loans and advances to banks consist of Due from BSP, Due from other banks, Interbank loans receivable and SPURA and Due from Head Office, Parent Bank and other branches*
*** Other financial assets include other assets and credit commitment items*

Credit quality per class of financial assets

The credit quality of financial assets is assessed and managed using external and internal ratings.

Companies without third party ratings and accounts which are not subjected to risk rating, such as consumer loans, are considered unrated.

Loans and receivables

For the purpose of measuring credit risks, the credit quality of loans and receivables are monitored and managed by the Manila Branch using internal ratings. The definitions of Manila Branch’s internal ratings (the 27-grade masterscale) are as follows:

1A to 2C: Extremely low default risk. The obligor has strongest capacity to satisfy its financial obligation.

3A to 3C: Low default risk but are somewhat susceptible to the adverse effect of changes in circumstances and economic conditions. However, the obligor's capacity to meet its financial obligation is very strong.
4A to 4C: Relatively low default risk and are currently under adequate financial protection. However, adverse economic conditions or chasing circumstances are likely to lead to a weakened capacity of the obligor to meet its financial obligation.

5A to 5F: Medium default risk and relatively capable to obligation payment than other inferior speculative obligors. However, they face major on-going uncertainties or expose to adverse business, financial, or economic situations which could lead to the obligor's inadequate capacity to meet its financial obligation.

6A to 6B: Default risk is significant, and the repayment capacity is weaker than the above grades. The obligors currently are capable to meet its financial obligation but adverse business, financial, or economic conditions could impair the obligor's capacity or willingness to meet its financial obligation.

6C to 6D: High default risk and more vulnerable to non-payment. The obligors are temporarily capable to meet its financial obligation but adverse business, financial, or economic conditions will very likely impair the obligor's capacity or willingness to meet its financial obligation.

6E to 6G: Very high default risk and are vulnerable to non-payment. The obligors currently and in the near term have the difficulty in meet its obligation and adverse business, financial, or economic conditions will very likely impair the obligor's capacity or willingness to meet its financial commitment on the obligors.

7A to 7C: Extremely high default risk and are currently quite vulnerable to non-payment. The obligor's merely able to meet their financial obligation dependent upon favorable business, financial, and economic conditions. In the event of adverse business, financial, or economic conditions, these obligors are not able to meet its financial obligation.

8: Default

The tables below show the credit quality and ECL staging of outstanding loans and receivables (gross of allowance for credit losses) of the Manila Branch as at December 31 (in thousands):

	2023			
Loans and receivables	Stage 1	Stage 2	Stage 3	Total
1A to 4C	8,100,760	-	-	8,100,760
5A to 6G	22,665,216	628,642	-	23,293,858
7A to 7C	-	-	-	-
8 (Defaulted)	-	-	2,380,676	2,380,676
Gross carrying amount	30,765,976	628,642	2,380,676	33,775,294

	2022			
Loans and receivables	Stage 1	Stage 2	Stage 3	Total
1A to 4C	4,502,474	-	-	4,502,474
5A to 6G	24,738,078	3,049,306	-	27,787,384
7A to 7C	-	-	-	-
8 (Defaulted)	-	-	182,008	182,008
Gross carrying amount	29,240,552	3,049,306	182,008	32,471,866

As at December 31, 2023, the Manila Branch has two (2022 - one) individually impaired loans and receivables classified as Stage 3.

The carrying value of allowance for credit and impairment losses as at December 31, 2023 and 2022 is disclosed in Note 3. The following table shows the possible decrease in net income of the Manila Branch had the individually impaired loans and receivables of the Manila Branch been provided for with a 100% allowance for credit losses cover:

	2023	2022
Change on pre-tax income (in thousands)	1,937,029	-

The Manila Branch considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the carrying values of ECL relating to changes in key elements, weightings and assumptions, except the possible effects of the above.

Due from BSP and other banks, due from Head Office, Parent Bank and other branches, investment securities and other financial assets

The tables below show the credit quality by loan classification of due from BSP and other banks, interbank loans receivable and SPURA, investment securities, Due from Head Office, Parent Bank and other branches and other financial assets of the Manila Branch (in thousands and gross of allowance for credit losses):

	2023			
	ECL staging			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP				
Pass	8,725,422	-	-	8,725,422
Due from other banks				
Pass	4,220,293	-	-	4,220,293
Interbank loans receivable and SPURA				
Pass	9,259,433	-	-	9,259,433
Due from Head Office, Parent Bank and other branches				
Pass	11,536,064	-	-	11,536,064
Financial assets at FVTPL, FVOCI, Amortized cost				
Pass	7,051,284	-	-	7,051,284
Other financial assets and off-balance sheet accounts				
Pass	25,334,432	-	-	25,334,432

	2022			
	ECL staging			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP				
Pass	7,295,941	-	-	7,295,941
Due from other banks				
Pass	60,612	-	-	60,612
Interbank loans receivable and SPURA				
Pass	8,182,907	-	-	8,182,907
Due from Head Office, Parent Bank and other branches				
Pass	15,573,635	-	-	15,573,635
Financial assets at FVTPL and FVOCI				
Pass	5,133,243	-	-	5,133,243
Other financial assets and off-balance sheet accounts				
Pass	36,018,862	-	-	36,018,862

Calculation of ECLs

The Manila Branch calculates ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the effective interest rate (EIR). A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

ECL model

The Manila Branch's impairment methodology was implemented based on the requirements of PFRS 9 ECL model, consistent with the entire BOCHK Group. Coherent impairment allowance methodology, model, policy and procedures are adopted across the ASEAN subsidiaries/branches under the BOCHK Group, taking into consideration any local regulatory and accounting requirements of the branches.

The BOCHK's ECL model applies ECL percentage (ECL %) proxy approach for Stage 1 and Stage 2 exposures. Meanwhile, discounted cash flow model is applied for Stage 3 exposures.

For all types of exposures, the ECL calculation includes expected life adjustment, pre-adjusted probability-weighted PFRS 9 impairment provisions and macro-economic multipliers (i.e., regional specific adjustment or stage of economy adjustment multipliers).

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

• PD	The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period if the facility has not been previously derecognized and is still in the portfolio. The Manila Branch considers the PD of the counterparties in determining the latter's credit risk ratings.
• EAD	The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
• LGD	The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.
• Adjustment multiplier parameter	Quarterly NPL% of the Philippine banking industry as regional specific adjustment multiplier and the GDP% as the stage of economy are used as adjustment multipliers.

For all types of exposures, the ECL calculation includes expected life adjustment, pre-adjusted probability-weighted PFRS 9 impairment provisions and macro-economic multipliers (i.e., regional specific adjustment or stage of economy adjustment multipliers). (Note: Obligor-specific LGD estimates only applicable to common customers with BOCHK)

Significant Increase in Credit Risk (SICR)

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 Manila Branch'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, the credit risk is deemed to have increased significantly since initial recognition if contractual payments are more than a specified days past due (i.e. threshold of 30 days). The said threshold, however, is a rebuttable presumption. 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 Manila Branch shall revert to recognizing a 12-month ECL, unless restructured.

Definition of default

The Manila Branch considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL when one or more events that have detrimental impact on the estimated future cash flows have occurred.

The Manila Branch identifies a financial asset as impaired if the financial asset is past due for 90 days or the borrower is unlikely to pay in full for the credit obligations to the Manila Branch.

Advances overdue for more than three months

Advances with a specific repayment date or repayable by regular installments are classified as overdue when the principal or interest is past due and remains unpaid. Meanwhile, advances repayable on demand are classified as overdue when either a demand for repayment has been served on the borrower but payment was not made or when the advances has continuously exceeded the approved limit that was advised to the borrower.

As a part of a qualitative assessment of whether a customer is in default, the Manila Branch also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Manila Branch carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

Such events include:
a. Internal rating of the borrower indicating default or near-default;
b. The borrower requesting emergency funding from the Manila Branch;
c. The borrower having past due liabilities to public creditors or employees;
d. The borrower is deceased;
e. A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
f. A material decrease in the borrower's turnover or the loss of a major customer;
g. A covenant breach not waived by the Manila Branch;
h. The debtor (or any legal entity within the debtors of Manila Branch) filing for bankruptcy application/ protection;
i. Debtor's listed debt or equity suspended at the primary exchange because of rumors or facts about financial difficulties; and
j. Other events as independently assessed

It is the Manila Branch's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months unless restructured. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a SICR compared to initial recognition.

The Manila Branch performs an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Manila Branch groups its loans into Stage 1, Stage 2 and Stage 3, as described below:

Stage 1:	When loans are first recognized, the Manila Branch recognizes an allowance based on 12-month ECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2. This also includes credit exposures with less than 30 days past due and those watch list exposures not classified as Stage 2 after manual assessment are classified as Stage 1. The 12-month ECL is calculated as the portion of lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Manila Branch calculates the 12-month ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecasted EAD and multiplied by the ECL% proxy and adjustment factor (regional multiplier, and stage of economy).
Stage 2:	When a loan has shown a SICR since origination, the Manila Branch records an allowance for the lifetime ECL. Stage 2 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 3. This also includes exposures with 30 days past due, manually identified by the Manila Branch as Stage 2 and/or non-retail customers which hit the notch downgrade rule. The mechanics are similar to those explained above, but ECL % proxy will be applied over the lifetime of the instrument.
Stage 3:	For loans considered Stage 3, the Manila Branch recognizes the lifetime ECL. The impairment method will be computed using the Discounted Cash Flow model.

As at December 31, 2023 and 2022, the Manila Branch's financial assets are classified under Stages 1, 2 and 3.

For financial assets for which the Manila Branch has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

Forward looking information

In its ECL models, the Manila Branch relies on a broad range of forward-looking information as economic inputs, such as but not limited to:

- GDP growth rate;
- Non-performing loan ratio; and
- Other macroeconomic factors as may be applicable to both Hong Kong and the Philippines

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Collateral valuation

To mitigate its credit risks on financial assets, the Manila Branch seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Manila Branch's statement of financial position. It is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

19.2 Liquidity risk and fund management

Liquidity risk is the risk that the Manila Branch will not be able to fund the increase in assets or meet its obligations as they fall due without incurring unacceptable losses.

As at December 31, 2023 and 2022, the Manila Branch maintains a portfolio of highly marketable assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Manila Branch maintains a statutory reserve equivalent to 9.5% of regular banking unit (RBU) deposit liabilities as at December 31, 2023 and 2022 (Note 13).

The liquidity position, which is assessed and managed under a variety of scenarios, considers stress factors relating to both the market in general and specific to the Manila Branch. As at December 31, 2023 and 2022, the net liquid assets of the Manila Branch consist of cash and other cash items, due from BSP, due from other banks, interbank loans receivable and SPURA. In addition, the Manila Branch considers its loans and receivables and due from Head Office, Parent Bank and other branches as high-quality unencumbered assets, which the Manila Branch could potentially use as collateral for secured funding.

The Manila Branch is fully supported by BOCHK with respect to funding requirements. In addition, the Manila Branch also formulates contingency funding plans to ensure availability of adequate funds during unexpected situations. BOCHK and BOC Beijing have provided a commitment to support the Manila Branch's Renminbi (RMB) clearing bank business.

Financial assets

The analysis of financial assets held for liquidity purposes into relevant maturity groupings is based on the expected date on which these assets will be realized. Expected future interest on loans subject to repricing is only considered up to next repricing date. For other assets, the analysis into maturity groupings is based on the remaining period at reporting date to the contractual maturity date or if earlier, the expected date the assets will be realized.

Financial liabilities

The relevant maturity grouping is based on the remaining period at the reporting date to the contractual maturity date. When the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period when the Manila Branch can be required to pay.

Leverage ratio

On June 9, 2015, BSP issued Circular No. 881, which approved the guidelines for the implementation of the Basel III Leverage Ratio in the Philippines. The Basel III Leverage Ratio is designed to act as a supplementary measure to the risk-based capital requirements. The leverage ratio intends to restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes which can damage the broader financial system and the economy. Likewise, it reinforces the risk-based requirements with a simple, non-risk based "backstop" measure. Based on the existing regulations of Basel III Leverage Ratio Framework under Appendix 116 of the MORB, the Basel III leverage ratio is defined as the capital measure (Tier 1 Capital) (the numerator) divided by the exposure measure (the denominator). The monitoring of the leverage ratio shall be implemented as a Pillar 1 minimum requirement.

Liquidity coverage ratio

On March 10, 2016, BSP issued Circular No. 905 which approved the attached liquidity standards, which include guidelines on liquidity coverage ratio (LCR), and LCR disclosure standards that are consistent with the Basel III framework. Banks are required to adopt Basel III's LCR aimed at strengthening the short-term liquidity position of banks. This requires banks to have available High-Quality Liquid Assets (HQLA) to meet anticipated net cash outflow for a 30-day period under stress conditions. The standards of Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio under Appendix 72 of the MORB prescribes that, under a normal situation, the value of the liquidity ratio be no lower than 100% on a daily basis because the stock of unencumbered HQLA is intended to serve as a defense against potential onset of liquidity stress.

Net stable funding ratio

On June 6, 2018, BSP issued Circular No. 1007 which approved the implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR). Banks are required to adopt Basel III's Net Stable Funding Ratio (NSFR) aimed to promote long-term resilience of banks against liquidity risk. Consistent with the latest regulation on NSFR under Appendix 130 of the MORB, the Manila Branch shall maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. The NSFR complements the Liquidity Coverage Ratio, which promotes short-term resilience of the Manila Branch's liquidity profile.

The table below shows the actual liquidity metrics of the Manila Branch, as reported to the BSP:

	2023	2022
Liquidity coverage ratio	451.78%	234.61%
Net stable funding ratio	144.92%	126.67%
Leverage ratio	18.03%	16.33%
Total exposure measure	75,519,587,323	78,481,697,283

Maturity profile - Non-derivative financial instruments

Liquidity is monitored by the Manila Branch on a regular basis and under stressed situations using gap analysis. The maturity profile of the Manila Branch's financial instruments, based on contractual undiscounted cash flows, which substantially reflects the current and non-current classification, is shown below (at gross amounts and includes future interest, in thousands):

	2023						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial assets							
Cash and other cash items	66,961	-	-	-	-	-	66,961
Due from BSP	3,342,422	5,383,000	-	-	-	-	8,725,422
Due from other banks	4,220,293	-	-	-	-	-	4,220,293
Interbank loans receivable and SPURA	3,722,480	5,546,259	-	-	-	-	9,268,739
Due from Head Office, Parent Bank and other branches	-	11,536,064	-	-	-	-	11,536,064
Government debt securities at FVOCI	-	3,437,628	-	-	-	1,607,103	5,044,731
Financial assets at FVTPL -	3	-	-	-	-	-	3
Investment securities at amortized cost	-	-	-	-	-	2,000,000	2,000,000
Loans and receivables							
Corporate loans	2,214,367	1,482,217	3,072,108	2,298,496	7,077,607	23,580,754	39,725,549
Consumer loans	79	-	-	-	-	1,892	1,971
Accrued interest receivable	-	9,492	16,050	6,980	54,016	231,902	318,440
	13,566,605	27,394,660	3,088,158	2,305,476	7,131,623	27,421,651	80,908,173
Financial liabilities							
Deposit liabilities							
Demand	5,182	-	-	-	-	-	5,182
Savings	30,352,632	-	-	-	-	-	30,352,632
Time	2,000	876,154	1,973,484	294,737	153,470	428	3,300,273
Financial liabilities at FVTPL	3	-	-	-	-	-	3
Due to Head Office, Parent Bank and other branches	32	23,967,465	-	-	-	-	23,967,497
Interbank loans payable	-	1,242,842	-	-	-	-	1,242,842
Accrued interest and other liabilities	-	1,017,082	7,372	1,555	1,142	240,212	1,267,363
	30,359,849	27,103,543	1,980,856	296,292	154,612	240,640	60,135,792
Net undiscounted financial assets (liabilities)	(16,793,244)	291,117	1,107,302	2,009,184	6,977,011	27,181,011	20,772,381

	2022						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial assets							
Cash and other cash items	98,098	-	-	-	-	-	98,098
Due from BSP	1,481,941	5,814,000	-	-	-	-	7,295,941
Due from other banks	60,612	-	-	-	-	-	60,612
Interbank loans receivable and SPURA	-	11,831,804	-	-	-	-	11,831,804
Due from Head Office, Parent Bank and other branches	-	15,453,091	120,558	-	-	-	15,573,649
Government debt securities at FVOCI	-	10,687	-	201,372	-	5,004,473	5,216,532
Financial assets at FVTPL	-	13,884	-	-	-	-	13,884
Government debt securities at amortized cost	-	-	-	-	-	-	-
Loans and receivables							
Corporate loans	-	1,095,244	776,725	4,529,209	4,145,868	24,629,088	35,176,134
Consumer loans	-	-	-	72	287	1,375	1,734
Accrued interest receivable	-	11,204	7,854	45,460	40,240	224,713	329,471
	1,640,651	34,229,914	905,137	4,776,113	4,186,395	29,859,649	75,597,859
Financial liabilities							
Deposit liabilities							
Demand	6,138	-	-	-	-	-	6,138
Savings	19,890,899	-	-	-	-	-	19,890,899
Time	-	11,656,051	855,923	150,637	81,750	-	12,744,361
Financial liabilities at FVTPL		13,878					13,878
Due to Head Office, Parent Bank and other branches	-	17,860,736	1,979,771	-	-	-	19,840,507
Interbank loans payable	-	1,583,328	120,558	-	-	-	1,703,886
Accrued interest and other liabilities	-	874,427	-	157,342	342,022	412,546	1,786,337
	19,897,037	31,988,420	2,956,252	307,979	423,772	412,546	55,986,006
Net undiscounted financial assets (liabilities)	(18,256,386)	2,241,494	(2,051,115)	4,468,134	3,762,623	29,447,103	19,611,853

The tables below show the contractual expiry by maturity of the Manila Branch's contingent liabilities as at December 31 (in thousands, gross of allowance for credit losses):

	2023			
	Less than 3 months	3 to 12 months	Beyond 1 year	Total
Guarantees issued	9,126,909	7,720,207	4,766,110	21,613,226
Corporate loan commitment	3,631,950	-	-	3,631,950
Letters of credit issued	17,474	3,486	-	20,960
	12,776,333	7,723,693	4,766,110	25,266,136

	2022			
	Less than 3 months	3 to 12 months	Beyond 1 year	Total
Guarantees issued	3,132,652	15,867,810	6,161,880	25,162,342
Corporate loan commitment	9,877,684	-	-	9,877,684
Letters of credit issued	838,122	93,439	-	931,561
	13,848,458	15,961,249	6,161,880	35,971,587

19.3 Market risk

Market risk is the risk of future loss resulting from adverse movements in market rates or prices such as Interest rates and FX rates. The Manila Branch's market risk originates mainly from its exposure holdings in its foreign exchange instruments.

The Manila Branch's market risk is manageable within conservative bounds. The Manila Branch is prohibited to conduct any proprietary trading at the cost of bearing market risks. It sets an upper bound for the market risk exposure, and squares the positions immediately whenever the exposures reach the limitations.

19.3.1 Interest rate risk

Interest rate risk in the banking book (IRRBB) refers to the current and prospective risk to earnings and capital arising from adverse movements in interest rates that affect the Manila Branch's banking book positions.

The Manila Branch manages its IRRBB to effectively control the adverse impact on its overall earnings and economic value due to movement of interest rates within the acceptable level, to be in line with the business strategies and risk appetite thereby promoting the sustainable growth of the Manila Branch's earnings.

IRRBB is managed through the monitoring of IRRBB indicators monitored against limits cascaded by the Head Office which is approved at local management level. Regular and Ad Hoc IRRBB stress testing are also performed to supplement the business-as-usual reporting.

The Manila Branch measures the sensitivity of its financial assets and liabilities to interest rate fluctuations by way of a 'repricing gap' analysis using the repricing characteristics of its statement of financial position on a monthly basis. The two main IRRBB measurements are as follows:
a) Net Interest Income (NII) Ratio - an earnings-based measure which refers to the change in Net Interest Income for the next 12 months over the Manila Branch's Budgeted Net Income before Tax.
b) Economic Value (EV) Ratio - an economic value-based measure which represents an assessment of the present value of expected net cash flows, discounted to reflect market rates over the Manila Branch's capital base.

Meanwhile, the Manila Branch employs the group uniform approach to perform stress testing based on Basel prescribed interest rate shock scenarios.

The Manila Branch's IRRBB can be controlled by means of the following:
a) Asset-liability structure adjustment: to optimize the repricing structure by adjusting the asset-liability structure so as to mitigate and control the IRRBB;
b) Risk hedging: to eliminate or mitigate the IRRBB by holding one or more hedging tools that are opposite to the original risk position. There are, however, no outstanding interest rate derivatives used as hedges in the Banking Book.

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As at December 31, 2023, total receivables from customers subject to periodic interest repricing is about 31.0% (2022 - 20.1%).

The table below shows the average interest rate per currency of the Manila Branch as at December 31:

	2023	
	Less than one year	More than one year
Financial assets		
Loans and receivables		
Receivables from customers:		
Corporate loans		
USD	-	8.42%
AUD	-	6.05%
EUR	-	4.80%
PHP	6.25%	7.63%

	2022	
	Less than one year	More than one year
Financial assets		
Loans and receivables		
Receivables from customers:		
Corporate loans		
USD	6.10%	6.67%
AUD	-	-
EUR	-	2.76%
PHP	5.68%	4.93%

The following table sets forth the impact of changes in interest rates on the Manila Branch's net interest income (in thousands):

	2023		2022	
Change in interest rates (in basis points)	-200 bps	+200 bps	-200 bps	+200 bps
Change in annualized net interest income (*Amounts are presented in thousands)*				
(in original currencies)				
PHP	(PHP3,183)	PHP3,183	(PHP15,387)	15,387
USD	(USD1,931)	USD1,931	(USD349)	USD349
AUD	(AUD1,388)	AUD1,388	-	-
EUR	(EUR1,101)	EUR1,101	(EUR11)	EUR11
(in Philippine Peso)	230,462	(230,462)	36,364	(36,364)

19.3.2 Foreign currency risk

The Manila Branch manages its exposure to foreign exchange risk by maintaining foreign currency position within existing regulatory guidelines at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

The net foreign exchange exposure is computed according to BSP regulation. The Manila Branch's foreign exchange exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign exchange as well as foreign exchange trading with corporate accounts and other financial institutions.

The foreign exchange exposure at end-of-day is guided by the limits set forth in the Authorization from Head Office where the limits are within the prescribed ceilings mandated by the BSP and its Head Office. At the end of each day, the Manila Branch reports to the BSP on its compliance with the mandated foreign currency exposure limits.

The following table summarizes the Manila Branch's exposure to currency risk as at December 31:

	2023		2022	
	In original currency*	Philippine Peso equivalent	In original currency*	Philippine Peso equivalent
Assets				
Cash and other cash items				
USD	404,707	22,408,627	859,113	47,899,845
CNY	965,336	7,541,881	870,165	6,993,690
HKD	158,510	1,127,339	259,020	1,864,840
Interbank loans receivable and SPURA				
USD	100,000,000	5,537,000,000	105,000,000	5,854,275,000
Due from other banks				
USD	26,302,755	1,456,383,532	820,597	45,752,384
CNY	350,976,602	2,742,074,897	140,505	1,129,265
Due from Head Office, Parent Bank and other branches (Note 10)				
CNY	1,301,604,126	10,169,042,556	973,012,866	7,820,299,004
EUR	17,739,781	1,090,524,458	15,954,007	950,132,881
JPY	1,971,262	774,706	2,068,262	863,293
HKD	4,450,235	31,650,513	3,068,614	22,092,793
AUD	371,327	14,090,628	11,047	417,603
SGD	5,807	244,412	16,240	675,270
GBP	13,414	949,180	8,954	603,826
CAD	11,932	501,173	20,170	831,825
USD	4,122,917	228,285,887	121,566,813	6,777,957,681
Financial assets at FVOCI				
CNY	607,316,397	4,744,780,815	636,760,369	5,117,770,439
Loans and receivables (Note 3)				
Receivables from customer:				
Corporate loans				
USD	276,690,801	15,320,369,646	273,527,680	15,250,535,782
CNY	179,190,048	1,399,958,087	115,141,071	925,411,818
EUR	9,200,000	565,558,087	19,159,433	1,141,030,466
AUD	19,276,664	731,485,788		
Accrued interest receivable				
USD	2,101,739	116,373,272	2,062,126	114,973,818
CNY	12,649,991	98,830,586	12,405,510	99,705,565
AUD	148,888	5,649,816	-	-
EUR	96,733	5,946,521	107,285	6,389,333
HKD	1,853	13,182	592	4,261

(forward)

	2023		2022	
	In original currency*	Philippine Peso equivalent	In original currency*	Philippine Peso equivalent
(forwarded)				
Other assets**				
CNY	-	-	14,364,569	115,450,916
HKD	14,740	104,833	54,809	394,603
JPY	-	-	2,101,907	877,336
EUR	-	-	7,194,467	428,462,885
USD	16,500,254	913,619,065	92,720	5,544,357
SGD	-	-	1,159,172	48,197,908
AUD	-	-	2,913	110,118
GBP	-	-	18,826	1,269,614
CAD	-	-	285,734	11,783,813
		45,205,289,487		44,799,702,232
Liabilities				
Deposit liabilities (Note 8)				
CNY	1,704,208,642	13,314,470,860	878,284,422	7,058,947,558
EUR	26,545,539	1,631,855,144	15,561,065	926,731,422
HKD	1,275,355.00	9,070,451	2,661,816	19,164,013
USD	117,559,693	6,509,280,187	248,163,736	13,836,369,096
JPY	1,191,000.00	468,063	1,175,000	490,445
Interbank loans payable				
CNY	2,049,631	113,488,051	212,000,000	1,703,886,400
USD	144,553,648	1,129,354,284	-	-
Due to Head Office and other branches (Note 10)				
CNY	599,600,000	4,684,494,920	607,300,000	4,880,991,560
USD	334,700,000	18,532,339,000	247,800,000	13,816,089,000
AUD	19,650,000	745,652,655	-	-
EUR	-	-	19,200,000	1,143,446,400
HKD	700,000	4,978,470	-	-
Accrued interest and other liabilities (Note 9)				
CNY	3,012,470	23,535,528	350,738,845	350,328,132
HKD	1,731,147	12,312,093	1,968,843	14,174,878
EUR	60,522	3,720,507	183,739	11,149,418
AUD	171,835	6,520,564	-	-
USD	4,384,198	242,753,062	4,982,731	306,432,350
		46,964,293,839		44,068,200,672
Net Exposure		(1,759,004,352)		731,501,560

**Amounts exclude financial instruments denominated in US dollars in FCDU books as its functional currency is in US dollars*

*** Other financial assets consist of accounts receivables and other receivables booked under Other assets (Note 6)*

The following table sets forth the impact of the range of reasonably possible changes in the Php:USD, Php:HKD, Php:CNY, Php:CAD,Php:EUR, Php:JPY, Php:GBP, Php:AUD and Php:SGD exchange rates on the Manila Branch's pre-tax income as at December 31:

	2023			2022		
Changes in exchange rate	Exchange rates	-2%	+2%	Exchange rates	-2%	+2%
Change on pre-tax income *(All amounts are presented in thousands of Philippine Peso)*						
USD	USD 1 : 55.37	56,386	(56,386)	USD 1 : 55.76	931,444	(931,444)
AUD	AUD 1 : 37.95	(19)	19	AUD 1 : 37.80	(4)	4
EUR	EUR 1 : 61.47	529	(529)	EUR 1 : 59.55	27,152	(27,152)
HKD	HKD 1 : 7.11	(131)	131	HKD 1 : 7.20	(234)	234
JPY	JPY 1 : 0.39	(6)	6	JPY 1 : 0.42	-	-
CNY	CNY 1 : 7.81	20,525	(20,525)	CNY 1 : 8.04	52,244	(52,244)
SGD	SGD 1: 42.09	(5)	5	SGD 1: 41.58	(694,636)	694,636
GBP	GBP 1: 70.76	(19)	19	GBP 1: 67.44	(1,126,654)	1,126,654
CAD	CAD 1: 42.00	(10)	10	CAD 1: 41.24	688,956	(688,956)

There is no other impact on the Manila Branch's Head Office account other than those already affecting the statement of income.

19.4 Fair value of financial assets and liabilities

The methods and assumptions used by the Manila Branch in estimating the fair value of its financial instruments are as follows:

(a) Cash and cash equivalents and due from or to Head Office, Parent Bank and other branches and other banks and interbank loans receivables and SPURA

The carrying amounts approximate their fair values in view of the relatively short-term maturities of these instruments.

(b) Financial assets at FVTPL

Fair values of derivative instruments are valued using a valuation technique with market observable inputs. The most frequently applied valuation technique is forward pricing, using present value calculations. The model incorporates various inputs including forward rates and interest rate curves prevailing at the reporting date.

(c) Unquoted equity securities

There is no market for these securities and the Manila Branch does not intend to dispose these securities since these represent investments in allied undertakings which are necessary in its Manila Branch operations. The fair values of these securities were determined using the net asset value method. The Manila Branch assessed that the remeasurement to their fair values are not material to the financial statements.

(d) Financial assets at FVOCI and amortized cost

Fair values of these government security investments are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

(e) Loans and receivables

Loans and receivable are evaluated by the Manila Branch based on parameters such as interest rates, specific country risk factors, and individual creditworthiness of the customer and the risk characteristics of the financed project.

Fair values of loans and receivables are estimated based on the discounted cash flow methodology, using interest rates offered for similar loans to borrowers with similar credit ratings ranging from 0.01% to 6.0% in 2023 (2022 - 0.7% to 7.2%). Where the instrument reprices on a quarterly basis or has a relatively short maturity, the carrying amounts approximated fair values.

(f) Security deposits

The Manila Branch's financial instruments where the carrying values do not approximate fair value pertain to the security deposits recorded under Other assets. These are reported at cost and are not significant in relation to the Manila Branch's financial asset portfolio.

(g) Liabilities

The fair values of liabilities approximate their carrying amounts due to either the demand nature or the relatively short-term maturities.

<u>Fair value hierarchy</u>

The Manila Branch uses a hierarchy for determining and disclosing the fair value of its financial instruments.

The Manila Branch uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique. These levels are based on the inputs that are used to determine the fair value and can be summarized in:

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

The Manila Branch held the following financial assets and liabilities measured at fair value and at cost but for which fair values are disclosed and their corresponding level in fair value hierarchy:

	2023				
	Carrying value	Level 1	Level 2	Level 3	Total fair value
Assets measured at fair value					
Financial assets at FVTPL					
Currency swaps	2,842	-	2,842	-	2,842
Financial assets at FVOCI					
Equity investments	7,967,810	-	-	7,967,810	7,967,810
Government debt securities	5,041,601,392	-	5,041,601,392	-	5,041,601,392
	5,049,572,044	-	5,041,604,234	7,967,810	5,049,572,044
Assets for which fair values are disclosed					
Investment securities at amortized cost	1,998,130,723		2,000,000,000		2,000,000,000
Loans and receivables*					
Receivables from customers					
Corporate loans	33,454,892,507	-	-	31,102,926,853	31,102,926,853
Consumer loans	1,960,890	-	-	1,823,034	1,823,034
	35,454,984,120	-	2,000,000,000	31,104,749,887	33,104,749,887
	40,504,556,164	-	7,041,604,234	31,112,717,697	38,154,321,931

	2022				
	Carrying value	Level 1	Level 2	Level 3	Total fair value
Assets measured at fair value					
Financial assets at FVTPL					
Currency swaps	13,882,705	-	13,882,705	-	13,882,705
Financial assets at FVOCI					
Equity investments	7,967,810	-	-	7,967,810	7,967,810
Government debt securities	5,117,770,439	-	5,116,481,740	-	5,116,481,740
	5,139,620,954	-	5,130,364,445	7,967,810	5,138,332,255
Assets for which fair values are disclosed					
Loans and receivables*					
Receivables from customers					
Corporate loans	31,485,878,039	-	-	32,181,052,952	32,181,052,952
Consumer loans	1,640,394	-	-	1,478,640	1,478,640
	31,487,518,433	-	-	32,182,531,592	32,182,531,592
	36,627,139,387	-	5,130,364,445	32,190,499,402	37,320,863,847

**Amounts exclude accrued interest receivable*

There were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurement in 2023 and 2022.

19.5 Capital management

The primary objectives of the Manila Branch's capital management are to ensure compliance with BSP-imposed capital adequacy, to maintain strong credit rating and healthy capital balances and ratios in order to support the various businesses, and to maximize capital received from the Head Office.

The Manila Branch manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

In 2009, the BSP issued Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) which supplements the BSP's risk-based capital adequacy framework under the BSP Circular No. 538. Currently, the Manila Branch follows ICAAP guidelines under Appendices 94 and 96 of MORB.

Regulatory qualifying capital

On January 15, 2013, the BSP issued the originating issuance of Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal and commercial banks, as well as subsidiary banks and quasi-banks, in accordance with Basel III standards. The circular took effect on January 1, 2014 and of which two additional publications were subsequently released in 2015 - Leverage Ratio reporting and in 2015 - Adoption of Basel III Leverage Ratio.

Appendix 59 - Risk-based Capital Adequacy Framework for the Philippine Banking System of the MORB sets out the minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also provided guidance on the capital conservation buffer which is at 2.5% and comprising of CET1 capital. The BSP's existing requirement for total Capital Adequacy Ratio (CAR) remains unchanged at 10.0% and should be maintained at all times.

On October 29, 2014, the BSP issued Circular No. 854, *Minimum Capitalization of Banks,* which amended the capitalization of banks. Under this Circular, commercial banks are required to maintain minimum capitalization of P2.0 billion for Head Office branches. This remains the same based on the existing regulations under Section 121 of MORB.

On November 4, 2014, the Manila Branch received from the Parent Bank the aggregate amount of P1.7 billion (US$38.4 million) as capital infusion. On November 18, 2014, pursuant to the provisions of BSP Circular No. 854, BSP confirmed the compliance of the Manila Branch with the minimum capitalization prescribed under the relevant BSP issuances.

On November 21, 2014, the BSP issued Circular No. 858, *Amendments to Relevant Provisions of the Manual of Regulations for Banks Implementing Republic Act. No 10641*, which updated, among other matters, the capital requirements and the risk-based capital of foreign bank branches.

Under Section 103 - Liberalized Entry and Scope of Operations of Foreign Banks under the MORB, a foreign bank branch shall comply with the minimum capital and prudential ratios applicable to domestic banks of the same category as prescribed under the prevailing regulations. For purposes of compliance with minimum capital regulations, the "capital of a foreign bank branch" shall comply with the minimum capital applicable to domestic banks of the same category. The capital shall be the sum of: (i) permanently assigned capital, (ii) undivided profits), and (iii) accumulated net earnings, which are composed of unremitted profits not yet cleared by the BSP for outward remittance and losses in operations less capital adjustments as may be required by the BSP as prescribed under prevailing regulations. Permanently assigned capital shall be inwardly remitted and converted into Philippine currency at the exchange rate prevailing at the time of remittance. Any net due from head office, branches, subsidiaries and other offices outside the Philippines, excluding accumulated net earnings, shall be a deductible adjustment to capital.

Under the existing BSP regulations, the determination of the Manila Branch's compliance with regulatory requirements and ratios is based on the amount of its 'unimpaired capital' (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting practices which differ from Philippine Financial Reporting Standards (PFRSs) in some respects. Total regulatory capital of the Manila Branch comprises of its permanently assigned capital, special remittances, accumulated profit (losses), translation adjustment and remeasurement of retirement liability.

The risk-based capital ratio of the Manila Branch, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.0%. Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP. As at December 31, 2023, the Manila Branch's total qualifying capital amounts to P13.92 billion (2022 - P13.16 billion).

As of December 31, 2023 and 2022, the Manila Branch is compliant with the minimum capital requirements. The risk-based CAR of the Manila Branch as reported to the BSP as at December 31 are shown in the table below.

	2023	2022
Tier 1 capital	13,617,567,395	12,814,225,623
Tier 2 capital	304,612,250	340,841,610
Total capital	13,922,179,645	13,155,067,233
Risk weighted assets	52,472,339,342	43,563,085,874
Tier 1 capital ratio	25.95%	29.42%
Common Equity Tier 1 (CET1) capital	13,617,567,395	12,814,225,623
CET 1 ratio	25.95%	29.42%
Total capital ratio	26.53%	30.20%

The other component of regulatory capital is Tier 2 (supplementary) capital, which consists of GLLP.

For purposes of compliance with the Single Borrower’s Limit (SBL), BSP Circular No. 1164 provides for a six-month transitory period to use the prescribed percentage limit of 30% similar to the SBL framework as of end of December 2022. Starting 01 July 2023, the total amount of loans, credit accommodations and guarantees that may be extended by the Bank shall at no time exceed 25% of its net worth. Loans and credit commitments as of the effectivity of RA No. 10641 may be maintained but once repaid or expired, shall no longer be increased in excess of the ceiling allowed under the circular.

The Manila Branch has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis. As at December 31, 2023 and 2022, the Manila Branch is compliant with the foregoing requirements.

20 Supplementary information for cash flow analysis

Cash and cash equivalents consist of the following as at December 31:

	2023	2022
Cash and cash equivalents at beginning of year		
Cash and other cash items	98,097,524	107,975,408
Due from Bangko Sentral ng Pilipinas	7,295,940,929	5,190,658,575
Due from other banks	60,612,207	4,114,938,327
Interbank loans receivable and securities purchased under resale agreements	8,182,906,718	5,941,450,745
	15,637,557,378	15,355,023,055
Cash and cash equivalents at end of year*		
Cash and other cash items	66,960,697	98,097,524
Due from Bangko Sentral ng Pilipinas	8,725,421,554	7,295,940,929
Due from other banks	4,220,292,919	60,612,207
Interbank loans receivable and securities purchased under resale agreements	9,259,433,109	8,182,906,718
	22,272,108,279	15,637,557,378

(forward)

		2023	2022
Operational cash flows from interest			
Interest received		610,765,317	524,596,754
Interest paid		1,256,700,240	397,644,461
Dividend received	4	280,000	280,000

The following table shows the reconciliation analysis of Due to Head Office, Parent Bank and other branches arising from financing activities for the years ended December 31:

	2023	2022
At January 1	19,840,507,044	19,012,329,930
Cash flows during the year		
Proceeds	372,348,387,513	551,035,276,784
Settlements	(368,221,397,933)	(550,207,099,670)
At December 31	23,967,496,624	19,840,507,044

Non-cash investing and financing activities

In 2023, non-cash investing activities of the Manila Branch pertain to additions of right-of-use assets of P276.2 million (2022 - P9.9 million) (Note 14), and fair value change on financial assets at FVOCI of P7.6 million (2022 - P34.5 million) (Note 4).

In 2023 and 2022, non-cash financing activities of the Manila Branch pertain to addition to lease liabilities of P261.8 million (2022 - P9.9 million).

21 Critical accounting judgments and estimates

The preparation of the financial statements in accordance with PFRSs requires the Manila Branch to make critical accounting judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

21.1 Critical accounting judgments

(a) Contingencies

The Manila Branch has suits and claims that remain unsettled. Management believes, based on the opinion of its legal counsel, that the ultimate outcome of such cases and claims will not involve sums having a material effect on its financial statements. It is possible, however, that the future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (Note 17).

(b) Fair value of financial assets

When the fair values of financial instruments recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These judgments may include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

(c) Evaluation of business model in managing financial instruments

The Manila Branch manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely arising from customers' withdrawals and continuing loan disbursements to borrowers.

The business model criteria may be applied at the level of a portfolio of financial instruments (i.e. group of financial instruments that are managed together by the Manila Branch) but not on an instrument-by-instrument basis (i.e. not based on intention for each individual financial instrument). This may include, for instance, a portfolio of investments that the Manila Branch manages in order to collect contractual cash flows and another portfolio of investments that the Manila Branch manages in order to trade to realize fair value changes. The Manila Branch's business model is determined at portfolio level, which reflects how group of financial assets are managed together to achieve a particular business objective. Business model test assessment is a matter of fact, rather than merely an assertion.

The Manila Branch has designated its equity securities at FVOCI. Gains or losses on derecognition of these equity securities are not transferred to profit or loss. Otherwise, equity securities are measured at FVTPL (except for dividend income which is recognised in profit or loss).

The Manila Branch's financial assets are classified as at FVTPL, FVOCI and amortized cost. There were no reclassifications made among the three categories during the years then ended.

The carrying values and corresponding fair values of financial instruments as well as the manner in which fair values were determined are discussed in Note 19.4.

(d) Determination of lease term of contracts with renewal and termination options

The Manila Branch has several lease contracts that include extension and termination options. The Manila Branch applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Manila Branch reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Manila Branch determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

(e) Recognition of deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management is required to determine the amount of deferred tax assets that can be recognized, based on the forecasted level of future taxable profits and the related future tax planning strategies.

The Manila Branch does not recognize deferred tax assets until there is probable future taxable income that will be available against which the deductible temporary difference can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon likely timing and level of future taxable income together with future tax planning strategies. The unrecognized deferred tax assets are disclosed in Note 16.

(g) *Testing the cash flow characteristics of financial assets*

The FCDU assesses the terms of instruments to identify whether the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' ("SPPI"). Financial assets that are consistent with a basic lending arrangement are considered to meet the SPPI criterion. In this context, the term 'basic lending arrangement' is used broadly to capture both originated and acquired financial assets, the lender or the holder of which is looking to earn a return that compensates primarily for the time value of money and credit risk.

In determining the classification of financial assets under PFRS 9, the FCDU assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria.

21.2 Critical accounting estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period, are described below. The Manila Branch based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Manila Branch. Such changes are reflected in the assumptions when they occur.

(a) *Impairment of loans and receivables and commitments*

The measurement of impairment losses under PFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a SICR.

These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Manila Branch's ECL calculations are outputs of complex models. The choice of variable inputs and their interdependencies involves a series of assumptions. ECL models are developed by leveraging in existing internal rating models and loss estimates, behavioral models and forecasting factors. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Manila Branch's internal credit rating models, which assign probability of defaults to the individual ratings;
- The Manila Branch's significant credit deterioration criteria (including internal credit rating downgrade, days past due, significant decrease in market values and qualitative assessment) for assessing whether the financial assets' impairment allowances should be measured on a lifetime ECL basis;
- The segmentation of financial assets according to similar risk and default characteristics when their ECL is assessed on a collective basis;
- Development of ECL models, including the determination of macroeconomic factor forecasts and the effect on PD, LGD and EAD; and
- Selection of forward-looking macroeconomic scenarios (including three independent scenarios (i.e., good, baseline and downturn)) and their probability weights.

Based on the latest economic forecast and risk profile of the branch's portfolio, the Stage of Economy model parameter is updated annually as part of the input to capture the forward-looking element. This mechanism aims to ensure that provisions for credit losses are sufficient and robust.

Refer to Note 7 for the disclosures on gross exposures and related allowance for credit and impairment losses as at December 31, 2023 and 2022.

(b) *Valuation of plan assets and retirement expense*

The determination of the Manila Branch's net plan assets and annual retirement expense is dependent on the selection of certain assumptions used in calculating such amounts. These assumptions include, among others, discount rates and salary rates.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the reporting date.

The present value of the retirement obligation and fair value of plan assets, including the details of the assumptions used in the calculation are disclosed in Note 13.

(c) *Incremental borrowing rate used for lease liabilities*

If the Manila Branch cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate in measuring its lease liabilities. The incremental borrowing rate is the rate of interest that the Manila Branch would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value in a similar economic environment. The Manila Branch estimates the incremental borrowing rate using observable inputs (prevailing risk-free market rates) adjusted by the credit risk of the Manila Branch (i.e., credit spread).

22 Summary of material accounting policies

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

22.1 Basis of preparation

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

The financial statements comprise the statements of financial position, statements of income and statements of total comprehensive income shown as two statements, statements of changes in Head Office account, statements of cash flows and the notes.

The financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities at FVTPL, FVOCI and the plan assets component of retirement liability which are measured at fair value.

The accompanying financial statements include the accounts maintained in the Regular Banking Unit (RBU) and the Foreign Currency Deposit Unit (FCDU) of the Manila Branch. Financial statements individually prepared for these units are combined after eliminating inter-unit accounts, if any. For financial reporting purposes, the FCDU accounts and foreign currency-denominated accounts are translated to their equivalents in Philippine Peso (PHP), the Manila Branch's functional currency (Note 22.3). All values are rounded to the nearest Peso unless otherwise indicated.

22.2 Changes in accounting policies and disclosures

(a) Amendments to existing standards adopted by the Manila Branch effective January 1, 2023

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

- Amendments to PAS 1, '*Presentation of Financial Statements*', and PFRS Practice Statement 2, *'Making Materiality Judgement's'*

  The amendments require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' (being information that, when considered together with other information included in an entity's financial statements, can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements) and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

  To support this amendment, PFRS Practice Statement 2 was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

  The adoption of these amendments resulted in changes in the accounting policies disclosed by the Manila Branch.

- Amendment to PAS 8, *'Accounting Policies, Changes in Accounting Estimates and Errors'*

  The amendment clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

- Amendments to PAS 12, *Income Taxes*

  The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.

  The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognize deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with (a) right-of-use assets and lease liabilities, and (b) decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

  The cumulative effect of recognizing these adjustments is recognized in retained earnings, or another component of equity, as appropriate. PAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable.

There are no other new standards, interpretations and amendments to existing standards effective January 1, 2023 that are considered to be relevant or have a material impact on the Manila Branch's financial statements.

(a) New standards, amendments to existing standards and interpretations issued but not yet effective as at December 31, 2023

The following amendments to existing standards are not mandatory for the December 31, 2023 reporting period and have not been early adopted by the Manila Branch:

- Amendments to PAS 1, *'Presentation of Financial Statements'*

  Amendments made to PAS 1 in 2020 and 2022 clarified that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the entity's expectations or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant).

  Covenants of loan arrangements will not affect classification of a liability as current or non-current at the reporting date if the entity must only comply with the covenants after the reporting date. However, if the entity must comply with a covenant either before or at the reporting date, this will affect the classification as current or non-current even if the covenant is only tested for compliance after the reporting date.

  The amendments require disclosures if an entity classifies a liability as non-current and that liability is subject to covenants that the entity must comply with within 12 months of the reporting date. The disclosures include:

  - the carrying amount of the liability
  - information about the covenants, and
  - facts and circumstances, if any, that indicate that the entity may have difficulty complying with the covenants

  The amendments also clarify what PAS 1 means when it refers to the 'settlement' of a liability. Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instrument can only be ignored for the purpose of classifying the liability as current or non-current if the entity classifies the option as an equity instrument. However, conversion options that are classified as a liability must be considered when determining the current/non-current classification of a convertible note.

  The amendments must be applied retrospectively in accordance with the normal requirements in PAS 8. Special transitional rules apply if an entity had early adopted the 2020 amendments regarding the classification of liabilities as current or non-current.

The adoption of the above amendment is not expected to have a material impact on the financial statements of the Manila Branch.

There are no other new standards, amendments to existing standards, or interpretations that are effective for annual periods beginning on or after January 1, 2024 that are considered relevant or expected to have a material effect on the financial statement of the Manila Branch.

22.3 Foreign currency translation

The books of accounts of the RBU are maintained in Philippine Peso, while those of the FCDU are maintained in USD. For reporting purposes of the combined financial statements, foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine Peso based on the Bankers Association of the Philippines (BAP) closing rates prevailing at the end of the year for monetary assets and monetary liabilities and at the BAP closing rates prevailing at transaction dates for income and expenses. Foreign exchange differences arising from reporting foreign currency monetary transactions and restatements of foreign currency-denominated assets and liabilities are credited to or charged against profit or loss in the year in which the rates change.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the initial transaction date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The FCDU accounts are translated to the Manila Branch's presentation currency at BAP closing rates prevailing at the reporting date, and income and expenses accounts are translated at BAP weighted average rate for the year. Exchange differences arising from translation are taken directly to a separate component of equity under 'Translation adjustment'. Upon actual remittance of FCDU profit to RBU, the deferred cumulative amount recognized in the statement of total comprehensive income is reclassified to profit or loss.

22.4 Fair value measurement

The Manila Branch measures financial instruments, such as derivatives, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 19.4.

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 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.

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 Manila Branch 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 in Note 19.4, based on the lowest level input that is significant to the fair value measurement as a whole.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Manila Branch 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.

22.5 Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include Cash and Other Cash items, Due from BSP, Due from other Banks and Interbank Loans Receivable and SPURA that are convertible to known amounts of cash and with 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 Manila Branch considers as cash equivalents wherein withdrawals can be made to meet the Manila Branch's cash requirements as allowed by the BSP. The components of cash and cash equivalents are shown in the statement of cash flows. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

22.6 SPURA

The Manila Branch 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 predetermined rate. The amounts advanced under resale agreements are carried as SPURA in the statement of financial position. SPURA is carried at cost. The corresponding interest income is reported as 'Interest income on Interbank loans receivable and SPURA' in the statement of income.

22.7 Financial instruments - initial recognition

The Manila Branch recognizes financial instruments when, and only when, it becomes a party to the contractual terms of the instrument. 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. Derivatives are recognized on a trade date basis. Deposits, amounts due to banks and loans and receivables are recognized when cash is received by the Manila Branch or advanced to the borrowers.

Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. All financial assets and liabilities are initially recognized at fair value plus or less, except for financial instruments at FVTPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, respectively.

'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 Manila Branch recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income under 'Other income (expenses)' 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 Manila Branch determines the appropriate method of recognizing the 'Day 1' difference amount.

22.8 Classification, measurement of financial assets

Under PFRS 9, the classification and measurement of financial assets is driven by the contractual cash flow characteristics of the entity's financial assets and business model for managing the financial assets.

As part of its classification process, the Manila Branch 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 Manila Branch applies judgement 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 SPPI on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

22.8.1 Business model assessment

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

The Manila Branch'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)
- The expected frequency, value and timing of sales are also important aspects of the Manila Branch'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 Manila Branch's original expectations, the Manila Branch does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newl3y purchased financial assets going forward.

The Manila Branch's measurement categories are described below:

22.8.2 Financial assets at FVTPL

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Manila Branch has chosen to designate as at FVTPL at initial recognition, are classified as financial assets at FVTPL.

Derivatives

The Manila Branch enters into derivative transactions with various counterparties including its Head Office and corporate clients. These include interest rate swaps, foreign exchange swaps and forward foreign exchange contract. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The Manila Branch's derivative assets and liabilities are presented as 'Financial assets at FVTPL' and 'Financial liabilities at FVTPL' in the statement of financial position.

The notional amount and fair value of such derivatives are disclosed separately in Note 4. Changes in the fair value of derivatives are included in 'Foreign exchange gains, net' in the statement of income.

22.8.3 Financial assets at FVOCI - equity investments

At initial recognition, the Manila Branch 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 Manila Branch for trading. The Manila Branch has designated certain equity instruments as at FVOCI as these are not traded.

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 gain on financial assets at FVOCI' in the statement of total comprehensive income. When the asset is disposed of, the cumulative gain or loss previously recognized in the 'Net unrealized gain on financial assets at FVOCI' account is not reclassified to profit or loss, but is reclassified directly to Accumulated profit.

Any dividends earned on holding these equity instruments are recognized in statement of income under 'Other income' account.

22.8.4 Financial assets at FVOCI - debt investments

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

- the instrument is held within a business model, the objective of which is achieved by both collecting the contractual cash flows and selling the financial assets, and
- the contractual terms of the financial assets meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value being recognized in other comprehensive income. Interest income and foreign exchange gains and losses are recognized in profit or loss. Provision for credit and impairment losses is recognized in profit or loss with the corresponding ECL recognized in other comprehensive income.

On derecognition, ECL and cumulative gains or losses previously recognized in OCI are reclassified from other comprehensive income to profit or loss.

22.8.5 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 Manila Branch'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 rate method, less any impairment in value. Financial assets at amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. The losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the statement of income.

The account includes 'Cash and other cash items', 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA', 'Due from Head Office, Parent Bank and other branches', 'Investment securities at amortized cost', 'Loans and receivables' and other financial assets under 'Other assets'. These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market.

The Manila Branch may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. The Manila Branch has not made such designation.

22.8.6 Reclassification of financial instruments

The Manila Branch can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Manila Branch is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; (ii) from FVTPL 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, (iii) from amortized cost to FVOCI if the business model changes so that the objective becomes both to collect contractual cash flows and to sell or from FVOCI to amortized cost if the business model becomes solely for the collection of contractual cash flows.

22.8.7 Financial liabilities at amortized cost

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied. Issued financial instruments or their components, which are not designated at FVTPL, are classified under 'Deposit liabilities', 'Interbank loan payable', 'Due to Head Office, Parent Bank and other branches' and financial liabilities under 'Accrued interest and other liabilities' or other appropriate financial liability accounts where the substance of the contractual arrangement results in the Manila Branch having an obligation either to deliver cash or another financial assets to the holder, or to satisfy the obligation other than by the exchange of fixed amount of cash or another financial asset. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component at the date of issue.

22.8.8 Impairment of financial assets

The Manila Branch records the allowance for ECL for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts; in this section all of these are referred to as 'financial instruments'. Equity instruments are not subject to impairment under PFRS 9.

The impairment allowances for financial instruments specifically requires entities to assess credit risk and estimate ECL with an unbiased and probability-weighted approach and to consider time value of money and supportable information about past events, current conditions, and the best available forward-looking information.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime ECL, unless there has been no significant increase in credit risk (SICR) since origination, in which case, the allowance is based on the 12 months' ECL). The 12-month ECL is the portion of lifetime ECL that represents the ECL resulting from default events on a financial instrument that are possible within 12 months after the reporting date.

Both lifetime ECL and 12-month ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Manila Branch has established a mechanism to perform an assessment, at the end of each reporting period, of whether a financial instrument has experienced a SICR since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument or when there is an 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 the financial instrument.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value. Allowance for credit losses on undrawn loan commitments is discussed under Notes 7 and 19.

22.8.9 Restructured loans

Where possible, the Manila Branch seeks to restructure loans. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Interest income' in the statement of income.

22.9 Derecognition of financial assets and financial liabilities

22.9.1 Derecognition due to substantial modification of terms and conditions

The Manila Branch derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit-impaired (POCI).

When assessing whether or not to derecognize a loan to a customer, amongst others, the Manila Branch considers the following factors such as change in currency of the loan, introduction of an equity feature, change in counterparty, and if the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Manila Branch records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

22.9.2 Derecognition other than substantial modification

Financial asset

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

- the rights to receive cash flows from the asset have expired;
- the Manila Branch 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 Manila Branch 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.

When the Manila Branch has transferred its rights to receive cash flows from an asset or has entered into a “pass-through” arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Manila Branch continues to recognize the transferred asset to the extent of the Manila Branch’s continuing involvement. In that case, the Manila Branch also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Manila Branch 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 Manila Branch could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation is discharged or cancelled, or has expired. 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 derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of income.

22.10 Write-off

Financial assets

Financial assets are written-off either partially or in their entirety when the Manila Branch 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 Provision for credit and impairment loss account.

22.11 Offsetting of financial instruments

Financial instruments are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the liability simultaneously. The Manila Branch assesses that it has an enforceable right of offset if the right is not contingent on a future event, and it is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Manila Branch and all of the counterparties.

As at December 31, 2023 and 2022, there are no financial assets and liabilities presented at net amounts due to offsetting.

22.12 Financial guarantees, letters of credit and undrawn loan commitments

In the ordinary course of business, the Manila Branch gives financial guarantees consisting of letters of credit, letters of guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value in 'Accrued interest and other liabilities'. Subsequent to initial recognition, the Manila Branch's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the statement of income over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee. The premium received is recognized in the statement of income on a straight-line basis over the life of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of income under 'Provision for credit and impairment losses'. Any financial guarantee liability remaining is recognized under 'Service charges and commissions income' in the statement of income when the guarantee is discharged, cancelled or has expired.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Manila Branch is required to provide a loan with pre-specified terms to the customer.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, is not recorded in the statement of financial position. The nominal values of these instruments are disclosed in Note 17.

22.13 Property and equipment

Property and equipment, which include leasehold improvements and furniture and equipment, are stated at cost less accumulated depreciation and amortization, and any impairment in value.

The Manila Branch classifies right-of-use assets as part of property and equipment. The Manila Branch 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 initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Manila Branch is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use assets are subject to impairment.

The Manila Branch allocates the depreciable amount of an asset over its estimated useful life (EUL) using the straight-line method. The EUL of the depreciable assets are as follows:

	Useful life
Leasehold improvements	5 years or lease term, whichever is shorter
Furniture and equipment	3 to 6 years
ROU asset	5 years or lease term, whichever is shorter

The useful lives and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment. Any change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the depreciation/amortization period or method, as appropriate, and treated as a change in accounting estimate.

If events or changes in circumstances indicate the carrying value may not be recoverable and where the carrying values exceed the estimated recoverable amount, the Manila Branch recognized in ‘Provision for credit and impairment losses’ in the statement of income.

Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in profit or loss in the year the asset is derecognized.

22.14 Software cost

Cost that are directly associated with identifiable and unique software controlled by the Manila Branch and will generate economic benefits exceeding costs beyond one year, are recognized as software cost under ‘Other assets’. Expenditures which enhance or extend the performance of computer software programs beyond their original specifications is recognized as capital improvements and added to the original cost of the software. Capitalized computer software costs are amortized using straight-line method over their useful lives, but not exceeding a period of three years.

22.15 Impairment of non-financial assets

At each reporting date, the Manila Branch assesses whether there is an indication that its non-financial assets (i.e., property and equipment, software costs, and right-of-use assets) may be impaired. If any such indication exists or when an annual impairment testing for an asset is required, the Manila Branch makes an estimate of the asset’s recoverable amount.

An impairment loss is charged against the operations in the year in which it arises.

22.16 Leases

The Manila Brach 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.

The Manila Brach applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Manila Brach recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. Refer to accounting policy on right-of-use assets under property and equipment.

At the commencement date of the lease, the Manila Branch 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 Manila Branch and payments of penalties for terminating the lease, if the lease term reflects the Manila Branch 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 Manila Branch 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.

22.17 Short-term leases and leases of low-value assets

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.

22.18 Revenue recognition

The Manila Branch has assessed that it is acting as principal in all arrangements. The following specific recognition criteria must also be met before revenue is recognized:

<u>In-scope under PFRS 15</u>

Income earned from providing transaction services

Fees or components of fees that are linked to a certain performance are recognized when services are rendered. These fees include corporate finance fees and remittance fees. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Manila Branch retains no part of the loans for itself or retains part at the same EIR as for the other participants.

<u>Outside the scope of PFRS 15</u>

Interest income - EIR method

For all financial instruments measured at amortized cost, interest income is recorded using the EIR method, 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, multiplied to the net carrying amount of the financial instrument.

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, but not future credit losses. The carrying amount of the financial asset is adjusted if the Manila Branch revises its estimates of receipts. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded under 'Interest income' in the statement of income.

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

Interest and similar income

The Manila Branch calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Manila Branch calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial asset is cured and is no longer credit-impaired, the Manila Branch reverts to calculating interest income on a gross basis.

Service charges and commission

Fees that the Manila Branch considers to be an integral part of the corresponding financial instruments include loan origination fees, loan commitment fees for loans that are likely to be drawn down and other credit related fees. The recognition of these fees (together with any incremental costs) form an integral part of the corresponding financial instrument and are recognized as interest income through an adjustment to the EIR. The exception is, when it is unlikely that a loan will be drawn down, the unamortized loan commitment fees are recognized as revenue on expiry.

22.19 Expense recognition

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

22.20 Retirement benefits

The Manila Branch operates a defined benefit retirement plan which requires contributions to be made to a separately administered fund.

The net defined benefit asset (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 (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. 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 retirement plan is determined using the projected unit credit method.

Retirement costs comprise the following:

- Service costs
- Net interest on the net defined benefit liability or asset
- 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, and net interest on the net defined benefit asset (liability) are recognized as expense in the statement of income.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to ‘Gain (loss) on remeasurement of retirement plan’ under other comprehensive income in the period in which they occur. Remeasurements are not reclassified to the statement of income 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 Manila Branch, nor can they be paid directly to the Manila Branch.

Fair value of plan assets is based on market price information. 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.

The Manila Branch’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.

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they accrue to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

22.21 Equity

Permanently assigned capital represents the capital permanently assigned by the Head Office of the Manila Branch.

Special remittances from Head Office represent reimbursement of the unadjusted accumulated losses at the time of remittances, without contractual obligation to repay.

Accumulated profits represent all unremitted profit and losses of the Manila Branch and other capital adjustments.

22.22 Income taxes

22.22.1 Current tax

Current tax assets and current tax liabilities for the current 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 at the reporting date.

Management periodically evaluates positions taken in the tax returns with respect to situations in which the applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

22.22.2 Deferred tax

Deferred tax is provided using the balance sheet liability method on 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 RCIT, and unused net operating loss carry over (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.

The carrying amount of deferred tax assets is 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.

Deferred tax relating to items recognized directly in other comprehensive income is also recognized in the statement of total comprehensive income 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 related to the same taxable entity and the same taxation authority.

22.23 Provisions

Provisions are recognized when the Manila Branch 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 Manila Branch 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 recorded 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 provision due to the passage of time is recognized under Interest expense in the statement of income.

22.24 Contingencies

Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable. 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.

23 Supplementary information required under BSP Circular No. 1074

Presented below are the additional information required by BSP Circular No. 1074 approved on January 8, 2020. This supplementary information is presented in compliance with the disclosure requirements under Annex A of Appendix 55 of the MORB. This supplementary information is not a required disclosure under PFRSs.

i. Basic quantitative indicator of financial performance

The following basic ratios measure the financial performance of the Manila Branch:

	2023	2022
Return on average equity	6.13%	5.10%
Return on average assets	1.15%	0.97%
Net interest margin on average earning assets	3.25%	2.64%

ii. Description of capital instruments issued

The Manila Branch did not issue any capital instruments. Its capital is funded by the permanently assigned capital and special remittances received from the Head Office amounting to P10.08 billion as at December 31, 2023 and 2022, in accordance with the existing minimum capitalization under Section 121 of the MORB.

iii. Significant credit exposures

The following table presents information on the concentration of credit exposures (at gross amounts in thousands) over total loan portfolio as to industry sector for receivables from customers:

	2023		2022	
	Amount	%	Amount	%
Power	9,232,431	27.3	10,453,946	32.2
Information and communication	6,941,756	20.6	8,530,438	26.3
Real estate	6,696,582	19.8	5,954,436	5.3
Wholesale and retail - Petroleum	5,626,871	16.7	4,307,536	13.3
Manufacturing - Steel	2,622,492	7.8	202,050	18.3
Manufacturing - Food	1,127,307	3.3	654,188	2.0
Water collection treatment and supply	845,457	2.5	-	-
Manufacturing of steel rebars	-	-	637,486	2.0
Others	682,398	2.0	1,731,786	0.6
	33,775,294	100.0	32,471,866	100.0

The following table presents information on the concentration of credit exposures (in %) over Tier 1 Capital as to industry sector for receivables from customers:

	2023	2022
	%	%
Power	67.80	81.58
Information and communication	50.98	66.57
Real estate	49.18	46.47
Wholesale and retail - Petroleum	41.32	33.62
Manufacturing - Steel	19.26	1.58
Manufacturing - Food	8.28	5.11
Water collection treatment and supply	6.21	-
Manufacturing of steel rebars	-	4.97
Others	5.01	13.51

The BSP considers that loan concentration exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio or 10% of Tier 1 capital. Identified concentration of credit risks are controlled and managed accordingly.

Non-performing loans

Loans and receivables are classified as non-performing in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Loans and receivables are not reclassified as performing until interest and principal payments are brought to current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured. This shall apply to loans and receivables payable in lump sum or in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing.

With the issuance of BSP Circular No. 941, *Amendments to the Regulations on Past Due and Non-Performing Loans,* effective January 1, 2019, loans shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/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 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.

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

iv. Status of loans

Based on the definition of non-performing loans under Section 304 of MORB, the Manila Branch has two outstanding loan receivables amounting to P2,366.88 million as at December 31, 2023
(2022 - one outstanding loan receivable amounting to P167.27 million) classified as non-performing.

v. Loans per security

Details of the loan accounts, in principal amount, as to collateral at December 31 follow:

	2023	2022
Loans secured by:		
General corporate guarantor	361,041,154	3,417,030,600
Natural person guarantor	625,000,000	1,587,609,607
Real estate mortgage	1,407,790,289	1,407,790,289
Other pledges	840,558,960	2,472,343,103
	3,234,390,403	8,884,773,599
Unsecured	30,222,462,994	23,257,620,941
	33,456,853,397	32,142,394,540

vi. Information on related party loans

As required by the BSP, the Manila Branch discloses loan transactions with its affiliates and investees and with certain directors, officers, stockholders and related interests (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 an amount equivalent to respective unencumbered deposits and book value of paid-in capital contribution in the Manila Branch, if any. While the aggregate 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.

Related parties and DOSRI accounts are defined respectively under Section 136 and Section 341 of MORB. As at December 31, 2023, the Manila Branch has no outstanding loan receivable from related parties, except for the outstanding loans extended to its officers, which is part of the BSP-approved fringe benefit program, amounting to P1.24 million (2022 - P1.18 million).

Details of the related party loans as at December 31 are as follows:

	2023	2022
Total outstanding DOSRI loans	1,235,535	1,182,284
Percent of DOSRI loans to total loans and receivables	0.004%	0.004%
Percent of unsecured DOSRI loans to total DOSRI loans	100%	100%
Percent of past due DOSRI loans to total DOSRI loans	-	-
Percent of non-performing DOSRI loans to total DOSRI loans	-	-

vii. Amount of secured liabilities and assets pledged as security

As at December 31, 2023 and 2022, the Manila Branch has no secured liabilities, thus, none of its assets are pledged as security.

viii. Commitments and contingencies

The commitments and contingent liabilities at their equivalent Peso contractual as at December 31 follow:

	2023	2022
Guarantees issued	21,613,226,104	25,162,341,974
Corporate loan commitment	3,631,949,522	9,877,684,075
Letters of credit issued	20,960,332	931,561,116
	25,266,135,958	35,971,587,165

24 Supplementary information required by the Bureau of Internal Revenue

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

i. Other taxes and license fees

This includes all other taxes such as gross receipts tax, fringe benefit tax, license and permit fees, and documentary stamp tax for the year ended December 31, 2023.

	Amount
Gross receipts	45,646,308
Documentary stamp taxes	126,301,853
Fringe benefits taxes	10,124,339
License and permit fees	11,127,722
Other taxes	1,602,989
	194,803,211

ii. Withholding taxes

Details of total remittances and balance as at December 31, 2023 of withholding taxes are as follow:

	Total remittances	Outstanding balance
Withholding taxes on compensation and benefits	136,940,555	7,577,193
Final withholding taxes	43,533,026	2,217,445
Expanded withholding taxes	5,332,141	333,713
	185,805,722	10,128,351

iii. Tax assessments and cases

On September 15, 2021, the Manila Branch has received a Letter of Authority (LOA) for the taxable year 2020. Subsequently on December 1, 2022, the Manila Branch has received a Notice of Discrepancy (NoD). As at December 31, 2023, no preliminary or final assessment notice has been received from the BIR.

Additionally on November 25, 2022, the Manila Branch has received a LOA for the taxable year 2021. Moreover, the Company has received another Letter of Authority (LOA) dated August 9, 2023 for RBU books for the taxable year 2022. As at December 31, 2023, there is no related NoD received for both 2021 and 2022 LOAs.

All other information prescribed to be disclosed by the BIR has been included in this note.