UnionBank

UnionBank Plaza, Meralco Avenue cor. Onyx
& Sapphire Roads, Ortigas Center, Pasig City 1605

May 15, 2024

SECURITIES AND EXCHANGE COMMISSION
Secretariat Building, PICC Complex
Roxas Boulevard, Pasay City

Attention : **DIRECTOR VICENTE GRACIANO P. FELIZMENIO**
Markets and Securities Regulation Department

via PSE EDGE
THE PHILIPPINE STOCK EXCHANGE, INC.
6th Floor, PSE Tower
28th Street corner 5th Avenue
Bonifacio Global City, Taguig City

Attention : **MS. ALEXANDRA D. TOM WONG**
Officer-in-Charge, Disclosure Department

via electronic mail
PHILIPPINE DEALING AND EXCHANGE CORP.
29/F BDO Equitable Tower
8751 Paseo de Roxas
Makati City

Attention : **ATTY. SUZY CLAIRE R. SELLEZA**
Head, Issuer Compliance and Disclosure Department

Gentlemen:

In compliance with the SEC reportorial requirements, we are pleased to submit the SEC Form 17-Q of the Union Bank of the Philippines for the three months ended March 31, 2024.

Thank you.

Very truly yours,

EDGAR ALLAN G. OBLENA
SVP / Financial Controller

COVER SHEET

3 6 0 7 3

S.E.C. Registration Number

U N I O N B A N K O F T H E P H I L I P P I N E S

(Company's Full Name)

U N I O N B A N K P L A Z A M E R A L C O A V E N U E

C O R O N Y X A N D S A P P H I R E S T R E E T S

O R T I G A S C E N T E R , P A S I G C I T Y

(Business Address : No. Street City / Town / Province)

EDGAR ALLAN G. OBLENA

Contact Person

(632)8841-8600

Company Telephone Number

1 2 | 3 1

Month *Day*

Fiscal Year

SEC FORM 17Q

FORM TYPE

0 4 | 2 6

Month *Day*

Annual Meeting

UNDERWRITER OF SECURITIES

Secondary License Type, If Applicable

C F D

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

4,944

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended : **March 31, 2024**

2. Commission identification number : **36073**

3. BIR Tax Identification No. : **000-508-271-000**

4. Exact name of registrant as specified in its charter : **UNION BANK OF THE PHILIPPINES**

5. Province, country or other jurisdiction of incorporation or organization : **PHILIPPINES**

6. Industry Classification Code : _________ (SEC Use Only)

7. Address of principal office : **UBP Plaza, Meralco Avenue corner Onyx and Sapphire Roads, Ortigas Center, Pasig**

8. Registrant's telephone number, including area code : **(632) 8667-6388**

9. Former name, former address and former fiscal year if changed since last report : **Not Applicable**

10. Securities registered pursuant to Section 8 and 12 of the Code, or Sections 4 and 8 of the SRC

Title of Each Class	Number of Share of Common Stock Outstanding	Amount of Debt Outstanding (Unpaid Subscription)
Common Stock P10 par value	**2,989,259,518**	**None**

11. Are any or all of the securities listed on a Stock Exchange? **Yes (x) No ( )**
If yes, state the name of such stock exchange and the classes of securities listed therein:

Stock Exchange : Philippine Stock Exchange
Class of Securities : Common Shares

12. Indicate by check mark whether the registrant:

(a) Has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of SRC and SRC Rule 11 (a)-1 thereunder and Section 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period the registrant was required to file such reports)
Yes (x) No ( )

(b) Has been subject to such filing requirements for the past 90 days **Yes (x) No ( )**

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Attached are the following:

Consolidated Statements of Financial Position	-	Annex 1
Consolidated Statements of Income	-	Annex 2 (page 1 of 2)
Consolidated Statements of Comprehensive Income	-	Annex 2 (page 2 of 2)
Consolidated Statements of Changes in Capital Funds	-	Annex 3
Consolidated Statements of Cash Flow	-	Annex 4
Notes to Consolidated Financial Statements	-	Annex 5
Financial Indicators	-	Annex 6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Annex 7

PART II - OTHER INFORMATION

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

SIGNATURES

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

MANUEL R. LOZANO
Chief Financial Officer

EDGAR ALLAN G. OBLENA
SVP, Financial Controller

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CONDITION
March 31, 2024
(Amounts in PHP Thousands)

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
RESOURCES		
Cash and Other Cash Items	**10,320,104**	10,439,112
Due From Bangko Sentral Ng Pilipinas	**99,445,871**	82,643,663
Due From Other Banks	**33,796,884**	27,263,347
Interbank Loans Receivable and Securities Purchased under Reverse Repurchase Agreements (SPURRA)	**183,160**	25,411,119
Trading and Investment Securities		
At fair value through profit or loss (FVTPL)	**9,253,029**	5,805,716
At amortized cost	**315,470,189**	314,479,239
At fair value through other comprehensive income (FVOCI)	**36,449,845**	36,974,774
Loans and Other Receivables - net	**520,758,164**	526,145,828
Investment in Associates	**35,755**	37,675
Bank Premises, Furniture, Fixtures and Equipment - net	**10,994,218**	10,193,239
Investment Properties - net	**9,103,447**	8,592,259
Goodwill	**53,992,565**	53,992,565
Other Resources - net	**46,680,671**	43,164,817
TOTAL RESOURCES	**1,146,483,902**	1,145,143,353
LIABILITIES AND CAPITAL FUNDS		
LIABILITIES		
Deposit Liabilities		
Demand	**234,604,517**	233,282,684
Savings	**196,341,322**	195,864,333
Time	**261,168,465**	283,421,391
	692,114,304	712,568,408
Bills Payable	**179,058,451**	155,287,929
Notes and Bonds Payable	**51,727,102**	50,493,627
Other Liabilities	**48,994,729**	51,167,966
Total Liabilities	**971,894,586**	969,517,930
CAPITAL FUNDS		
Capital Funds Attributable to the Parent Bank's Stockholders:		
Common stock	**29,892,875**	23,537,746
Treasury stock	**(2,097)**	(2,097)
Additional paid-in capital	**57,695,724**	57,769,376
Stock dividends distributable	**-**	6,355,129
Surplus free	**88,074,085**	88,719,175
Surplus reserves	**2,774,741**	2,542,762
Net unrealized fair value losses on investment securities at FVOCI	**(2,701,482)**	(2,195,087)
Remeasurements of retirement plans	**(1,636,458)**	(1,627,698)
Other reserves	**(107,751)**	(108,141)
Total Capital Funds Attributable to the Parent Bank's Stockholders	**173,989,637**	174,991,165
Non-controlling Interests	**599,679**	634,258
Total Capital Funds	**174,589,316**	175,625,423
TOTAL LIABILITIES AND CAPITAL FUNDS	**1,146,483,902**	1,145,143,353

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME
For the three months ended March 31, 2024 and 2023
(Amounts in PHP Thousands, Except Earnings per Share)

	For the three months ended March 31	
	2024	2023
INTEREST INCOME ON		
Loans and other receivables	**15,223,351**	12,732,543
Investment securities at amortized cost and FVOCI	**3,937,489**	3,722,283
Cash and cash equivalents	**556,765**	536,429
Trading securities at FVTPL	**70,873**	71,074
Interbank Loans Receivables and SPURRA	**412,294**	348,947
	20,200,772	17,411,276
INTEREST EXPENSE ON		
Deposit liabilities	**3,691,290**	3,339,041
Bills payable and other liabilities	**3,061,071**	2,579,271
	6,752,361	5,918,312
NET INTEREST INCOME	**13,448,411**	11,492,964
PROVISION FOR CREDIT LOSSES	**4,630,488**	2,141,787
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	**8,817,923**	9,351,177
OTHER INCOME		
Service charges, fees and commissions	**2,919,690**	2,921,762
Gains on trading and investment securities at FVTPL and FVOCI	**175,731**	406,514
Miscellaneous	**1,809,707**	1,282,069
	4,905,128	4,610,345
OTHER EXPENSES		
Salaries and employee benefits	**3,379,976**	3,070,601
Taxes and licenses	**1,528,065**	1,297,420
Depreciation and amortization	**683,851**	611,135
Occupancy	**286,097**	276,903
Miscellaneous	**5,204,762**	4,519,010
	11,082,751	9,775,069
PROFIT BEFORE TAX	**2,640,300**	4,186,453
INCOME TAX EXPENSE	**628,966**	622,413
NET PROFIT	**2,011,334**	3,564,040
Attributable to:		
Equity holders of the Parent Bank's stockholders	**1,978,297**	3,522,652
Non-controlling interests	**33,037**	41,388
	2,011,334	3,564,040
Basic/Diluted Earnings per Share Attributable to Parent Bank's stockholders (EPS)*	**2.67**	4.85

**Basic and Diluted EPS is based on annualized figures.*

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months ended March 31, 2024 and 2023

(Amounts in PHP Thousands)

	For the three months ended March 31	
	2024	2023
NET PROFIT	**2,011,334**	3,564,040
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may be reclassified to profit or loss in subsequent periods:		
Unrealized mark to market gains (losses) on investment securities at FVOCI	**(506,384)**	11,354,460
Realized gains on sale of investment securities at FVOCI recognized in profit or loss	**-**	(93,772)
Cumulative translation adjustment	**390**	(1,581)
Items that will not be reclassified to profit and loss in subsequent periods:		
Remeasurement gains (losses) on retirement plans	**(20,917)**	6,722
Income tax expense (benefit)	**5,229**	(45)
Total Other Comprehensive Income (Loss)	**(521,682)**	11,265,784
TOTAL COMPREHENSIVE INCOME (LOSS)	**1,489,652**	14,829,824
Attributable to the:		
Parent Bank's stockholders	**1,463,532**	14,784,895
Non-controlling interests	**26,120**	44,929
	1,489,652	14,829,824

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the three months ended March 31, 2024 and 2023
(Amounts in PHP Thousands)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Stock Dividends Distributable	Surplus Free	Surplus Reserves	Net Unrealized Fair Value Gains (Losses) on Investment Securities at FVOCI	Remeasurements of Retirement Plans	Other Reserves	Total	Non-controlling Interests	Total Capital Funds
Balance at January 1, 2024	**23,537,746**	**(2,097)**	**57,769,376**	**6,355,129**	**88,719,175**	**2,542,762**	**(2,195,087)**	**(1,627,698)**	**(108,141)**	**174,991,165**	**634,258**	**175,625,423**
Total comprehensive income (loss) for the period	**-**	**-**	**-**	**-**	**1,978,297**	**-**	**(506,395)**	**(8,760)**	**390**	**1,463,532**	**26,120**	**1,489,652**
Cash dividends	**-**	**-**	**-**	**-**	**(2,391,408)**	**-**	**-**	**-**	**-**	**(2,391,408)**	**-**	**(2,391,408)**
Stock dividends	**6,355,129**	**-**	**(73,652)**	**(6,355,129)**	**-**	**-**	**-**	**-**	**-**	**(73,652)**	**-**	**(73,652)**
Appropriations during the period	**-**	**-**	**-**	**-**	**(231,979)**	**231,979**	**-**	**-**	**-**	**-**	**-**	**-**
NCI share on dividends of subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(60,699)**	**(60,699)**
Balance as at March 31, 2024	**29,892,875**	**(2,097)**	**57,695,724**	**-**	**88,074,085**	**2,774,741**	**(2,701,482)**	**(1,636,458)**	**(107,751)**	**173,989,637**	**599,679**	**174,589,316**
Balance at January 1, 2023, as previously reported	21,421,068	-	47,949,927	-	90,727,927	2,452,975	(14,057,609)	(1,227,666)	30,989	147,297,611	844,712	148,142,323
Effect of business combination	-		-	-	71,497	-	-	-	-	71,497	-	71,497
Balance at January 1, 2023, as restated	21,421,068	-	47,949,927	-	90,799,424	2,452,975	(14,057,609)	(1,227,666)	30,989	147,369,108	844,712	148,213,820
Total comprehensive income (loss) for the period	-	-	-	-	3,522,652	-	11,260,419	3,405	(1,581)	14,784,895	44,929	14,829,824
Cash dividends	-	-	-	-	(4,707,549)	-	-	-	-	(4,707,549)	-	(4,707,549)
Appropriations during the period	-	-	-	-	(14,626)	14,626	-	-	-	-	-	-
Issuance of new shares	2,116,678	-	9,847,318	-	-	-	-	-	-	11,963,996	-	11,963,996
Purchase of treasury shares	-	(2,097)	-	-	-	-	-	-	-	(2,097)	-	(2,097)
NCI share on dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(66,899)	(66,899)
Balance as at March 31, 2023	23,537,746	(2,097)	57,797,245	-	89,599,901	2,467,601	(2,797,190)	(1,224,261)	29,408	169,408,353	822,742	170,231,095

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in PHP Thousands)

	For The Three Months Ended March 31	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**2,640,300**	4,186,453
Adjustments for:		
Provision for credit losses	**4,630,488**	2,141,787
Unrealized foreign exchange gains - net	**(727,249)**	(676,533)
Depreciation and amortization	**683,851**	611,135
Amortization of premium or discount	**231,355**	(409,922)
Gains on sale of investment securities at FVOCI	**-**	(93,772)
Gains on foreclosure of investment properties	**(294,913)**	(94,187)
Gains on disposal of investment properties and property and equipment	**(150,657)**	(248,382)
Share in net losses of subsidiaries and associates	**1,920**	4,837
Changes in operating assets and liabilities:		
Decreases (increases) in:		
Financial assets at FVPTL	**(3,442,739)**	603,179
Loans and other receivables	**443,284**	(12,092,367)
Other assets	**(4,477,887)**	(3,611,291)
Increases (decreases) in:		
Deposit liabilities	**(20,454,104)**	(18,394,489)
Other Liabilities	**(1,103,982)**	(1,195,759)
Net cash used in operations	**(22,020,333)**	(29,269,311)
Income taxes paid	**(820,888)**	(766,995)
Net cash used in operating activities	**(22,841,221)**	(30,036,306)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Bank premises, furniture, fixtures and equipment	**(1,159,830)**	(1,643,456)
Investment securities at FVOCI	**(5,867)**	(11,102,143)
Investment securities at amortized cost	**-**	(11,397,489)
Proceeds from maturities/sale of:		
Investment securities at amortized cost	**304,200**	585,137
Investment properties	**145,011**	-
Bank premises, furniture, fixtures and equipment	**13,429**	5,786
Investment securities at FVOCI	**-**	7,921,159
Net cash used in investing activities	**(703,057)**	(15,631,006)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Bills payable	**(352,739,605)**	(174,712,281)
Cash dividends	**(2,391,408)**	(4,707,549)
Notes and bonds payable	**(341,200)**	(195,696)
Lease liabilities	**(158,464)**	(150,473)
Issuance of new shares	**(73,652)**	**-**
Cash dividends of subsidiaries to NCI	**(60,699)**	(66,899)
Purchase of Treasury shares	**-**	(2,097)
Proceeds from:		
Bills payable	**376,182,744**	184,110,014
Notes payable	**1,154,538**	1,130,136
Issuance of new shares	**-**	11,963,996
Net cash provided by financing activities	**21,572,254**	17,369,151
EFFECTS OF FOREIGN CURRENCY TRANSLATION ADJUSTMENT	**(39,198)**	(201,389)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(2,011,222)**	(28,499,550)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and Other Cash Items	**10,439,112**	9,891,536
Due from Bangko Sentral ng Pilipinas (BSP)	**82,643,663**	94,610,308
Due from Other Banks	**27,263,347**	46,239,964
Interbank Loans Receivable and SPURA	**25,411,119**	23,553,973
	145,757,241	174,295,781
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and Other Cash Items	**10,320,104**	9,789,303
Due from BSP	**99,445,871**	85,275,412
Due from Other Banks	**33,796,884**	29,160,211
Interbank Loans Receivable and SPURA	**183,160**	21,571,305
	143,746,019	145,796,231

Annex 5

UNION BANK OF THE PHILIPPINES
GENERAL NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2024

1. Corporate Information

Union Bank of the Philippines (the Bank, UnionBank or the Parent Bank) was incorporated in the Philippines on August 16, 1968 and operates as a universal bank through its universal banking license acquired in July 1992.

The Bank provides expanded commercial banking products and services such as loans and deposits, cash management, retail banking, foreign exchange, capital markets, corporate and consumer finance, investment management and trust banking.

As of March 31, 2024, the Bank and its subsidiaries (collectively referred to as the "Group") has 385 branches and 424 on-site and 167 off-site automated teller machines (ATMs), located nationwide.

The Bank's common shares are listed in The Philippine Stock Exchange, Inc. (PSE). The Bank is effectively 49.94% owned by Aboitiz Equity Ventures, Inc. (AEVI), a company incorporated and domiciled in the Philippines. AEVI is the holding and management company of the Aboitiz Group of Companies.

2. Summary of Significant Accounting Policies

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented unless otherwise stated.

Basis of Preparation of Financial Statements
The accompanying interim consolidated financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI) and derivative financial instruments that are measured at fair value. The unaudited interim consolidated financial statements are presented in Philippine peso (₱). All values are rounded to the nearest thousands in peso except when otherwise indicated.

Statement of Compliance
The unaudited interim consolidated financial statements of the Group have been prepared in accordance with PAS 34, *Interim Financial Reporting*. Accordingly, the unaudited interim consolidated financial statements do not include all of the information and disclosures required in the annual audited financial statements and should be read in conjunction with the Groups' annual audited financial statements as at and for the year ended December 31, 2023.

Basis of Consolidation
The Group's unaudited interim consolidated financial statements comprise the accounts of the Parent Bank and its subsidiaries, after the elimination of material intercompany transactions. All intercompany resources and liabilities, equity, income, and expenses and cash flows relating to transactions with subsidiaries are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in the separate financial statements are also eliminated in full. Intercompany losses that indicate impairment are recognized in the Group's unaudited interim condensed financial statements.

The Group controls an entity when it has the power over the entity, it is exposed, or has rights to, variable returns from its involvement with the entity, and it has the ability to affect those returns though its power the entity.

The financial statements of the subsidiaries are prepared on the same reporting period as the Parent Bank using consistent accounting policies.

The Bank's subsidiaries are all incorporated in the Philippines, except for UBX SG and UBX Remit, and the Bank's effective percentage of ownership and the nature of the subsidiaries' businesses as of March 31, 2024 are as follows:

Name of Subsidiary	Percentage of Ownership	Nature of Business
City Savings Bank, Inc. (CSB)	99.79%	Thrift bank
PetNet, Inc. (PETNET) [(a)]	51.00%	Foreign currency trader and remittance business
UBP Investments Corporation (UIC)	100.00%	Holding company
First Union Plans, Inc. (FUPI) [(j)]	100.00%	Pre-need
First Union Direct Corporation (FUDC) [(g)]	100.00%	Financial products marketing
First Union Insurance and Financial Agencies, Inc. (FUIFAI) [(b)]	100.00%	Agent for insurance and financial products
UBP Securities, Inc. (UBPSI) [(g)]	100.00%	Securities brokerage
Union Data Corp (UDC) [(g)]	100.00%	Data processing
Interventure Capital Corporation (IVCC) [(g)]	60.00%	Venture capital
UBX Philippines Corporation (UBX)	100.00%	Investment holding and innovation company
UBX Private Limited (UBX SG) [(c)]	100.00%	Holding company
UBX Remit Pte. Ltd. (UBX Remit) [(d)]	100.00%	Remittance company
Bangko Kabayan, Inc. (A Private Development Bank) (Bangko Kabayan) [(e)]	97.75%	Private development bank
UnionDigital Bank, Inc. (UnionDigital) [(f)]	100.00%	Digital bank
Unionbank Financial Services and Insurance Brokerage Philippines, Inc. (UFSI)[(h)]	100.00%	Insurance and securities brokerage
Unionbank Investment Management and Trust Corporation (UBIMTC) [(k)]	100.00%	Trust and other fiduciary business

(a) Subsidiary through CSB and UIC, with 40% and 11% share in ownership, respectively
(b) Wholly-owned subsidiaries of UIC
(c) Wholly owned subsidiary of UBX
(d) Wholly owned subsidiary of UBX SG
(e) Subsidiary through CSB and UIC, with 49% and 23.79% share in ownership, respectively. On July 10, 2023, the Parent Bank completed the purchase of 24.96% interest from the minority shareholders.
(f) Incorporated on November 25, 2021
(g) Non-operating subsidiaries
(h) Acquired 100% ownership as part of the Parent Bank's acquisition of Citigroup Inc.'s consumer business in the Philippines on August 1, 2022. On February 28, 2023, the SEC approved the change in corporate from Citicorp Financial Services and Insurance Brokerage Philippines, Inc. to Unionbank Financial Services and Insurance Brokerage, Inc.
(j) In October 2022, the stockholders of FUPI approved the voluntary cessation and withdrawal of its pre-need business
(k) Incorporated on October 11, 2023

Business Acquisitions and Related Investments

Other relevant information about the subsidiaries' nature of businesses and their status of operations are discussed in the sections that follow:

a. In its letter dated March 6, 2023, the Bangko Sentral ng Pilipinas (BSP) approved the Bank's application to establish a standalone trust corporation, which will be registered under the name of Unionbank Investment Management and Trust Corporation (UBIMTC), a direct and wholly-owned subsidiary of the Bank. The BSP subsequently granted the Bank authority to register with the SEC via its issuance of a Certificate of Authority to Register dated July 28, 2023.

   Pursuant to the requirement for incorporating UBIMTC, the Bank contributed ₱300.0 million on May 9, 2023, in exchange for 300.0 million common shares. On October 11, 2023, the SEC issued UBIMTC's Certificate of Incorporation together with its approved Articles of Incorporation and By-Laws.

   As authorized by BSP in its letter dated November 15, 2023, UBIMTC commenced operations in March 2024.

b. On June 22, 2023, the BSP approved the Parent Bank's request to purchase 1,011,961 shares or 27.52% ownership interest in Bangko Kabayan. On July 10, 2023, the Parent Bank completed the purchase, increasing the Group's ownership in Bangko Kabayan to 97.52%. CSB's and UIC's ownership remained the same at 49% and 21%, respectively, while the Parent Bank's direct ownership interest is at 27.52%.

   Bangko Kabayan, First-Agro Industrial Rural Bank, Inc. (FAIR Bank) and Progressive Bank, Inc. (PBI) applied for the regulatory approvals to merge, with Bangko Kabayan as the surviving entity. On March 21, 2022, the Philippine Competition Commission (PCC) acknowledged that the proposed merger of Bangko Kabayan, FAIR Bank and PBI, with Bangko Kabayan as the surviving entity, does not breach the thresholds for compulsory notification. On June 17, 2022 and September 12, 2022, the banks received the consent from Philippine Deposit Insurance Corporation (PDIC) and approval of the BSP, respectively.

   On July 13, 2023, the SEC approved the aforementioned merger. The merger resulted in an increase in the Group's ownership in Bangko Kabayan to 97.75%. CSB's ownership in Bangko Kabayan remained at 49% while UIC's ownership in Bangko Kabayan increased to 23.79% and the Parent Bank's direct ownership decreased to 24.96%.

c. UnionDigital was organized to engage in, and carry on, the general business of a digital bank, including such other expanded services as may be approved by the Monetary Board (MB) of the BSP such as creating, developing, owning, maintaining, distributing, and marketing a digital platform that allows the bank to offer digital services, and issues mortgage and chattel mortgage certificates, buys and sells them or accepts them in to such terms and conditions as may be prescribed by the MB of BSP.

   On 2023, the Parent Bank infused additional capital to UnionDigital in tranches for a total amount of ₱1.8 billion.

   On November 24, 2023, the Board of Directors (BOD) of the Parent Bank approved the infusion of additional capital of up to ₱1.8 billion to UnionDigital to support business growth. Subsequently on January 30, 2024 and March 27, 2024, the Parent Bank infused ₱600.0 million and ₱800.0 million, respectively.

   As of March 31, 2024 and December 31, 2023, the Parent Bank's total equity investment in UnionDigital amounted to ₱5.3 billion and ₱3.9 billion, respectively.

Non-controlling Interests

Non-controlling interest represents portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Bank.

The Group's transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in capital funds. Disposals of equity investments to non-controlling interests may result in gains and losses for the Group that are also recognized in capital funds.

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2023, except for the adoption of new standards, interpretations and amendments effective as of January 1, 2024. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Unless otherwise indicated, adoption of these new standards did not have an impact on the interim condensed consolidated financial statements of the Group.

- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*
- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current, Liabilities with Covenants*
- Amendments to PAS 7 and PFRS 7, *Supplier Finance Agreements*

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and apply retrospectively.

3. Significant Accounting Judgments and Estimates

The preparation of the Group's interim consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the interim consolidated financial statements and related notes. 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. Actual results may ultimately differ from these estimates.

Critical Management Judgments in Applying Accounting Policies
In the process of applying the Group's accounting policies, management has made the following judgments that are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2023, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements.

Among those significant judgments applied for the three months ended March 31, 2024 are discussed below:

Evaluation of business model in managing financial instruments
The Group 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, while maintaining a strategic portfolio of financial assets for investment and trading activities consistent with its risk appetite.

In determining the classification of a financial instrument under PFRS 9, the Group developed business models which reflect how it manages its portfolio of financial instruments. The Group's business models need not be assessed at entity level or as a whole but applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument). The Group evaluates in which business model a financial instrument or a portfolio of financial instrument belong to taking into consideration the objectives of each business model established by the Group.

PFRS 9 emphasizes that if more than an infrequent and more than an insignificant sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

Reclassification of Financial Assets as FVOCI into Financial Assets at Amortized cost
The acquisition of Citigroup Inc.'s consumer banking business in the Philippines (the Acquisition) in August 2022 substantially altered the Parent Bank's balance sheet composition both on the asset and liability sides. For the FCDU, the Acquisition has significantly changed its FCDU funding profile and together with its existing diversified funding structure, resulted in a change in objective of the management of financial assets in the FCDU moving forward.

With the substantial increase in the asset base of the Parent Bank and the significant change in the CASA profile, there is a need to adjust the Parent Bank's balance sheet and capital management strategies to reap the maximum benefit. These developments have led the Parent Bank to reevaluate its asset and liability management strategies for FCDU. Existing bank assets, including the objectives of the FVOCI Business Model have been reviewed, including the re-assessment of their accounting classification and the related impact to risk metrics. The Bank then revisited its strategy, and consequently, has determined that there has been a fundamental change to its existing business model for managing FCDU FVOCI securities, which resulted in selling the securities being integral to the management of the securities to no longer exist and expected to be incidental only. The portfolio is now held under hold to collect where contractual cash flows will be collected and reinvested to ensure that the desired balance sheet structure is achieved in the most efficient manner. As part of the Parent Bank's governance process, the business model change has been presented to the Market Risk Committee and Risk Management Committee for review, and for approval and endorsement to the BOD. In line with this, the

Parent Bank's BOD in its meeting held on December 16, 2022, approved the business model change and the consequent reclassification of FCDU FVOCI sub-portfolio (excluding the FX Liquidity sub-portfolio) to FCDU HTC.

As required by PFRS 9, the reclassification was applied prospectively on January 1, 2023, the first day of the reporting period following the change in business model. The reclassification on January 1, 2023 resulted in: (1) the decrease in investment securities at FVOCI with fair value of $903.21 million (₱50.36 billion); (2) reversal of related net unrealized fair value losses on FVOCI amounting to $185.36 million (₱10.33 billion), as if the investment securities are carried at amortized cost since acquisition; and, (3) increase in FCDU HTC financial assets at amortized cost amounting to $1.09 billion (₱60.69 billion), as if the investment securities had always been carried at amortized cost.

Determining functional and presentation currency
The financial statements of the Group include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of RBU and FCDU is Philippine Peso (PHP) and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in PHP (see accounting policy on Foreign Currency Translation).

The financial statements of these units are combined after eliminating inter-unit accounts. These are presented in Philippine pesos, and all values are presented in thousands of Philippine Pesos except when otherwise indicated.

Items included in the financial statements of the Group are measured using its functional currency, the currency of the primary economic environment in which the Group operates.

Testing the cash flow characteristics of financial assets
In determining the classification of financial assets under PFRS 9, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest (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. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met.

In view of this, the Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

Determining the lease term of contracts with renewal and termination options – Group as lessee
The Group 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.

The Group has several lease contracts that include extension and termination options. The Group determined that generally, the options to extend or terminate the lease are not included in the determination of the lease term. These optional periods are not enforceable, as the Group cannot enforce the extension of the lease without the agreement from the lessor, and therefore, the Group does not have the right to use the asset beyond the non-cancellable period.

Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

Estimation of impairment losses on Loans and other receivables, Financial assets at amortized cost and Financial assets at FVOCI

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

The Group's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

Significant factors affecting the estimates on the ECL model include:

- The Group's internal grading model, which assigns probability of default (PD) to individual grades. Qualitative assessments were also considered during risk rating to account for other relevant potential drivers of credit risk.
- The Group's criteria for assessing if there has been a Significant Increase in Credit Risk (SICR) which is the basis for measuring allowances for financial assets on a Lifetime Expected Credit Loss (LTECL) basis. There are also qualitative assessments to consider significant increase in credit risk based on the identified risk profiles of their accounts and portfolios. The Parent Bank updated the stage assessment to include enhancements on the factors considered in the movements in the borrower's credit rating when determining the significant increase in credit risk, which include rating threshold triggers.
- The Group's definition of default. The Bank considers the regulatory requirement and the Bank's indicators of loss events.
- Development of ECL models, including the various formulas and the choice of inputs. Models have been developed, reviewed and/or revised as appropriate based on latest reviews, economic outlook and studies from external sources. In 2023, the Bank developed new ECL models for the newly acquired Citibank portfolios. In addition, PD estimates for certain retail products were created. For wholesale sectors, the Parent Bank incorporated environmental and social (E&S) factors into the calculation of PDs based on E&S client due diligence. In 2024, the Group recalibrated its risk acquisition models for Mortgage, SME and Auto loans portfolios.
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels, level of government spending, and collateral values, and their effect on PDs, EADs and LGDs. As the economy progresses to post-pandemic scenario, analyses and forecasts were reviewed and updated if needed as the economic conditions evolved. The quantitative overlays were complemented by experience-based expert judgment inputs through management overlays considered integral to the systematic process.

Fair value of derivatives

Management applies valuation techniques to determine the fair value of derivatives that are not quoted in active markets. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Valuation techniques are used to determine fair values which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions could affect reported fair value of financial instruments. The Group uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

Recognition of deferred tax assets
Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

Impairment of goodwill
The Group conducts an annual review for any impairment in the value of goodwill. Goodwill is written down for impairment where the recoverable amount of the related cash generating unit (CGU) is insufficient to support its carrying value. The Group determines the recoverable value of goodwill by discounting the estimated excess earnings using the weighted-average cost of capital (WACC) as the discount rate. The Group estimates the discount rate used for the computation of the net present value by reference to industry cost of capital.

The recoverable amount of the CGU is determined based on a value-in-use calculation using cash flow projections from financial budgets covering a five-year period. Financial budget for the immediately succeeding year is approved by senior management and BOD of the Parent Bank, while the financial budgets for the other years of cash flow projections are determined by corporate planning group and the relevant business units. In 2023, the key assumptions used in the calculation of value-in-use, including loan and deposit growth rates, net interest margin, have been updated to consider the effect of the pandemic. The discount rates used for the computation of the value in use for various CGUs are based on the pre-tax discount rates ranging from 10.2% to 26.3% as of latest impairment in 2023. The long-term growth rates used is 6.2% as of December 31, 2023.

Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

4. Financial Risk Management Objectives and Policies

Risks are inherent in the business activities of the Group. Among its identified risks are credit risk, liquidity risk, market risk, interest rate risk, foreign exchange risk, operational risk, information security risk, legal risk, and regulatory risk. These are managed through a risk management framework and governance structure that provides comprehensive controls and management of major risks on an ongoing basis.

Risk management is the process by which the Group identifies its key risks, collects consistent and understandable risk measures, decides which risks to take on or reduce and establishes procedures for monitoring the resulting risk positions. The objective of risk management is to ensure that the Group conducts its business within the risk levels set by the BOD while business units pursue their objective of maximizing returns.

Risk Management Structure
The BOD of the Parent Bank exercises oversight over the Parent Bank's risk management process as a whole and through its various risk committees. For the purpose of day-to-day management of risks, the Parent Bank has established independent Risk Management Units (RMUs) that objectively review and ensure compliance with the risk parameters set by the BOD. The RMUs are responsible for the monitoring and reporting of risks to senior management and the various committees of the Parent Bank.

On the other hand, the risk management processes of its subsidiaries are handled separately by their respective BODs.

The Parent Bank's BOD is primarily responsible for setting the risk appetite, approving risk parameters, proposed credit policies, and investment guidelines, as well as establishing the overall risk-taking capacity of the Parent Bank. To fulfill its responsibilities in risk management, the BOD has established the following committees, whose functions are described below.

(a) The Executive Committee (EXCOM) is composed of seven (7) members of the BOD. The EXCOM exercises certain functions as delegated by the BOD, including among others, the approval of credit and loan transactions, asset recovery, real and other properties acquired (ROPA) sales, and such other transactions as may be initiated by the Bank units within the EXCOM's delegated limits.

(b) The Risk Management Committee (RMC) is composed of at least seven (7) members of the BOD, majority of whom are independent directors including the Chairman, who cannot be the chairman of the board or any other board committee. The RMC advises the BOD regarding the Bank's overall current and future risk appetite, oversees Senior Management's adherence to the risk appetite statement, and reports on the state of risk culture of the Parent Bank. The RMC oversees the Bank's risk management framework and the risk management function. The RMC also provides oversight, direction, and guidance to the other risk committees, specifically the Market Risk Committee (MRC) and the Operations Risk Management Committee (ORMC).

(c) The MRC is composed of nine (9) members of the BOD, majority of whom are independent directors, including the Chairman. The MRC is primarily responsible for reviewing the risk management policies and practices relating to market risk including interest rate risk in the banking book and liquidity risk.

(d) The ORMC is composed of at least seven (7) members of the BOD, all of whom are non-executive, with the Chairman being an independent director. The ORMC reviews various operational risk policies and practices and approves the Operational Risk Management Framework which forms part of the Bank's enterprise risk management system that covers all business and functional units, including outsourced services, services provided to external parties, and environmental and social-related operational risk requirements. The ORMC also provides oversight on the implementation of a sound business continuity management framework.

(e) The Audit Committee is composed of seven (7) members, all non-executive and majority of whom are independent, including the Chairman, most of whom are with accounting, auditing, or related financial management expertise or experience. The skills, qualifications, and experience of the committee members are appropriate for them to perform their duties as laid down by the BOD.

    The Audit Committee serves as principal agent of the BOD in ensuring independence of the Parent Bank's external auditors and the internal audit function. It also oversees the Parent Bank's financial reporting process on behalf of the BOD. It assists the BOD in fulfilling its fiduciary responsibilities as to accounting policies, reporting practices and the sufficiency of auditing relative thereto, and regulatory compliance.

To effectively perform these functions, the Audit Committee has a good understanding of the Parent Bank's business including the following: Parent Bank's structure, businesses, controls, and the types of transactions or other financial reporting matters applicable to the Parent Bank as well as to determine whether the controls are adequate, functioning as designed, and operating effectively. It also considers the potential effects of emerging business risks and their impact on the Parent Bank's financial position and results of operations.

Among the responsibilities of the Audit Committee are:

- *Oversight of the financial reporting process*. The Audit Committee ensures that the Parent Bank has a high-quality reporting process that provides transparent, consistent, and comparable financial statements. In this regard, the Audit Committee works closely with management especially the Office of the Financial Controller, the Internal Audit Group (IAG), as well as the external auditors, to effectively monitor the financial reporting process.

- *Monitoring and evaluation of internal control*. The Audit Committee, through the IAG, monitors and evaluates the adequacy and effectiveness of the Parent Bank's internal control framework, integrity of financial reporting, and security of physical assets. The Audit Committee ensures that a proactive and forward-looking approach on evaluation of risks and controls is taken. The Audit Committee also ensures that periodic assessment of the internal control system is conducted to identify weaknesses and evaluates its robustness considering the risk profile and strategic direction of the Parent Bank.

- *Oversight of the audit process*. The Audit Committee is knowledgeable on audit function and the audit process. The Audit Committee maintains supportive, trusting, and inquisitive relationships with both internal and external auditors to enhance its effectiveness.

- *Oversight of the outsourced internal audit activities*. The Audit Committee oversees the performance of the internal audit service provider and ensures that they comply with sound internal auditing standards and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics.

- *Oversees the implementation of Group Internal Audit Policy.* The Audit Committee oversees the implementation of the policy through the periodic reports on oversight of the Group Internal Audit and takes appropriate action on any group internal oversight issues identified. The Audit Committee reviews and evaluates the group internal audit policy, and any amendments thereto, and endorses the same to the BOD for approval.

- *Oversight of the whistle-blowing mechanism.* The Audit Committee oversees the establishment of a whistle-blowing mechanism in the Parent Bank by which officers and staff shall in confidence raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. It also ensures that independent investigation, appropriate follow-up, action, and subsequent resolution of complaints are in place.

In the performance of these functions, the Audit Committee is supported by the IAG. The Chief Audit Executive derives authority from and is directly accountable to the Audit Committee. However, administratively, the Chief Audit Executive reports to the President of the Parent Bank.

The IAG is entirely independent from all the other organizational units of the Parent Bank, as well as from the personnel and work that are to be audited. It operates under the direct control of the Audit Committee and is given an appropriate standing within the Parent Bank to be free from bias and interference. The IAG is free to report its findings and appraisals internally at its own initiative to the Audit Committee.

The IAG is authorized by the Audit Committee to have unrestricted access to all functions, records, property, and personnel of the Bank subject to existing mandate and applicable laws. This includes the authority to allocate resources, set audit frequencies, select subjects, determine scope of work, and apply the techniques required to accomplish the audit engagement objectives.

The IAG is also authorized to obtain the necessary assistance from personnel within the Parent Bank units where they perform audits, as well as other specialized services within or outside the Parent Bank.

The IAG presents its risk-based rolling 1-year audit plan that is forward-looking and consistent with the Parent Bank's strategic plans and priorities every quarter for approval by the Audit Committee.

At least once a month, the Audit Committee meets to discuss the results of the assurance and consulting engagements, and case investigations by IAG. Financial reporting and Controllership related topics are also included as needed. The results of these meetings are regularly reported by the Audit Committee Chairman to the BOD in its monthly meetings.

As the Bank continuously evolves towards its digitization strategy, IAG has undertaken initiatives to adapt and expand its processes, and to provide relevant and timely recommendations to the Bank. IAG has implemented continuous auditing process that aims to provide assurance on high-risk, high-volume areas/process, on a real time, or near-real time basis.

IAG adopted the Governance, Risk & Compliance (GRC) system which aims to integrate the operational risk management across the Parent Bank. IAG also uses it as an audit management system to aid in ensuring quality and completeness of documentation across its different engagements. IAG also implemented remote auditing and leveraged on the document management system of the Bank.

(f) The Corporate Governance Committee (CGC) is primarily responsible for helping the BOD fulfill its corporate governance and compliance responsibilities. It is responsible for ensuring the BOD's effectiveness and due observance of corporate governance principles and of oversight over the compliance risk management. It assists in the establishment of a compliance program that facilitates the escalation and resolution of compliance issues expeditiously.

The CGC is composed of nine (9) members of the BOD, all non-executive, majority of whom, including its Chairman, are independent directors. Its specific duties include, among others, making recommendations to the BOD regarding continuing education of directors, overseeing the periodic performance evaluation of the 1) Board; 2) Board Committees; 3) Individual Directors; 4) Management-level Committees (through the respective committee secretariats); and 5) Chief Compliance and Corporate Governance Officer (CCO).

The CGC also performs oversight functions over the Compliance and Corporate Governance Office (CCGO) and the following management-level committees: 1) Anti-Money Laundering Committee and 2) Discipline Committee.

Senior management, through the CCO, periodically reports to the CGC the status of regulatory audit and compliance testing findings until their closure. Any material breaches of the compliance program are reported to and promptly addressed by the CCO within the mechanisms defined by the Compliance Manual.

The Parent Bank's CCO defines the Group's governance and compliance requirements and works closely with the subsidiaries' Chief Compliance Officers in the execution of these standards.

The CGC acts as the Bank's Nominations Committee (NomCom) and the reviews the qualifications of and screen candidates for the board including nominees for independent directors and key officers of the Parent Bank. It also oversees the succession plan for board members and senior officers, and directs the alignment of the latter's remuneration with corporate and individual performance.

The Parent Bank's CCO assists the CGC in fulfilling its functions by apprising the same of (1) pertinent regulations and other issuances relating to compliance and corporate governance, (2) related regulatory issues and compliance initiatives affecting the various units and the status of the corrective action plans, and (3) continuously giving updates thereon. In addition, the CCO keeps the CGC abreast of best governance practices and discusses issues brought up among private organizations and individuals advocating good governance philosophy.

(g) The Related Party Transactions Committee is composed of five (5) members of the BOD, all of whom are independent directors, with the Internal Audit Head and Chief Compliance Officer as resource persons. The Committee assists the BOD in the fulfillment of its corporate governance responsibilities on related party transactions by ensuring that the latter are transacted on arm's length terms. The Committee reviews and endorses the related party transactions to the BOD for approval or confirmation, depending on the amounts involved. On January 26, 2024, the BOD appointed two more independent directors to the Related Party Transactions Committee, increasing the current number of members to five.

The major risk types identified by the Group are discussed in the following sections:

Credit Risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligation to the Group. The risk may arise from lending, trade finance, treasury, investments, derivatives and other activities undertaken by the Group. Credit risk is managed through strategies, policies and limits that are approved by the respective BOD and/or Credit Committee of the various companies within the Group. With respect to the Parent Bank, it has a well-structured and standardized credit approval process and credit scoring system for each of its business and/or product segments.

The Enterprise Risk Management (ERM) undertakes several functions with respect to credit risk management. The ERM independently performs credit risk assessment, evaluation and review for its consumer, commercial and corporate financial products to ensure consistency in the Parent Bank's risk assessment process. It also ensures that the Parent Bank's credit policies and procedures are adequate and are constantly updated to meet the changing demands or risk profiles of the business units. The ERM also reports to the Board's Risk Management Committee.

The ERM's portfolio management function involves the review of the Parent Bank's loan portfolio, including the portfolio risks associated with particular customer segment, industry sectors, regions, loan size and maturity, and the development of a strategy for the Parent Bank to achieve its desired portfolio mix and risk profile. The ERM reviews the Parent Bank's loan portfolio quality in line with the Parent Bank's policy of avoiding significant concentrations of exposure to specific industries or groups of borrowers. Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features.

Concentrations indicate the relative sensitivity of the Parent Bank's performance to developments affecting a particular industry or geographical location.

The Group and the Parent Bank consider concentration risk to be present when the total exposure to a particular industry exceeds 30.0% of the total exposure, which is similar to the BSP requirement. As of March 31, 2024 and December 31, 2023, the Group and the Parent Bank did not exceed the limit in any of its industry concentration.

In order to avoid excessive concentrations of risk, the Parent Bank's policies and procedures include guidelines for maintaining a diversified portfolio mix (e.g., concentration limits). Identified concentrations of credit risks are controlled and managed accordingly. The ERM also monitors compliance to the BSP's limit on exposures.

The following summarizes the Group's credit risk management practices and the relevant quantitative and qualitative financial information regarding the credit exposure according to portfolios:

Credit risk management practices and credit quality disclosures

Corporate Loans

Corporate lending activities are undertaken by the Parent Bank's Corporate Banking Center. The customer accounts under this group belong to the top tier corporations, conglomerates and large multinational companies.

The Parent Bank undertakes a comprehensive procedure for the credit evaluation and risk assessment of large corporate borrowers based on its obligor risk rating master scale.

The Parent Bank currently utilizes the same single rating system for both Corporate and Commercial accounts. In addition, the result on the latter is further refined through a second model to take more careful account of the nuances between the commercial bank portfolio with that of the corporate loan book.

The rating system assesses default risk based on financial profile, management capacity, industry performance, and other factors deemed relevant. Significant changes in the credit risk considering movements in credit rating, among other account-level profile and performance factors, define whether the accounts are classified in either Stage 1, Stage 2, or Stage 3 per PFRS 9 loan impairment standards. In 2023, the Parent Bank updated the stage assessment to enhance the considerations related to movements in the borrower's credit rating when determining significant increase in credit risk, which include rating threshold triggers.

Based on foregoing factors, each borrower is assigned a Borrower Risk Rating (BRR), from AAA to D. In addition to the BRR, the Parent Bank assigns a loan exposure rating (LER), a 100-point system which consists of a Facility Tenor Rating (FTR) and a Security Risk Rating (SRR). The FTR measures the maturity risk based on the length of loan exposure, while the SRR measures the quality of the collateral and risk of its potential deterioration over the term of the loan. The FTR and the SRR, each a 100-point scoring system, are given equal weight in determining the LER.

Once the BRR and the LER have been determined, the credit limit to a borrower is determined under the Risk Asset Acceptance Criteria (RAAC) which is a range of acceptable combinations of the BRR and the LER. Under the RAAC system, a borrower with a high BRR will have a broader range of acceptable LERs.

The credit rating for each borrower is reviewed annually or earlier when there are extraordinary or adverse developments affecting the borrower, the industry and/or the Philippine economy such as the COVID-19 pandemic. Any major change in the credit scoring system, the RAAC range and/or the risk-adjusted pricing system is presented to and approved by the RMC.

The description of each credit quality grouping for the credit scores is explained further as follows:

High Quality Grade - These accounts are of the highest quality and are likely to meet financial obligations.

Standard Grade - These accounts may be vulnerable to adverse business, financial and economic conditions but are expected to meet financial obligations.

Substandard Grade - These accounts are vulnerable to non-payment but for which default has not yet occurred.

Non-Performing - These refer to accounts which are in default or those that demonstrate objective evidence of impairment.

Commercial Loans
The Group and Parent Bank's commercial banking activities are undertaken by its Commercial Banking Center (ComBank). These consist of banking products and services rendered to customers which are entities that are predominantly middle market companies. These products and services are similar to those provided to large corporate customers, with the predominance of trade finance-related products and services.

The non-financial ComBank accounts use an adjusted obligor rating scale derived from the one applied for corporate loans, and follows the same RAAC framework, while ComBank accounts classified as banks and non-bank financial institutions are still rated using the 2018 rating scale.

Small and Medium Enterprise (SME) Financial Products
SME portfolio is composed of Business Lines and a small portion from emerging products. Each of these products has established credit risk guidelines and systems for managing credit risk across all businesses. Credit models are constantly reviewed and updated as necessary while data analytics have been enhanced to improve portfolio quality and product offers.

Consumer Financial Products
The Consumer loan portfolio of the Parent Bank is composed of four main product lines, namely: Home Loan, Credit Card, Personal Loan and Auto Loans. Each of these products has established credit risk guidelines and systems for managing credit risk across all products. Credit models are constantly reviewed and updated as necessary supported by enhanced data analytics to improve portfolio quality and product offers.

For the subsidiary, CSB, an accredited lending institution of the Department of Education (DepEd), provides salary loans to teachers under an agreement with DepEd for payroll deductions. CSB also provides motorcycle loans as a result of its acquisition and subsequent merger with PR Savings Bank.

Exposure to credit risk is managed through diligent assessment upon onboarding and regular portfolio and segment analysis of the ability of borrowers to meet interest and principal repayment obligations and by changing theses limits when appropriate.

The Consumer products' respective masterscale is defined by the credit scoring models, which consider demographic variables and behavioral performance, to segment the portfolio according to risk masterscale per product. The stages are defined by the approved SICR for Consumer which takes into account the following: NPL status, days past due, and credit score rating for Application Score (point of application) and Behavior Score (monthly credit performance).

Both Home Loans (except Contract to Sell – CTS) and Legacy Credit Cards use rating scale of 1 to 6, while Citi Credit Cards and Personal Loans use rating scale of 1 to 13 and 1 to 17, respectively. CTS utilizes the Corporate ratings ranging from 1 to 9. Meanwhile, Auto Loans and SME products use rating scale 1 to 5.

Investments and Placements
Investments and placements include financial assets at amortized cost, debt financial assets through other comprehensive income, due from BSP, interbank loans receivable, and due from other banks. Each has established credit risk guidelines and systems for managing credit risk across all businesses.

Modification
In certain circumstances, the Group modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges.

For the three months ended March 31, 2024 and 2023, the net impact of the subsequent accretion of the 2020 loan modifications amounted to income of ₱12.85 million and ₱12.39 million for the Group, respectively.

Collateral Held as Security and Other Credit Enhancements
The Group holds collateral against loans and other receivables from customers in order to mitigate risk. The collateral may be in the form of mortgages over real estate property, chattels, inventory, cash, securities and/or guarantees. The Bank regularly monitors and updates the fair value of the collateral depending on the type of credit exposure. Estimates of the fair value of collateral are considered in the review and assessment of the adequacy of allowance for credit losses. In general, the Bank does not require collateral for loans and advances to other banks, except when securities are held as part of reverse repurchase agreements.

Liquidity Risk
Liquidity risk is the risk that there are insufficient funds available to adequately meet the credit demands of the Group's customers and repay deposits on maturity. The Asset and Liability Committee (ALCO) and the Treasurer of the Group ensure that sufficient liquid assets are available to meet short-term funding and regulatory requirements. Liquidity is monitored by the Group on a daily basis and under stressed situations. A contingency plan is formulated to set out the amount and the sources of funds (such as unused credit facilities) that are available to the Group and the circumstances under which the Group may use such funds.

Liquidity ratios are used to monitor and manage the Bank's liquidity. The MRC approves the ratios to be used for monitoring the performance of the Bank and for mapping out areas where improvements are needed. These ratios include Liquid Assets to Deposits Ratio, Liquidity ratio, Leverage Ratio and Intermediation Ratio.

The Group also manages its liquidity risks through the use of a Maximum Cumulative Outflow (MCO) limit which regulates the outflow of cash on a cumulative bases and on a tenor basis. To maintain sufficient liquidity in foreign currencies, the Group has also set an MCO limit for certain designated foreign currencies. The MCO limits are endorsed by the MRC and approved by the BOD. The Bank has separate limits for the short term (generally less than 30 days) and the medium-term tenor (from 30 days to one year).

Market Risk
Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rate, foreign exchange rates and equity prices. The Group classifies exposures to market risk into either trading book or banking book. The market risk for the trading portfolio is managed and monitored

based on a Value-at-Risk (VaR) methodology. Meanwhile, the market risk for the non-trading positions are managed and monitored using other sensitivity analyses.

The Parent Bank applies a VaR methodology to assess the market risk of positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions. VaR is a method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon.

The Bank uses a 1-day 99% historical simulation with full revaluation approach. The historical simulation with full revaluation approach is the general market accepted methodology in the measurement of VaR. This methodology recalculates the market value of each financial product for each scenario by applying simulated risk factors based on historical movements to the market-accepted valuation methodology defined for each product.

VaR may also be underestimated or overestimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

The VaR figures are backtested daily against actual and hypothetical profit and loss of the trading book to validate the robustness of the VaR model. To supplement the VaR, the Parent Bank performs stress tests wherein the trading portfolios are valued under extreme market scenarios not covered by the confidence interval of the Parent Bank's VaR model.

Since VaR is an integral part of the Parent Bank's market risk management, VaR limits are established annually for all financial trading activities and exposures against the VaR limits and are monitored on a daily basis. Limits are based on the tolerable risk appetite of the Parent Bank.

Interest Rate Risk

Interest rate risk in the banking book (IRRBB) is the current and prospective risk to earnings and capital arising from adverse movements in interest rates that affect the bank's banking book positions. When interest rates change, the present value and timing of future cash flows change. This, in turn, changes the underlying value of the Bank's assets, liabilities and off-balance sheet items, and hence its economic value. On the other hand, changes in interest rates also affect the Bank's earnings by altering interest rate-sensitive income and expenses, affecting its net interest income (NII). The ALCO establishes appropriate asset and liability pricing in support of the Bank's balance sheet objectives.

The Group employs "gap analysis" to measure rate-sensitivity of the income and expenses, also known as Earnings-at-Risk (EaR). This sensitivity analysis is performed at least every month. The EaR measures the impact on the net interest income for any mismatch between the amounts of interest-earning assets and interest-bearing liabilities within a one-year period. The EaR is calculated by first distributing the interest sensitive assets and liabilities, and off-balance sheet items based on the current balance sheet composition into tenor buckets based on time remaining to the next repricing date or the time remaining to maturity if there is no repricing and then subtracting the liabilities from the assets to obtain the repricing gap. The repricing gap per tenor bucket is then multiplied by the assumed interest rate shock and appropriate time factor to derive the EaR per tenor. The 1st year (one-year) EaR is derived from the summation of the EaR per tenor within one year is subject to the established EaR limit per currency. EaR limits are reviewed and updated regularly to ensure that the risks brought by the changes in the balance sheet and liquidity strategies are within the risk appetite of the Bank.

The Bank also calculates EaR for the 2nd and 3rd years in order to measure medium-term vulnerabilities, i.e., those occurring in the 2nd and 3rd years. In addition, EaR is also calculated based on the current balance sheet composition plus projections to provide additional valuable insights in managing IRRBB. However, these are not subject to the EaR limit but are for monitoring purposes only.

Non-maturing or repricing assets or liabilities are considered to be non-interest rate sensitive and are not included in the measurement.

A positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate-sensitive liabilities while a negative gap occurs when the amount of interest rate-sensitive liabilities exceeds the amount of interest rate-sensitive assets. Accordingly, during a period of rising interest rates, an entity with a positive gap will have more interest rate-sensitive assets repricing at a higher interest rate than interest rate-sensitive liabilities which will be favorable to it. During a period of falling interest rates, an entity with a positive gap will have more interest rate-sensitive assets repricing at a lower interest rate than interest rate sensitive liabilities, which will be unfavorable to it.

EAR is complemented by stress tests which are conducted quarterly. It involves subjecting the total interest rate-sensitive assets and liabilities within one year to probable short-term and medium-term interest rate movements, assuming parallel and non-parallel (flatteners and steepeners) in the yield curve.

Additionally, the Bank also monitors long-term sensitivity to interest rate risk of the Bank's balance sheet through the Economic Value of Equity (EVE) method at least on a monthly basis. EVE measures the economic value which provides a more comprehensive view of potential long-term effects of changes in interest rates. EVE is defined as the net cash flows of the Bank's assets and liabilities which affect the Bank's capital. Similar to EaR, EVE is also complemented by stress tests conducted quarterly. It involves subjecting the Bank's total interest rate sensitive assets and liabilities to probable short, medium and long-term interest rate movements, assuming parallel and non-parallel (flatteners and steepeners) in the yield curve.

The Bank's interest rate sensitive asset and liability positions are analyzed based on its cash flows, and its present value are computed using appropriate market rates which include the current risk-free rate plus the corresponding margin. On the other hand, the present values of non-interest sensitive assets and liabilities will be kept at their carrying values.

The Bank's IRRBB models and its assumptions are validated by an independent party prior to use. The Bank's risk management program includes measuring and monitoring the risks associated with fluctuations in market interest rates on its net interest income and capital ensuring that the exposures in interest rates are kept within acceptable limits.

<u>Foreign Exchange Risk</u>

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates.

The Group's net foreign exchange exposure, taking into account any spot or forward exchange contracts, is computed as foreign currency assets less foreign currency liabilities. The foreign exchange exposure is limited to the day-to-day, over-the-counter buying and selling of foreign exchange in the Group's branches, as well as foreign exchange trading with corporate accounts and other financial institutions. The Group is permitted to engage in proprietary trading to take advantage of foreign exchange fluctuations.

The Parent Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Parent Bank believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the Parent Bank is involved.

Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or external events. This definition includes legal risk but excludes strategic and reputational risks. The Bank's operational risk framework and manual are aligned with the overall business strategy of the Bank. Specifically, this aims to ensure that the Banks has a robust operational risk culture by embedding risk awareness and consciousness in each of the business and functional units in line with *BSP's Circular 900 – Guidelines on Operational Risk Management*. Further, the framework aims to standardize the risk management, monitoring and reporting of operational risk across the Bank.

Key to the effective implementation of the ORM Framework is a governance structure that transparently defines the lines of responsibility from the Board down to the business and functional unit as follows:

Operational Risk Management Committee (ORMC)

The ORMC is a Board-level committee whose principal responsibility is to review risk management policies and practices relating to bank-wide operational risk.

Operational Risk Management (ORM)

ORM, as the second line of defense, shall support management in its endeavor to oversee the operational risks of the Bank, including integration of environment and sustainability related operational risk requirements, and ensure that operational risk policies and procedures are executed adequately and consistently across the organization. ORM reports directly to the Chief Risk Officer.

Business/Functional Unit

Business and functional units act as the first line of defense where the responsibility to manage risks resides. It sees to it that the controls and practices implemented within the lines of operations conform to the enterprise-wide policies and procedures that address operational risks.

Other Operational Risk-related Functions

Specialist departments e.g., Legal, Compliance, Human Resources Group, Enterprise Fraud Management, AI and Data Privacy Office, Information Security Office, and Finance functions have a dual responsibility to manage both the operational risks within their own functions as well as provide support to other departments for operational risk management.

The Bank has a mechanism in place for operational risk identification and assessment, risk measurement, risk control/mitigation, and risk monitoring and reporting. There is regular monitoring of its operational risk profiles and material exposures to losses to ensure that it is still within the approved thresholds. In doing so, it utilizes operational risk tools (Risk and Control Self-Assessment, Key Risk Indicators, Issue Management, New Product/ Process Risk Assessment) to assess the adequacy of controls and mitigants to address identified risks appropriately.

Legal Risk and Regulatory Risk Management

Legal risk pertains to the Parent Bank's exposure to losses arising from cases decided not in favor of the Parent Bank where significant legal costs have already been incurred, or in some instances, where the Parent Bank may be required to pay damages. The Parent Bank is often involved in litigation in enforcing its collection rights under loan agreements in case of borrower default. The Parent Bank may incur significant legal expenses as a result of these events, but the Parent Bank may still end up with non-collection or non-enforcement of claims.

The Parent Bank has established measures to avoid or mitigate the effects of these adverse decisions and engages several qualified legal advisors, who were endorsed to and carefully approved by senior management. At year-end, the Parent Bank also ensures that material adjustments or disclosures are made in the financial statements for any significant commitments or contingencies which may have arisen from legal proceedings involving the Parent Bank.

Regulatory risk refers to the potential risk for the Parent Bank and its subsidiaries to suffer financial loss due to changes in the laws, monetary, tax, or other governmental regulations of the country. Compliance risk is the Bank's potential exposure to legal penalties, financial forfeiture and material loss, resulting from its failure to act in accordance with industry laws and regulations, internal policies or prescribed best practices. While the proper and consistent implementation of these rules and regulations is the primary responsibility of the respective units within the Bank and its subsidiaries, the monitoring of the latter's compliance with these regulations is the primary responsibility of the entity's CCO. The study of the potential impact of new laws and regulations is coordinated by the CCO with the Legal Group. The CCO is responsible for communicating and disseminating new rules and regulations to all units, analyzing and addressing compliance issues, performing periodic compliance testing, and regularly reporting to the CGC and the BOD.

5. Fair Value Measurement

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the resource or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

For assets and liabilities that are recognized at fair value in the statement of financial position on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing 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.

The financial assets and financial liabilities measured at fair value in the consolidated statements of financial position are grouped into the fair value hierarchy (amounts in millions of Philippine pesos):

	March 31, 2024 (Unaudited)				December 31, 2023 (Audited)			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Resources								
Financial Assets at FVTPL								
Debt securities	**₱8,100**	**₱-**	**₱-**	**₱8,100**	₱4,542	₱-	₱-	₱4,542
Derivative assets	**-**	**583**	**53**	**636**	-	641	52	693
Equity securities	**40**	**442**	**35**	**517**	98	442	31	571
Trust fund assets	**-**	**56**	**-**	**56**	-	56	-	56
Financial Assets at FVOCI								
Debt securities	**36,159**	**-**	**-**	**36,159**	36,685	-	-	36,685
Equity Securities	**-**	**-**	**291**	**291**	-	-	289	289
Liabilities								
Derivative liabilities	**-**	**1,653**	**-**	**1,653**	-	926	-	926

The following table summarizes the carrying amounts and fair values of those financial resources and liabilities not presented in the statement of financial position at their fair values (amounts in millions of Philippine pesos):

	March 31, 2024 (Unaudited)		December 31, 2023 (Audited)	
	Carrying Values	**Fair Values**	**Carrying Values**	**Fair Values**
Financial Assets				
Cash and other cash items	**₱10,320**	**₱10,320**	₱10,439	₱10,439
Due from BSP	**99,446**	**99,446**	82,644	82,644
Due from other banks	**33,797**	**33,797**	27,263	27,263
Interbank loans receivable and SPURRA	**183**	**183**	25,411	25,411
Financial assets at amortized cost	**315,470**	**294,983**	314,479	293,924
Loans and other receivables – net	**520,758**	**486,333**	526,146	514,126
Financial Liabilities				
Deposit liabilities	**692,114**	**697,864**	712,568	714,376
Bills payable	**179,058**	**196,712**	155,288	152,063
Notes and bonds payable	**51,727**	**49,554**	50,494	48,343
Accounts payable	**8,579**	**8,579**	14,716	14,716
Manager checks	**7,738**	**7,738**	7,513	7,513
Accrued interest payable	**2,971**	**2,971**	3,472	3,472
Payment order payable	**2,439**	**2,439**	1,950	1,950
Bills purchased - domestic and foreign	**2,198**	**2,198**	2,432	2,432
Finance lease payment payable	**1,435**	**1,435**	1,551	1,551
Due to Treasurer of the Philippines	**14**	**14**	14	14

6. Segment Information

The Group's main operating businesses are organized and managed separately according to the nature of products and services provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of the Group in reporting to its chief operating decision-maker for its strategic decision-making activities.

In 2023, given the significant growth in mass market and digital banking products, the Group revisited the level of aggregation of its consumer banking segment. Given the differences in processes and customer characteristics, the Group assessed that there is a change in the level of aggregation, and Mass Market / Digital Banking is now presented as a separate operating segment. In accordance with PFRS, the Group retroactively presented the comparative information separating this segment from the others.

The Group's main business segments are presented below.

(a) **Consumer Banking** – This segment principally handles individual customer deposits, funds transfer facilities and provides consumer type loans, such as personal loans, automobiles and mortgage financing, and credit card facilities.

(b) **Institutional Banking** – This segment principally handles loans and other credit facilities and deposit and current accounts for corporate, institutional, small and medium enterprises, and middle market customers.

(c) **Mass Market/Digital Banking –** Mass Market banking primarily provides a range of mass market financial products and services such as salary loans, pension loans, seafarer loans, motorcycle loans, company loans, LGU salary loans, and traditional deposits. Digital Banking offers retail financial products, including deposits and loans, on a highly secure digital banking platform.

(d) **Treasury Banking –** This segment is principally responsible for managing the Bank's liquidity and funding requirements, and handling transactions in the financial markets covering foreign exchange, fixed income trading and investments, and derivatives.

(e) **Trust and Insurance** - The segment handles trust, asset management and fiduciary services provided by the Bank to its customers.

(f) **Headquarters** – This segment includes corporate management, support and administrative units not specifically identified with Consumer Banking, Corporate and Commercial Banking or Treasury.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis.

Segment resources and liabilities comprise operating resources and liabilities including items such as taxation and borrowings. Revenues and expenses that are directly attributable to a particular business segment and the relevant portions of the Group's revenues and expenses that can be allocated to that business segment are accordingly reflected as revenues and expenses of that business segment.

Segment information of the Group as of March 31, 2024 and December 31, 2023 and for the periods ended March 31, 2024 and 2023 is presented as follows (amounts in millions of Philippine pesos):

Segment Information as of March 31, 2024	**Consumer Banking**	**Mass Market / Digital Banking**	**Institutional Banking**	**Treasury Banking**	**Trust & Insurance**	**Headquarters**	**Total**
Results of operations							
Net interest income and other income	**₱11,673**	**₱3,279**	**₱2,409**	**₱479**	**₱290**	**₱224**	**₱18,354**
Other expenses	**5,669**	**2,221**	**752**	**210**	**135**	**2,097**	**11,084**
Income before provision for probable losses and income tax	**6,004**	**1,058**	**1,657**	**269**	**155**	**(1,873)**	**7,270**
Provision for impairment							**(4,630)**
Tax expense							**(629)**
Net income for the period							**₱2,011**
Segment assets, March 31, 2024	**₱210,342**	**₱188,910**	**₱204,383**	**₱436,946**	**₱2,093**	**₱103,810**	**₱1,146,484**
Segment liabilities, March 31, 2024	**₱426,642**	**₱161,849**	**₱139,386**	**₱228,021**	**₱239**	**₱15,758**	**₱971,895**

Segment Information as of March 31, 2023	**Consumer Banking**	**Mass Market / Digital Banking**	**Institutional Banking**	**Treasury Banking**	**Trust & Insurance**	**Headquarters**	**Total**
Results of operations							
Net interest income and other income	₱9,481	₱3,260	₱1,901	₱742	₱216	₱503	₱16,103
Other expenses	4,744	1,594	799	505	104	2,029	9,775
Income before provision for probable losses and income tax	4,737	1,666	1,102	237	112	(1,821)	6,328
Provision for impairment							(2,142)
Tax expense							(622)
Net income for the period							₱3,564
Segment assets, December 31, 2023	₱194,610	₱182,076	₱210,701	₱383,954	₱1,869	₱171,933	₱1,145,143
Segment liabilities, December 31, 2023	₱403,353	₱155,938	₱150,684	₱214,413	₱245	₱44,885	₱969,518

7. Capital Funds

The Bank's capital stock as of March 31, 2024 and December 31, 2023 consists of the following:

	Shares		**Amount (in thousands)**	
	March 31, 2024	December 31, 2023	**March 31, 2024**	December 31, 2023
Common - ₱10 par value				
Authorized	**5,030,785,238**	5,030,785,238	**₱50,307,852**	₱50,307,852
Issued	**2,989,287,495**	2,353,774,567	**29,892,875**	23,537,746
Treasury stock	**(27,977)**	(27,977)	**(2,097)**	(2,097)
Issued and Outstanding	**2,989,259,518**	2,353,746,590	**29,890,778**	23,535,649
Preferred - ₱100 par value, non-voting				
Authorized	**100,000,000**	100,000,000	**₱10,000,000**	₱10,000,000
Issued and Outstanding	**-**	-	**-**	-

The authorized capital stock of the Bank is ₱60.3 billion comprised of 5.0 billion common shares at ₱10 par value and 100.0 million preferred shares at ₱100 par value. The Bank's outstanding common stock as of March 31, 2024 is 3.0 billion common shares. No preferred shares have been issued to date.

Stock Dividend Distribution
On January 4, 2024, the Bank issued 635.5 million common shares at par value of ₱10 for whole shares and paid ₱0.22 million for 2,550.79 fractional shares in relation to the 27% stock dividends approved by the Bank's BOD and stockholders on February 24, 2023 and April 28, 2023, respectively.

Stock Rights Offering
On January 26, 2024, the Parent Bank's BOD approved the capital raising of up to ₱10.0 billion via stock rights offering to all stockholders, subject to regulatory approvals. Net proceeds will be used to fund capital infusion to UnionDigital, projected retail loan availments and for general corporate purposes.

The following is a summary of the cash dividends declared and distributed by the Bank in 2024 and 2023 (amounts in thousands):

Date of Declaration	Date of Record	Date of Payment	Dividend per Share	Shares Outstanding	Total Amount
26-Jan-24	**13-Feb-24**	**20-Feb-24**	**₱0.80**	**2,989,259,518**	**₱2,391,408**
1-Feb-23	15-Feb-23	27-Feb-23	₱2.00	2,353,774,567	₱4,707,549

In compliance with BSP regulations, the Bank ensures that adequate reserves are in place for future bank expansion requirements. The foregoing cash dividend declarations were made within the BSP's allowable limit of dividends.

8. Related Party Transactions

Related Party Transactions are transactions or dealings with related parties, regardless of whether a price is charged. These covers all types of transactions both on and off-balance sheet and regardless of which side of the transaction/deal of the bank is acting.

Parties are said to be related if one has direct or indirect control as well as significant influence over the other. Related Parties of the Bank include, but is not limited to: (a) DOSRI, subsidiaries, affiliates, and any party that directly or indirectly has control over or is subjected to the control of the Bank as well as those with direct and indirect linkages to it, (b) the Bank's and its affiliated companies' directors, officers, stockholders, and their related interests and close family members, and (c) other persons and juridical entities whose interests may pose potential conflict with the Bank.

The Bank has a Related Party Transaction (RPT) Committee composed of at least (3) members, all of whom are independent directors including the Chairperson, and directly reports to the BOD. The Committee is primarily responsible for assisting the board in fulfilling its corporate governance responsibilities on related party transactions and reviewing and endorsing the RPTs for board approval or confirmation, as applicable.

It is the policy of the Bank to ensure that all transactions entered into by the Bank with its related parties are undertaken only on an arm's length basis and subjected to appropriate oversight of the BOD and relevant committees so as to protect the Bank from conflicts of interest and abusive RPTs that may arise.

9. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, which are not reflected in the accompanying financial statements. The Group recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that, as of March 31, 2024, no additional material losses or liabilities are required to be recognized in the accompanying financial statements as a result of the above commitments and transactions.

There are several suits, assessments or notices and claims that remain unsettled. Management believes, based on the opinion of its legal counsels, that the ultimate outcome of such suits, assessments and claims will not have a material effect on the Group's and the Parent Bank's financial position and results of operations.

Following is a summary of the Group's commitments and contingent accounts (amounts in thousands):

	March 31, 2024	December 31, 2023
	(Unaudited)	(Audited)
Commitments	**₱357,679,616**	₱345,361,959
Forward exchange bought	**81,732,577**	67,830,319
Forward exchange sold	**11,703,770**	15,469,007
Other derivatives	**28,644,041**	24,458,518
Inward bills for collections	**27,779,701**	24,452,478
Unused commercial letters of credit	**8,309,100**	7.226,237
Spot exchange sold	**6,063,881**	2,544,518
Spot exchange bought	**2,876,972**	2,215,761
Outstanding guarantees issued	**1,106,411**	1,100,445
Other commitment and contingent accounts	**94,650**	27,267
Trust department accounts	**-**	93,967,963

10. Earnings Per Share

Basic earnings per share were computed as follows:

	March 31, 2024	**March 31, 2023**
Net profit attributable to equity holders of the Parent Bank	**₱1,978,297**	₱3,522,652
Divided by the weighted average number of outstanding common shares (in thousands)	**2,968,759**	2,906,127
Basic earnings per share	**₱0.67**	₱1.21
Annualized basic and diluted earnings per share	**₱2.67**	₱4.85

As of March 31, 2024, and March 31, 2023, the Group has no outstanding potentially dilutive securities, hence, basic earnings per share are equal to diluted earnings per share.

11. Other Matters

None to report.

12. Events After the Reporting Period

None to report.

Annex 6

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
FINANCIAL INDICATORS
AS OF INDICATED DATES

Ratios	March 31, 2024	December 31, 2023
a. Current Ratio	**47.8%**	43.5%
b. Debt to Equity Ratio	**5.6:1**	5.5:1
c. Asset to Equity Ratio	**6.6:1**	6.5:1
d. Capital Adequacy Ratio	**15.2%**	15.7%
Ratios	**March 31, 2024**	**March 31, 2023**
e. Interest Rate Coverage Ratio	**139.1%**	165.7%
f. Return on Average Equity	**4.5%**	8.9%
g. Return on Average Assets	**0.7%**	1.3%
h. Net Interest Margin	**5.7%**	5.1%
i. Cost-to-Income Ratio	**60.4%**	60.7%

UNION BANK OF THE PHILIPPINES
SEC FORM 17-Q
FOR THE THREE MONTHS ENDED MARCH 31, 2024

Item 2. Management's Discussion and Analysis or Plan of Operation

Statement of Income for the Three Months Ended March 31, 2024 vs March 31, 2023

Union Bank of the Philippines registered a **net income** of ₱2.0 billion for the first three months of 2024, on the back of a healthy topline from the growth of average earning assets and better net interest margins. However, this was 44% lower than the same period last year due to the higher integration cost coming from the acquired Citi business.

Net revenues, comprised of **net interest income** and **other income**, amounted to ₱18.4 billion, 14% better than the same quarter last year. **Net interest income** jumped by 17% to ₱13.4 billion on account of higher net interest margins and higher volumes of average earning assets. Net interest margins were up by 59 basis points to 6%, driven by the higher proportion of consumer loans to total loans compared to the same period last year. The consumer loan portfolio expanded due to the better-than-expected performance of the Citi consumer business, as well as the organic growth of key subsidiaries.

As a result, total **interest income** was higher by 16% at ₱20.2 billion, while **total interest expense** grew by 14% to ₱6.8 billion versus the same period last year. There was healthy growth across all components of interest income, mainly driven by higher yields and higher average volumes: (1) **interest income on loans and other receivables** rose by 20% to ₱15.2 billion; (2) **interest income on investment securities at amortized cost and fair value through other comprehensive income (FVOCI)** was up 6% to ₱3.9 billion; (3) **interest income on cash and cash equivalents** improved 4% to ₱556.8 million; (4) **interest income on trading securities at fair value through profit and loss (FVTPL)** was steady at ₱70.9 million; and (5) **interest income on interbank loans receivable and securities purchased under reverse repurchase agreements (SPURRA)** was up 18% at ₱412.3 million. In addition, the jump in interest expense is a result of a higher interest rate environment. This translated to a higher **interest expense on deposit liabilities** (up 11% to ₱3.7 billion), as well as higher **interest expense on bills payable and other liabilities** (up 19% to ₱3.1 billion).

Total **other income** grew by 6% to ₱4.9 billion versus the same period last year. **Service charges, fees and commissions** was steady at ₱2.9 billion. **Miscellaneous income** increased 41% to ₱1.8 billion on account of higher income from card network support, gain on foreclosures, recoveries from written off accounts and impact of foreign exchange. While **gains on trading and investment securities at FVTPL and FVOCI** of ₱175.7 million was 57% lower year-on-year.

In line with the increased proportion of the Bank's consumer loans to its total loan portfolio and additional credit reserves on legacy accounts, **provision for credit losses** for the first quarter of the year amounted to ₱4.6 billion, a 116% increase from the same period last year.

Total **operating expenses** grew by 13% to ₱11.1 billion from ₱9.8 billion for the same period last year. There were also increases in all components of the operating expenses, namely: (1) **salaries and employee benefits** amounted to ₱3.4 billion, up 10% driven by compensation-related increases; (2) **taxes and licenses** expanded by 18% to ₱1.5 billion due to higher revenue-related gross receipt taxes and documentary stamp taxes; (3) **depreciation and amortization** increased by 12% to ₱683.9 million, consistent with the new additions to bank premises, furniture, fixtures and equipment; (4) **occupancy** was up by 3% to ₱286.1 million due to higher rent and utilities expenses; and (5) **miscellaneous expenses** also increased by

15% to ₱5.2 billion on account of higher volume-related fees and commissions expenses, advertising and information and technology expenses.

Income tax expense was up by 1% to ₱629.0 million due to higher interest income from peso securities subject to final tax.

Net profit attributable to non-controlling interests was lower by 20% to ₱33.0 million for the first quarter of 2024.

Statement of Comprehensive Income for the Three Months Ended March 31, 2024 vs March 31, 2023

The Bank recorded a **total comprehensive income** of ₱1.5 billion versus ₱14.6 billion in the same period. The decline is largely due to the lower **net income** of ₱2.0 billion as well as the **net unrealized mark-to-market losses on investment securities at FVOCI** of ₱506.4 million for the first quarter of 2024 compared to the ₱11.4 billion net unrealized mark-to-market gains for the same period as last year on account of the business model change and consequent reclassification of FCDU FVOCI sub-portfolio (excluding the the FX Liquidity sub-portfolio) to FCDU HTC, applied prospectively on January 1, 2023. **Total comprehensive income attributable to non-controlling interests** amounted to ₱26.1 million.

Statement of Condition as of March 31, 2024 vs December 31, 2023

Total resources as of March 31, 2024 stood at ₱1.1 trillion, flat versus the balance as of December 31, 2023**.**

Due from Banko Sentral ng Pilipinas (BSP) account was up by 20% to ₱99.4 billion as a result of higher placement balances with the BSP on top of the mandatory reserves. **Due from other banks** went up by 24% to ₱33.8 billion resulting from higher working balances with foreign correspondent banks. **Interbank loans receivable and securities purchased under reverse repurchase agreements** (SPURRA) declined by 99% to ₱183.2 million due to the deployment of funds to higher-yielding securities and loans.

Trading and investment securities increased to ₱361.2 billion from ₱357.3 billion driven by the build-up of **financial assets at FVTPL and financial assets at amortized cost** which expanded by 59% and 0.3% to ₱9.3 billion and ₱315.5 billion, respectively. The increase is partially offset by **financial assets at FVOCI** which declined by 1% to ₱36.4 billion.

Net loans and other receivables was slightly down by 1% to ₱520.8 billion, primarily driven by the commercial loans portfolio. The decrease is partially offset by the growth of the consumer business across the Group. The Bank's loan-to-deposit ratio improved to 75% as of March 31, 2024, from 74% at the end of 2023.

Total liabilities was almost flat at a growth of 0.2% to ₱971.9 billion as of March 31, 2024, from ₱969.5 billion as of December 31, 2023. **Deposit liabilities** were down by 3% to ₱692.1 billion driven by lower **time deposits**, which dipped by 8% to ₱261.2 billion, as the Bank shifted funding to **bills payable** which climbed by 15% to ₱179.1 billion offsetting the decline in deposits.

Total capital funds declined by 0.6% to ₱174.6 billion as of March 31, 2024 from ₱175.6 billion as of December 31, 2023. The Bank's **common stock** increased by 27% to ₱29.9 billion, on the back of the 27% stock dividends issued in January 2024, in which the Bank listed 635.5 million common shares. **Surplus free** decreased by ₱645.1 million due to the ₱2.4 billion cash dividends declared in January 2024, offset by the net income for the quarter. **Net unrealized fair value losses on investment securities at FVOCI** were higher by ₱506.4 million or 23% at ₱2.7 billion.

Key performance indicators of the Bank are as follows:

	March 2024*	March 2023*
Return on Average Assets	0.7%	1.3%
Return on Average Equity	4.5%	8.9%
Cost-to-Income Ratio	60.4%	60.7%

	March 2024*	December 2023
Net Non-Performing Loan Ratio	4.0%	3.7%
Common Equity Tier 1 Ratio	13.4%	13.9%
Capital Adequacy Ratio	15.2%	15.7%

**Based on unaudited figures*

The manner by which the Bank calculates the above indicators is as follows:

Return on Average Assets:	Net income divided by average total resources for the period indicated
Return on Average Equity:	Net income divided by average total capital funds for the period indicated
Cost-to-Income Ratio:	Total operating expenses divided by the sum of net interest income and other income
Net Non-Performing Loan Ratio:	(Total non-performing loans less specific loan loss reserves for NPL) divided by (total loans inclusive of interbank loans receivables)
Common Equity Tier 1 Ratio:	Total common equity tier 1 capital divided by total risk-weighted assets (inclusive of credit, market and operational risk charge)
Capital Adequacy Ratio:	Total qualifying capital divided by total risk-weighted assets (inclusive of credit, market and operational risk charge)

As to material event/s and uncertainties, the Bank has nothing to disclose on the following apart from those already disclosed elsewhere or presented in the accompanying audited financial statements:

- Any known trends, demands, commitments, events or uncertainties that will have a material impact on the issuer's liquidity.
- Any events that will trigger direct or contingent financial obligation, including any default or acceleration of an obligation.
- Any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company.
- Any material commitments for capital expenditures, the general purpose of such commitments and the expected sources of funds for such expenditures.
- Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.
- Any significant elements of income or loss that did not arise from the issuer's continuing operations.
- Any seasonal aspects that had a material effect on the financial condition or results of operations.

UNIONBANK OF THE PHILIPPINES ANNEX II

Aging of Accounts Receivable

As of March 31, 2024

Type of Accounts Receivable	Total	Current	90 days or less	91 to 120 days	121 to 180 days	181 days to 1 year	more than 1 year	total past due	ITL
1) Interbank Loans Receivable	183,160	183,160							
2) Loans	521,414,619	482,498,359	13,682,717	2,886,811	8,736,115	4,103,919	9,468,627	38,878,189	38,071
3) Accrued Interest Receivable	11,092,766	8,539,370	528,767	38,260	165,026	315,227	1,506,116	2,553,396	-
4) Sales Contract Receivable	2,427,193	2,339,259	27,078	5,048	2,409	18,087	35,312	87,934	-
5) Accounts Receivable	8,430,417	7,030,050	415,142	137,492	196,241	179,634	228,696	1,157,205	243,162
6) Installment Contract Receivable	-	-	-	-	-	-	-	-	-
Less: Allow. For Doubtful Account	22,606,831								
TOTAL	520,941,323	500,590,197	14,653,704	3,067,611	9,099,791	4,616,867	11,238,751	42,676,724	281,233